vectura

Vectura Group plc Annual Report and Accounts 2015/16

POSITIVELY TRANSFORMING
THE LIVES OF AIRWAYS DISEASE PATIENTS

POSITIVELY TRANSFORMING
THE LIVES OF AIRWAYS DISEASE PATIENTS

Our vision is to establish an industry-leading inhalation device, formulation, development and specialty commercial business transforming patients' lives alongside delivering exceptional shareholder returns.

ATTRACTIVE FINANCIAL OUTLOOK

- Strong revenue growth[1]
- Sales and development milestones, in-market royalties
- Advair® generic exposure opportunity

(1) Based on historical financial performance.

+ Read more in the financial review on **page 44**

UNIQUE PROPRIETARY TECHNOLOGY

- Dry powder inhalers (DPIs) and smart nebulisation technology platforms provide basis for partnering opportunities
- Provides platform for future development of own specialty commercial capability

+ Read more about our technology on **page 39**

STRONG PARTNERSHIPS AND PIPELINE

- Committed pipeline programmes combining novel and known drug/device combinations
- Future potential milestone payments of c.£90m contracted up to FY 2022
- Opportunities to further leverage existing partnerships

+ Read more about our pipeline from **page 30**

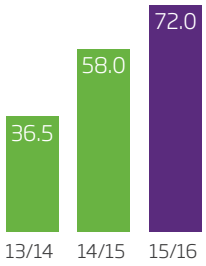
ROBUST BALANCE SHEET

- Cash flow positive business allowing for capital allocation flexibility
- Balance sheet strength contributes to potential acceleration of business strategy

+ Read more about our performance on **page 99**

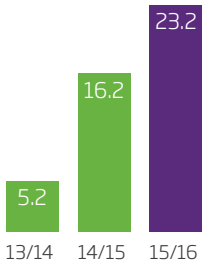
Revenue growth (£m)

£72.0m
+24%



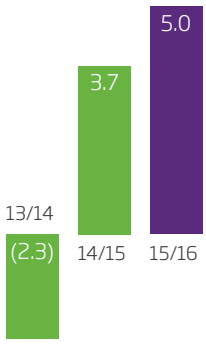
EBITDA[1] progression (£m)

£23.2m
+43%



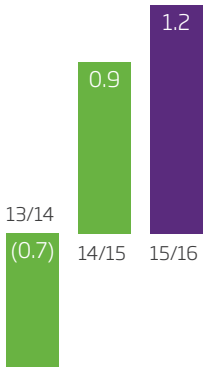
Profit after taxation (£m)

£5.0m
+35%



Basic EPS (p)

1.2p
+33%



(1) Earnings before investment income, finance gains/(costs), tax, depreciation, amortisation and share-based compensation and adjusted for non-recurring expenditure items.

For more information visit:
www.vectura.com

Strategic report

Governance

Financial statements

Partnered marketed products and pipeline programmes

Novartis

Ultibro® Breezhaler® (indacaterol/glycopyrronium bromide, QVA149), a first-in-class once-daily fixed dose dual bronchodilator, long-acting beta2-adrenergic agonist (LABA)/long-acting muscarinic antagonist (LAMA), achieved total net sales of $286m within our full financial year[1]. The product has been approved for use in over 80 countries (including Japan and countries in the EU). In November, Novartis announced positive first results from the Phase III FLAME study showing superiority of Ultibro® Breezhaler® over Seretide® in reducing exacerbations in patients with chronic obstructive pulmonary disease (COPD) – the full study results have subsequently been published in the New England Journal of Medicine[2] and these data were also presented at the 2016 Annual Meeting of American Thoracic Society (ATS) in May.

Seebri® Breezhaler® (glycopyrronium bromide, NVA237), a once-daily fixed dose inhaled long-acting muscarinic antagonist (LAMA), achieved total net sales of $148m within our full financial year[1]. The product is approved for use in over 90 countries (including Japan and countries in the EU).

In October 2015, Novartis received US FDA approval for the new dual combination bronchodilator Utibron™ Neohaler® (formerly QVA149) and the stand-alone monotherapy Seebri™ Neohaler® (formerly NVA237) for patients with COPD. This approval triggered a $22.5m milestone payment from Novartis to Vectura. It is now expected that the launch of these products in the US will take place in the second half of 2016.

QVM149 (indacaterol/glycopyrronium bromide/mometasone furoate), a new inhaled once-daily combination triple therapy for asthma comprising a LABA/LAMA and corticosteroid (ICS). In June 2015 Novartis announced it had initiated the first Phase III trial of a new inhaled dry powder triple therapy for patients with moderate to severe uncontrolled asthma on standard ICS/LABA medication, which triggered a milestone payment to Vectura of $3.75m. The first regulatory filings of QVM149 are planned for 2018. Vectura is eligible to receive development, filing and approval milestones plus royalties on product sales in the event of a successful product launch.

Wholly owned pipeline programmes

VR475 (FAVOLIR®), our drug/device combination using the AKITA® JET smart nebuliser technology delivering nebulised budesonide for the treatment of severe uncontrolled asthmatics. Recruitment in to the Phase III study is underway and progressing well and the majority of study sites have initiated and to date over 200 patients have entered the study. Phase III study results are anticipated in mid-2018.

VR647 (SCIPE), our second drug/device combination using the AKITA® JET smart nebuliser technology as a maintenance treatment for paediatric asthma. We had a successful pre-IND meeting with the FDA in June 2015 and it agreed with our intent to rely on the 505(b)(2) pathway for the development programme with the aim of filing a New Drug Application (NDA). IND filing is anticipated in mid-2016. A CMC supply chain for sterile product is required by the US market and this is being established. Once in place, a Phase I study will be conducted to support initiation of Phase III in mid-2018 with filing anticipated in mid-2020.

Partnered pipeline programmes

VR315 US (fluticasone propionate/salmeterol), our partnered programme with Hikma for a generic version of Advair® Diskus® for the treatment of asthma and COPD. Vectura received cash milestones of $5m triggered by the successful achievement of important development milestones. In January we confirmed that our partner on this programme (and VR506) was Hikma Pharmaceuticals PLC ("Hikma").

Post-period event related to VR315 US

In April 2016, the ANDA was accepted for filing by US FDA and Vectura recognised a milestone payment of $10m. The FDA has provided Hikma with a GDUFA goal date of 10 May 2017. Vectura will receive an $11m payment on approval of the file plus royalties from all sales of VR315 in the US upon successful launch of this product.

VR876 EU is being developed by an undisclosed partner as a nebulised version of a currently marketed drug for the treatment of serious lung disease. This product uses Vectura's smart nebuliser FOX® device. In October 2015 we achieved a development milestone triggering a cash milestone payment of €5m (c.£3.6m) to Vectura. Regulatory action is expected in 2016.

VR942 Global, our co-development with UCB of a biologic for uncontrolled asthma with one of Vectura's proprietary DPI devices, continued to make progress. This is a novel dry powder product concept utilising Vectura's large molecule formulation expertise combined with inhaled device technology. Following the successful completion of a number of pre-clinical studies, enrolment commenced into a Phase I clinical study in healthy volunteers and patients with asthma. Phase I enabling pre-clinical studies are ongoing to enable initiation of Phase II studies in 2017.

VR632 EU, a second inhaled generic combination therapy for asthma and COPD delivered using one of Vectura's proprietary DPI devices and formulation technology and partnered with Sandoz. In October, a cash milestone of €0.75m payable to Vectura was triggered by the successful achievement of a development milestone.

VR465 Global, an inhaled, anti-RSV Nanobody (ALX-0171) in development with Ablynx. In December Ablynx confirmed it had completed enrolment of the first-in-infant Phase I/IIa safety study and extended the study to include younger infants using Vectura's FOX® device.

Post-period event related to VR465 Global

In May 2016 Ablynx reported positive top line Phase I/IIa study results for VR465 in infants hospitalised with RSV infection. The study met its primary endpoint demonstrating safety and tolerability and Ablynx confirmed these results strongly support advancing the programme into a Phase II efficacy study in infants.

(1) Q2–Q4 2015 and Q1 2016, as reported by Novartis.

(2) Wedzicha JA, Banerji D, Chapman KR, *et al.* Indacaterol/Glycopyrronium Versus Salmeterol/Fluticasone for COPD Exacerbations. *New England Journal of Medicine.* 2016. Available at: www.nejm.org/doi/full/10.1056/NEJMoa1516385.

Post-period
On 24 May we announced our collaboration with Propeller Health for the development of a connected LOMI DPI device demonstrating Vectura's commitment to develop next generation inhalation devices that can help patients manage their respiratory diseases better.

Kinnovata update
Our joint venture, Kinnovata, established to create low cost DPI products for the domestic Chinese market, has made good progress during the year. We expect the final capitalisation of the joint venture to be concluded within the next few weeks with the relevant assets being contributed to the business by Vectura and its partners. This will trigger the recognition of an exceptional non-cash gain to Vectura as we recognise our share of Kinnovata's net assets.

Corporate governance
There have been a number of changes to the Board over the year.

- Dr Per-Olof Andersson was appointed a Non-Executive Director of the Board with effect from 1 April 2015.
- At the end of June 2015 Dr Chris Blackwell stepped down as Chief Executive and the appointment of James Ward-Lilley as Chief Executive Officer was announced.
- Trevor Phillips, Chief Operating Officer, acted as Interim Chief Executive Officer in the period between Chris' departure and James' arrival.
- James joined Vectura at the end of September 2015.

Reporting calendar
Subject to completion of the proposed merger with Skyepharma, Vectura intends to change its financial year end from 31 March to 31 December. This is in line with the financial reporting of other FTSE 250 companies, our partners and our peer group. Further details on the financial calendar will be announced after the proposed Skyepharma merger has closed.

DEVICE, FORMULATION AND INHALED PRODUCT DEVELOPMENT EXPERTISE

INHALED PRODUCT DEVELOPMENT

(Partnered and wholly owned)

Supported by Clinical and Regulatory teams, Quality and IP

DEVICE DESIGN AND DEVELOPMENT

(DPIs and smart nebulisers)

Making Vectura the partner of choice in airways diseases with a range of DPIs and smart nebuliser devices for inhaled delivery of drugs to the lungs

FORMULATION

(Development services)

Pharmaceutical development services (fee-for-service activities for partners)

DEVICE MANUFACTURING AND COMMERCIALISATION

(DPIs and smart nebulisers)

Underpinning our product development focus through stages of pre-clinical and clinical development ensuring successful commercialisation in partner's or contract manufacturing facilities

Established in 1997 with headquarters in Chippenham, Wiltshire, UK

8
Partnered marketed products

On-site product and formulation development and manufacturing capability

16
pipeline products

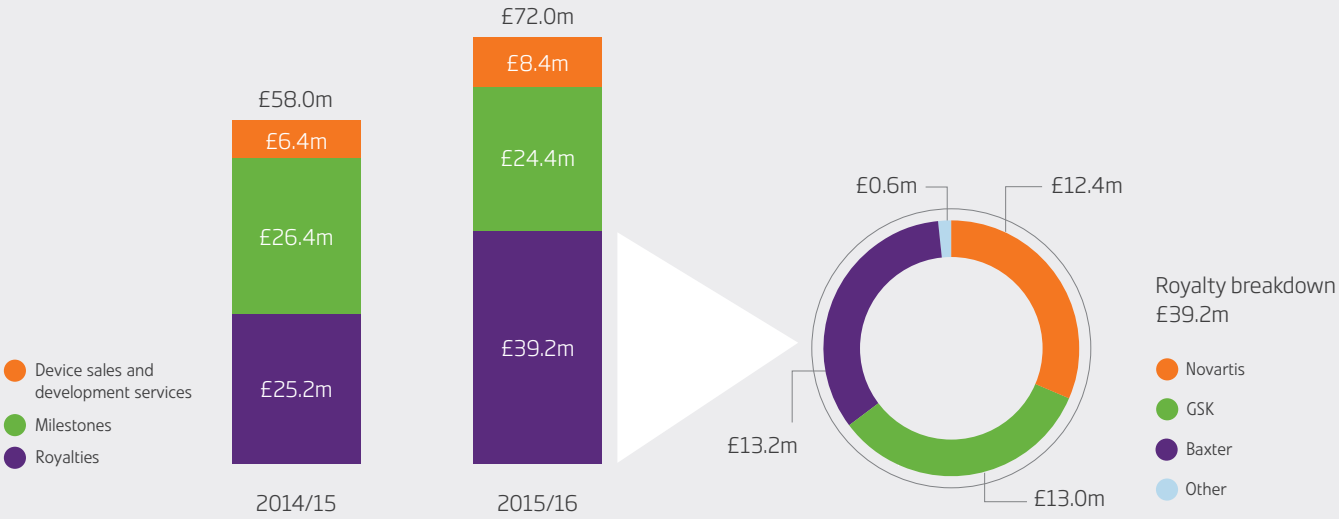
Strong partnerships

Established development collaborations, joint ventures and licence agreements with several pharmaceutical and biotechnology companies.

+ Read more on our markets on **page 12**

Diverse revenue streams

Rapidly growing revenue from recently launched inhaled respiratory products underpins the cash flow to develop our pipeline and maintain investment in technology.



+ Read more on our pipeline from **page 30**

SUSTAINED STRONG BUSINESS PERFORMANCE

> "Sustained strong business performance with opportunity to accelerate strategy following the proposed Skyepharma merger."

Bruno Angelici
Chairman

Summary

- Delivered another set of strong results
- Product and pipeline progress
- New CEO appointed
- Announced proposed merger with Skyepharma

Dear shareholder

I am pleased to introduce Vectura's Annual Report for the 2015/16 financial year.

The Group has performed well against its key financial and business targets. We have delivered a strong financial and operational performance for the twelve months ended 31 March 2016. Of particular note is the transition of the business to a position where the majority of overall royalty revenues arise from recently launched inhaled products. The Group has also made considerable progress across its pipeline in particular the VR315 submission in the US and our own VR475 Phase III study in Europe. Alongside these achievements it has been a year of leadership transition with the appointment of James Ward-Lilley as Vectura's new Chief Executive Officer. One of the most important developments for the year is the proposed merger with Skyepharma. This proposed merger will combine the complementary Vectura and Skyepharma businesses to create an industry-leading airways related diseases company.

Our business and strategy

Following the arrival of James Ward-Lilley as Chief Executive Officer, the Board has reviewed and confirmed the Company's strategic focus and priorities. Vectura has already enjoyed considerable success based on its great experience in inhaled airways device and formulation development and the Board remains of the view that this should continue to be its primary area of focus. This conviction is reinforced by the substantial unmet medical need in this area and the wave of new innovation in devices and medicines, which together provide many opportunities for Vectura to add value for partners and patients, directly and indirectly.

Our balanced business model is working well, as reflected in our financial performance. Vectura continues to achieve milestone payments for formulation work undertaken for partners, and we are also seeing the value of the higher margin recurring royalties derived from in-market products that rely on our device and formulation capabilities. Ultimately our aim is to generate an additional high margin revenue stream from our wholly owned specialist portfolio of marketed assets. Vectura believes that our hybrid business model maximises our capabilities to deliver strong sustainable profitability and shareholder value growth whilst managing risk appropriately.

Vectura has a number of key drivers underpinning the future prospects of the business and in the past year we have seen significant developments within the product and pipeline programmes (read more of this in the Operating review on page 2. In the short term, partner-branded products will be the most important drivers of future revenues.

In the medium term, we anticipate a further important income stream from products that leverage Vectura's formulation and device expertise. Using these capabilities, Vectura and its partners are developing generic versions of GSK's Advair® Diskus® and Flovent® Diskus® as well as AstraZeneca's Symbicort Turbohaler®.

In the longer-term, Vectura has a number of proprietary technology platforms to generate future income streams: formulation, device (DPI and smart nebuliser delivery systems) and, inhalation technologies (FAVORITE™). The acquisition of Activaero in March 2014 added several assets to Vectura's clinical pipeline, two of which are being developed in house VR475 (FAVOLIR®) for severe adult asthma and VR647 (SCIPE) for paediatric asthma) and which ultimately we anticipate to self-commercialise.

Operational performance and revenue growth

Good operational progress is being made on our proprietary and partnered programmes. Important progress has been made with VR315 US, our partnered programme with Hikma, for a generic version of GSK's Advair® Diskus®. Following submission and acceptance (post-period) of the file, FDA action is now expected in May 2017.

Vectura is also making good progress with its smart nebulisation programmes. Recruitment into the Phase III study of the lead wholly owned asset, VR475 EU (FAVOLIR®), for the treatment of severe adult asthma is progressing well and results are expected in mid-2018. In addition, the most advanced smart nebuliser partnered programme, VR876 (using FOX®), being developed as a nebulised version of a currently marketed drug for the treatment of serious long disease, achieved a further development milestone. Regulatory action is expected in the coming months.

Vectura's collaboration with Novartis continues to develop well. The recently published FLAME trial data provide further clinical evidence to support use of Ultibro® Breezhaler® and shows that this product is superior to Seretide®, the current standard of care in reducing exacerbations in the treatment of COPD patients. Seebri™ Neohaler® and Utibron™ Neohaler® were approved by the FDA in October 2015 and it is expected that the launch of these products in the US will take place in the second half of 2016. This franchise is being strengthened further with the Phase III development of QVM149, a new triple therapy for asthma, with first regulatory filings anticipated in 2018.

You can read more about our therapeutic focus, development pipeline and accelerated strategic execution in the CEO Q&A on pages 8 to 10 and in the strategic overview on pages 16 to 17.

Governance

As a board, we are committed to the principles of good corporate governance and we have continued to comply with the provisions of the UK Corporate Governance Code ("the Code") throughout the year and to the date of this report. Through a robust internal framework of systems and controls, we strive to maintain the highest standards.

Our leadership

In June 2015, Vectura announced the appointment of James Ward-Lilley as CEO of the Company. He succeeded Chris Blackwell, who stepped down after twelve years in the role.

James has had an extensive career at AstraZeneca, spanning 28 years across a variety of commercially focused roles. He progressed from sales and marketing roles in the UK through country and regional leadership positions and was latterly responsible for the development of AstraZeneca's "Respiratory, Inflammation and Autoimmunity" strategy. This extensive experience is an important advantage to the Company and I am confident that James and the Vectura team will deliver the leadership, energy and drive to ensure the continued success of the Company as we embark on the next stage of our journey to become a leading company, focusing on airways-related disease.

I would like to reiterate my statement last year thanking Chris for the dedication he has given the Group over many years and I wish him well for the future. In the interim period between Chris' departure and James' arrival at the end of September, Trevor Phillips, Chief Operations Officer, acted as Interim Chief Executive Officer and, on behalf of the Board, I would like to thank Trevor for his leadership throughout this period.

As part of the proposed merger with Skyepharma we have announced a number of changes to the Board. Following completion of the proposed merger Andrew Oakley, Chief Financial Officer, will leave Vectura. On behalf of the Board I would like to thank Andrew for his support and contribution to the business since he joined the Company and we wish him well for the future. Andrew Derodra will become Chief Financial Officer of the Enlarged Group and we look forward to welcoming him along with Frank Condella and Thomas Werner to the Board following completion of the transaction. In addition to these changes and as part of the merger agreement, Dr John Brown, Non-Executive Director and Senior Independent Director, will stand down from the Board within one month after completion of the proposed merger. John has played an outstanding role as a member of the Vectura Board for many years and has the sincere gratitude of the Board and my own best wishes for the future.

Our people

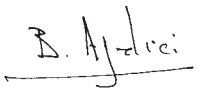
The Board and I would like to pay tribute to Vectura's employees and partners who have shown commitment and worked hard to help deliver so much this year. With the Company's clear strategy commitment, I believe it is an exciting time ahead and we can look forward to the next stage of Vectura's development with great optimism.

Shareholders

We are grateful for the continued commitment of our shareholders as we progress the exciting development of the business. Our focus remains on growing a strong, sustainable, innovative and competitive business which generates strong shareholder value through capital appreciation.

Outlook

Vectura is in a strong position for the future based on its clearly defined strategy, the further progress the business has made in the last twelve months, its strong development pipeline, product portfolio and new leadership. The completion of the proposed merger with Skyepharma will further enhance Vectura's attractive prospects by allowing us to accelerate the delivery of the Company's strategic objectives and deliver further value to our Enlarged Group of stakeholders.



Bruno Angelici
Chairman
25 May 2016

Q&A

with Chief Executive Officer James Ward-Lilley

My first six months as Vectura's CEO.

CEO James Ward-Lilley answers the key questions about Vectura's business and performance and outlines his vision for the future and why he joined Vectura.

James Ward-Lilley
Chief Executive Officer

Q Having reviewed the Company's business and strategy, what were your key findings and what changes will you be making?

A We have reaffirmed our commitment to focus in the inhaled airways diseases segment. As a company with limited size and scale today, it is important to focus and prioritise our investment capability and build in-depth expertise. We have the opportunity to help transform the lives of airways disease patients through our applied insight and excellence in inhaled device and formulation. We will continue to build on our industry-leading device and formulation capabilities to maximise the value from partnerships and progressively develop our own pipeline which will, in the future, be commercialised with a team focused on the specialist physician segment.

We have a great opportunity to build on the strengths Vectura has developed over several years and to lead the industry through our ability to formulate drugs, apply these formulations in relevant devices and then industrialise and scale them for regulatory approval and commercialisation. This can be developed further with both existing drugs, including generics, and innovative approaches and with a partnered and owned portfolio approach.

Q Does Vectura have the capabilities to execute on these opportunities?

A The business has a strong track record of device and formulation development that has been validated through regulatory approvals and in-market revenues from partners. Vectura has a number of capabilities to maximise value from these opportunities. These include its strong dry powder formulation capability, which is

being applied to small and large molecules, as well as its device capabilities seen in the approved and marketed DPI GyroHaler® device and the AKITA® JET and FOX® smart nebulisers. Alongside the technology platforms, Vectura has a strong team with deep insight in formulation science and development, which is being complemented with increased expertise being developed in regulatory, medical and clinical development.

The proposed merger with Skyepharma will, bring together the two companies' complementary inhaled formulation and device expertise. This will provide a series of enhanced platforms to accelerate growth in the inhaled respiratory market.

Q What do you see as the main opportunity in the inhaled respiratory market?

A This is a large market with significant unmet medical need in both large and niche diseases. There is an unprecedented transformation underway within the inhaled therapies market with the emergence of new therapies, including novel products, generics and combination approaches, that present more opportunities to partner, co-develop and ultimately self-commercialise. Device choice and formulation is increasingly important in a market which is fragmenting in terms of patient sub-groups and delivery systems, including DPIs, pressurised metered dose inhalers (pMDIs), nebulisers and injectables (biologics). The emergence of new biologic treatments reflects the increased phenotyping of meaningful patient segments and offers further potential for inhaled opportunities. Vectura is well placed to capture value from these opportunities though our business model see page 14 and our innovative proprietary formulation capabilities.

Q What made you join Vectura after what was clearly a long career at AstraZeneca?

A I had a long, successful and enjoyable career at AstraZeneca. I had come into contact with Vectura through a number of interactions whilst working as the Head of the Commercial Franchise, leading AstraZeneca's global commercial strategy team for respiratory, inflammation and autoimmune therapy area. I was aware that Vectura had a compelling combination of formulation expertise and device capabilities with the dry powder inhalers which had been recently augmented with the acquisition of the Activaero smart nebuliser platform.

What was also clear to me was that Vectura seemed to be at an inflection point, with the prospect of strong financial performance and the opportunity to develop its capabilities and pipeline built on firm foundations. The business was starting to see accelerating growth from recurring revenue streams of recently launched products and had become profitable for the first time last year. The Company had seen a significant evolution in its broad pipeline of both partnered and wholly owned assets, which reflected a spread of risk and innovation including small and large new molecular entities (NME), known generic molecules and complex combinations.

As someone who has worked in the respiratory space for many years I am well aware of the high unmet medical need in this therapy area and the opportunities that are developing fast as we better understand the biology of the immune system. There is, I believe, something of a renaissance in this therapy area which, after a period of limited innovation and lack of new approved therapies, we are now seeing many new drug and therapeutic approaches being developed, including monotherapies, combinations, biologics and immunomodulators. This is certainly at a level far higher than I have seen at any time since I joined the industry.

The level of innovation in this therapy area is potentially very important for physicians and patients in the future and is also a fantastic opportunity for us. Vectura is ideally placed to be a partner of choice to help enable other companies to progress their developments as well as to selectively develop its own specialist assets/products. The importance of effective and proven device and formulation development, providing a platform that can be leveraged with large, mid-cap and small pharma, and with biotech companies, is a great position for Vectura to be in.

Q How do you feel now you have been CEO for six months?

A I am very pleased and proud to be Vectura's CEO. I believe it is a strong business with great prospects and I am excited about leading it. In my first few months as CEO I have led a review of Vectura's business and strategy and started to get to know the team and meet with our key business partners and shareholders. As announced in our results we have delivered a strong set of financial results and made important pipeline progress. Vectura has solid technology foundations which we will aim to build on and I am looking forward to the challenges and opportunities ahead as we deliver on the execution of the strategy. The proposed merger with Skyepharma has been a major area of focus and I believe this deal will give Vectura the opportunity to build a stronger scaled business and allow us to accelerate our plans further (see page 11 for further details).

+ Read more about our governance on **pages 51 to 88**

Q What are the prospects for the Group going forward?

A The outlook for the coming year is dominated with the exciting prospect of the proposed merger for the Enlarged Group. As we bring together the two businesses we will focus on reviewing the potential acceleration opportunities for enhanced revenues based on further device, product and partnering initiatives. In addition we will complete a review of the existing portfolios and align all these elements with a review of the financial outlook, capacity and synergies. This will form the basis of the future guidance for the Enlarged Group.

On a standalone basis this is a transitional year.

We anticipate that total royalty income, although driven by the growth of recently launched inhaled products, will be impacted by the loss of patent for ADVATE® which took place at the end of January 2016 (c.£13m in FY 2015/16). With the VR315 FDA action date set at May 2017 we now expect disclosed milestones for FY 2016/17 to be lower than those in FY 2014/15. There have been a significant number of leads that have converted into feasibility studies across both our smart nebuliser and DPI platforms which could potentially have a positive impact on revenues and the possibility of additional upside if converted into deals. However the size, value and timing of these potential deals are uncertain.

Q There is a robust balance sheet in place with c.£100m in cash; do you expect to pay a dividend or look at M&A?

A Vectura has enjoyed, and continues to see, strong revenue and EBITDA growth resulting from the delivery of R&D milestones, reflecting pipeline progress, and significant in-market royalty revenue growth from our partners. As a result, Vectura has a strong balance sheet and this is a good position for the business to be in. As shareholders are aware, we have included a £70m maximum partial cash alternative element in the proposed Skyepharma merger deal which will be funded from the Company's existing cash resources, together with the funds from a five-year £50m revolving credit facility.

Beyond this, our focus is on growth and our first call for investment is in developing our business and progressing our pipeline. We will also look to accelerate our growth through further selective business development and M&A, particularly focusing on building our specialist commercial presence.

Vectura has not paid dividends in the past. The declaration and payment of any dividends in the future and the amount of any future dividends will depend on the results of operations, financial conditions, cash requirements, future prospects, profits available for distribution and other factors deemed by the Vectura Board to be relevant at the time. At present, the Vectura Board does not expect to pay any dividend in the near-to-medium term, although the Board will continue to assess the position.

Q What are your priorities for the business for the coming year?

A 2016/17 promises to be a very exciting year for the business. A first priority is, subject to deal closure, the fast and effective integration of Skyepharma. We are committed to move fast on this in order to minimise disruption and uncertainty for employees and projects and also to allow us to progress the previously communicated pre-tax synergies of approximately £10m per annum which are expected to be fully realised by the 2018 calendar year.

Beyond the integration activities and financial performance delivery, priorities are focused on progressing our own and co-developed pipeline; progressing our partnered assets, generics and novels; further business development of FOX®, AKITA® and DPI platforms; device industrialisation; and the further development of key capabilities in the clinical, medical, regulatory and commercial planning teams in particular.

Q What other things will be important to you under your leadership?

A Vectura has a clear strategy, strong financial performance, broad pipeline and strong technology platforms. Vectura also has some very good, experienced and hardworking teams. As we move forward and grow the business further it will be critical to develop these capabilities and ensure we harness the collective skills of our teams across locations and add new skills as we develop our own specialist commercial capabilities. Vectura can become known as a stimulating and rewarding place to work with a continued reputation for performance and development.

+ Read more on our pipeline products on **pages 34 and 35**

Q If you look forward five years, what would you like to see?

A My vision is quite simple. I see the opportunity to accelerate our growth and leverage our existing business model to become an industry-leading inhaled device, formulation, product development and specialty commercial business. This includes leading in device and formulation innovation and partnering, significantly expanding our clinical development partnerships, including generics, and developing our specialist pipeline and in-market commercial activity with the priority being in the US. As we do this we will be aiming to maximise shareholder returns, create an exciting and meaningful place to work and develop and, ultimately, help transform the lives of patients with respiratory diseases through our own and partnered programmes.

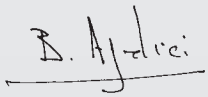
Merger announcement

This section should be read in conjunction with the Rule 2.7 announcement and Prospectus, which can be accessed at **www.vectura.com**

What is the background to, and strategic rationale for, the Merger?

The Vectura Board and the Skyepharma Board both believe this is a compelling transaction that will combine the complementary Vectura and Skyepharma businesses to create an industry-leading, airways-related specialty business. Bringing together the two companies' complementary inhaled formulation, development, regulatory and device expertise (DPI, pMDI and smart nebulisers) provides a series of enhanced platforms to accelerate growth in the inhaled respiratory market, along with providing shareholders with a broader product and development portfolio.

> "The merger of Vectura and Skyepharma is a key milestone in the execution of our strategy to become a leading specialty pharmaceutical company, focusing on airways-related diseases. The addition of Skyepharma's pMDI technology will allow the Enlarged Group to access the inhaled product market in its entirety and the Enlarged Group's enhanced cash flow will better position it to consider attractive strategic opportunities which may emerge in the future. The highly qualified management team, under the leadership of James Ward-Lilley, has the skills, experience and commitment to deliver the Enlarged Group's significant potential. The Vectura Board strongly believes that the merger with Skyepharma will create a business with the technology, capabilities and financial profile to maximise returns to shareholders."



Bruno Angelici
Chairman of Vectura

LARGE ADDRESSABLE MARKETS IN FAST GROWING SEGMENTS

Global inhalation market

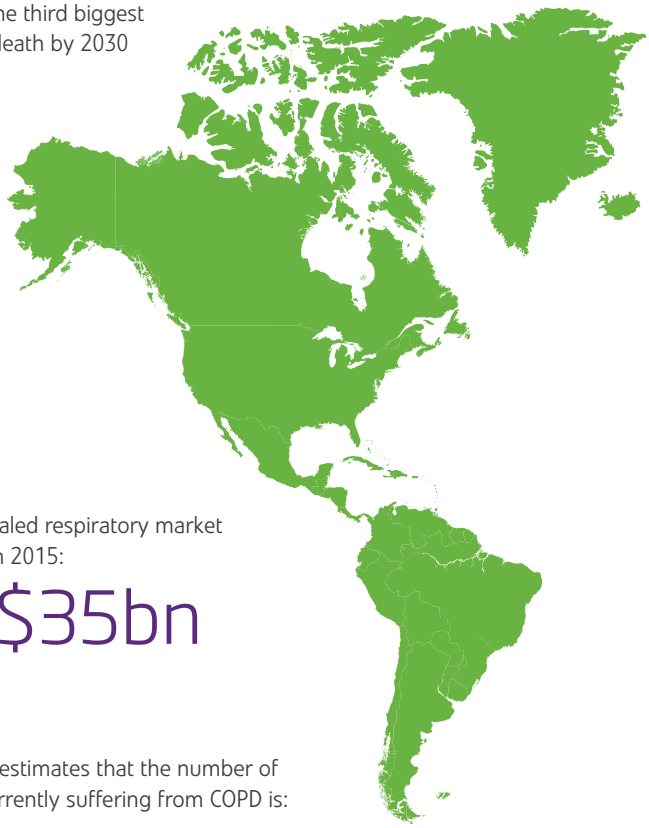
The main market for inhaled therapies is to treat respiratory diseases, especially asthma and COPD. Inhalation products are complex fixed dosage forms that are challenging to develop within the global regulatory environment. Volume growth is expected to continue as demand in the developing world expands. While volume growth is expected, overall sales growth is expected to be modest in these two disease areas due to a number of market factors.

In the asthma therapy market, generic erosion of two market-leading products, GSK's salmeterol/fluticasone propionate (Advair/Seretide/Adoair) and AstraZeneca/Astellas' formoterol/budesonide (Symbicort), is expected to constrain value growth. The decline of sales of these market leaders is expected to be counterbalanced by the entry of emerging innovator products, mainly novel anticytokine agents for the treatment of severe asthma.

In COPD, generic erosion of salmeterol/fluticasone and formoterol/budesonide will also have put downward pressure on overall sales prices. However, an increase in the drug-treated population for COPD and the growth of LABA/LAMA combination products are expected to provide growth in sales revenues.

3m

deaths in 2012 were due to COPD; the WHO predicts it will become the third biggest cause of death by 2030



Global inhaled respiratory market revenue in 2015:

US$35bn

The WHO estimates that the number of people currently suffering from COPD is:

64m

Our strategic response

Vectura is well placed to address these challenges through:

Proprietary formulation

Vectura has a number of proprietary formulation capabilities (PowderHale®, PowderMax™ and ParticleMax™) which enable it to formulate for inhalation a wide variety of molecules including small molecules and biologics. Furthermore, these technical capabilities can be applied to both generic and new molecular entities thereby enhancing the commercial prospects of the Group.

Multiple device platforms

Vectura has a number of patent-protected technology platforms with which to generate future income streams:

- devices (DPI and nebuliser delivery systems); and
- inhalation technologies (FAVORITE™).

Macro economic and social trends

World population by 2050 expected to reach:

9.6bn

235m

people are estimated by the WHO to be affected by asthma globally. Asthma is the most common chronic disease in children

- Population growth, ageing populations and lifestyle changes
- Long-term economic growth in emerging markets
- Rapid scientific and technological advances
- Downward pressure on healthcare costs

Pricing pressure

Vectura's business model exposes the Company to the anticipated volume growth of increasing generic drug usage through leveraging Vectura's formulation and device expertise, Vectura and its partners are developing generic versions of GSK's Advair®/Flovent® as well as AstraZeneca's Symbicort®. The former programme is partnered with Hikma (through its wholly owned subsidiary, West-Ward Pharmaceuticals) and is undergoing regulatory review.

Hybrid business model

A key element of Vectura's strategy is to grow its revenues from products focused on the treatment of airways diseases, leveraging the experience in research, development and commercialisation through implementation of a hybrid business model:

(a) Partnering: to capture value from larger, commercially attractive indications that require large sales forces and high marketing spend;

(b) Co-development with partners: to capture and retain greater economics and source new innovative assets without undertaking exploratory research;

(c) Self-commercialisation: for products that require a focused sales force (i.e. specialty or hospital focus).

LEVERAGING OUR EXPERTISE IN AIRWAYS DEVICES AND FORMULATION

This hybrid business model allows revenue streams from multiple sources and balances current and future capabilities and risk and returns.

vectura

A key element of Vectura's strategy is to grow its revenues from products focused on the treatment of airways diseases, and to leverage the experience in research, development and commercialisation through the implementation of a hybrid business model.

STRATEGY ACCELERATION

Lower risk

Fee for development support

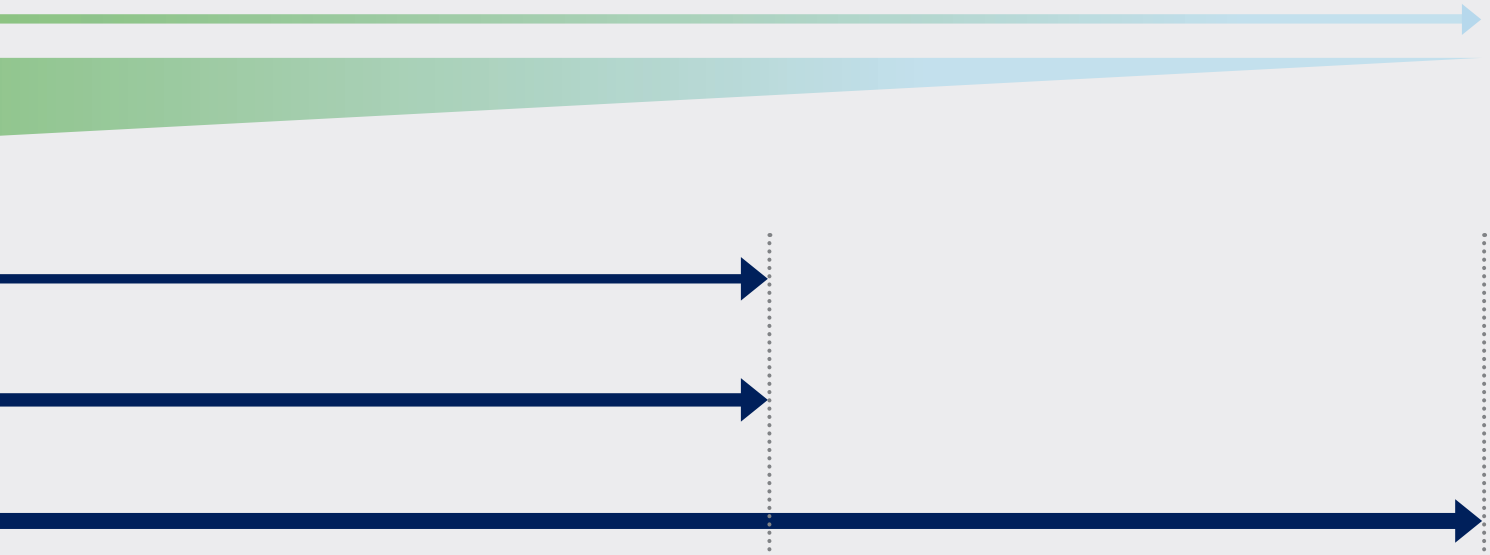
Technology access fee and development milestones

Sales milestones and in-market royalties

FEASIBILITY

Vectura applies its expertise and proprietary formulation and device technologies to the third-party asset(s) in a preliminary evaluation to demonstrate the viability of the product concept and the value that Vectura can add both to the product and to a development partnership. These feasibility evaluations are always conducted as the lead into licence or clinical supply agreements or full development collaboration/ co-development agreements. Typically these are not disclosed.

REVENUE PLATFORM



DEVELOPMENT, LICENSING AND CLINICAL SUPPLY AGREEMENTS

Developing devices and formulations for partners to enable their drug assets to be delivered via inhalation. This provides Vectura with development services revenue and milestones associated with meeting development targets.

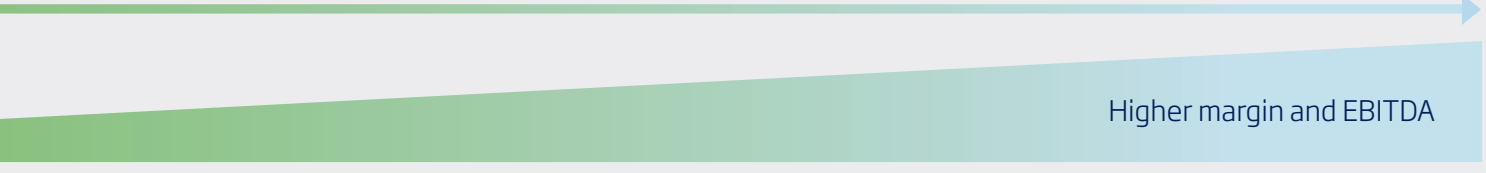
CO-DEVELOPMENT

Co-development with partners to capture and retain greater economics and source new innovative assets without undertaking exploratory research. The potential revenue streams can vary from low single-digit to mid-teen percentages on in-market sales depending upon Vectura's contribution to the development programmes. Vectura's participation can be through its expertise and know-how, developing an appropriate formulation and device, development expertise, cash resources or a combination thereof.

COMMERCIALISATION

Currently we leverage our partners' commercial capability receiving royalties from in-market sales of products and milestones based on meeting certain sales targets in a given period. In the future, self-commercialisation is an option for Vectura for products that require a hospital-focused sales force.

HIGHER % MARGIN



DELIVERING OUR STRATEGY

Positively transforming the lives of airways disease patients

Targeting sustained profitability and shareholder value growth

INDUSTRY-LEADING DEVICES AND FORMULATIONS

MAXIMISING PARTNERSHIP VALUE

MAXIMISING VALUE OF OWN PIPELINE

A stimulating and rewarding place to work

Accelerating strategy implementation and value creation through M&A and business development

INDUSTRY-LEADING DEVICES AND FORMULATIONS

Priorities

- Technologies underpin our product-to-pipeline focus;
- Creation and protection of our underlying intellectual property (IP) assets;
- Continue to leverage investment in our technology and device platforms, IP and general know-how;
- Continue to provide low-risk revenue generation within a structure that allows for the generation of future royalty streams;
- Maintain our technology leadership within inhaled medicine through appropriate investment in people and processes and robust defence of IP.

Future outlook

- Develop more innovative products that address the needs of patients, physicians and payors;
- Returns will arise from collaborations with other parties, where we earn milestone payments and royalties from product development and commercialisation;
- Collaboration agreements with new and existing partners through our DPI and smart inhalation technologies.

KPI

- Revenue growth + innovation performance measure.

MAXIMISING PARTNERSHIP VALUE

Priorities

- Continue with existing partnering model to access those markets, such as COPD and asthma, that require large general sales forces;
- Endeavour to maximise the economic return to shareholders, which will involve sharing an increased level of risk in certain indications;
- Seek increased economics in the co-development portion of our business model, which also has the important effect of increasing the knowledge base of our employees.

Future outlook

- Consider co-promotion or self-commercialisation of certain assets to harness economic returns;
- Commercialisation options will be restricted to therapeutic indications which can be addressed by a small, cost-effective and focused sales and marketing infrastructure;
- Continue to evaluate the commercial landscape to identify assets and companies that have appropriate infrastructure, as well as meet key financial criteria such as being revenue enhancing and accretive on a cash-earnings basis.

KPI

- Revenue growth + innovation performance measure.

MAXIMISING VALUE OF OWN PIPELINE

Priorities

- Build a profitable cash-generative business through a specialist therapeutic focus and progress our development portfolio within airways diseases;
- Broaden and deepen our development pipeline covering a wide range of indications within the category of airways-related diseases.

Future outlook

- We have set out our intended development pathway for VR475 in Europe and clinical trial activities have started. Our anticipated filing date for VR475 remains 2018;
- We intend to continue to develop our pipeline within tight parameters to maintain our record of capital discipline;
- It is our intention to continue to prioritise our development pipeline and to drive R&D investment to its earliest value inflection point.

KPI

- Pipeline progression performance measure.

MEASURING OUR PERFORMANCE AGAINST STRATEGY

Vectura's Board and management rigorously monitor the progress of our business, maintaining strict financial discipline, to facilitate achieving our key strategic objective of becoming a profitable, self-sustaining and cash-generative business.

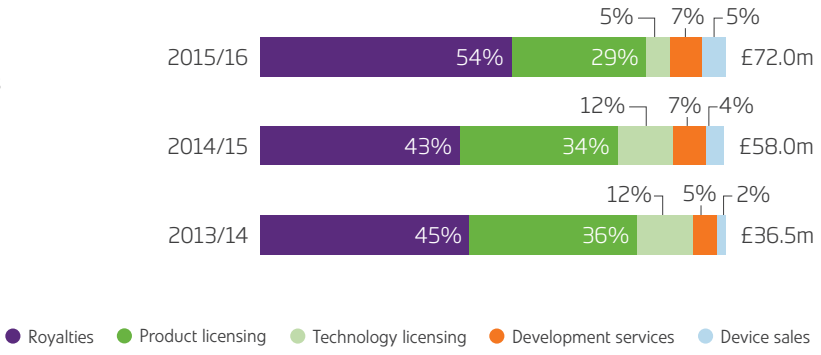
We measure performance against our strategy based upon a range of financial and non-financial KPIs. The key financial indicators we monitor are revenue growth, EBITDA progression and free cash flow.

These have been selected to demonstrate our progress towards executing our key strategic objective, reflecting our history of acquisitions and our investment plans. Vectura's bonus scheme uses similar metrics to assess financial performance against targets; refer to pages 78 to 79 for more information.

Financial KPIs

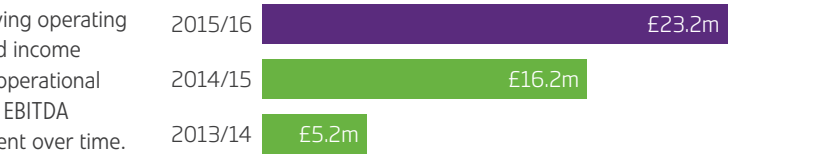
Revenue growth

Revenue increased by 24% to £72m, mainly driven by increased royalties from recently marketed products and significant milestone achievements. Revenue generated by royalties has increased significantly over the last two years. Sustainable royalty revenues provide stability and cash resources to fund future growth and investment.



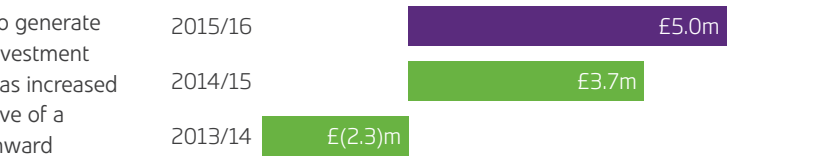
EBITDA[1]

EBITDA is a non-statutory measure of Vectura's underlying operating performance. As shown on the face of the Consolidated income statement, EBITDA is calculated by adjusting Vectura's operational result for non-cash and non-recurring items. A positive EBITDA shows Vectura's ability to generate returns on investment over time. EBITDA has increased to £23.2m (2014/15: £16.2m) and this reflects a £14.0m increase in revenue, offset by continued and measured investment in research and development activities.



Profit after taxation

Profit after taxation is a measure of Vectura's ability to generate potential returns for shareholders over time, net of investment in our capabilities and strategy. Profit after taxation has increased by 35% to £5.0m (2014/15: £3.7m) and this is reflective of a sustained increase in revenues, offset by continued inward investment and expenditure associated with M&A activities.



(1) Earnings before investment income, finance gains/(costs), tax, depreciation, amortisation, share-based compensation and adjusted for non-recurring expenditure items.

Non-financial KPIs

Innovation performance measure

Innovation is the foundation of our business and the Company continues to invest in its people and its technologies. The Company's strategy is to generate income from licensing and commercialising its products and technologies. This is reliant on a comprehensive portfolio of intellectual property, in particular patents covering devices, formulations, manufacturing processes and other aspects of its products and technologies. The Company's portfolio of intellectual property is therefore a valuable asset fundamental to the success of the Vectura Group.

- Number of patents filed/registered

Total patent families

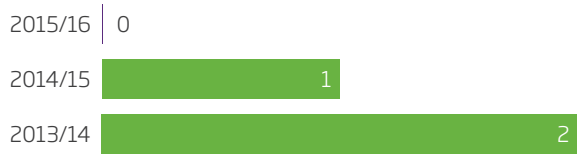
Pipeline progression performance measures

Successful product development is key to creating long-term value. Our development pipeline encompasses a broad range of assets across various stages of development and includes partnered as well as wholly owned assets.

- Number of project milestones completed
- Number of clinical studies completed to stated time

Project milestones completed

Clinical studies completed

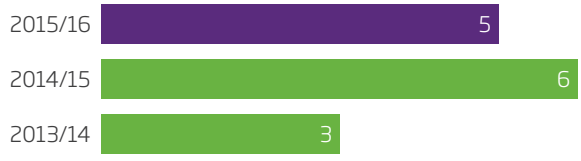


Business development and alliance performance measures

Our hybrid business model allows for appropriate deal structures for business opportunities based on a rigorous assessment of the associated risk, expenditure and time-to-value realisation. This allows for an appropriate balance of risk and reward and is a key element of our strategy and operational focus.

- Number of successful feasibility outcomes
- Number of alliances established

Number of successful feasibility outcomes



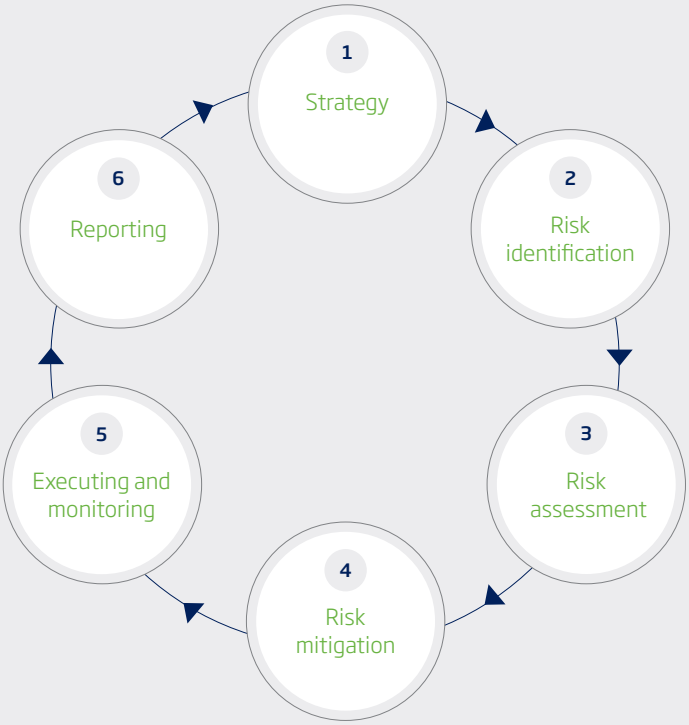
Number of alliances established

IDENTIFYING AND UNDERSTANDING KEY RISKS TO THE BUSINESS

We operate within a complex regulatory environment, which is subject to change, and the nature of pharmaceutical development exposes us to a number of risks and uncertainties. Our ability to meet our goals and objectives may be affected by a number of these risks, which could impact our strategy, business model and operating environment.

We have developed and implemented a risk management process which is designed to ensure that significant risks are identified, assessed, managed and reported to relevant stakeholders in a concise and timely manner to inform and support decision making.

This section provides an overview of our risk management process, the key risks currently faced by the business and the actions that we have taken to mitigate them. Not all the risks identified as part of our risk management processes are detailed in this section; instead this report focuses on the risks that the Directors believe are the most important and material to the business. As with all businesses operating in such a dynamic environment, some risks may not yet be known while other low level risks could become material in the future.



Objectives of the Vectura risk management process:

- to ensure that the risk appetite of the Board is embedded throughout the organisation and fully understood by those who are responsible for managing risk and making key decisions across the business;
- to identify and assess the likelihood and potential impact of the risks that Vectura faces in the execution of its strategy and the operation of its business model, and ensure that appropriate mitigating actions and controls are in place such that the residual risk is aligned to the risk appetite of the Board;
- to control systematic risks within the organisation by maintaining and improving a system of internal controls to manage risks in decision making, legal contract management, quality and regulatory processes and the processing of financial transactions; and
- to ensure that identified risks are reported to relevant stakeholders in a timely manner to facilitate effective decision making.

Vectura's Audit Committee reviews the effectiveness of the Group's risk management process on behalf of the Board. In reviewing the effectiveness of the process, the Audit Committee recognises that such a process is designed to understand and mitigate, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

+ Read more on our principal risks and uncertainties **overleaf**

Our principal risks and uncertainties

During the year, a robust assessment of the principal risks facing Vectura has been carried out. These include the principal risks that could threaten the execution of Vectura's strategy, achievement of objectives, future performance, business model, solvency and liquidity, and are outlined below. Some of these risks are specific to the Group and others are more generally applicable to the pharmaceutical industry or specific markets within which Vectura operates. The risks are considered within the timeframe of three years, which is the same time period that has been used in the Viability Statement. The Viability Statement takes into account the principal risks. The underlying analysis that has been performed has included stress testing of different scenarios of these principal risks.

Certain risks, notably risks 2, 4, 7, 9 and 10, are risks that have been newly identified or escalated to be principal risks in the past year and reflect the dynamic nature of the risk environment in which Vectura operates, as well as the ability of our risk management system to detect and respond to such changes. A number of principal risks from 2015 have also been de-escalated or are no longer relevant.

▲ Increased risk ▼ Decreased risk – No change

STRATEGIC RISKS

1. Product exposure to generic competition before anticipated patent expiration date could erode value of on-market branded products or future value of development programmes

Risk	Mitigating activities	Trend
Generic drug manufacturers seeking marketing approval for products protected by Vectura or partner patents could be successful in attacking the validity or enforceability of Vectura or partner patents. This would result in the product being exposed to generic competition before the anticipated expiration date of the patent, materially affecting Vectura's revenues or the anticipated value of programmes currently in development. Other competitors routinely challenge Vectura patents, which could impact on current and future revenue streams if successful.	Vectura owns a portfolio of patents and patent applications and is the authorised licensee of other patents. Dedicated internal resource, supplemented with external expertise where required, continually reviews the intellectual property landscape relevant to our products, development programmes and manufacturing activities. Risks are communicated to the business and any challenges to Vectura patents are rigorously defended. The IP team ensures that changes in patent laws and regulations are incorporated into processes for obtaining, maintaining and enforcing global patent protection. Processes are in place to ensure that patent applications are filed in a timely manner and are prosecuted diligently. Robust processes are in place to automate patent renewals. Internal controls are in place to avoid disclosure of patentable material prior to filing patent applications to protect know-how.	2016 – 2015 –

2. Third-party patents could limit the Group's freedom to operate (FTO)

Risk	Mitigating activities	Trend
A third-party patent could be granted with broad claims that read on to a Vectura technology, device or product, which could result in Vectura or a partner potentially having to take licence, or even being unable to commercialise a product, materially affecting Vectura's future revenues.	The Group is very diligent in carrying out freedom to operate searches to identify potential third-party IP. In some cases this responsibility is with Vectura partners, with appropriate strategies and action plans agreed with Vectura partners where necessary.	2016 –

Increased risk Decreased risk No change

STRATEGIC RISKS CONTINUED

3. Corporate inexperience of late phase development could result in delays to programmes or missed financial targets

Risk	Mitigating activities	Trend
The Group has not previously taken a product to market on its own; however, it is now focusing on a number of late-stage wholly owned development programmes which may ultimately provide the Group with the opportunity to self-commercialise. Failure to complete development activities to plan may impact the Group's ability to bring products to market on time, which may further erode the potential value of such programmes and would hinder the Group's ability to deliver its stated strategy.	Individuals with the necessary skills and experience have been recruited into the Group to lead and oversee the development of the Group's late-stage assets. The Group continues to work with a network of experienced consultants and contractors who provide additional support and expertise as required. The changing resource requirements of the Group are fully considered as part of the people strategy in place. The Group has an established governance process to oversee the conduct and delivery of all development programmes and to ensure that any potential changes to the development plan or budget are identified and discussed in a timely manner such that mitigating activities or actions can be put in place as required.	2016 – 2015 –

4. Failure to successfully integrate post-merger may lead to increased costs, loss of key personnel, delays in delivering strategic objectives and failure to deliver communicated cost synergies

Risk	Mitigating activities	Trend
Corporate inexperience in large M&A could result in the suboptimal management of the proposed merger with Skyepharma PLC, resulting in loss of key personnel, cost reduction synergies not being delivered and failure to achieve desired return on capital. Loss of key personnel could have a material impact on the Group's operations.	Structured post-merger integration plans have been established to help ensure that the integration is executed successfully. Vectura also has access to, and support from, external subject matter experts. The internal team has grown and the team has gained experience from the successful integration of Activaero. A range of benefits, including long-term incentive plans, are utilised to encourage retention of key personnel.	2016 ▲

5. Loss of, or reliance on, a strategically important partnership may materially impact the Group's current and future revenues and costs

Risk	Mitigating activities	Trend
Vectura currently has a number of strategically important partnerships, collaborations and licensing arrangements for the development, manufacture and commercialisation of certain pipeline and commercial assets. Loss of any one of our strategically important partnerships, collaborations or licensing arrangements could have a material impact on Vectura's future prospects. Vectura has a number of products that are marketed by partners and we are dependent upon those partners for obtaining regulatory approval for, and the marketing and commercialisation of, those products. The marketing and commercialisation strategy taken by a partner could materially impact the level of royalties earned by Vectura. Vectura is also reliant on suppliers for the development and manufacture of certain devices. Any poor performance of the third parties could delay or prevent devices from being successfully developed and delivered to plan. This could result in key development milestones being missed or associated payments being delayed and could also affect partners' confidence in Vectura's ability to deliver.	Vectura has an agreed process for managing and entering agreements and this includes appropriate oversight and approval at Board level. All collaborations are performed under a suitable legal agreement which is assessed by Vectura and its external legal advisors. Typically, for collaborations a joint steering committee (JSC) will be established, which provides a mechanism by which Vectura can ensure that any joint project team activity is managed appropriately within our standard project management processes. An alliance manager is identified for all licensing partnerships or contract research organisation engagements. Vectura has a broad list of disclosed and undisclosed partners, thereby mitigating the loss of any one particular partnership due to strategic and/or operational reasons beyond the control of Vectura.	2016 ▲ 2015 –

Our principal risks and uncertainties continued

Increased risk | Decreased risk | No change

OPERATIONAL RISKS

6. Operational disruption

Risk	Mitigating activities	Trend
Events such as fire or flood that lead to significant and prolonged disruption to a research and development or manufacturing operation upon which Vectura relies could result in loss of royalty revenues and contractual liabilities, as well as delays to development programmes.	Vectura identifies key suppliers in relation to its business and, where possible, alternative sources of supply are sought where this is economically feasible. Safety stock is also typically held at levels commensurate with the identified risk. Vectura's asset management approach includes holding duplicate parts and equipment for business-critical machinery. We have established good working relationships with the manufacturers of such equipment and we monitor our supplier relationships to ensure effective and responsive service levels. Risk contingency is built into product development plans, and Group-wide business continuity plans have been established. In addition, Vectura purchases comprehensive property damage and business interruption insurance to provide cover in the event of physical disruption.	2016 – 2015 –

7. Insufficient management bandwidth due to the proposed merger could lead to operational disruption and missed operational and financial targets

Risk	Mitigating activities	Trend
The need to continue business-as-usual activities and drive strategic growth at the same time as executing the merger and delivering integration synergies could impose unprecedented time pressure and capacity constraints on management bandwidth and challenge its ability to effectively deliver on all responsibilities and lead to failure to achieve corporate objectives.	As described above, structured post-merger integration plans have been established to help ensure that the integration is executed successfully. Vectura also has access to, and support from, external subject matter experts. The internal team has grown and the team has gained experience from the successful integration of Activaero.	2016 ▲

FINANCIAL RISKS

8. Exposure to foreign exchange risk could materially impact the Group's reported results

Risk	Mitigating activities	Trend
A substantial proportion of the Group's income from collaborative agreements is received in US dollars and euros but expenditure is predominantly incurred in pounds sterling. To the extent that Vectura's foreign currency assets and liabilities are not matched, fluctuations in exchange rates between pounds sterling, the US dollar and the euro may result in realised or unrealised exchange gains and losses on translation of the underlying currency into our presentational and functional currency of pounds sterling. Such gains or losses may increase or decrease Vectura's operating margin and may adversely affect Vectura's financial condition. In addition, if the currencies in which the Group earns its revenues and/or holds its cash balances weaken against the currencies in which it incurs its expenses, this could adversely affect profitability and liquidity. Increasing royalty revenues and the impending referendum on the UK's membership of the EU will further affect the magnitude of this risk.	Where known foreign currency liabilities arise, foreign currency revenue receipts are retained on deposit in the appropriate currency in order to offset the exchange risk on these liabilities. As at 31 March 2016, the Group had sufficient euro and US dollar reserves to cover its immediate and short-term liabilities in respect of these currencies. Where a substantial net foreign currency liability exists, Vectura will consider hedging against it to minimise foreign currency expense. However, such hedging is based on estimates of liabilities and future revenues and will not fully eliminate future foreign currency exchange fluctuations.	2016 ▲ 2015 –

Increased risk Decreased risk No change

FINANCIAL RISKS CONTINUED

9. An unexpected tax liability could materially impact the Group's reported results

Risk	Mitigating activities	Trend
Adverse interpretations or rulings on the tax effect of specific transactions or changes in tax rulings which have been granted could give rise to substantial costs in dealing with the appropriate tax authorities and/or unfavourable tax treatments and tax liabilities not currently envisaged or accrued, resulting in negative effects on the financial condition or prospects of the Vectura Group. Historically, the Group has been loss making and therefore this risk is increasing in profile as the Group moves towards a tax-paying position.	The Group uses external tax advisors in each of the jurisdictions within which it operates to ensure continued compliance with relevant legislation and to ensure that the impact of potential future changes is fully understood and incorporated within business plans.	2016 ▲

BROADER RISKS SPECIFIC TO THE PHARMACEUTICAL INDUSTRY

10. Changes to regulations and operational restrictions due to Brexit

Risk	Mitigating activities	Trend
A referendum will be held in the UK on 23 June 2016 on whether the UK will remain in the EU, and the Group faces a range of risks associated with a vote to exit the EU. For example, as a significant proportion of the regulatory regime applicable to the Vectura Group is derived from EU directives and regulations, a vote in favour of the UK exiting the EU could lead to material changes in the regulatory framework applicable to the Vectura Group's operations. In addition, a UK exit from the EU could result in restrictions on the movement of capital and the mobility of personnel, for instance. Any of these risks could result in higher operating costs and could have a material adverse effect on the Vectura Group's business operations and financial conditions.	Due to the nature of this risk, no mitigating activities are in place at the current time.	2016 ▲

Our principal risks and uncertainties continued

Increased risk | Decreased risk | No change

BROADER RISKS SPECIFIC TO THE PHARMACEUTICAL INDUSTRY CONTINUED

11. Regulatory approvals

Risk	Mitigating activities	Trend
The international pharmaceutical industry is highly regulated by governmental authorities in the UK, the US and Europe and by regulatory agencies in other countries where Vectura or a collaborator intends to test or market products they may develop. These regulatory requirements are a major factor in determining whether a substance can be developed into a marketable product and the amount of time and expense associated with such development. There can be no assurance that Vectura's, or a collaborator's, products will receive and maintain regulatory approvals. Even if products are approved, they may still face subsequent regulatory difficulties. Such difficulties may result in financial loss and reputational damage.	We work closely with expert regulatory advisors and, when appropriate, seek advice from regulatory authorities on the design of key development plans for pre-clinical and clinical programmes. In respect of our collaborations and partnerships, we work with a number of blue-chip pharmaceutical partners, such as Novartis, Sandoz, Baxter and GSK, who have significant regulatory expertise.	2016 – 2015 –

12. Unforeseen side effects

Risk	Mitigating activities	Trend
All drugs have a risk of adverse reactions and side effects and therefore unforeseen side effects may result from the use of Vectura's, or a collaborator's, products or product candidates. This is an inherent risk which may be identified at any time, even after a product has been approved and sold commercially. Discovery of unforeseen side effects, other than those acceptable to the regulators, may result in a substantial loss of royalty revenues, other liabilities, a significant delay to a development programme or withdrawal or suspension of regulatory approval.	Vectura and its collaborators conduct extensive pre-clinical and clinical trials designed to test for and identify any adverse side effects. In addition, there is a significant amount of safety data available regarding existing marketed products to which our generic products relate.	2016 – 2015 –

Increased risk Decreased risk No change

BROADER RISKS SPECIFIC TO THE PHARMACEUTICAL INDUSTRY CONTINUED

13. Pricing and reimbursement

Risk	Mitigating activities	Trend
Vectura or our collaborators may not be able to sell its products profitably if reimbursement from third-party payors, including government and private health insurers, is unavailable or limited. A significant portion of Vectura's future revenue is likely to depend on payments by third-party payors, including government health administration authorities and private health insurers. As such, Vectura may be adversely affected by third-party reimbursement and healthcare cost containment initiatives. Vectura may not be able to sell its products profitably if reimbursement from these sources is unavailable or limited. Third-party payors are increasingly attempting to contain healthcare costs through measures that are likely to impact the products Vectura is developing, including: • challenging the prices charged for healthcare products, limiting both coverage and the amount of reimbursement for new therapeutic products, and denying or limiting coverage for new products that are approved by the regulatory agencies; and • refusing to provide coverage when an approved drug is used in a way that has not received regulatory marketing approval. In addition, in many European countries there has been an increasing trend towards reference pricing, where the amount of reimbursement is determined in light of reimbursement levels for comparable drugs in other European countries. This is likely to severely restrict the potential per unit price for many new drugs unless such drugs can be significantly differentiated from existing products. If products developed by Vectura or its partners are not covered by government or other third-party reimbursement schemes, are reimbursed at prices lower than those expected by Vectura, or become subject to legislation controlling treatments or pricing, Vectura and/or its partners may not be able to generate significant revenue or attain profitability for any product candidates which are approved for marketing.	Where appropriate, products may be out-licenced to partners who have the expertise to commercialise products and negotiate pricing structures with third-party payors, especially in disease indications that require large sales forces. Should Vectura self-commercialise, this would be targeted commercialisation for niche products with significant unmet need, which requires a small sales force to target specialist physicians. Our business model includes bringing highly innovative products to address unmet needs and we are also involved in a number of generics programmes which support government initiatives to reduce costs. This adds balance to our business model in an era of increasing cost containment.	2016 ▲ 2015 –

Our principal risks and uncertainties continued

Increased risk | Decreased risk | No change

BROADER RISKS SPECIFIC TO THE PHARMACEUTICAL INDUSTRY CONTINUED

14. Competition

Risk	Mitigating activities	Trend
Our business faces intense competition from a range of pharmaceutical and biotechnology companies. Technological changes could overtake the products being developed by Vectura or by its collaborators. Our competitors in the biotechnology and pharmaceutical industries may have superior research and development capabilities, products, manufacturing capability or sales and marketing expertise. Many of our competitors have significantly greater financial and human resources and may have more experience in research, development and commercialisation. As a result, our competitors may develop safer or more effective products, implement more effective sales and marketing programmes or be able to establish superior proprietary positions. In addition, we anticipate that we will face increased competition in the future as new companies enter Vectura's markets and alternative products and technologies become available.	Vectura performs detailed reviews of the development process and progress of projects through trials. For programmes managed in house, Vectura has an established project management framework. The potential commercial opportunities for each project are assessed at the end of each stage of the project. Projects are assessed using widely accepted valuation metrics based upon discounted cash flows. These cash flows are discounted using a hurdle rate that is in line with industry standards and the expected return of each project is further risk adjusted by its phase of development. Vectura has experienced development and commercial teams who all contribute to this assessment. This in-house review is supplemented by well regarded disease area reports and, where appropriate, bespoke market research. Under this framework, research and development programmes will only be approved by the Board if it can be shown that the expected benefits outweigh the expected costs. All programmes are subject to a stage-gate approval process and, in the event that it was no longer considered that future revenues would be higher than future costs, the Board would consider terminating or redefining the programme. Where appropriate, the Group looks to mitigate the development and commercial risk of its product pipeline by partnering drug candidates at an appropriate stage. The partnering event crystallises part of the programme's value, with the goal of retaining an attractive proportion of the commercial upside through future milestones and an ongoing royalty interest from commercial sales. Vectura's current royalty-generating products are expected to continue to provide royalties until patent expiry or until Vectura is no longer entitled to receive royalties in accordance with a licence agreement. Vectura works closely with its advisors and obtains, where necessary, opinions on the intellectual property landscape relevant to the Group's product development programmes and manufacturing activities and processes. In addition, Vectura works with a number of key licensing partners who have significant expertise in the research, development and commercialisation of pharmaceuticals. These licensing partners have access to significant financial and human resources.	2016 – 2015 –

Increased risk Decreased risk No change

BROADER RISKS SPECIFIC TO THE PHARMACEUTICAL INDUSTRY CONTINUED

15. Product liability

Risk	Mitigating activities	Trend
In carrying out its activities Vectura will potentially face contractual and statutory claims, or other types of claims from customers, suppliers and/or investors. Vectura is exposed to potential product liability risks that are inherent in the research, the pre-clinical and clinical evaluation, pre-clinical study, clinical trials, manufacturing, marketing and use of pharmaceutical products. Consumers, healthcare producers or persons selling products based on Vectura's and its collaborators' technology may be able to bring claims against Vectura based on the use of such products in clinical trials and the sale of products based on Vectura's technology.	Vectura maintains an appropriate level of product liability insurance and operates quality systems relating to the manufacture of products. Vectura has a pharmacovigilance system to monitor safety events arising with respect to products sold. Vectura's insurance portfolio also includes other third-party liability insurances which would provide cover in the event of certain other contractual or statutory claims.	2016 – 2015 –

Viability statement

In accordance with provision C.2.2 of the 2014 UK Corporate Governance Code ("the Code"), the Directors have assessed the prospects of the Group over the three-year period ending 31 March 2019. Given the nature of Vectura's business and the competitive environment within which it operates, the Directors consider that this assessment period represents a period for which costs and revenues associated with the Group's current portfolio and pipeline can be reasonably projected.

The Group's prospects are assessed primarily through its strategic planning process, which is led by the Chief Executive Officer and involves representatives from relevant business functions within the Group. The Board conducts a robust assessment of the strategic plan in light of the principal risks facing the Group and the potential impact these risks could have on the Group's business model, future performance, solvency or liquidity over the assessment period. Although the strategic plan reflects the Directors' best estimate of the future prospects of the Group, they have also tested the potential impact of a number of scenarios over and above those included in the plan; this includes modelling the impact of certain key sensitivities, relating to both revenues and costs, on the financial forecasts.

Based on the Group's current position, principal risks and the analysis outlined above, the Directors have concluded that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

Going concern

At the time of approving the financial statements, the Directors have a reasonable expectation that the Group and the Company will continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the 2015/16 Annual Report.

The basis of preparation is explained in note 1 to the financial statements.

MARKETED PRODUCTS AT A GLANCE

We have eight products marketed by partners. We receive royalty income from the sales of these products.

PARTNERED

Ultibro® Breezhaler® (EU & RoW) – LABA-LAMA

(indacaterol/glycopyrronium bromide)

Primary indication:

COPD

Partner: NOVARTIS

Description:

A novel, once-daily fixed dose, dual bronchodilator approved in the EU as a maintenance bronchodilator treatment for adult patients with COPD.

History:

Glycopyrronium bromide was exclusively licenced to Novartis in April 2005 by Vectura and our co-development partner Sosei Group Corporation.

Progress:

Approved for use in over 80 countries (including Japan and countries in the EU).

Seebri® Breezhaler® (EU & RoW) – LAMA

(glycopyrronium bromide)

Primary indication:

COPD

Partner: NOVARTIS

Description:

A novel, once-daily fixed dose, maintenance bronchodilator treatment for adult patients with COPD.

History:

Glycopyrronium bromide was exclusively licenced to Novartis in April 2005 by Vectura and our co-development partner Sosei Group Corporation.

Progress:

Approved for use in over 90 countries (including Japan and countries in the EU).

AirFluSal® Forspiro® (EU & RoW) – ICS-LABA

(fluticasone propionate/salmeterol)

Primary indication:

Asthma/COPD

Partner: SANDOZ

Description:

Innovative inhaler with inhaled combination therapy for asthma and/or COPD.

History:

Vectura initially developed the product and created the design of the innovative inhaler before licensing the asset to Sandoz in 2006.

Progress:

Approved in more than 40 countries and launched in 24 countries (including South Korea, Mexico and countries in the EU).

PARTNERED continued

ADVATE® (Global)[1] – Antihaemophilic Factor (Recombinant)

Primary indication:

Haemophilia A

Partner:

Baxter

Description:

For the treatment of haemophilia A and marketed worldwide by Baxter, from which Vectura earns royalties from sales.

History:

In 2000, Vectura granted worldwide rights to Baxter to use its stabilisation patents in its serum-free recombinant Factor VIII, ADVATE®.

(1) Advate came off patent at the end of January 2016. Vectura does not expect to receive any material royalties from this product during its financial year ending 31 March 2017, or thereafter.

Adept® (Global) – Icodextrin

Primary indication:

Prevention of surgical adhesions

Partner:

Baxter

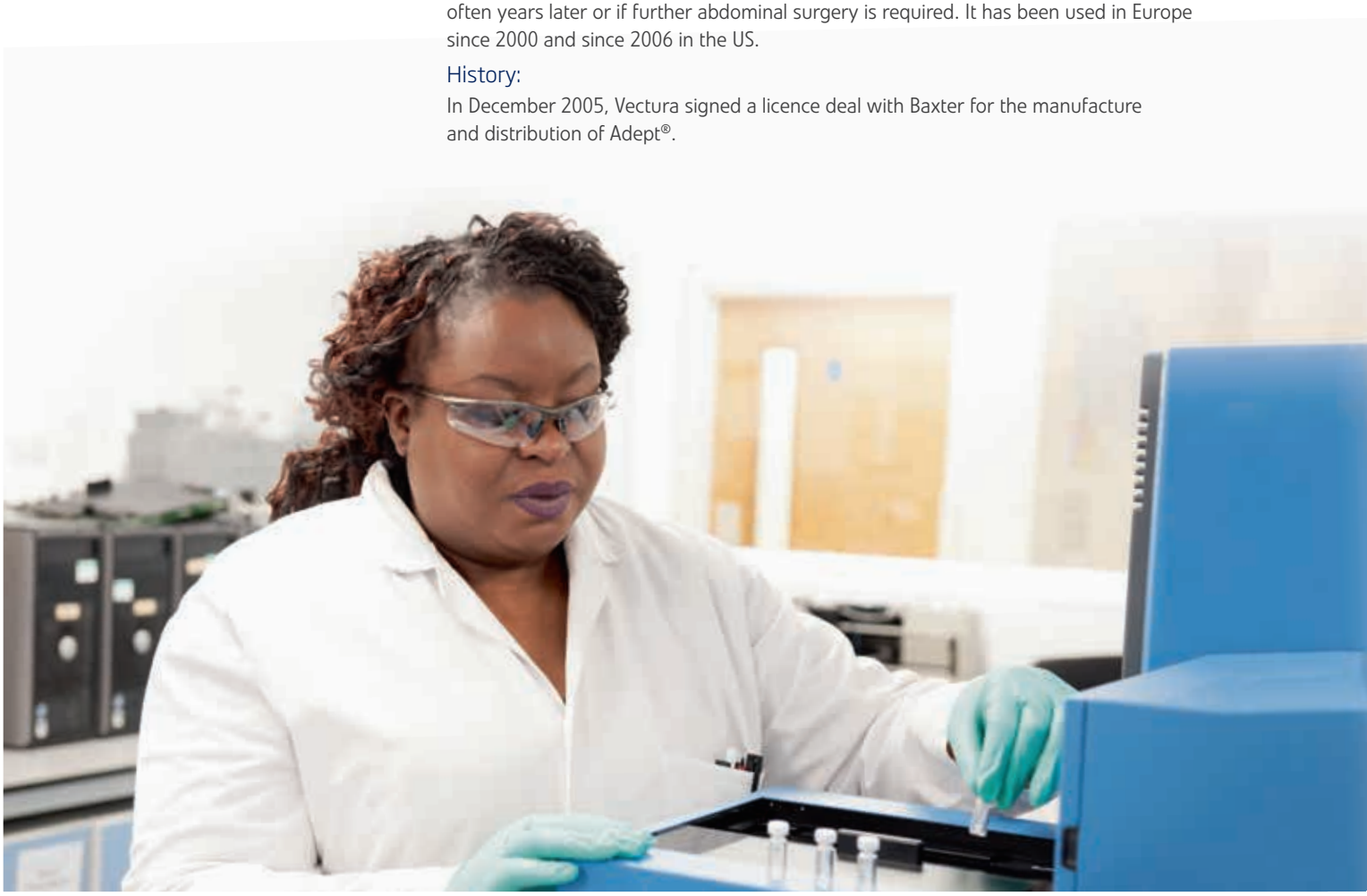
Description:

Adept® is a 4% icodextrin solution used during surgery to reduce post-surgical adhesions, a frequent and major complication after gynaecological and other abdominal surgery, where abnormal scarring causes the surfaces of internal structures to stick together.

Whilst not necessarily dangerous in themselves, they can lead to future complications, often years later or if further abdominal surgery is required. It has been used in Europe since 2000 and since 2006 in the US.

History:

In December 2005, Vectura signed a licence deal with Baxter for the manufacture and distribution of Adept®.



LICENCED

In August 2010, GSK entered into a licence and an option-to-licence agreement for certain of Vectura's dry powder formulation patents. Vectura is entitled to a low single-digit royalty on net sales of products using these patents, capped at a maximum of £13m per calendar year[1].

Anoro® Ellipta® (Global) – LAMA-LABA

(umeclidinium/vilanterol)

Primary indication:

COPD

Technology licensee:

GSK

Description:

A multi-dose dry powder inhaler containing an anticholinergic, umeclidinium, and a long-acting bronchodilator, vilanterol, formulated by GSK using proprietary Vectura technology.

Relvar® Ellipta®/Breo® Ellipta® (Global) – ICS-LABA

(fluticasone furoate/vilanterol)

Primary indication:

Asthma, COPD

Technology licensee:

GSK

Description:

A multi-dose dry powder inhaler containing a steroid, fluticasone furoate, and a long-acting bronchodilator, vilanterol, formulated by GSK using proprietary Vectura technology.

Incruse® Ellipta® (Global) – LAMA

(umeclidinium)

Primary indication:

COPD

Technology licensee:

GSK

Description:

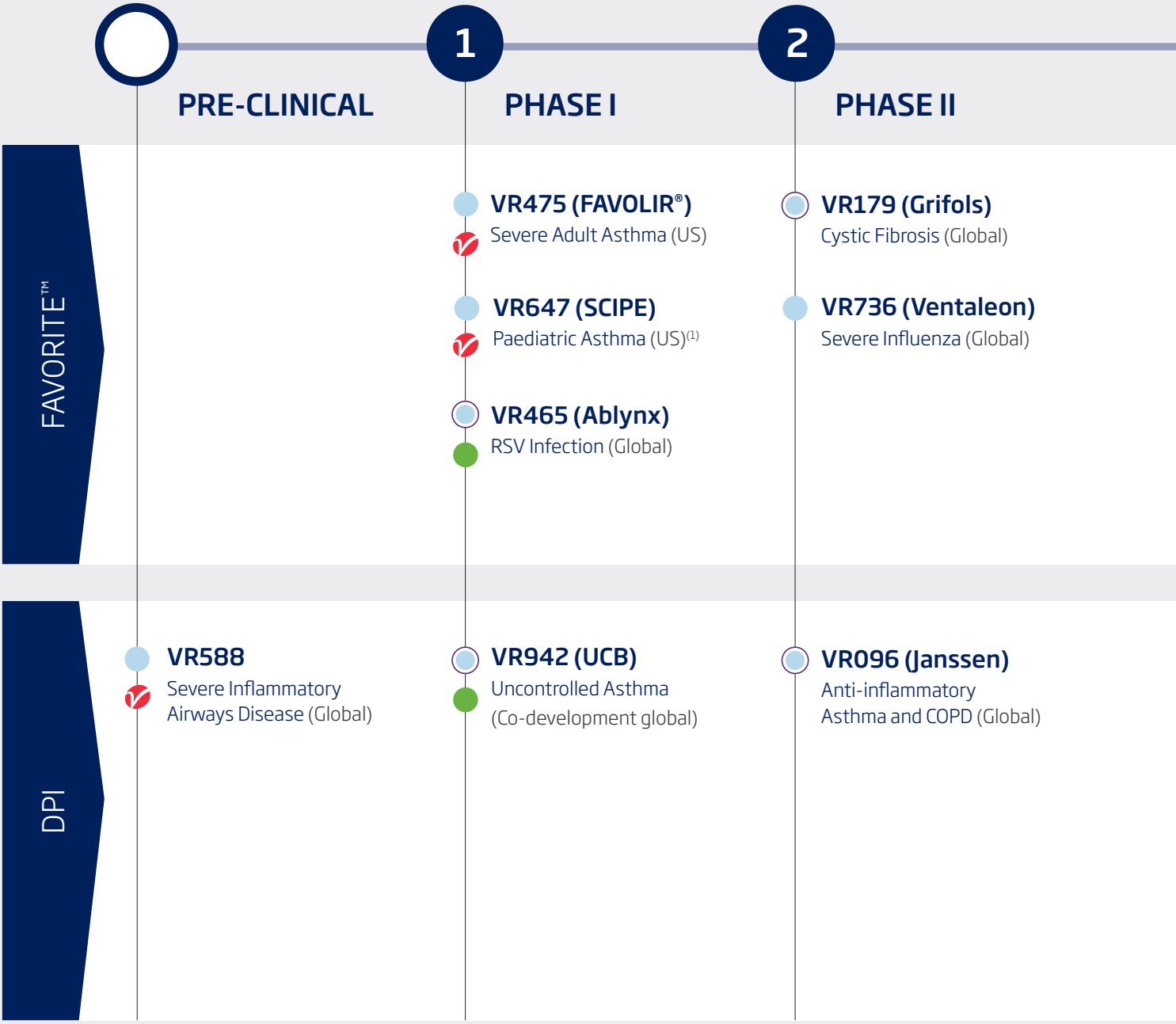
A multi-dose dry powder inhaler containing an anticholinergic, umeclidinium, formulated by GSK using proprietary Vectura technology.

Anoro® Ellipta®, Relvar® Ellipta®/Breo® Ellipta® and Incruse® Ellipta® are registered trade marks of GSK, photos courtesy of GSK.

+ Read more about our product pipeline on **page 34**

(1) Refer to note on licence in Financial Review (Royalties).

PRODUCT PIPELINE



(1) Bridging study to enable Phase III.

Branded Generic Biologic | Partnered Wholly owned

3 PHASE III

- **VR475 (FAVOLIR®)**
  Severe Uncontrolled Adult Asthma (EU)
- **VR876 (partner undisclosed)**
  Serious Lung Disease (Europe)
- **QVM149 (Novartis)**
  Asthma (EU, RoW)

GENERICS

- **VR315 (Hikma)**
  Asthma/COPD (US)
- **VR506 (Hikma)**
  Asthma (US)
- **VR632 (Sandoz)**
  Asthma/COPD (EU)

PRE-LAUNCH

- **Utibron™ Neohaler® (Novartis)**
  COPD (US)
- **Seebri™ Neohaler® (Novartis)**
  COPD (US)

Branded · Generic · Biologic | Partnered · Wholly owned

BRANDED AND GENERIC INVESTIGATIONAL DRUGS (PARTNERED AND WHOLLY OWNED)

PRE-CLINICAL

VR588 Severe Inflammatory Airways Diseases

(Global)

VR588 is a broad-based, potent and selective pan-JAK inhibitor that demonstrates a pharmacokinetic profile suitable for development as an inhaled treatment. Pre-clinical development activities have progressed successfully and Phase I-enabling inhalation toxicology studies have commenced.

This product pipeline asset has the following key elements:

- multiple indications are possible; and
- investment and focus on activities that generate data to support licensing will be minimised.

1 PHASE I

VR475 (FAVOLIR®) Severe Uncontrolled Adult Asthma

(US)

VR475 is an inhaled, add-on therapy for the treatment of adult patients with severe, uncontrolled asthma with a history of exacerbations with or without dependence on oral corticosteroids. VR475 is a drug/device combination comprising "smart" delivery of nebulised budesonide, delivered with Vectura's smart nebuliser system, the AKITA® JET, utilising Vectura's FAVORITE™ technology.

This product pipeline asset has the following key elements:

- developed to reduce exacerbations in severe uncontrolled asthmatics (GINA steps 4 and 5) with a history of exacerbations and/or dependence on oral corticosteroids;
- aim to show greater efficacy than conventionally nebulised budesonide and to be more cost effective than mAbs;
- programme endorsed by CHMP scientific advice procedure; and
- development plan will be discussed with FDA post completion of the EU clinical study.

VR647 (SCIPE) Paediatric Asthma

(US)

VR647 is a drug/device combination comprising "smart" delivery of nebulised budesonide for maintenance treatment of asthma in children for the US market, delivered with Vectura's smart nebuliser system, the AKITA® JET nebuliser, utilising Vectura's FAVORITE™ technology.

This product pipeline asset has the following key elements:

- opportunity to introduce an improved product to an established US market;
- developed to increase precision and reduce dosing time in children;
- developed as a maintenance treatment for asthma for the paediatric label only (age range twelve months to eight years) with the objective to retain current label/indication for budesonide;
- FDA agreed 505(b)(2) pathway for development programme;
- anticipated IND filing in mid-2016; and
- Phase III study to start mid-2018 with filing anticipated in mid-2020.

VR465 (Ablynx) Respiratory Syncytial Virus Infection

(Global)

The Belgian biotech company Ablynx is developing the anti-RSV Nanobody® ALX-0171 for the treatment of RSV infections in infants.

ALX-0171 is a Nanobody drug candidate, administered via inhalation, for the treatment of RSV infection in infants. VR465 is being developed by our partner Ablynx and utilises Vectura's smart nebuliser technology device, the FOX®, to deliver the Nanobody to patients. The FOX® device used in this programme has been adapted for use with neonates and infants.

Ablynx confirmed in December 2015 that it has completed target enrolment of the first in-infant Phase I/IIa safety study with its wholly owned anti-RSV Nanobody®, ALX-0171.

Post the period end, on 2 May 2016, Ablynx reported positive top line results which they believe supports advancement into a Phase II efficacy study in infants.

Branded Generic Biologic | Partnered Wholly owned

VR942 (UCB) Uncontrolled Asthma

(Co-development global)

In September 2013, Vectura and UCB announced a collaboration for the development of an innovative inhaled biologic immunomodulatory product in the area of severe inflammatory respiratory disease.

The partnership, leveraging Vectura's DPI/formulation and clinical/regulatory experience with UCB's biologics and immunology expertise, will focus upon the development of VR942 to completion of Phase II clinical proof of concept.

In June 2015, following the successful completion of a number of pre-clinical studies, enrolment commenced into a Phase I clinical study in healthy volunteers and patients with asthma.

The selection of final Phase II clinical study design is anticipated in H1 2016.

2 PHASE II

VR179 (Grifols) Cystic Fibrosis

(Global)

VR179 is a nebulised alpha-1 antitrypsin product, under investigation for the treatment of cystic fibrosis. The programme is partnered with the Spanish company Grifols.

VR736 (Ventaleon) Severe Influenza

(Global)

VR736 is an inhaled treatment, delivered by Vectura's smart nebuliser system, the AKITA® JET, for hospitalised patients with severe influenza, which is being developed by Ventaleon; Vectura has a minority stake with an investment syndicate.

VR096 (Janssen) Anti-inflammatory Asthma/COPD

(Global)

Global development and licence agreement with Janssen for the exclusive development of novel anti-inflammatory therapies for the treatment of asthma/COPD. Initial focus is on the development of a Phase II candidate with the possibility to include additional clinical-stage candidates.

Leveraging Vectura's expertise and proprietary dry powder inhaler technologies for the development of inhaled therapeutics. Vectura will apply its delivery technologies to develop Janssen's pulmonary products into late-stage clinical development and commercialisation.

The clinical development programmes is led by Janssen, with Vectura responsible for pharmaceutical development and manufacturing to support Phase II clinical trials and beyond.

3 PHASE III

VR475 (FAVOLIR®) Severe Uncontrolled Adult Asthma

(EU)

VR475 is an inhaled, add-on therapy for the treatment of adult patients with severe, uncontrolled asthma with a history of exacerbations with or without dependence on oral corticosteroids. VR475 is a drug/device combination comprising "smart" delivery of nebulised budesonide, delivered with Vectura's smart nebuliser system, the AKITA® JET, utilising Vectura's FAVORITE™ technology.

This product pipeline asset has the following key elements:

- developed to reduce exacerbations in severe uncontrolled asthmatics (GINA steps 4 and 5) with a history of exacerbations and/or dependence on oral corticosteroids;
- aims to show greater efficacy than conventionally nebulised budesonide and to be more cost effective than mAbs;
- a programme endorsed by CHMP scientific advice procedure;
- Phase III results anticipated in mid-2018; and
- patient recruitment underway.

VR876 (partner undisclosed) Serious Lung Disease

(Europe)

This is being developed by an undisclosed partner as a nebulised version of a currently marketed drug for the treatment of serious lung disease. It uses Vectura's smart nebuliser technology to improve the patient acceptance of the product. Regulatory action is expected in 2016 and subsequent commercialisation if approved.

QVM149 (Novartis) Asthma

(EU, RoW)

QVM149 is a fixed dose, once-daily combination of the LABA indacaterol, the LAMA glycopyrronium bromide and the ICS mometasone furoate.

First regulatory filings of QVM149 are planned for 2018.

Glycopyrronium bromide was licenced exclusively to Novartis in April 2005 by Vectura and its co-development partner Sosei.

Under the terms of the agreement with Novartis, Vectura is eligible to receive development, filing and approval milestones.

Branded Generic Biologic | Partnered Wholly owned

GENERICS

VR315 (Hikma) Asthma and COPD

(US)

VR315 is the generic version of GSK's Advair® Diskus®, which is indicated for the treatment of asthma and the maintenance treatment of airflow obstruction and reducing exacerbations in patients with chronic obstructive pulmonary disease (COPD) and is delivered using Vectura's proprietary dry powder inhaler and formulation technology. In August 2011, Vectura signed a licence agreement for the development, manufacturing and commercialisation of VR315 in the US with Roxane Laboratories, Inc., a subsidiary of Boehringer Ingelheim Corporation.(1)

- Vectura will receive an US$11m payment on approval of file; and
- Vectura will receive a royalty from sales of VR315 in the US.

Post period 8 April 2016, Hikma confirmed that the ANDA had been accepted for filing by the FDA. The FDA has provided Hikma with a GDUFA goal date of 10 May 2017.

VR506 (Hikma) Asthma

(US)

VR506 is an inhaled corticosteroid for the treatment of asthma, which entered clinical development in 2011. In June 2014, Vectura signed a partnership agreement in the US with Roxane Laboratories, Inc., a subsidiary of Boehringer Ingelheim Corporation and is the same partner as the VR315 programme.

Under the terms of this partnership agreement, Vectura's partner is responsible for the commercialisation and manufacture of the product together with clinical development. Vectura has received an initial payment of US$4.0m and is eligible to receive up to US$8.0m upon achievement of future pre-determined milestones. In addition, Vectura will receive a royalty from all VR506 US sales.

VR632 (Sandoz) Asthma and COPD

(EU)

VR632 is a generic, inhaled combination therapy for asthma and COPD delivered using Vectura's proprietary dry powder inhaler and formulation technology.

In December 2007, Vectura signed a licence agreement with Sandoz for the development, manufacturing and commercialisation of VR632 in Europe. To date, Vectura has announced receipt of development milestones under the agreement of €1.75m.

PRE-LAUNCH

Utibron™ Neohaler® (Novartis) COPD

(US)

Utibron™ Neohaler® was approved in October 2015 as a twice-daily dual combination of indacaterol and glycopyrrolate in the US for the long-term maintenance treatment of airflow obstruction in patients with COPD, including chronic bronchitis and/or emphysema. Novartis has indicated this product should be available in the US in 2016. Once launched, the product will bring a new royalty stream for Vectura.

Seebri™ Neohaler® (Novartis) COPD

(US)

Seebri™ Neohaler® was approved in the US in October 2015 as a twice-daily standalone monotherapy for the long-term maintenance treatment of airflow obstruction in patients with COPD, including chronic bronchitis and/or emphysema. Novartis has indicated this product should be available in the US in 2016. Once launched, the product will bring a new royalty stream for Vectura.

Utibron™ and Seebri™ are trademarks of Novartis AG. Neohaler® is a registered trademark of Novartis AG.

(1) Hikma completed the acquisition of Roxane Laboratories, Inc. from Boehringer Ingelheim Corporation in February 2016.

Branded Generic Biologic | Partnered Wholly owned

PATENT-PROTECTED TECHNOLOGY PLATFORMS

ENABLING THE DEVELOPMENT AND DELIVERY OF VALUE-ADDING PRODUCTS

Vectura has a number of patent-protected technology platforms which generate revenue and will continue to generate future income streams:

FORMULATION
(DRY POWDER)
(PowderHale®, PowderMax™ and ParticleMax™)

DEVICE
(DPI AND SMART NEBULISER DELIVERY SYSTEMS)

INHALATION TECHNOLOGIES
(FAVORITE™)

The development of inhalation products is complex and requires specialist processes and know-how. Companies across the world are keen to harness our expertise and technology for their own inhalation programmes.

DRY POWDER FORMULATION TECHNOLOGIES

Vectura has a long history and successful track record in the development of novel formulations. Vectura's formulation technologies seek to achieve state-of-the-art inhaled delivery of dry powders for both small molecules and biologic drugs.

These novel formulation approaches, together with extensive know-how, have been applied to a broad range of DPI products, including both generic and branded/innovative products.

Vectura's expertise enables us to achieve performance aligned with product delivery. For a generic product this will mean developing a formulation/device combination with performance to match the reference branded product both in laboratory testing and in the clinic. For a branded/innovative product the goal is to maximise performance as befits the target airways disease and mechanism of action of the drug. Vectura not only has extensive experience in the development of lactose blend formulations for small molecule drugs but also in the development of dry powder formulations of biologics.

Dry powder formulation technologies for small molecule DPIs

Vectura has a range of industry-leading formulation technologies to facilitate the development of successful DPI products:

PowderHale®

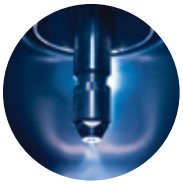
is a family of processes that primarily uses Force Control Agents (FCA) to improve the performance of inhaled formulations. PowderHale® enables:

- high lung penetration of aerosolised drug particles;
- improved delivered dose uniformity; and
- enhanced product stability.

PowderMax™

creates high performance dry powder formulations by advancing PowderHale® FCA technology to optimise its placement on the formulation constituents.

Dry powder formulation technologies for inhaled biologics



ParticleMax™

spray drying particle engineering technology was developed to deliver dry powder biologics and can produce uniform mixtures of drugs and excipients and can be used to co-formulate multiple APIs in the same particle at a fixed ratio. ParticleMax™ offers:

- reproducible and robust process with good yields;
- "gentle" process for labile molecules;
- design and control of particle characteristics (density, surface characteristics, etc.), e.g. using force control agents to improve blister emptying and fine particle mass;
- improved product stability (especially for biomolecules), via sugar glass technology; and
- scalable process for commercial production.

A wide range of biologic and small molecules have been successfully formulated including:

- antibodies;
- immunomodulatory proteins; and,
- cytokines.

Pharmaceutical development and GMP manufacturing capability

Vectura is able to apply these technologies to product development programmes through all stages of pharmaceutical and product development, including pivotal clinical trials and technical transfer to commercial production. Vectura has state-of-the-art development and Good Manufacturing Practice (GMP) facilities in Chippenham, UK, serving our requirements in both small molecule and biologic product spaces. This enables us to produce supplies for late-phase clinical trials using equipment that is entirely representative of that which would be used at the final commercial manufacturing site. This product development capability is supported by an extensive analytical capability generating the high quality data that is essential to the decision making required in product development.

DRY POWDER INHALERS (DPIs)

Vectura's range of pre-metered foil blister DPIs has been developed to meet patients' needs in inhalation therapy for asthma and COPD. The devices are low cost and easy to use, yet they meet challenging technical and regulatory requirements. The core technology and IP used in GyroHaler® has also been incorporated in a family of devices aimed at meeting future product development and partnering opportunities.

GyroHaler®

GyroHaler® is a cost-effective multi-unit dose dry powder inhaler designed to deliver locally acting drugs to the lungs. The device has a Red Dot design award and is approved and marketed in Europe and other territories as Sandoz's AirFluSal® Forspiro® (Forspiro® is the name Sandoz gave to Vectura's GyroHaler® device). GyroHaler® is suitable for the delivery of a wide range of respiratory drugs and offers:

- foil blister strips of up to 60 pre-metered doses;
- excellent moisture protection; and,
- reproducible dose delivery in line with stringent regulatory expectations.

Lever-operated

The lever-operated DPI is based on the proven GyroHaler® platform and offers:

- user interface that is familiar to many DPI patients;
- foil blister strips of up to 60 pre-metered doses;
- accommodation of the used blister strip; and,
- key drug-delivery components from GyroHaler®, particularly key drug-contact components.

Open-inhale-close

The open-inhale-close DPI is a development programme that is aimed at developing the simplest possible user interface in addition to incorporating technology and IP used in the GyroHaler® and lever-operated DPI. The open-inhale-close DPI offers:

- simple single-step preparation of the dose; and,
- key drug-delivery components from GyroHaler®.

Unit Dose DPI

The Unit Dose DPI is a high performance, reusable device. It uses the same foil blister material and filling technology as GyroHaler® for optimum dose consistency and protection, and is capable of delivering high doses of drug with high lung delivery efficiency. Unit Dose DPI offers:

- good blister emptying and high emitted dose (ED);
- high fine particle fraction (FPF);
- ability to deliver large payloads of drug;
- low flow rate dependency; and
- ability to deliver biologic drugs.

Delivery technologies underpinning our products:

- Pre-metered foil blister;
- DPIs are one of the primary platforms used to deliver drug substances to the lungs for the treatment of airways diseases;
- The development of DPI products is challenging and relatively few companies have a broad capability in this area;
- Vectura has developed, and continues to develop, a range of industry-leading technologies to facilitate the development of successful DPI products;
- Vectura has experience of developing products from initial feasibility through to transfer to commercial production combining both device and formulation technologies;
- Vectura has demonstrated capability to adapt and quickly develop alternatives to meet both EU and US requirements;
- Device patent coverage is geographically broad and long-dated.

SMART NEBULISER DELIVERY SYSTEMS

Achieving higher and less variable regional deposition by FAVORITE™

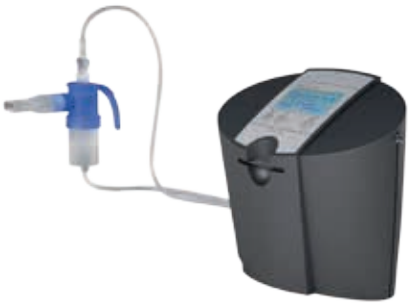
Vectura's smart nebuliser delivery systems provide targeted inhalation therapy for applications where precise and targeted delivery of a drug to the lungs is needed. To achieve this the nebuliser device creates a liquid aerosol and co-ordinates delivery as the patient inhales using the FAVORITE™ principle for precise delivery of drugs to the lungs. All of Vectura's smart nebulisation devices are CE marked and 510(k) cleared.

Delivery technologies underpinning our products:

- Smart nebulised(1) platform and for specialty applications

(1) Smart nebuliser technology utilises FAVORITE™ (Flow And VOlume Regulated Inhalation TEchnology)

AKITA® JET



Key features

Breath actuation

Low inspiration flow rate

Controlled inhalation volume

Faster delivery by increased deposition efficiency

Additional features

- Customisation of treatment parameters by smart card (dose, targeting and exclusivity)
- Positive pressure (potentially better targeting of obstructed airways)
- Option for generating the aerosolisation jet/mesh

FOX®

Key features

Aerosol bolus technology

Potential increase of efficacy

Potential reduction of drug required

CE marks and 510(k) clearances

Additional features

- High performance aerosol generation technology
  - Ultra low drug residual
  - High speed aerosolisation
  - Potential of generating smaller particle size
  - Vibrating mesh technology
- Higher potential for reduction of drug requirements
- High degree of control and adjustability for formulations/compounds
  - Key-lock features for exclusive drug/device combination use

FAVORITE™: Flow And VOlume Regulated Inhalation TEchnology

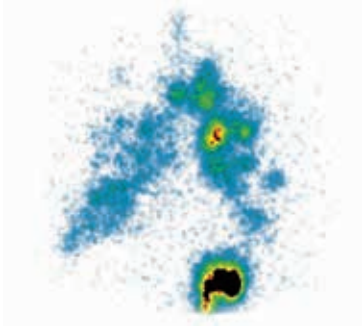
Clear opportunity to leverage FAVORITE™ approach used in AKITA® JET and FOX® devices

A patient's breathing pattern can alter the efficiency of drug delivery to different parts of the lung. Control of the inspiratory flow rate, the inspiratory volume of the aerosol and the timing during the inspiration when the drug aerosol is delivered can materially affect how much drug gets to central or peripheral parts of the lungs. This is the basis of our proprietary, smart nebulisation-based technology known as FAVORITE™.

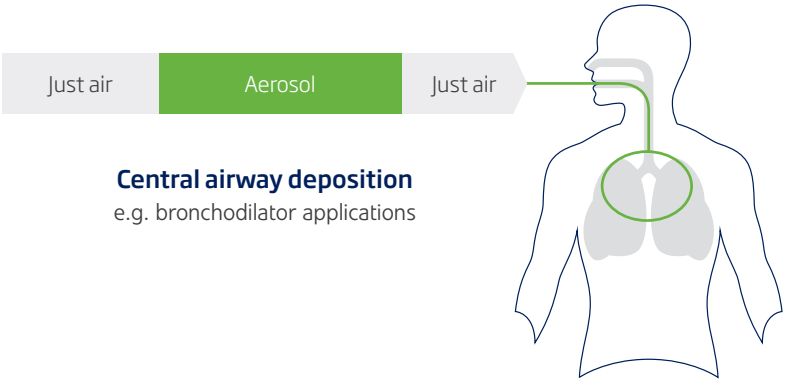
This control is achieved through a modified nebuliser unit that delivers the nebulised aerosol tailored to the individual patient's breathing capacity. The increased efficiency of delivery means the drug is distributed more efficiently allowing targeted deposition in the lungs. Other benefits for the patient may also be derived from this approach, such as reduced treatment time.

FAVORITE™ improves effectiveness of delivery by reducing the impact of variable breathing patterns on drug delivery.

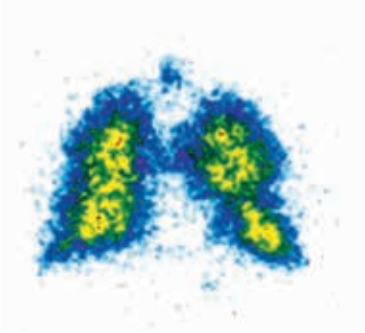
1. Faster delivery
2. Improve lung deposition
3. Less drug, better economics
4. Potential to improve outcomes
5. Range of indications where currently used today:
   Asthma/COPD/Bronchiectasis/Cystic Fibrosis



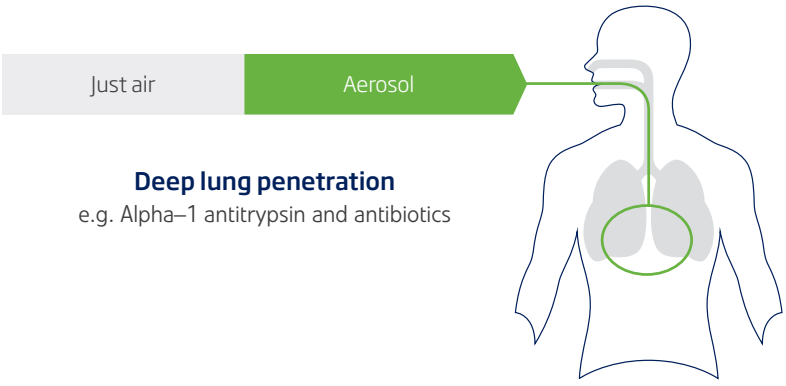
Tidal breathing[1]
(typical short and abrupt inhalation pattern)



Central airway deposition
e.g. bronchodilator applications



FAVORITE™ inhalation[1]
(slow and deep inhalation)



Deep lung penetration
e.g. Alpha–1 antitrypsin and antibiotics

(1) Mayer et al. 2001: Deposition von therapeutischen Aerosolen in der Lungenperipherie. Aerosole in der inhalationstherapie, ed. G. Scheuch. Vol. 5. 2001, Dustri-Verlag Dr Karl Feistle: München. 93–100.

BUILDING A LEADING RESPIRATORY COMPANY

> “Revenue growth of 24%, coupled with a 17% increase in operating expenditures as we continue to invest in growth, translates to a 43% increase in EBITDA[1] to £23.2m.”

Andrew J Oakley
Chief Financial Officer
and Company Secretary

Revenue	EBITDA(1)	Basic EPS	Cash and cash equivalents
£72.0m	£23.2m	1.2p	£99.8m
+24%	+43%	+33%	+11%
2014/15: £58.0m	2014/15: £16.2m	2014/15: 0.9p	2015: £90.0m

Financial highlights

Underlying performance has continued to be strong and we are pleased to report a 24% increase in revenues to £72.0m, driven by significant organic growth in royalty streams derived from recently launched products, augmented by a number of development milestones in respect of partnered programmes. Growing and sustainable royalty revenues have contributed positively to the Group's cash position, with current year net cash inflows from operating activities of £32.9m (2015: £8.0m).

Revenue growth of 24%, coupled with a measured 17% increase in operating expenditures as we continue to invest in growth, translated to a 43% increase in EBITDA(1) to £23.2m. Overall research and development expenditure for the financial year was at the lower end of our initial guidance range as we maintained our disciplined approach to capital investment, ensuring that research and development investment is matched to growth in overall revenues.

Revenue

Vectura categorises revenues into five streams: royalties, product licensing, technology licensing, development services and device sales. In FY 2015/16, we have continued to see strong growth in our royalty revenue stream which accounted for 54% of total revenue (2014/15: 43%).

Royalties

Royalty revenue of £39.2m has increased by 56% year on year; this increase has been driven by a sustained increase in the overall underlying sales of the recently launched products marketed by our partners Novartis and GlaxoSmithKline (GSK).

Net sales of Ultibro® Breezhaler®, as reported by Novartis, have grown by 83% to $286m for the twelve-month period ended 31 March 2016. In light of the strong growth in Ultibro® Breezhaler® net sales, royalty revenue from Novartis for sales of Seebri® Breezhaler® and Ultibro® Breezhaler® has increased to £10.9m during the year (2014/15: £8.5m). During the year, Novartis announced US FDA approval of Utibron™ Neohaler® and Seebri™ Neohaler® and, once launched, these products will generate a new royalty stream for Vectura.

We have also benefited from a marked increase in royalty revenue from GSK for sales of Relvar®/Breo® Ellipta® and Anoro® Ellipta®, and Incruse® Ellipta®. GSK reported net sales of £466.0m for these three products, upon which Vectura earned a royalty of £13.0m (2014/15: £3.8m). Under the terms of our agreement with GSK, the maximum royalties payable to Vectura for sales of these products is £13.0m in any one calendar year.

(1) Earnings before investment income, finance gains/(costs), tax, depreciation, amortisation, and adjusted for non-recurring expenditure items.

GSK and Vectura are parties to a patent licence and option-to-licence agreement encompassing a number of Vectura patent families relating to various formulation technologies relevant to GSK's Breo® Ellipta®/ Relvar® Ellipta®, Anoro® Ellipta® and Incruse® Ellipta® products. A number of these patents expire in 2016, leading to the potential for the licence agreement to expire in July 2016. Before 31 July 2016, GSK has the option to extend the term of the agreement by licensing additional patent families.

Vectura possesses material evidence to suggest that certain of our patents are applicable to these products and, our guidance assumes the continuation of the option-to-licence agreement beyond July 2016.

Other royalty revenue is mainly derived from the two products licenced to Baxter. During the year the patent for ADVATE® expired and as such as we will only earn future royalties on sales of product manufactured before 31 January 2016. Based on information received from Baxter, we would expect to receive some royalty income from sales of ADVATE® throughout the forthcoming financial year from the remaining ADVATE® royalty bearing batches. Underlying sales of ADVATE® during the year under review are broadly comparable with the prior year on a constant currency basis and combined with the impact of a favourable foreign exchange movement royalty revenue earned from Baxter from sales of ADVATE® has increased to £12.7m (2014/15: £11.8m). Adept® contributed royalty revenues of £0.5m during the year (2014/15: £0.4m).

Product licensing

FY 2015/16 has been a year of excellent progress across our existing partnerships, very much influenced by the receipt of the approval milestones for Seebri™ Neohaler® and Utibron™ Neohaler®. These two milestones, totalling $22.5m (£14.7m) comprise 70% of total product licensing revenue. A further milestone of $3.75m (£2.5m) was earned from Novartis upon the enrolment of the first patients into a Phase III clinical trial for QVM149, a new inhaled triple therapy for patients with moderate to severe asthma uncontrolled by standard ICS/LABA medication.

In addition, we have seen significant progress in respect of our VR315 US programme. During the year, additional milestone payments totalling $5m (£3.4m) were recognised in respect of this programme which is partnered with Hikma. Post year end, we announced a further milestone of $10m earned upon FDA acceptance of an ANDA filing by our partner. Vectura is eligible to receive a further milestone payment $11m upon approval by the FDA and we will receive a royalty on all sales of VR315 in the US.

In October 2015, we announced the receipt of a development milestone associated with VR632 in the EU which is partnered with Sandoz. Vectura will receive a royalty from all sales of VR632 in Europe in the event of successful launches.

Technology licensing

Technology licensing revenues of £3.4m (2014/15: £6.6m) primarily relates to an important development milestone of €5.0m (£3.6m) achieved in respect of our partnered programme for VR876 in Europe. Vectura recognised net revenue of £2.9m in respect of this milestone.

Development services

Development services revenues of £4.7m were recognised during the year (2014/15: £3.9m). This increase is the result of higher demand for these specialist services from Vectura's existing partners, and in particular our collaboration on VR096 with Janssen Biotech.

Device sales

Device sales of £3.7m (2014/15: £2.5m) mainly relate to sales of Vectura's GyroHaler® device which support the continued rollout and growth of AirFluSal® Forspiro® in a number of European and Rest of the World territories.

Research and development expenses

Total investment in research and development (R&D) was £42.1m, representing a 17% increase on the previous year (2014/15: £36.1m).

During the year, we continued to prioritise our investment in R&D to ensure that our investment is measured, controlled, supportive of our strategic objectives, and aligned to revenue growth. Accordingly, we continued to progress two of our most advanced programmes, VR475 EU and VR876, and total external expenditure on these programmes was £4.7m during the year. We have continued to develop VR942 in collaboration with our partner UCB and external expenditure on this programme has increased compared to the prior year.

R&D spend in FY 2015/16 was lower than our original guidance due to our commitment to align increases in expenditure with revenue growth.

We will continue to undertake clinical activities in respect of VR475 in Europe, VR647 in the US and VR942 in collaboration with UCB. We remain committed to managing our R&D within a predefined range (£40–52m); however, assuming the proposed merger with Skyepharma completes, we will conduct a full review of all ongoing programmes to align our R&D investment with the strategic priorities and the financial platform of the combined group.

Other administrative expenses

Other administrative expenses have increased from £4.5m to £4.8m, mainly due to the increased scale of the Group as we continue to expand.

Amortisation of intangible assets

The amortisation charge for the full year 2015/16 was £18.8m compared to a charge of £20.9m in the prior year. The full year charge related to the Activaero acquisition was £14.2m and the remaining charge relates primarily to the amortisation of the ADVATE® intangible asset associated with the Innovata acquisition. The amortisation charge for the 2016/17 financial year will be substantially higher if the proposed merger with Skyepharma is completed.

Share-based compensation
The share-based compensation charge for the year was £2.5m compared to a £1.1m in the prior year. This increase is due to a one-off share award that was made to James Ward-Lilley upon appointment as Chief Executive Officer; further details of this award are provided in the Remuneration report.

Non-recurring expenditure
Not included in the calculation of EBITDA is non-recurring expenditure associated with the proposed merger of Skyepharma PLC. Total non-recurring expenditure for the year was £5.6m and legal and professional costs of approximately £6.0m will be recognised in the 2016/17 financial year, contingent upon completion of the merger. This does not include any costs associated with integration or the delivery of synergy benefits that are expected to arise as a result of the transaction.

Loss before tax
Loss before tax of £1.9m has decreased by £4.3m during the year (2014/15: £6.2m loss). This movement is driven by a sustained increase in revenues, coupled with measured investment in R&D and supplemented by a non-recurring investment income receipt of £2.4m relating to the sale of Vectura's shareholding in ProFibrix B.V.

Taxation
The total taxation credit of £6.9m (2014/15: £9.9m) comprises R&D tax credits of £2.0m and non-cash taxation credits of £4.9m relating to movement in deferred taxation liabilities and assets within the Group.

Profit after tax
Profit after tax of £5.0m has increased by £1.3m compared to the prior year (2014/15: £3.7m profit). This movement is the result of a significant reduction in loss before tax, offset by a reduction in the R&D tax credit for the year.

Intangible assets
Intangible assets of £92.2m relate almost exclusively to the Activaero acquisition (2014/15: £104.3m), being an asset carrying value of €116m (2014/15: €135.5m) converted at the prevailing exchange rate at the balance sheet date. The assets will continue to be amortised over their remaining useful life. During the year, substantially all of the assets acquired from the Innovata acquisition were fully amortised following the expiry of the patents associated with the ADVATE® product. The residual carrying value of the intangibles associated with the Innovata acquisition is £0.4m relating the Adept® product and this asset will be fully amortised during 2016/17.

Translation reserve
The assets and liabilities, including goodwill, acquired from Activaero are denominated in euros and, therefore, in accordance with accounting standards, the Group has recognised a net foreign exchange gain of £5.4m (2014/15: £11.4m loss) within reserves as a result of the movement in the exchange rate between 31 March 2015 and 31 March 2016. In future periods, the movement in this reserve will be dependent upon the £/€ exchange rate at the relevant balance sheet dates.

Property, plant and equipment
Vectura has invested £1.4m in its inhaled product manufacturing capabilities during the year (2015: £1.4m) and this capital investment has supported the transition of manufacturing activities previously performed at our Gemünden site to our other sites in Germany and the UK.

Deferred income
Deferred income relates to milestone payments received but not yet recognised as revenue. Of the £1.8m on the balance sheet, £0.8m will be recognised as revenue during 2016/17 and £1.0m which relates to the VR315 (AirFluSal® Forspiro®) RoW deal with Sandoz will be recognised as revenue in later periods.

Foreign exchange rates
The following foreign exchange rates were used during the year:

	2015/16	2014/15
Average rates		
£/$	**1.51**	1.61
£/€	**1.37**	1.27
Period-end rates		
£/$	**1.44**	1.48
£/€	**1.27**	1.37

Cash flow
Vectura continues to maintain a strong cash position with cash and cash equivalents at 31 March 2016 of £99.8m (2015: £90.0m). Vectura achieved a net cash inflow of £32.9m from operating activities (2015: £8.0m), which is reflective of growing and sustainable cash receipts from royalty revenue of our inhaled products and a continued focus on cost control throughout the business.

During the year, Vectura made the final consideration payment of €35m (£24.6m) to the former shareholders of Activaero. There are no additional payments to be made in respect of this acquisition.

By order of the Board,

Andrew J Oakley
Chief Financial Officer

OUR VALUES PROMOTE AN INCLUSIVE WORKING ENVIRONMENT

> “Our people strategy aims to create a stimulating and rewarding place to work, so that we can attract, motivate and retain our highly skilled and talented workforce.”

Joanne Hombal
Director of Human Resources

Our values

Achievement

Enthusiasm

Participation

Innovation

Trust and respect

We remain committed to ensuring that our business activities are conducted in a responsible manner for the benefit of our stakeholders. In achieving this objective, we focus our activities in four key areas which we believe are most relevant to our business: our people, our local communities, our environmental footprint and our governance. We believe that having empowered people, who understand their responsibilities, who display sound judgement and who act in an ethical way, is key to the ongoing success and development of Vectura.

Our people

Our values

Our values clearly articulate our expectations and our aspirations. We encourage and reinforce these values through our performance management process and the “People’s Champion” award. The “People’s Champion” is an annual award which allows our employees to recognise and reward those individuals who have acted as a behavioural role model, demonstrating our values in a way that has inspired and engaged their colleagues.

We believe that our values promote an inclusive working environment whereby individuals are rewarded for their individual and collective contributions to the business.

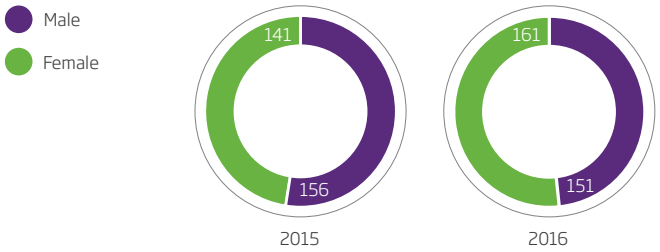
Our employment practices

Vectura encourages diversity throughout all levels of the organisation. We believe that individual success depends on ability, behaviour, performance and evidenced potential and we remain committed to offering career opportunities without discrimination. Our commitment to equal opportunities, diversity and non-discrimination is enshrined in our working practices and policies as set out in our Code of Conduct. We operate on the basis of mutual respect and we do not tolerate discrimination or harassment on any basis. Our Code of Conduct covers all permanent and temporary employees, including Executive and Non-Executive Directors, job applicants, agency staff, associates, consultants and contractors.

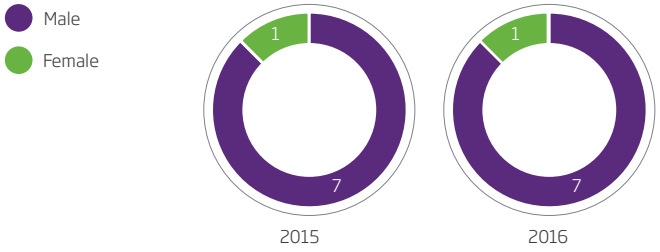
We give full and fair consideration to every job application we receive. Vectura has not set formal diversity quotas or targets and all appointments, both internal and external, are ultimately made on the basis of merit. Where possible, we support part-time and flexible working, with around 17% of our employees benefiting from some kind of flexible working practice.

James Ward-Lilley is the Board member responsible for overseeing human resources and non-discrimination issues.

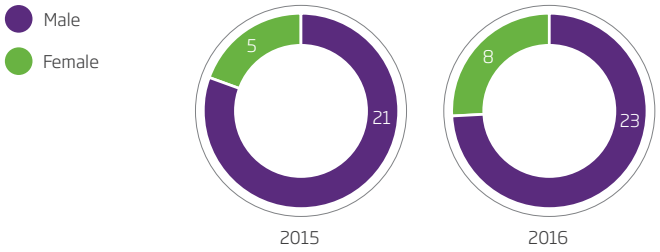
Overall gender breakdown as at 31 March 2016



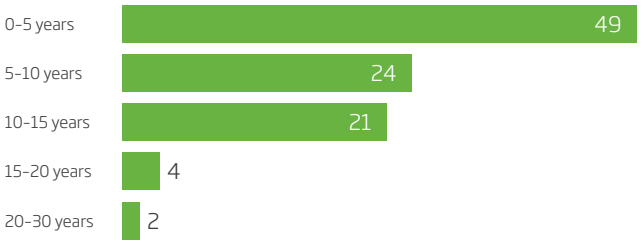
Vectura's Director gender split as at 31 March 2016



Vectura senior managers as at 31 March 2016



Length of service



Our people continued

Our employee communications

We value the opinions and experience of our people.

In an industry based on innovation and research and development, our employees are our biggest asset and it is therefore critical that we forge strong connections through timely and meaningful communication. Effective and engaging communication is at the heart of our internal communication strategy.

We have established staff and managers' forums. These forums provide a mechanism by which all employees can raise issues that matter to them for discussion, to enable employee feedback and to facilitate the communication and dissemination of key information throughout the organisation.

We hold quarterly business updates with all employees, hosted by members of the Executive Leadership Team. We share strategy, programme, people and business performance updates through the use of a balanced score card, as well as publicly recognising significant team or individual success, and facilitate two-way dialogue through Q&A.

Our business leaders are subsequently equipped with briefing packs to enable them to reinforce and personalise key messages by following the quarterly employee updates with team cascade sessions. This facilitates additional engagement and ensures that all employees understand how the work they do contributes to our overall progress.

We have launched our first internal communication survey in order to examine the effectiveness of existing internal communication channels and to identify opportunities for improvement. Our overall results indicated that:

- the majority of respondents are satisfied with internal communications;
- 72% feel adequately informed; and
- >90% of respondents report that our existing channels are useful.

Further analysis of the feedback will be used to drive constructive changes to include a new, interactive Company newsletter which will be launched in the coming year.

We have also launched our annual employee engagement survey. 85% of employees responded, and we received feedback indicating we are ahead of the comparator benchmarks (including the top 10% of participating companies) in the following areas:

- senior leaders clearly communicate our long-term goals and strategy;
- high levels of co-operation between peers; and
- employees are prepared to put in extra effort to get the job done.

We will use the feedback to determine key priority areas for improvement going forward and will regularly communicate our progress as we deliver our people strategy.

We monitor our employee turnover on a monthly basis to identify any possible employee relations or motivational issues and to assist in our recruitment and resource planning. We are pleased to report that a significant percentage of our employees have five or more years' continual service.

Developing and rewarding our people

Attracting and retaining skilled people with values aligned to our company ethos is critical for our business and we aim to develop and maintain a motivated and professional workforce. As such, we recognise the importance of investing in our people, ensuring that they are equipped to deliver in their current and future roles within the business. In addition to investment in general training and development, Vectura offers all employees the opportunity to apply for scholarship funding. The Vocational Qualification Award provides substantial financial assistance to those who wish to pursue further self-development, largely in their own time. Any course that would significantly enhance an employee's skills whilst benefiting Vectura is considered.

In order to provide opportunities for shared learning, we provide interactive educational seminars every two months which are hosted by internal subject matter experts and external speakers. We also facilitate cross-company information sharing, teamwork and learning via our annual "Vision" event. This event enables individuals and teams to promote their work to their colleagues using innovative and creative visual imagery, with an element of constructive competitiveness engendered by a panel of judges who select and reward the strongest entries.

Remuneration plays an important role in retaining and motivating our people. We seek to provide well constructed and fair reward systems designed to incentivise superior performance and align the interests of our employees with those of our shareholders. Our remuneration packages are designed to be both fair and competitive and all remuneration packages include an element of variable remuneration in the form of an annual bonus. The annual bonus allows us to reward employees for achieving and exceeding challenging corporate and individual objectives. In addition to our remuneration packages, which include a pension entitlement, permanent health insurance and life assurance and private medical care, all employees are given the opportunity to participate in our all-employee share plans. For more details of our all-employee share plans, please refer to the Remuneration report.

Our commitment to health and safety

Vectura considers health and safety to be a priority in its workplaces. We have an established Health and Safety Committee that reviews health and safety standards within the organisation. The Committee continually monitors and reviews health and safety practices to ensure that health and safety management procedures are robust and in line with industry best practice. Annual updates are provided to the Board for review and additional update reports are provided as required. Trevor Phillips is the Board member to whom responsibility for health and safety issues has been delegated.

Specialist ongoing training is provided to those individuals who are responsible for health and safety across the organisation. General health and safety training is delivered to all staff via in-house training sessions provided by our Health and Safety Manager and by e-learning courses.

The Group has an excellent safety record and there have been no major incidents or accidents reported to the Health and Safety Committee during the year (2014/15: none).

Our local communities

We consider that one of the most significant impacts we can have within our local communities is to continue to provide high quality employment opportunities and to develop therapies to help patients with airways-related diseases.

In addition, we support the STEM (Science, Technology, Engineering and Mathematics) initiative, which is a major government programme whereby our employees actively help local schoolchildren to gain the understanding, capabilities and skills to flourish in a scientific environment such as ours.

We are proud to have a highly creative and active Social Committee which initiates a calendar of social and charitable events each year. With a dedicated budget, this team is empowered to organise engaging and rewarding activities to raise money for local charities, as well as facilitating our support of nationwide charity campaigns such as Comic Relief. Wherever possible, Company facilities are made available for these events.

Our environmental footprint

Due to the nature of its activities, Vectura considers that it has a low environmental impact. However, we remain committed to minimising the impact of our activities on the environment and actively seek to make energy savings in a way that is beneficial for the environment and cost effective for the business. Andrew Oakley is the Board member to whom responsibility for environmental issues has been delegated.

Vectura has a Green Action Team which meets regularly and has responsibility to pursue initiatives for environmental sustainability and carbon reduction.

Green Action Team

Our Green Action Team is responsible for raising environmental awareness, driving good environmental behaviours and co-ordinating environmental initiatives across the organisation. The team publishes articles on environmental matters on our staff intranet and it manages internal guidance for the use of heating and air conditioning. Each year, the team organises an annual "Green Week" to promote ongoing awareness of environmental matters amongst staff.

Our environmental policies

Our Company environmental policy is modelled on ISO 14001 standards, and all staff are required to read and comply with Vectura's green working policy. Induction procedures for new staff include sufficient information to ensure a high level of compliance with our environmental standards.

Our environmental initiatives

Vectura has adopted and maintains a number of specific environmental initiatives.

Energy efficiency

- 52 solar panels are installed at our Chippenham site which have generated over 38,000kWh of electricity since installation in November 2012.
- It is our policy that when an existing light unit requires replacement it is replaced with an LED light. The LED lights installed are up to four times more energy efficient than the traditional light units that they replace. The majority of the lighting at our Chippenham site is now LED.

Our environmental footprint continued

Energy efficiency continued

- Passive infrared light sensors are installed in many general work areas. This ensures that lighting is not left on in work areas that are not currently in use.
- We continue our commitment to promoting "green IT". Where possible, we use virtual PCs that use c.20% of the electricity of a standard desktop PC and we employ virtual servers.

Waste management

Initiatives to effectively manage and reduce waste have been implemented throughout the organisation:

- We recycle all paper and cardboard waste, aluminium cans, plastics, printer toners/cartridges and redundant mobile telephone handsets.
- We operate a managed print solution to help control paper usage.
- We use registered waste disposal contractors and comply with all relevant waste legislation.

The Carbon Disclosure Project

Vectura voluntarily reports its environmental performance under the Carbon Disclosure Project (CDP). CDP plays an important role in communicating information about greenhouse gas emissions and related activities reported by the UK's largest companies, enabling investors and the public to take informed action against climate change. There have been no contentious issues or other matters having economic, legal, reputational or environmental consequences that have arisen this year.

Greenhouse gas emissions

Vectura reports greenhouse gas emissions in accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 ("the Regulations").

Greenhouse gas assessment parameters	
Baseline year	FY13/14
Intensity ratio[1]	GHG by gross building area[2]

(1) In order to express total annual emissions in relation to a quantifiable factor associated with Vectura's activities, gross building area has been used as an intensity ratio.

(2) Due to the nature of Vectura's business, a large amount of energy is consumed in maintaining air quality in the laboratories and therefore choosing gross building area as an intensity ratio gives the fairest reflection of performance.

Emissions data is reported using a financial control approach to define our reporting boundary, which meets the requirements of the Regulations in respect of those emissions for which we are responsible. The information is presented for a twelve-month period. Emissions have been measured for all sites.

The amounts shown below for total FY 2015/16 Scope 1 and Scope 2 emissions are those required to be reported under the Regulations.

Greenhouse gas emission by source[1]	2015/16	2014/15	2013/14
Scope 1	**431**	215	**142**
Scope 2	**1,426**	1,506	**1,272**
Total emissions (Scope 1 and 2)	**1,857**	1,721	**1,414**
Emissions reported (tonnes of CO_2 per sq ft)[2]	**0.03**	0.02	**0.02**

(1) GHG emissions reported in metric tonnes of carbon dioxide equivalents. Emissions factors were sourced from the UK Defra database.

(2) Gas and electricity usage information has been obtained from purchase invoices and verified by reference to meter readings. Vehicle fuel usage is based upon recorded mileage.

Our ethical and social policies

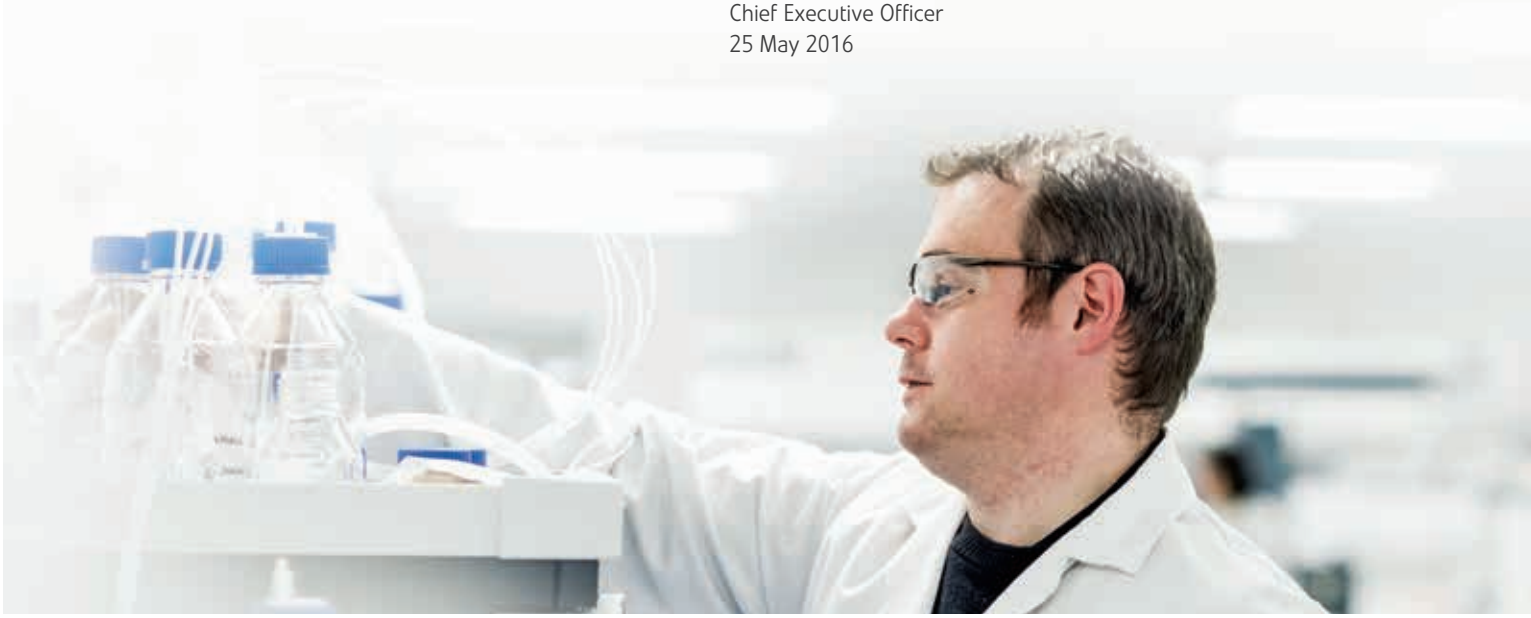
Vectura's principal activities are undertaken within the pharmaceutical industry, which is subject to a highly regulated ethical framework with which the Group complies. In addition, Vectura seeks to conduct its activities generally in accordance with good business ethics.

We have adopted a clear anti-bribery policy, which has been communicated to all employees so they can recognise and avoid the use of bribery and report any suspicion for rigorous investigation. Political donations are prohibited and advance approval from management is required before management and staff may accept or solicit a gift of any kind.

We do not believe that human rights issues present a significant issue for Vectura, but we are committed to protecting the human rights of our employees and the people who come into contact with our business.

This Strategic report has been approved by the Board and is signed by order of the Board:

James Ward-Lilley
Chief Executive Officer
25 May 2016



INTRODUCTION FROM THE CHAIRMAN

> "As a Board, we have a collective responsibility to shareholders for the sustainable long-term success of Vectura. We believe that a strong and balanced corporate governance framework is the foundation of a successful organisation."

Bruno Angelici
Chairman

Dear shareholder

On behalf of the Board, I am pleased to present the Corporate governance report for the year ended 31 March 2016.

As a Board, we have a collective responsibility to shareholders for the sustainable long-term success of Vectura. We believe that a strong and balanced corporate governance framework is the foundation of a successful organisation. We adhere to the principles-based approach set out in the UK Corporate Governance Code ("the Code"), whilst recognising that our governance structure must be appropriately tailored to suit the needs of our business.

Our corporate governance framework is built with a focus upon effective leadership, clear communication, risk management and a commitment to a culture of openness, honesty and integrity. This framework is embedded within the culture of our organisation through our core values and our underlying policies, procedures and management processes.

Complying with the UK Corporate Governance Code

I am pleased to report that throughout the financial year, and to the date of this report, Vectura has fully complied with the principles and provisions set out in the Code. We will continue to adhere to the Code and we will monitor developments and implement improvements in our governance framework during the year ahead.

Diversity and leadership

The Board recognises the importance of diversity, in its broadest sense, at all levels within the organisation. When making appointments to the Board, we have due regard for gender diversity; however, all appointments are ultimately made on merit.

There have been significant changes to Board membership during the year. Chris Blackwell stood down as Chief Executive with effect from 1 July 2015. The Board, with the support of independent external advisors, appointed James Ward-Lilley as Chris' successor. James joins us having spent 28 years in various roles within AstraZeneca and, most recently, was Vice president respiratory, inflammation & autoimmunity, "Global Product and Portfolio Strategy" (GPPS) and in this role James had responsibility for the development of AstraZeneca's "Respiratory, Inflammation and Autoimmunity" (RIA) strategy, which included the acquisitions of Almirall's respiratory business and Pearl Therapeutics. Dr Per-Olof Andersson was appointed to the Board as an independent Non-Executive Director with effect from 1 April 2015.

Merger with Skyepharma PLC

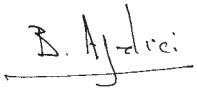
Upon completion of the proposed merger with Skyepharma, Andrew Oakley, Vectura's CFO and Company Secretary, will leave the Vectura Board, as will John Brown. Andrew will be replaced on the Board by Andrew Derodra, Skyepharma's CFO, who will become CFO of Vectura. At the same time, Vectura will appoint Frank Condella and Dr Thomas Werner, both currently Non-Executive Directors of Skyepharma as Non-Executive Directors of Vectura. One additional existing Vectura Board member will also leave the Board, reducing the size of the Board to eight within 18 months of completion of the merger.

Evaluating Board effectiveness

The annual Board performance evaluation was conducted internally during the year and, following this process, it was concluded that the individual members of the Board continue to be effective in their roles and that they have the necessary skills and experience to fulfil their duties. Details of the evaluation process and the outcome can be found on page 58 of this report.

Communication with shareholders

The Board maintains its commitment to maintaining an open dialogue with our shareholders. All of Vectura's Directors will be in attendance at our Annual General Meeting (AGM) on 7 September 2016 and will be available to meet and address any questions from our investors.



Bruno Angelici
Chairman
25 May 2016

Bruno Angelici (MBA)
Non-Executive Chairman

R N

Tenure
Bruno Angelici, 68, was appointed to the Vectura Board on 1 December 2013 and became Non-Executive Chairman in February 2014.

Experience
Bruno is a French national with an MBA (Kellogg School of Management) and business and law degrees from Reims.

Bruno's career includes senior management roles in pharmaceutical and medical device companies. Bruno retired from AstraZeneca in 2010 as Executive Vice President International after a 20-year career. He was responsible for Europe, Japan, Asia Pacific, Latin America, the Middle East and Africa having originally joined as president of ICI Pharmaceuticals France. Prior to this, he was at Baxter, a US-based global supplier of medical devices. He has extensive international experience, including in the US, and brings a deep understanding to the Company of the medical device and pharmaceutical industries.

External appointments
Bruno is a non-executive director of Smiths Group plc, a technology group, and Novo Nordisk A/S, a global healthcare company and world leader in diabetes care. He is also a member of the Global Advisory Board of Takeda Pharmaceutical Company Ltd, Japan, the largest pharmaceutical company in Asia, and a member of the supervisory board of Wolters Kluwer NV, a global information services and publishing company.

James Ward-Lilley (BA, MBA)
Chief Executive Officer

Tenure
James Ward-Lilley, 51, was appointed Chief Executive Officer of Vectura in September 2015.

Experience
James is a BA Hons graduate, has an MBA and holds an Institute of Marketing Diploma.

Prior to joining Vectura, James was vice president respiratory, inflammation & autoimmunity, Global Product and Portfolio Strategy (GPPS) at AstraZeneca. In this role James had responsibility for the development of AstraZeneca's Respiratory, Inflammation and Autoimmunity (RIA) strategy which included the acquisitions of Almirall's respiratory business and Pearl Therapeutics.

Prior to this, James led the AstraZeneca investor relations team from 2011 to 2012.

James had an extensive career at AstraZeneca, spanning 28 years across a variety of commercially focused roles. James progressed from sales and marketing roles in the UK through to country head of Belgium and Luxembourg, a position he held between 2002 and 2005. He then led AstraZeneca's business in China to become the number one pharmaceutical company in the market in 2008. James went on to become regional vice president for Central Eastern Europe and the Middle East, where the business enjoyed a period of strong growth, with sales doubling to US$2bn during his tenure.

Andrew Oakley (BEcon, MBA, ACA)
Chief Financial Officer and Company Secretary

Tenure
Andrew Oakley, 53, was appointed Chief Financial Officer and Company Secretary of Vectura in January 2015.

Experience
Andrew holds a Bachelor of Economics Degree from Macquarie University and an MBA from London Business School and has been a Member of the Australian Institute of Chartered Accountants since 1987.

Prior to Vectura, Andrew was the chief financial officer at the Swiss bio-pharmaceutical companies Actelion Ltd and Novimmune SA. Prior to joining Actelion, he served in a senior finance capacity for the global holding companies of Accenture, having previously held executive positions in major multinational building material companies, and has also spent several years as an equity analyst with banks in Australia, the UK and the US.

Trevor Phillips (BSc, PhD, MBA)
Chief Operations Officer and President of US Operations

Tenure
Dr Trevor Phillips, 55, joined the Vectura Board in June 2012. He was appointed Chief Operations Officer in July 2011, having joined the Company in January 2010 as President of US Operations.

Experience
Trevor has a BSc in microbiology from the University of Reading and a PhD in microbial biochemistry from the University of Wales. He was awarded an MBA from Henley Management College in 1997.

Prior to Vectura, Trevor gained extensive international experience in organisational leadership, management and pharmaceutical drug development in a number of senior roles, including positions as CEO and president of the US publicly held company Critical Therapeutics Inc, following six years as the company's chief operating officer. During his time at Critical Therapeutics, Trevor was involved in setting up commercial partnerships, product in-licensing and out-licensing, managing drug development and NDA filings, commercial product manufacturing and mergers and acquisitions. Between 1986 and 2002 Trevor held a number of management positions at Sepracor, Scotia Pharmaceuticals, Accenture, GlaxoWellcome Research and Development and Simbec Research Limited.

Committee membership

R Remuneration Committee N Nomination Committee A Audit Committee Committee chairman

John Brown (CBE, PhD, MBA, FRSE)
Non-Executive Director
and Senior Independent Director

R N A

Tenure
Dr John Brown, CBE, 61, joined the Vectura Board in 2004.

Experience
John has a PhD in Neuropharmacology from the University of Edinburgh and an MBA from Middlesex Business School. He was previously chairman of BTG plc and Axis-Shield plc. Until late 2003, John was chief executive of Acambis plc, a leading producer of vaccines to treat and prevent infectious diseases. John is an Honorary Professor of Edinburgh University and is a Fellow of the Royal Society of Edinburgh.

External appointments
John is chairman of Kyowa Kirin International plc, Synpromics Ltd, the Cell Therapy Catapult and the Roslin Foundation. He also chairs the Life Sciences Industry Leadership Group for the Scottish government.

Susan Foden (MA, DPhil)
Non-Executive Director

R N A

Tenure
Dr Susan Foden, 63, joined the Vectura Board in January 2007.

Experience
Susan has held various positions in venture capital and UK biotech companies. From 2000 to 2003 she was an investor director with the London-based venture capital firm Merlin Biosciences Limited, and was chief executive officer of the technology transfer company Cancer Research Campaign Technology Ltd from 1987 to 2000. She studied biochemistry at the University of Oxford from where she obtained an MA and a DPhil.

External appointments
Susan holds a number of non-executive directorships with both public and private companies in the biotech and healthcare field, including BTG plc, BerGenBio AS, the Cell Therapy Catapult and Evgen Pharma plc.

Neil Warner (BA, FCA, MCT)
Non-Executive Director

R N A

Tenure
Neil Warner, 63, joined the Vectura Board in February 2011.

Experience
Neil has significant financial and managerial experience in multinational businesses. He was finance director at Chloride Group plc, a position he held for 14 years until the company's acquisition by Emerson Electric. Prior to this, he spent six years at Exel plc (formerly Ocean Group plc and acquired by DHL/Deutsche Post in December 2005), where he held a number of senior posts in financial planning, treasury and control. He has also held senior positions in Balfour Beatty plc (formerly BICC Group plc), Alcoa and PricewaterhouseCoopers and was a non-executive director of Dechra Pharmaceuticals plc, where he was the senior independent director and chair of the audit committee. Neil has an economics degree from the University of Leeds and is a Fellow of the Institute of Chartered Accountants.

External appointments
Neil is senior independent director and audit committee chair of Trifast plc, a global leader in design, technology and manufacturing of industrial fasteners for the automotive and technology sectors. Neil is also currently the non-executive chairman of Enteq Upstream plc, a specialist reach and recovery products and technologies provider to the upstream oil and gas services market.

Per-Olof Andersson (MD, PhD)
Non-Executive Director

R

Tenure
Dr Per-Olof Andersson, 63, joined the Vectura Board in April 2015.

Experience
Per-Olof was born in Sweden and studied medicine at Lund University. Per-Olof has an international R&D track record within the pharmaceuticals, bio-pharmaceuticals and speciality pharmaceutical industry and considerable experience in respiratory therapeutic development. In 2011, Per-Olof retired from Almirall where he was executive director for R&D and a member of the board of directors. Prior to joining Almirall in 2006, Per-Olof had a distinguished international career at Pharmacia and Pfizer over a period of nearly 20 years. Since 2011, Per-Olof has been an independent consultant advising biotech and pharmaceutical companies and, in particular, working with Almirall.

Committee membership

R Remuneration Committee N Nomination Committee A Audit Committee ● Committee chairman

Karl Keegan (BSc, MPhil, PhD, MSc)
Chief Corporate Development Officer

Tenure
Dr Karl Keegan, 49, joined Vectura in September 2012.

Experience
Karl is an Irish national who has worked in the healthcare industry for over 20 years.

Karl has a BSc in pharmacology from University College Dublin, an MPhil and PhD in pharmacology from the University of Cambridge and a Master's degree in finance from the London Business School. Following postdoctoral research work at Baylor College of Medicine, Houston, Texas, Karl joined SmithKline Beecham as a bench scientist and later moved to a strategic commercial role within the neuroscience strategic product development team.

Upon leaving the pharmaceutical industry, Karl became one of the leading financial analysts covering the biotechnology industry on a global basis. His most recent analyst role was at Canaccord Adams, as managing director, UK head of equity research and global head of life sciences research. Prior to joining Vectura in 2012, he was CFO of Minster Pharmaceuticals, a publicly listed UK company and, most recently, CFO of Pharming Group, a Dutch biotech company listed on Euronext.

Roger Heerman (BS, MBA)
Chief Commercial Officer

Tenure
Roger Heerman, 43, joined Vectura in 2010 and was appointed Chief Commercial Officer in 2013.

Experience
Prior to joining Vectura, Roger gained extensive US and international commercialisation experience in a number of senior roles, including vice president sales and marketing of the US publicly held company Critical Therapeutics, Inc. and as vice president, director of client service at McK Healthcare.

At Critical Therapeutics, he was responsible for the build-out of the commercial infrastructure and the launch of ZYFLO CR in the US. At McK Healthcare, Roger supported the launch and repositioning efforts of numerous US and global brands, including UCB's Neupro® for Parkinson's disease and IROKO's Aggrastat® for acute coronary syndrome.

Roger began his career in the pharmaceutical industry as a sales representative in the respiratory division at GlaxoSmithKline. He received his BS from Babson College and his MBA from the F.W. Olin School of Business at Babson College.

Joanne Hombal (BSc, PgDip, MCIPD)
Human Resources Director

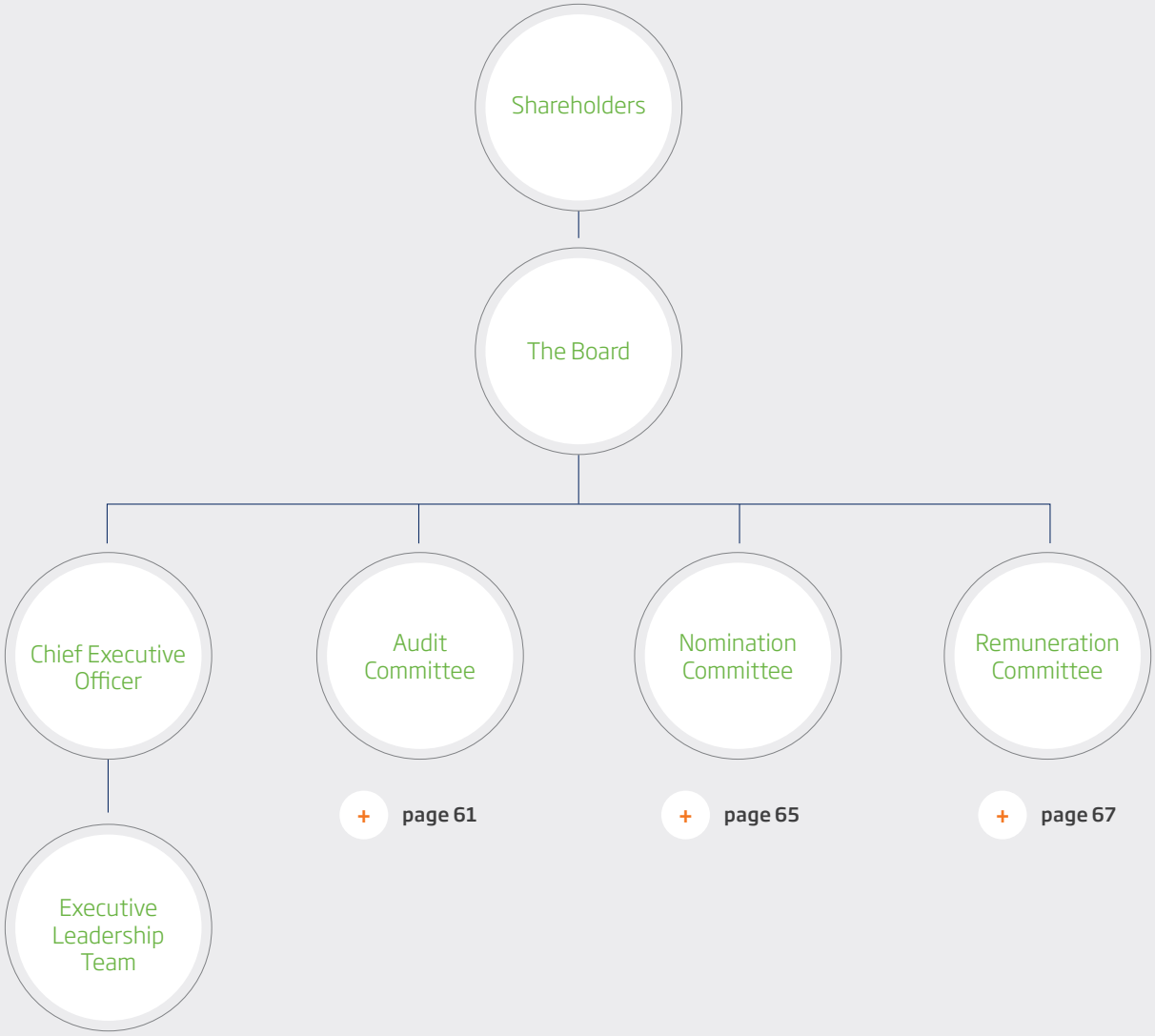
Tenure
Joanne Hombal, 42, joined Vectura in January 2015.

Experience
Joanne has a BSc in psychology from the University of Birmingham, a postgraduate diploma in human resource management from the University of Glamorgan and is a Chartered Member of the Institute of Personnel and Development.

Before joining Vectura, Joanne was vice president HR at Invensys Rail, with responsibility for setting and leading the people strategy for Northern Europe. She has also held senior HR roles in the financial services and ICT industries and led a number of organisational development and transformation initiatives.

BOARD EFFECTIVENESS AND COMPOSITION

Management and corporate structure



Statement of compliance with the UK Corporate Governance Code

The UK Corporate Governance Code ("the Code") sets out the standards of good practice in relation to corporate governance to be applied by companies with a listing on the London Stock Exchange. A copy of the Code can be found on the Financial Reporting Council's website (www.frc.org.uk).

The principles and provisions of the Code cover five areas: leadership of the Company, effectiveness of the Board, accountability of the Board, remuneration and relations with shareholders. The Board confirms that Vectura has fully complied with the principles and provisions set out in the Code throughout the year under review.

Leadership

The Board of Directors

The Board is collectively responsible for the leadership, direction and sustainable long-term success of Vectura.

A well balanced Board is vital to ensure that there is appropriate rigour and challenge in the decision-making process. Vectura's Board is comprised of Directors from various backgrounds who have a breadth of professional and sector skills and experience.

During the year ended 31 March 2016, Vectura's Board, headed by the Chairman, was comprised of three Executive Directors and four Non-Executive Directors who were determined by the Board to be independent. The Executive Directors are responsible for Vectura's business operations, whereas the Non-Executive Directors are responsible for bringing independent and objective judgement to Board deliberations and decisions.

Chairman	Bruno Angelici
Board members (Executive)	Chris Blackwell (to 30 June 2015)
	James Ward-Lilley (from 24 September 2015)
	Trevor Phillips
	Andrew Oakley
Board members (Non-Executive)	John Brown
	Susan Foden
	Neil Warner
	Per-Olof Andersson

Key responsibilities

Whilst the Board delegates certain of its responsibilities to Board Committees, there are certain matters that are considered to be so important to the long-term success of Vectura that they are reserved for Board decision and approval. Such matters include:

- approving business and strategic plans;
- approving budgets and monitoring performance against them;
- approving significant acquisitions, disposals and capital expenditure;
- approving Vectura's Interim Report and Annual Report and Accounts;
- management of Vectura's risk profile;
- Executive appointments and remuneration; and
- monitoring Vectura's corporate governance arrangements.

Board and Committee meetings

The Board holds formal meetings on a bi-monthly basis, with further meetings being called when circumstances or urgent business dictates. Additional meetings may be held via conference call.

The Board met ten times during the year. Details of Directors' attendance at these meetings and meetings of the Board's sub Committees are set out below. In the event that a Director is unavailable to attend a Board meeting, or to attend by telephone link, he or she will communicate their views on items to be raised at the meeting through the Chairman.

	The Board	Audit Committee	Nomination Committee	Remuneration Committee
	Meetings attended/(held) whilst the Director was a Board member	Meetings attended/ (held)	Meetings attended/ (held)	Meetings attended/ (held)
Bruno Angelici (Chair)	10/(10)	n/a	2/(2)	6/(6)
Chris Blackwell	2/(3)	n/a	n/a	n/a
James Ward-Lilley	5/(5)	n/a	n/a	n/a
Trevor Phillips	9/(10)	n/a	n/a	n/a
Andrew Oakley	10/(10)	n/a	n/a	n/a
John Brown	10/(10)	3/(3)	2/(2)	6/(6)
Neil Warner	10/(10)	3/(3)	2/(2)	6/(6)
Per-Olof Andersson	10/(10)	3/(3)	n/a	4/(4)
Susan Foden	10/(10)	3/(3)	2/(2)	6/(6)

Board agenda

The Board's main activities during the year are described below:

- review and approval of Vectura's strategy;
- regular updates on business performance and market conditions;
- review of project and pipeline progress;
- approval of the budget for FY 2015/16;
- review of progress against the approved budget for FY 2016/17;
- internally facilitated review of Board effectiveness;
- approval of the corporate goals;
- appointment of James Ward-Lilley as Chief Executive Officer; and
- review and approval of proposal to merge with Skyepharma.

Information and support

To enable the Board to function effectively and to assist Directors in discharging their responsibilities, full and timely access is given to all relevant information. In the case of Board meetings, this consists of a formal agenda and a comprehensive set of papers, including regular business progress reports. An established procedure is in place to ensure that such information is provided, to Directors in a timely manner in advance of meetings.

Roles and responsibilities

Division of responsibilities between the Chairman and the Chief Executive Officer

Clear roles and responsibilities are fundamental to the effective running of the Board. Whilst maintaining a close working relationship, our Chairman and Chief Executive Officer have clearly defined and separate roles. These roles are set out in writing and have been agreed by the Board.

The Chairman

Our independent Chairman, Bruno Angelici, is responsible for the effective running of the Board and for ensuring its effectiveness in all aspects of its role, in particular for creating the conditions for overall Board and individual effectiveness by:

- providing a sounding board to the Chief Executive Officer;
- setting the agenda, style and tone of Board meetings;
- ensuring that the Board plays a full and constructive part in the development of corporate strategy;
- ensuring the highest standards of leadership and governance at Board level;
- ensuring that the performance of the Board, its Committees and individual Directors are evaluated each year; and
- ensuring effective communications with shareholders.

The Chief Executive Officer

Our Chief Executive Officer, James Ward-Lilley, is responsible for all aspects of the operation and management of Vectura and its business, within the authorities delegated to him by the Board. In executing this role, James is responsible for developing the Group's long-term strategic direction and strategy for consideration and approval by the Board. He is also responsible for the Group's operations, strategy implementation and achievement of our operational and financial targets.

James is supported in his role by other members of the Executive Leadership Team ("the ELT").

Executive Leadership Team

The Board has delegated responsibility for day-to-day management of Vectura to the ELT. The ELT is comprised of the Chief Executive Officer, the Chief Financial Officer, the Chief Operations Officer, the Chief Corporate Development Officer, the Chief Commercial Officer and the Director of Human Resources.

The ELT is responsible for developing the strategy approved by the Board and, in particular, is responsible for ensuring that the Group's budget and forecasts are properly prepared, that targets are met and that the business is managed and developed within the overall Board-approved budget. Variations from the budget and changes in strategy require approval of the Board.

The ELT normally has ten to twelve formal meetings during the year, in addition to weekly update calls. Other senior operational personnel also attend meetings of the ELT as appropriate.

Brief biographies of the ELT members are set out on pages 54.

Non-Executive Directors

The duties of the Non-Executive Directors include contributing to the formulation of Vectura's strategy, shaping proposals on succession planning and constructively challenging the Executive Directors where they consider it to be appropriate. Vectura's Non-Executive Directors are all experienced and influential individuals and their skills and expertise facilitate the effective functioning of the Board, ensuring that all relevant matters are fully debated and that no one individual can dominate the Board's decision-making process.

Our Non-Executive Directors are encouraged to meet the Chairman without the presence of Executive Directors, as appropriate. Such meetings between the Chairman and the Non-Executive Directors took place during the year and included discussions relating to each Executive Director's performance.

Biographies of the Non-Executive Directors can be found on pages 52 to 53.

Senior Independent Director

Throughout the fiscal year 2015/16 Dr John Brown has been and continues in the role of Senior Independent Director and is available to help shareholders with concerns that they cannot resolve through our Chairman, Chief Executive Officer or Chief Financial Officer or for which such a contact is inappropriate in the circumstances.

The Senior Independent Director is responsible for performing an annual review of the performance of the Chairman and he is available to act as an intermediary for Directors, if necessary.

It is Vectura's intention that Dr John Brown will stand down from the Board within one month after the completion of the merger.

Effectiveness

Independence

The Board has determined that at least half of the Board, excluding the Chairman, is comprised of independent Non-Executive Directors.

Key considerations are set out below:

Share options

The holding of share options by Non-Executive Directors could be, amongst other things, relevant in determining whether a Non-Executive Director is independent. As at 31 March 2016, no Non-Executive Directors hold share options in Vectura. There is no intention to award any further options to any Non-Executive Director.

Material business relationships

Other factors that may reflect on the independence of a Non-Executive Director include any material business relationships with the Group. There were no such relationships during the year up until the date of this report, or in the prior year.

Length of service

The Code indicates that serving more than nine years as a Non-Executive Director could be relevant to the determination of a Non-Executive Director's independence. Notwithstanding the fact that both John Brown and Sue Foden have been Non-Executive Directors for in excess of nine years, the Board, having evaluated their performance, considers that they continue to be fully independent in character and judgement when discharging their duties and responsibilities.

Performance evaluation

The Board has a process for evaluating its own performance and that of its Committees and individual Directors, including the Chairman. An annual formal evaluation takes place through an appraisal process and informal evaluation discussions take place on a regular basis throughout the year.

During the year, a questionnaire was circulated for all Board members to answer and comment upon specific questions covering specific topics. These included the responsibilities and the roles of individual Directors and the Board as a whole, the conduct of Board meetings and Committees of the Board, the Board's role in monitoring the performance of the Group and corporate governance practices.

A detailed, anonymised analysis of the replies to the questionnaire, together with conclusions drawn from such analysis, was prepared by the Company's consultant and considered by the Board.

Following this review, it was concluded that the Board and Committees remained effective and that individual members of the Board have the necessary skills and expertise to discharge their responsibilities. It was noted that the Board has both formal and informal meetings, and this balance provides the dynamics for an effective Board.

Election and re-election

All Directors have service agreements with indefinite terms, with twelve months' notice for Executive Directors, three months' notice for Non-Executive Directors and six months' notice in the case of the Chairman.

Directors are proposed for re-election annually. In accordance with the Code, Non-Executive Directors who have served more than nine years on the Board are subject to annual re-election by shareholders.

Andrew Oakley, Vectura's CFO and Company Secretary, will leave the Vectura Board upon completion of the proposed merger with Skyepharma. Andrew will be replaced on the Board by Andrew Derodra, Skyepharma's CFO, who will become CFO of Vectura. At the same time, Vectura will appoint Frank Condella and Dr Thomas Werner as Non-Executives Directors of the Board.

It is Vectura's intention that Dr John Brown will stand down from the Board within one month after the completion of the merger and there will be an appropriately managed process for the departure of one additional existing Vectura Board member, to reduce the size of the Board to eight within 18 months of completion of the proposed merger.

The performance of all of the Executive and Non-Executive Directors, who are being proposed for re-election, at the Annual General Meeting (AGM), has been evaluated and it has been determined that they continue to perform effectively and show full commitment to their roles on the Board. In accordance with our Articles of Association and assuming the merger with Skyepharma completes, Frank Condella and Dr Thomas Werner, currently Non-Executive Directors of Skyepharma PLC and Andrew Derodra, currently the Chief Financial Officer and Executive Director of Skyepharma, will also be proposed for election as Directors at the forthcoming AGM.

Board appointments and succession

There are formal, rigorous and transparent procedures for the appointment of new Directors to the Board. Shortlisted candidates are interviewed by the Chairman of the Board and by the individual members of the Nomination Committee. Evaluations of appropriate candidates are then circulated to all members of the Nomination Committee for consideration, before a recommendation is made to the Board.

The Board recognises the importance of diversity within all levels of the Group and it recognises that the Group, its shareholders and other stakeholders are best served by a Board which is diverse in skills, experience and background, including gender. Accordingly, diversity is considered when making appointments to the Board; however, any appointments are ultimately made on merit against agreed selection criteria.

The recruitment process for Executive and Non-Executive Directors focuses on ensuring that the Board as a whole displays the balance of skills necessary to deliver Vectura's strategy.

Induction and development

It is vital that Directors have a full understanding of the Group and its operations. Therefore, upon appointment each Director undergoes a formal induction programme, which includes briefing materials tailored to his or her particular Board responsibilities. New Directors meet with Board members and executive management as part of their induction process and tours of the Group's main facilities are scheduled to provide them with the opportunity to meet with operational management.

All Directors have access to the advice and services of the Company Secretary, who ensures that Directors take independent professional advice, at Vectura's expense, when it is judged necessary in order for them to discharge their responsibilities.

Directors also receive regular updates on changes and developments within the business as well as information regarding legislative and regulatory changes. During the annual Board effectiveness review, all Directors are encouraged to identify any further training requirements which they feel would assist them in discharging their duties.

Accountability

The Board is committed to providing a fair, balanced and understandable assessment of the Company's position and prospects. For information regarding the Directors' responsibility to prepare financial statements, please refer to the Statement of Directors' responsibilities on page 91. The Independent auditor's report includes a statement on the auditor's reporting responsibilities.

The measures in place to ensure the auditor's independence are set out in the Audit Committee report on page 63.

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing its effectiveness. In discharging that responsibility, the Board confirms that it has established the procedures necessary to comply with the Code. Employees are required to follow clearly defined internal procedures and policies appropriate to the business and their position within the business. These procedures are regularly reviewed by the Board.

Risk management

Vectura adopts a robust risk management process which is reviewed on a regular basis. This process is outlined on pages 20 to 21 of this report. Such a process is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The concept of reasonable assurance recognises that the cost of a control procedure should not exceed the expected benefits. The significant risks identified are documented on pages 22 to 29 of this Annual Report.

Internal control

The Group's internal controls are regularly reviewed as part of the risk management process. The Audit Committee reviews the Group's internal financial control system on an annual basis and makes recommendations to the Board regarding any improvements that are required. The Board also carries out reviews of the non-financial control systems.

The Group's key systems of internal control include:

- Organisational structure: The Group's organisational structure has clearly established responsibilities and lines of accountability. The Group endeavours to appoint employees with appropriate skills, knowledge and experience for the roles they undertake.
- Documented policies and procedures:
  - The Group has documented quality procedures to ensure the maintenance of regulatory compliance. These are subject to periodic review to ensure current standards of quality compliance are maintained. A quality group monitors compliance with good laboratory practice, good clinical practice and good manufacturing practice through the implementation of a compliance programme for in-house and contracted-out activities.
  - The Group has a formal Health and Safety Committee comprising appropriate members of management and other employees to be responsible for these issues.
  - The Group has formal procedures to ensure appropriate security of documents and proprietary information.
  - The Group has a formal policy in place regarding share dealing in Vectura Group plc shares by employees and their connected persons.
  - The Group has a comprehensive financial planning and accounting framework which includes a robust budgeting and forecasting system. Detailed monthly management accounts are prepared and reports are provided to the Board showing actual results against budget and forecast results, highlighting and explaining significant variances. Variance reports are also provided to, and discussed with, the budget manager.
  - The Group has specific controls in place regarding the production of consolidated financial information. This includes operational procedures and validation and review of information.
  - The Group has clear requirements for the approval and control of expenditure. Material or strategic investment decisions are subject to formal approval by the Board. Day-to-day expenditure is controlled using predetermined authorisation limits which are approved by the ELT in accordance with tolerance limits agreed with the Board.
  - Whistleblowing policy: the Group has a formalised whistleblowing policy which is available to all staff via the intranet. This policy provides a mechanism through which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

There have been no significant internal control failings or weaknesses throughout the year ended 31 March 2016 and up to the date of publication of this report.

Remuneration

The Board has adopted remuneration policies that are considered sufficient to attract, retain and motivate Executive Directors of the highest calibre who are capable of delivering the Group's strategic objectives. Remuneration packages are structured in such a way as to link rewards to corporate and individual performance. For further details, please refer to the Remuneration report set out on pages 67 to 88.

Relations with shareholders

Shareholder relations

The Board recognises the importance of regular dialogue with shareholders and regular meetings between institutional shareholders and Executive Directors are held throughout the year. The Chief Executive Officer and the Chief Financial Officer give annual and half-yearly presentations to institutional investors, analysts and the media. Periodic site visits are held, as considered appropriate.

Vectura's brokers collate anonymous feedback after investor presentations. This feedback is then circulated to the Board for its consideration. Through this programme of regular dialogue, the Executive Directors and the Board are able to develop an understanding of shareholder views and objectives and create a mutual understanding of the Company's strategy.

All meetings with shareholders are held in such a way as to protect price sensitive information that has not already been made generally available to the Company's shareholders and similar guidelines apply to communications between the Company and other parties, such as financial analysts, brokers and the media.

In addition, all Non-Executive Directors have developed an understanding of the views of shareholders through corporate broker briefings and review of issued analyst notes. The Chairman seeks to meet with major shareholders on a regular basis and Non-Executive Directors meet with major shareholders as required.

Where material changes in respect of remuneration schemes or governance structures are proposed, the Board seeks to consult with its major shareholders before implementing such changes.

The Company views its website (www.vectura.com) as an important investor relations tool, particularly for private investors. In line with best practice, the website is regularly updated, ensuring that information relating to the Group and its activities is easily accessible. The website provides an overview of the business including its strategy, products and objectives.

All periodic reports and accounts are made available to shareholders on the website and paper copies are mailed to those shareholders who have elected to receive them. Separate announcements of all material events are made as necessary by press release. All such announcements are published on the website without delay along with webcasts of both the Interim and Annual Report presentations. The terms of reference of each of the Board's three Committees and certain corporate governance documents are also published on the Group's website.

Private shareholders are encouraged to express their views and concerns either in person at the AGM or by e-mail using the links provided on the Group's website.

Constructive use of the AGM

The Board seeks to use the AGM (together with other forums) to communicate with investors and encourage their participation by making business presentations and inviting shareholder questions. The Chairs of the Audit, Nomination and Remuneration Committees are present at the AGM to answer questions through the Chairman of the Board.

Notice of the meeting is posted to shareholders not less than 20 working days prior to the date of the AGM. The information sent to shareholders includes a summary of the business to be covered at the AGM, where a separate resolution is prepared for each substantive matter. Results of voting at the AGM are posted on the Group's website as soon as they are available.

> “Notwithstanding that this has been a year of key management changes and increased M&A activity, the business has continued to display strong financial performance and has been well controlled.”

Neil Warner
Chairman of the Audit Committee

Dear shareholder

On behalf of the Board, I am pleased to present Vectura's Audit Committee ("the Committee") report for the year ended 31 March 2016.

This report provides insight into the Committee's major activities and its deliberations during the year under review. As a Committee, we have remained focused on our key priorities which include reviewing the Group's financial reporting governance processes to ensure that they remain relevant, robust and of a high standard.

The Committee meets at key times within the Group's reporting cycle and I meet with management on an ad-hoc basis. I am satisfied that our activities have provided the Committee with a sound understanding of the key matters impacting the Group during FY 2015/16 and this understanding, supported by oversight of the Group's governance and controls processes, has enabled the Committee to reach the conclusions set out in this report.

I hope you will find this report helpful in understanding the work of the Committee.

Neil Warner
Chairman of the Audit Committee
25 May 2016

Role and responsibilities

The Committee operates under written terms of reference, which are modelled on the Code and are available on the Company website, www.vectura.com. The Committee advises the Board as to whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Committee reviews the annual and half-year financial statements. In reviewing these reports, the Committee considers whether the accounting policies applied during the preparation of the information are consistent year on year and whether the disclosures made are appropriate, complete and in compliance with the relevant financial reporting standards, corporate governance standards and regulatory requirements. The Committee also considers the significant areas in which judgement has been applied in the preparation of the financial statements. In fulfilling this role, it supports the Board in discharging its responsibilities in relation to the Group's external financial reporting and similar announcements.

The Committee manages the relationship with the external auditor on behalf of the Board. During the year, the Committee reviews and monitors the independence of the external auditor and considers the effectiveness of the external audit process. In addition, the Committee is responsible for developing and implementing the Group's policy on non-audit services. The Committee makes recommendations to the Board regarding the appointment and, where appropriate, reappointment of the external auditor and it approves the external auditor's terms of engagement. On an annual basis, the Committee will consider the need for an internal audit function and will make recommendations to the Board accordingly.

The Committee is responsible for reviewing the integrity and effectiveness of the Group's financial risk management and internal control systems.

The Chairman of the Committee reports to the Board on all significant matters reviewed by the Committee.

The Committee has access to the external auditor and, if considered necessary, is authorised to obtain external professional advice including, without limitation, legal and accounting advice to assist in the performance of its duties. No such advice has been sought during the year.

Membership and meetings

In accordance with the Code, the Audit Committee comprises three independent Non-Executive Directors: Neil Warner, Dr John Brown and Dr Susan Foden. The Board is satisfied that all members of the Committee have the breadth of knowledge and experience of the Group's business, financial dynamics and the risks facing the Group to effectively fulfil the Committee's responsibilities.

The Committee is chaired by Neil Warner, who is a Fellow of the Institute of Chartered Accountants with significant recent and relevant financial experience. Details of Neil Warner's financial experience are set out in his biography on page 53.

The Group Company Secretary acts as Secretary to the Committee and the Executive Directors also attend Committee meetings at the invitation of the Chairman. So as to facilitate open and unreserved discussion, the Committee meets with the external auditor at least twice a year without management being present. The Committee Chairman keeps in touch, as required, with the key people involved in the Group's governance, including the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer and the external audit lead partner.

The composition of the Committee is reviewed annually to ensure that it contains the appropriate balance of knowledge, skills and experience to support the business.

Details of the number of meetings held by the Committee and attendance thereat is detailed on page 56.

Member	Date of appointment
N W Warner (Chair)	1 February 2011
J R Brown	13 May 2004
S E Foden	18 January 2007

Financial reporting

As explained above, the Committee is responsible for monitoring the integrity of the Group's financial statements and reviewing the significant judgements applied in the preparation of financial information. During the year, the Committee reviewed the Interim Report for the period ended 30 September 2015, and the preliminary announcement and Annual Report and Accounts for the year ended 31 March 2016.

The significant issues considered and the conclusions reached by the Committee are set out below.

Significant issues considered in relation to the financial statements

Revenue recognition

As disclosed on page 109 of this report, the Group has five revenue streams, being royalty income, product licensing milestone income, technology licensing milestone income, development services and device sales.

During the year, the Committee reviewed the judgements exercised by management in determining when to recognise key milestone events, particularly those milestones that were achieved around a period end. The Committee also discussed each significant milestone achieved during the year with the external auditor. Following discussions held and the review performed, the Committee is satisfied that the treatment adopted by management is reasonable and in compliance with IAS 18 and Vectura's accounting policies.

This continued to be an area of increased focus during FY 2015/16, as the Group now receives significant royalty streams from recently launched products. Royalty revenue recognised by the Group is based of upon information provided to Vectura by its partners and Vectura does not have any direct visibility over the level of product sales being made by its partners. The controls around completeness of royalty revenue and underlying royalty revenue trends were discussed with management and the auditor, and the Committee are satisfied that royalty revenue recognised is appropriate and in-line with IAS 18.

Goodwill impairment

During the year, particular attention was paid to the carrying value of goodwill. Goodwill associated with the acquisitions of Innovata, Vectura Delivery Devices (VDD) and Co-ordinated Drug Development (since renamed Vectura Limited) totals £49.6m and, as such, it represents one of the largest assets on the Group's balance sheet. As in the prior year, for the purposes of impairment testing, management has determined that there is only one cash-generating unit (CGU) relating to these assets.

The Group has a further goodwill balance of £7.8m (€9.9m) relating to the acquisition of Activaero GmbH and this represents the Group's second CGU.

Both CGUs were tested for impairment independently.

The Committee reviewed the judgements and assumptions underlying the models used to support the carrying value of goodwill in the consolidated balance sheet. The primary judgement areas relate to the achievability of long-term business plans and the discount rates applied to the relevant cash flows. Management prepared a presentation to the Board as a whole which outlined the key assumptions and sensitivities included within the Group's long-term forecasts. The Audit Committee challenged these assumptions, scenarios and sensitivities to assess whether management's assumptions in respect of Goodwill impairment testing were fair and balanced.

The carrying value of goodwill was also a key area of focus for the external audit team and, accordingly, Deloitte LLP ("Deloitte") provided a detailed report to the Committee regarding management's assumptions and conclusions. This report also included the results of sensitivity testing performed, which assessed whether a "reasonably possible" change in a key assumption could result in an impairment of the balances. The Committee noted that there were no disagreements between the conclusions of management and the conclusions made by the external auditor. Following a review of the evidence provided, and discussions with both management and the audit team, the Committee is satisfied that no impairment charge should be recorded in FY 2015/16 and that the disclosures made in the financial statements are appropriate.

Going concern and viability

Following updates to the UK Corporate Governance Code ("the Code"), the Committee spent time ensuring that the additional requirements introduced by the Code were met by the Group. In particular, the Committee spent time considering the processes supporting the Group's longer-term solvency and viability which support the new viability statement. The Committee determined that the processes in place were sufficient and robust to enable the Directors to make a viability assessment over a three-year period.

Risk management and internal control

The Board as a whole, including the Audit Committee members, considers the nature and extent of Vectura's financial risk management framework and the risk profile that is acceptable to achieve the Group's strategic objectives. The Committee is responsible for reviewing the adequacy and effectiveness of the Group's risk management and internal control systems. In order to discharge this responsibility, the Committee receives reports from Vectura's management team and the external auditor as appropriate. The Committee has reviewed the process for identification, assessment and reporting of the Group's principal risks set out on pages 22 to 29.

Each year, the Audit Committee considers the need for an internal audit function and has concluded that, given the size of the Group's operations at this time, it is not necessary.

Whistleblowing

The Audit Committee reviews arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Audit Committee's objective is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

The Group has a formal whistleblowing policy, which is available to all staff via the Group's intranet.

UK Bribery Act

The Group has continued to operate its anti-bribery policy, introduced in 2010, in response to the UK Bribery Act 2010. This has included the conduct of due diligence on new key business partners who may act on behalf of the Group in higher risk areas of business.

External audit

The external auditor, Deloitte, is engaged to express an opinion on the Group's and the Company's financial statements.

The Audit Committee is responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor. When considering reappointment, the Committee considers the independence of the audit firm and the effectiveness of the overall external audit process.

Audit engagement partner rotation

Deloitte adheres to a rotation policy which is in accordance with the ethical standards of the Audit Practices Board ("the APB") and the Group engagement partner is rotated every five years. David Hedditch, the current engagement partner, was appointed during the 2012/13 financial year and therefore the next rotation is scheduled to take place in time for the 2017/18 financial year audit.

Independence and non-audit work performed by the external auditor

The Committee is responsible for monitoring and reviewing the independence and objectivity of the external auditor. On an annual basis, the auditor confirms its policies for ensuring auditor independence and provides the Committee with a confirmation that it continues to be independent in respect of the forthcoming audit engagement.

Vectura's policy on the provision of non-audit services is a key mechanism which safeguards the independence of the external auditor. The provision of non-audit services by the auditor is governed by a "non-audit services policy", which is reviewed by the Committee on an annual basis. The policy sets out the circumstances in which the external auditor may be permitted to undertake non-audit services and the overriding purpose of the policy is to ensure that the auditor does not provide a service that:

- creates a mutuality of interest;
- places the auditor in a position of auditing their own work;
- results in the auditor acting as a Vectura manager or employee; or
- places the auditor in a position to advocate for Vectura.

Vectura does not impose an automatic restriction on the provision of non-audit services by the external auditor. The external auditor is eligible for selection to provide non-audit services that are not, and are not perceived to be, in conflict with auditor independence, provided that the auditor has the skill, competence and integrity to carry out the work in the best interest of the Group. Where appropriate, services are tendered prior to awarding work to the external auditor.

During the year, Deloitte undertook non-audit services and the relevant fees are disclosed in note 5 to the financial statements. These services were provided in compliance with the policy outlined above and no actual conflicts of interest were found to exist between the audit work and the non-audit work performed, which related to the interim financial report and work undertaken as reporting accountant to support the Prospectus in respect of the proposed merger with Skyepharma PLC. The Committee considered that it was appropriate for the auditor to undertake these services given the nature of the work to be performed. During a planning meeting held in February 2016, the external auditor confirmed to the Audit Committee that it had met its statutory requirements with regard to independence. This conclusion was reaffirmed during the Audit Committee meeting held as part of year end finalisation procedures.

Accordingly, the Audit Committee confirms that the Group continues to receive an independent audit service. On this basis, the Committee has recommended to the Board that Deloitte be reappointed as the Group's auditor for a further year. This recommendation has been accepted by the Board.

Statement of compliance

The Group confirms compliance with the terms of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities Order 2014) throughout the year.

Effectiveness

The Committee places great importance on ensuring that there are high standards of audit quality and effectiveness in the external audit process. The effectiveness of the external audit process is reviewed on an annual basis, and this includes consideration of the qualification, expertise, resources, remuneration and independence of the auditor. Where appropriate, actions are agreed in respect of any issues identified and these are monitored for progress.

At the conclusion of the 2015/16 financial year audit, the Committee performed a formal evaluation of the performance of the external auditor. In performing this evaluation, the Committee worked with the external auditor, Executive Directors and relevant senior management. In addition to this, the Committee performs its own ongoing evaluation of audit quality and effectiveness, taking into account such matters as the quality of reporting to the Committee by the external auditor, the level and quality of the interactions between the Committee and the audit partner and the audit quality inspection report issued by the FRC with regard to Deloitte.

Tendering

Deloitte has been Vectura's auditor since 2007 following its full listing on the London Stock Exchange. During that time, the audit has not been formally tendered. Following the introduction of the audit tendering provisions in the Code, the Committee annually considers if the audit should be put out to tender. The Committee has not recommended that the audit be put out to tender upon conclusion of the 2015/16 audit, but the Committee will continue to monitor this requirement. A mandatory tender is expected to be required post the FY 2016/17 audit.

The new European Union Audit Directive and Regulation has been finalised and its requirements have to be in place in the UK by 16 June 2016. Although the UK legislation has yet to be finalised, we anticipate that it will set significant restrictions on the non-audit services that our auditor will be able to supply to the Group from 1 April 2017.

The Committee believes it is in the best interest of the Group and its stakeholders to ensure that the pool of major accountancy firms who would be able to tender for the audit is as wide as possible. Accordingly, the Committee will continue to monitor any future services to be provided by appropriate accountancy services to maintain an adequate level of independence to allow such firms to tender as required.

There are no contractual restrictions in place that would restrict the choice of the external auditor.

Committee effectiveness review

During the year, the Committee reviewed its own effectiveness as part of the overall Board evaluation process. The Committee considered that it acted transparently and, given the number of Committee and Board meetings scheduled throughout the financial year, maintained a thorough understanding of the Group and its business. The results of the review were advised to the Board.

Neil Warner
Chairman of the Audit Committee
25 May 2016

> "The Committee focused on successful planning and overall Board balance and composition, the appointment of our new CEO and made recommendations of the Board structure following the proposed Skyepharma merger."

Bruno Angelici
Chairman of the
Nomination Committee

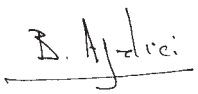
Dear shareholder

On behalf of the Board, I am pleased to present Vectura's Nomination Committee report for the year ended 31 March 2016. The role of the Committee is to ensure that the Group maintains a Board which is appropriately balanced and, as a unit, functions as efficiently and effectively as possible.

During the year, the Committee has continued to focus on the issues of succession planning and overall Board balance and composition. The Committee considered and made recommendations to the Board regarding the appointment of James Ward-Lilley as our new Chief Executive Officer. The Committee also made recommendations, which will come into force upon completion of the proposed merger with Skyepharma, in regard to the appointment of Andrew Derodra, currently Skyepharma's CFO, to replace Andrew Oakley as Chief Financial Officer.

At the same time, Vectura will appoint Frank Condella, Skyepharma's Chairman, as Vice-Chairman and Dr Thomas Werner, a non-executive Skyepharma director, as a Non-Executive Director.

It is Vectura's intention that Dr John Brown will stand down from the Board within one month after the completion of the proposed merger and there will be an appropriately managed process for the departure of one additional existing Vectura Board member, to reduce the size of the Board to eight within 18 months of completion of the proposed merger.



Bruno Angelici
Chairman of the Nomination Committee
25 May 2016

Role and responsibilities

The Nomination Committee ("the Committee") operates under written terms of reference, which are modelled on the UK Corporate Governance Code ("the Code") and are available on the Company website, www.vectura.com. The Committee reviews these terms on an annual basis. No material changes were made to the terms of reference during the year.

The Committee is responsible for reviewing the structure of the Board and Board Committees and evaluating the balance of skills, experience, independence and knowledge of the Board as a whole. On the basis of this evaluation, the Committee makes recommendations to the Board regarding Board appointments. Where the need for a new Executive or Non-Executive Director is identified, the Committee is responsible for preparing a description of the role and the capabilities required for a particular appointment and for identifying and nominating potential candidates to fill the vacancy.

The Committee also ensures that appropriate succession plans for Non-Executive Directors, Executive Directors and the Group's senior management are kept under review with a view to ensuring the long-term success of the Group.

Membership and meetings

The membership of the Committee, the number of Committee meetings held and attendance thereat can be found on page 56 of the Governance section of this Annual Report.

The Committee comprises four independent Non-Executive Directors, John Brown, Susan Foden, Neil Warner and Bruno Angelici, with Bruno Angelici acting as Chairman.

The Executive Directors, other members of executive and external advisors may also attend Committee meetings as required, at the invitation of the Chairman.

Membership and meetings continued

The Committee is authorised to obtain external professional advice including, without limitation, legal and other professional advice to assist in the performance of its duties. During the year, the Committee has utilised the services of Russell Reynolds and Spencer Stuart, as outlined below. Both firms are signatories to the Voluntary Code of Conduct for Executive Recruitment Firms (as recommended by the Davies Report). There were no other services provided by these firms during the year.

The Committee met twice during the year ended 31 March 2016, and all members were present at each meeting. Additionally, the Committee held a number of informal meetings and discussions during the year.

The key issues considered by the Committee during the year are outlined below.

Appointment of Directors

There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board under which the Committee interviews suitable candidates who are proposed either by existing Board members or by an external executive recruitment firm. The Committee gives careful consideration to the appointment of any proposed appointee, to ensure that the candidate has sufficient time available to devote to the role as well as the required level of skill and knowledge to ensure that the balance of skills, experience and knowledge on the Board is maintained.

In 2015, Chris Blackwell resigned as Chief Executive Officer. The Committee appointed an executive recruitment firm, Spencer Stuart, to find a suitable replacement for Chris, giving due regard to the experience and skills required for the role. Spencer Stuart has no other connection to the Company.

Following this recruitment process, the Committee recommended to the Board that James Ward-Lilley be appointed as Chris' successor.

James has had an extensive career at AstraZeneca, spanning 28 years across a variety of commercially focused roles, progressing from sales and marketing roles in the UK through country and regional leadership positions.

Immediately prior to joining Vectura James was vice president respiratory, inflammation & autoimmunity, "Global Product and Portfolio Strategy" (GPPS) and in this role James had responsibility for the development of AstraZeneca's "Respiratory, Inflammation and Autoimmunity" (RIA) strategy which included the acquisitions of Almirall's respiratory business and Pearl Therapeutics.

The Committee also made recommendations to the Board regarding changes to the Board assuming that the proposed merger with Skyepharma completes. Following completion Andrew Oakley, Vectura's CFO and Company Secretary, will leave the Vectura Board, as will Dr John Brown. Andrew will be replaced on the Board by Andrew Derodra, Skyepharma's CFO, who will become CFO of Vectura. At the same time, Vectura will appoint Frank Condella and Dr Thomas Werner, both currently Chairman and Non-Executive Director, respectively, of Skyepharma as Vice Chairman and as a Non-Executive Director, respectively. The Board was unanimous in accepting the recommendation of the Committee. One additional existing Vectura Board member will also leave the Board, reducing the size of the Board to eight within 18 months of completion of the proposed merger.

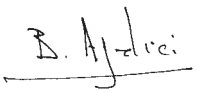
Diversity

The Board's policy on diversity is set out on page 58.

The search for Board candidates is conducted, and appointments made, on merit against objective selection criteria and having due regard, amongst other things, to the benefits of diversity on the Board, including the inclusion of women. Diversity is considered by the Nomination Committee in considering Board composition and in the process of making Board appointments.

Committee effectiveness review

During the year, the Committee reviewed its own effectiveness as part of the overall Board evaluation process. The Committee considered that it acted transparently and, given the number of Committee and Board meetings scheduled throughout the financial year, maintained a thorough understanding of the Group and its business. The results of the review were advised to the Board.



Bruno Angelici
Chairman of the Nomination Committee
25 May 2016

> "I am pleased to present our Remuneration report which sets out the remuneration arrangements for the Vectura Directors."

Dr Susan Foden
Chair of the
Remuneration Committee

Dear shareholder,

As you may recall, 2015/16 was a year of major changes to the senior executive team at Vectura. Early in 2015, Chris Blackwell announced his intention to stand down as Chief Executive after twelve years of service and in September 2015, the Board appointed James Ward-Lilley as his successor. In addition, Dr Per-Olof Andersson joined the Board as a Non-Executive Director on 1 April 2015.

The Board recognises that a number of investors did not feel able to support the vote on our Annual report on remuneration for 2014/15, on account of concerns over the timing of the second part of a phased increase in Chris Blackwell's salary during his final year with the Company. This was deemed important in ensuring his continued full commitment until we had completed the recruitment process for his successor. At that time we could not predict how long this process may take. However, as a result of that feedback, we have communicated with our major shareholders together with the Investment Association and ISS, to provide further details of the Committee's thinking at that time and to offer an opportunity to discuss any remaining concerns. We have taken on board the feedback received for future reference. Details of Chris Blackwell's termination arrangements are described in full on page 83 of the Annual Report on remuneration.

We were pleased with the level of support for the new Remuneration policy and Long-Term Incentive Plan (LTIP) presented to shareholders in September 2015. The Remuneration policy was approved with 96.7% of the votes for the resolution and the new LTIP was approved with a 95% level of support.

Since that time, the business has moved on and we are delighted that James Ward-Lilley has joined the Company as Chief Executive Officer. As part of the terms of his recruitment, the Company replaced his existing bonus and his 2013 and 2014 entitlements under AstraZeneca share plans. Awards under the share plans were replaced with awards of equivalent value over Vectura shares. In accordance with our policy, the terms of these buyout arrangements were designed to replicate, to the extent possible, the value of the awards forfeited, their degree of conditionality and the form of payment whilst providing immediate alignment with Vectura's shareholders. Details of James' ongoing remuneration package and these buyout arrangements are provided later in this report.

On joining, James, along with the other executive directors, received an award under the new LTIP. This plan allows for award of performance shares with a maximum face value at grant of 250% of salary. We see this as providing a real incentive to the senior team to drive long-term value for shareholders. To recap, the Plan's key features are as follows:

- Award of performance shares with an initial maximum face value at grant of 250% of salary. Performance for both the three and five-year base awards is measured against two relative Total Shareholder Return (TSR) peer groups: the FTSE 250 Index excluding financial services and real estate sector companies; and a bespoke group of relevant European pharmaceutical companies.
  - The base award represents 200% of salary, half of which is subject to a three-year performance and vesting period and half of which is subject to a five-year performance and vesting period:
    - For the three-year element, 15% vests at median, increasing to 100% at upper quartile. Similarly, for the five-year element, 15% vests at median, increasing to 100% at the upper decile.
  - The additional "kicker" element of the award represents 50% of salary and this is subject to a five-year performance vesting period:
    - This element of the award may vest at five years for performance at or above the upper decile.
- A one-year retention period is required on shares vesting under the three-year element of the Plan. In addition, the level of the share ownership guidelines was increased from 100% to 200% of salary under this new policy to reflect the increase in long-term incentive opportunity.

Given the significant changes made in FY 2015/16, the forthcoming year is intended to be a year of relative stability with no changes to the remuneration policy and only minor amendments in its operation, in respect of increases to salary and Non-Executive Director fee levels and to take account of the Company's proposed change of financial year end.

As reported in the financial review set out on pages 44 to 46, the Group has enjoyed and continues to see strong revenue and EBITDA growth during as a result of significant development milestone achievements and sustainable and growing royalty revenues.

These financial and strategic successes have been delivered alongside significant returns to shareholders over the medium to long term. These successes are reflected in the variable pay outcomes for 2015/16 as follows:

- The annual bonus payments to Executive Directors for the financial year to 31 March 2016 were between 89% and 92% of base salary, reflecting a year of significant performance against agreed financial and strategic targets. Royalty revenues and EBITDA have grown strongly as market sales from partnered products continue to grow and the announcement of the proposed merger with Skyepharma PLC represents a significant step in delivery of the Group's strategy.
- LTIP awards granted on 18 September 2012 were eligible to vest during the year. Half of the award was subject to relative TSR performance measured against the FTSE SmallCap Index and half was subject to relative TSR performance against selected constituents of the Euro Stoxx Pharmaceuticals and Biotechnology Index over three years to 17 September 2015. TSR growth over the period of 137% resulted in all of the SmallCap element vesting. However, Vectura's TSR was just below the median of the Euro Stoxx peer group and so none of that element of the award vested.

A detailed breakdown of the targets set and the payments awarded under the annual bonus scheme and the LTIP is set out on pages 78 to 81.

The salaries of the Executive Directors were reviewed early in 2016, with agreed changes taking effect from 1 April. The salaries of James Ward-Lilley and Trevor Phillips were each increased by 2.5% to £461,250 and £288,922 respectively. This was below the average increase for the general workforce. Andrew Oakley's salary remains at £281,875.

In March 2016, the Company announced a recommended all share merger with Skyepharma PLC. Andrew Oakley will leave Vectura at completion and will be replaced as Chief Financial Officer by Skyepharma's current Chief Financial Officer, Andrew Derodra. A summary of Andrew Oakley's termination arrangements is provided in the Annual report on remuneration and full details will be disclosed at the time that his employment ends. The package which has been conditionally offered to Andrew Derodra is also disclosed in this Report on Remuneration. In addition, contingent upon completion of the merger, Frank Condella will join the Vectura Board as Vice Chairman. Details of the fees payable to Frank Condella are also disclosed in this Annual report on remuneration.

Following completion of the proposed merger, the Remuneration Committee of the combined entity intends to review the remuneration arrangements for Vectura's senior executive team (including the Executive Directors) in order to ensure that they remain appropriate given the Company's increased size and complexity. Details of the outcome of this review will be disclosed to shareholders in next year's report.

Structure of this report

This letter and the Annual report on remuneration will be subject to an advisory vote at the 2016 AGM. There is no vote on the Policy report this year. An abridged version of the Policy report with key elements of the Policy included in full is set out for reference on the following pages, reflecting the new LTIP and Remuneration policy approved by shareholders in 2015.

I hope that you remain supportive of our remuneration policy and will approve the resolution on the Annual report on remuneration at the AGM.

Yours sincerely

Dr Susan Foden
Chair of the Remuneration Committee
25 May 2016

The following section sets out the Remuneration policy approved by shareholders at the September 2015 AGM. No changes to the Remuneration policy are proposed this year and thus there will be no shareholder vote on the policy at the 2016 AGM. An abridged version, with the key elements of the Policy report, is presented below, being the policy table and policies on recruitment and termination, reflecting the fact that the Policy has been approved with only minor changes to reflect the passage of time.

The Policy report in full can be found on the Company website (www.vectura.com); it has been prepared in accordance with the provisions of the Companies Act 2006 ("the Act") and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ("the Regulations"). It also meets the requirements of the UK Listing Authority's Rules and the Disclosure and Transparency Rules.

Directors' remuneration policy

Vectura's remuneration policy is driven by the Company's strategy and business model and has been designed to reflect the Committee's remuneration philosophy, as summarised below.

Philosophy	Support value creation for shareholders over the longer term and create alignment with shareholders					
	Fixed remuneration			Variable remuneration		
Element	Base salary	Benefits	Pension	Annual bonus	LTIP	Share ownership guidelines and holding periods
How it is influenced by the remuneration philosophy	Broadly mid-market.			Set no higher than mid-market and is the least significant variable element. Has stretching corporate and personal targets that support Vectura's annual goals and its overall strategy.	The most significant element of the package. Has stretching relative TSR targets that are clearly aligned with shareholder value. Two peer groups are used to provide a balanced assessment of the performance of the Company. Performance is measured over three and five years.	Significant personal holdings must be acquired and maintained and vested shares must be retained for a period.

Whilst the Committee does not consult directly with employees regarding its policy for Directors, in developing its policy the Committee has regard to the policy for remuneration of employees across the Group. It does so in a number of respects:

- All employees are rewarded with a remuneration package that includes certain key benefits such as life assurance, permanent health insurance, private medical insurance, access to the pension scheme, participation in Vectura's all-employee share schemes and eligibility to receive a bonus. Internally a review is underway designed to ensure that levels of remuneration for all key employees are up to date and competitive within the sector.
- The bonus scheme for Directors and employees is designed to reward performance, and all individuals work towards challenging personal goals.
- When determining the annual salary increases and remuneration packages for the Executive Directors, the Committee considers the general base salary increase for the broader employee population.

The remuneration of senior executives below Board level is reviewed by the Committee on an annual basis. The remuneration packages of these executives are broadly consistent with the policy outlined above, with the overall impact of the role and the individual being considered as well as relevant market comparative data, save that lower bonus percentages and lower LTIP opportunities are applicable.

The following table and accompanying notes set out the main principles of reward for the Executive Directors of the Group as set out in the current Remuneration policy. The Policy took effect immediately after the general meeting on 24 September 2015.

Executive Directors

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Base salary			
To recruit and retain Executives of the highest calibre who are capable of delivering the Group's strategic objectives, reflecting the individual's experience and role within the Group. Base salary is designed to provide an appropriate level of fixed income to avoid an over-reliance on variable pay elements that could encourage excessive risk taking.	The Committee aims to set base salary at levels that are broadly aligned with the mid-points for equivalent roles in comparable companies in the UK, adjusted to reflect company size and complexity. Salaries are normally reviewed annually and changes are generally effective from 1 April. The annual salary review of Executive Directors takes a number of factors into consideration, including: • business performance; • salary increases awarded to the overall employee population; • skills and experience of the individual over time; • scope of the individual's responsibilities; • changes in the size and complexity of the Group; • market competitiveness; and • the underlying rate of inflation.	Base salary increases are awarded at the discretion of the Committee; however, salary increases will normally be no greater than the inflationary pay rises awarded to the wider workforce. Where a higher level of increase is appropriate given the performance and contribution of the incumbent, or where there has been a change in responsibilities, the Committee retains the discretion to award more significant base salary increases.	No formal metrics, although increases will take account of Group performance.
Benefits			
Benefits in kind offered to Executive Directors are provided on a market-competitive basis, to assist with the retention and recruitment of staff.	The Company aims to offer benefits that are in line with market practice. The main benefits currently provided are life assurance, permanent health insurance, and private medical and dental insurance. Under certain circumstances the Group will offer relocation allowances to employees.	The value of each benefit is not predetermined and is based upon the cost to the Group.	Not performance related.
Pensions			
The Group aims to provide market-competitive retirement benefits, to reward sustained contribution.	The Group operates a money purchase scheme and all employees, including Executive Directors, are invited to participate. For Executives who are affected by the HMRC lifetime or annual allowances, the Company may provide cash supplements in respect of benefits above the allowance.	Up to 20% of basic salary contribution to the Group Personal Pension Plan or equivalent cash allowance.	Not performance related.

Executive Directors

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Annual performance bonus			
An annual cash bonus rewards the achievement of stretching objectives that support the Group's corporate goals and delivery of the business strategy together with goals in relation to personal performance.	Objectives are agreed with the Committee, and the Board as a whole, at the start of each financial year. Different performance measures and weightings may be used each year, as agreed with the Committee, to take into account changes in the business strategy. Bonuses are paid at the discretion of the Committee. The Committee takes into account overall corporate performance and individual performance when determining the final bonus amount to be awarded. Bonuses are normally paid in cash, typically in June. Under the rules of the scheme, the Committee can claw back up to 100% of the bonus awarded in the event of material misstatement of the Company's financial results, an error in assessing the performance conditions to which an award is subject or for any other matter which it deems relevant.	Bonuses are limited to a maximum of 100% of base salary for each Executive Director.	Corporate goals typically include revenue generation, development of pipeline progress, partnering successes and control of cash expenditure, although the Committee has the discretion to set other targets. Goals set are specific, measurable and are linked to the Group's longer-term strategy. 0% of the maximum is payable at threshold performance.
Long-Term Incentive Plan (LTIP) (awards made from September 2015 onwards)			
The Remuneration Committee believes that a key component of the overall remuneration package is the provision of equity awards to senior executives through the LTIP, which is designed to develop a culture which encourages strong corporate performance on an absolute and relative basis.	Annual award of nominal cost options that vest according to performance conditions measured over at least three financial years. Awards subject to three-year performance conditions are subject to an additional one-year post-vesting holding requirement on the net tax value of shares vesting. Awards will be subject to clawback where there has been a misstatement of the Company's financial results, an error in assessing the performance conditions to which an award is subject or for any other matter which the Committee deems relevant.	Annual awards of up to 250% of salary may be granted. For Executive Directors this will normally comprise: • a three-year element of up to 100% of salary; • a five-year element of up to 100% of salary; and • a five-year "kicker" of up to 50% of salary.	Awards granted from 2015 onwards are based on relative total shareholder return (TSR) against two peer groups, with each determining the vesting of 50% of the awards. Awards are subject to the following vesting scales: • a three-year element: 15% vests at median, rising to 100% vesting at upper quartile; • a five-year element: 15% vests at median, rising to 100% vesting at upper decile; and • a five-year "kicker": 100% vests for performance above the upper decile. The Committee retains the discretion to vary the peer groups, the weighting between them and/or introduce new metrics for awards in future years, providing they are not materially less challenging in the circumstances. The Committee would normally consult with its major shareholders before making significant changes to the performance conditions.

Executive Directors

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Long-Term Incentive Plan (LTIP) (awards made from September 2015 onwards) continued			
			Awards are subject to an underpin based on the Committee's assessment of the Group's underlying performance against a range of factors, including the Company's underlying financial performance, absolute shareholder returns and progress against milestones over the performance period. Any exercise of discretion will be fully disclosed to shareholders. The performance conditions for previous long-term incentive awards are described in the Annual report on remuneration.
All-employee share schemes			
All employees, including Executive Directors, are encouraged to become shareholders of Vectura Group plc through participation in our all-employee share schemes. The Group currently offers employees the opportunity to participate in the Vectura Sharesave (SAYE) scheme and the Vectura Share Incentive Plan (SIP).	Both of the schemes offered are HMRC-approved schemes and operate on standard terms.	Participation limits are set by the relevant tax authorities from time to time.	Not performance related and no performance conditions apply.
Share ownership guidelines			
Share ownership guidelines for Executive Directors and senior employees are designed to align the interests of senior management to those of Vectura's shareholders.	In accordance with best practice, Executive Directors are required to retain at least half of any share awards vesting as shares (after paying any tax due) until they have reached the required level of holding.	Executive Directors are required to build and retain a holding of Vectura Group plc shares equivalent to at least 200% of their base salary.	Not performance related.

Chairman and Non-Executive Directors

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Fees			
Set at a level that is sufficient to attract and retain high-calibre Non-Executives.	The Chairman and the Non-Executive Directors receive fees paid in cash, with additional fees received for chairing committees of the Board, for fulfilling the role of Senior Independent Director or for transatlantic travel. Fees are paid monthly and reviewed annually. The Chairman and the Non-Executive Directors do not participate in any performance-related incentive schemes, nor do they receive any benefits, other than limited travel and hospitality-related benefits, in connection with their roles.	When reviewing fee levels, account is taken of market movements in the fees of Non-Executive Directors, Board Committee responsibilities and ongoing time commitments.	Not performance related.

For the avoidance of doubt, any commitments entered into by the Company prior to the approval and implementation of the policy outlined above may be honoured, even if they are not consistent with the policy prevailing at the time the commitment is fulfilled.

In operating its policy, the Committee has a number of discretions set out in the approved policy and the relevant sections of the various plan rules.

Remuneration scenarios for Executive Directors

The charts below show hypothetical values of the 2016/17 remuneration package for each Executive Director under three assumed performance scenarios and these scenarios are based upon the remuneration policy set out above. The information presented below uses the level of salary, benefits and pension entitlements for each of the Directors as at 1 April 2016 or at the time of appointment. Andrew Oakley has not been included in these calculations as, subject to completion of the proposed merger with Skyepharma PLC, he will stand down as Chief Financial Officer. Following completion, Andrew Derodra, currently the Chief Financial Officer of Skyepharma PLC, will assume the role of Chief Financial Officer within the Enlarged Group.

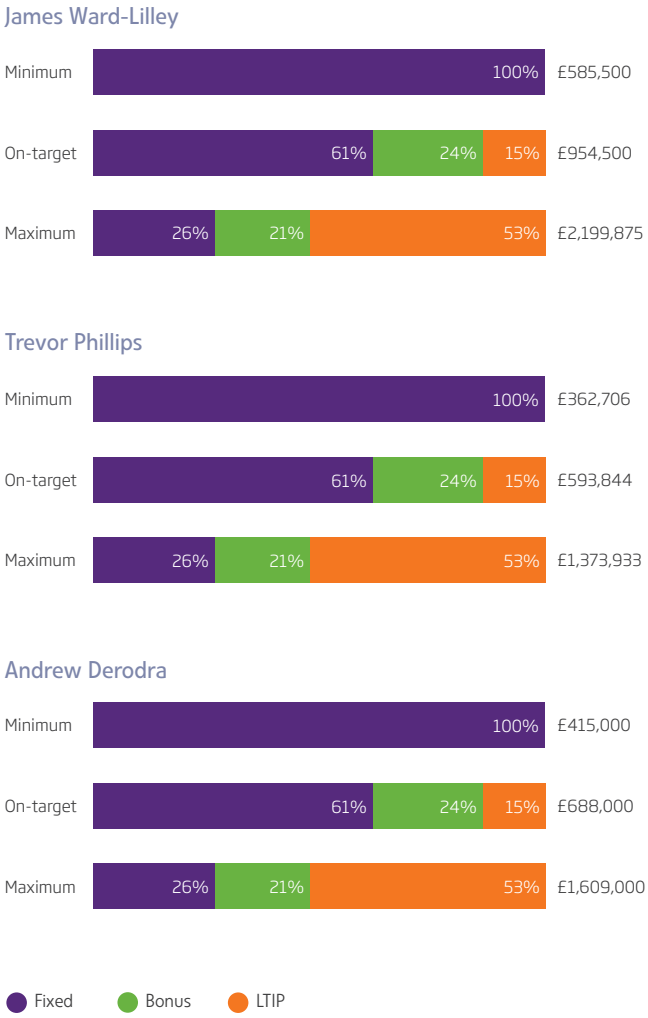
Base salaries for the current year are: James Ward-Lilley – £461,250, Trevor Phillips – £288,922 and Andrew Derodra – £341,000. Benefits of £32,000, £16,000 and £6,000 respectively, and a pension allowance of 20% of salary have been assumed.

Below target remuneration receivable – this scenario assumes that there is no annual bonus payment and no awards under the LTIP vest.

On-target performance remuneration receivable – this scenario assumes that the Directors receive a 50% of salary bonus payout and that LTIP awards worth 30% of salary at grant would ultimately vest.

Stretch remuneration receivable – this scenario assumes that the Directors receive a maximum bonus payout of 100% of their salary and that a maximum LTIP award of 250% of salary would ultimately vest.

The actual amounts earned by Executive Directors under these three scenarios will depend on share price performance over the vesting period. For the purpose of these illustrations, any share price appreciation has been ignored. For simplicity, the value of participating in the Company's all-employee share schemes has also been ignored.



Other remuneration policies

Termination and loss of office payments

The Group's policy on remuneration for Executive Directors who leave the Group is consistent with general market practice and is set out below. The Committee will exercise its discretion when determining amounts that should be paid to leavers, taking into account the facts and circumstances of each case. When calculating termination payments, the Committee will take into account a variety of factors, including individual and Company performance, the length of service of the Executive Director in question and, where appropriate, the obligation for the Executive Director to mitigate loss.

In the case of a "good leaver", the following policy will normally apply:

- notice period of twelve months and pension and contractual benefits, or payment in lieu of notice;
- statutory redundancy payments will be made, as appropriate;
- Executives have no entitlement to a bonus payment in the event that they cease to be employed by the Group; however, they may be considered for a pro-rated award by the Committee in good leaver circumstances;
- the rules of the LTIP contain provisions setting out the treatment of awards where a participant ceases to be employed by the Vectura Group. Other than in good leaver circumstances, awards will normally lapse. In the event of a participant's death, retirement, ill health, injury, disability, redundancy, the sale of his employing company or business out of the Vectura Group or for any other reason, at the discretion of the Remuneration Committee, awards will not be forfeited but will instead vest on the normal vesting date. Vesting in these circumstances will be subject to the satisfaction of the relevant performance conditions measured at that time and time pro-rating. In exceptional circumstances, the Remuneration Committee may allow the awards to vest on cessation of the participant's employment, subject to the satisfaction of the performance conditions measured at that time and time pro-rating. In either case, the Remuneration Committee can decide to disapply time pro-rating, if it thinks it is appropriate to do so in the particular circumstances;
- any other share-based entitlements granted to an Executive Director under the Company's share and share option plans will be determined based upon the relevant plan rules; and
- the Committee may also provide for the leaver to be reimbursed for a reasonable level of legal fees in connection with a settlement agreement.

In circumstances in which a leaving Director may be entitled to pursue a legal claim, the Company may negotiate settlement terms if it considers this to be in the best interests of the Company and, with the approval of the Committee on the remuneration elements therein, enter into a settlement agreement.

Other remuneration policies continued

Executive Directors' service contracts

It is the Group's policy that Executive Directors should have contracts with an indefinite term and which provide for a maximum period of twelve months' notice.

This applies to James Ward-Lilley whose contract took effect from 24 September 2015, to Trevor Phillips whose contract was amended with effect from 16 July 2012, and to Andrew Oakley, whose contract took effect from 1 January 2015. In accordance with the UK Corporate Governance Code ("the Code"), as applicable to a FTSE 250 company, all Executive Directors are subject annual re-election at each AGM.

The Executive Directors may accept outside appointments, with prior Board approval, provided that these opportunities do not negatively impact on their ability to fulfil their duties to the Group. Whether any related fees are retained by the individual or are remitted to the Group will be considered on a case-by-case basis. None of the Executive Directors currently holds any outside directorships.

Non-Executive Directors' terms of engagement

All Non-Executive Directors have specific terms of engagement which are terminable on not less than three months' notice by either party and not less than six months' notice in the case of the Chairman. The remuneration of Non-Executive Directors is determined by the Board within the limits set by the Articles of Association and based on a review of fees paid to Non-Executive Directors of similar companies. In accordance with the Code, as applicable to a FTSE 250 company, all Non-Executive Directors are subject to annual re-election at each AGM.

The dates of appointment of each of the Non-Executive Directors serving at 31 March 2016 are summarised in the table below.

	Date of appointment
J R Brown	13 May 2004
S E Foden	18 January 2007
N W Warner	1 February 2011
B F J Angelici	1 December 2013
P-O Andersson	1 April 2015

A Board evaluation has been performed and the results of this exercise confirmed that all Non-Executive Directors were independent, including Dr John Brown and Dr Sue Foden who have service greater than nine years. Their independence is considered valid due to the major change in the operating activities of the Group and the refreshment of Non-Executive and Executive members of the Board during the terms of their appointment.

As announced on 8 April 2016, John Brown will step down from the board of the enlarged Vectura Group within one month after the completion of the merger. Upon completion of the merger, Vectura will appoint Frank Condella, Skyepharma's Chairman, as Vice-Chairman of the enlarged Vectura Group, and Dr Thomas Werner, a Non-Executive Skyepharma Director, will be appointed as a Non-Executive Director of the enlarged Vectura Group Board.

Remuneration for new appointments

Where it is necessary to recruit or replace an Executive Director, the Committee has determined that the new Executive Director will receive a compensation package in accordance with the provisions of the Policy.

In setting base salaries for new Executive Directors, the Committee will consider the existing salary package of the new Director and the individual's level of experience. In setting the annual performance bonus, the Committee may wish to set different performance metrics (to those of other Executive Directors) in the first year of appointment. Where it is appropriate to offer a below-median salary on initial appointment, the Committee will have the discretion to allow phased salary increases over a period of time for a newly appointed Director, even though this may involve increases in excess of inflation and the increases awarded to the wider workforce.

The Committee wishes to retain the ability to make buyout awards to a new Executive Director to facilitate the recruitment process. The amount of any such award would not exceed the expected value being forfeited and, to the extent possible, would mirror the form of payment, timing and degree of conditionality, etc. Where awards are granted subject to performance conditions, these would be relevant to Vectura Group plc. Any such award would only be made in exceptional circumstances and shareholders would be informed of any such payments at the time of appointment. Share-based awards would be made using the existing share plans, where possible, although the Committee may also use the flexibility provided under the Listing Rules to make awards without prior shareholder approval.

In respect of internal appointments, any commitments entered into in respect of a prior role, including variable pay elements, may be allowed to pay out according to its prior terms.

For external and internal appointments, the Committee may consider it appropriate to pay reasonable relocation or incidental expenses, including payment of reasonable legal expenses. Tax equalisation may be considered if an Executive Director is adversely affected by taxation due to their employment with the Company.

The terms of appointment for a Non-Executive Director would be in accordance with the remuneration policy for Non-Executive Directors as set out in the policy table.

Annual report on remuneration

Remuneration Committee ("the Committee")

Governance

The Committee consists entirely of independent Non-Executive Directors. The Committee is chaired by Susan Foden and, during the year ended 31 March 2016, its members were Bruno Angelici, Dr John Brown, Dr Per-Olof Andersson and Neil Warner.

In accordance with the requirements of the UK Corporate Governance Code, the Board has confirmed that Bruno Angelici was independent upon his appointment to the Board, and that he continues to be independent. No conflicts of interest have arisen during the year and none of the members of the Committee has any personal financial interest in the matters discussed, other than as shareholders. The fees of the Non-Executive Directors are determined by the Board on the joint recommendation of the Chairman and the Chief Executive Officer.

The Committee takes account of information from both internal and independent sources, including New Bridge Street (NBS) (Aon plc's executive remuneration consultancy) who act as the Committee's principal, and only material, advisor. NBS advises on all aspects of Vectura's Remuneration policy and reviews Vectura's remuneration structures against corporate governance best practice.

NBS is a founder member of the Remuneration Consultants Group and complies with its Code of Conduct, which sets out guidelines to ensure that its advice is independent and free of undue influence. The Committee reviews the performance and independence of its advisors on an annual basis. During the year, Vectura incurred fees of £187,630 from New Bridge Street. The Committee also engaged the services of PricewaterhouseCoopers LLP (PwC) to undertake total shareholder return (TSR) calculations in respect of the 2012 LTIP award which vested in 2015. PwC was paid £18,000 in respect of this engagement.

The Group's Human Resource Director provides updates to the Committee, as required, to ensure that the Committee is fully informed about pay and performance issues throughout the Group. The Committee takes these factors into account when determining the remuneration of the Executive Directors and senior executives.

No Executive Director or employee is allowed to participate in any discussion directly relating to their own personal conditions of service or remuneration.

Role

The Committee's principal function is to support Vectura's strategy by ensuring that those individuals responsible for delivering the strategy are appropriately incentivised through the operation of Vectura's remuneration policy. In determining the Group's current policy, and in constructing the remuneration arrangements for Executive Directors and senior employees, the Board, advised by the Committee, aims to provide remuneration packages that are competitive and designed to attract, retain and motivate Executive Directors and senior employees of the highest calibre.

The Committee is responsible for:

- setting a remuneration policy that is designed to promote the long-term success of the Company;
- ensuring that the remuneration of the Executive Directors and other senior executives reflects both their individual performance and their contribution to the overall Group results;
- determining the terms of employment and remuneration of the Executive Directors and Senior Executives, including recruitment and retention terms;
- approving the design and performance targets of any annual incentive schemes that include the Executive Directors and senior executives;
- agreeing the design and performance targets, where applicable, of all share incentive plans requiring shareholder approval;
- rigorously assessing the appropriateness and subsequent achievement of the performance targets related to any share incentive plans;
- recommending to the Board the fees to be paid to the Chairman. The Chairman is excluded from this process; and
- the selection and appointment of the external advisors to the Committee to provide independent remuneration advice where necessary.

The Committee is formally constituted and operates on written terms of reference, which are modelled on the Code and are available on Vectura's website, www.vectura.com.

Meetings and key decisions during FY 2015/16

The Committee met formally six times during the year ended 31 March 2016.

The key decisions made by the Committee during the year are summarised below:

- approval of overall pay levels for FY 2015/16 for the Group as a whole;
- approval of base salary increases for Executive Directors and other members of the Executive Leadership Team, ensuring that, where appropriate, these are aligned both internally and externally;
- review of achievement against corporate goals and approval of the percentage of the bonus pool to be paid out across the Group, and a review of achievement against personal goals for Executive Directors;
- approval of a temporary increase in the Chief Operating Officer's salary during his period as Interim Chief Executive Officer;
- approval of the buyout arrangements and remuneration package for the new Chief Executive Officer;
- approval of the payment of a relocation allowance for a two-year period to the Chief Financial Officer;
- review of the performance conditions for awards under the 2012 Long-Term Incentive Plan (LTIP), resulting in the approval of 50% vesting of the awards granted in 2012;
- approval of a new LTIP, grant of the first awards under the 2015 LTIP and confirmation of the peer group for the first awards;
- review and approval of overall pay levels FY 2016/17 for the Group as a whole;
- approval of the remuneration package for the incoming Chief Financial Officer post completion of the proposed merger; and,
- approval of the remuneration elements in the arrangements for the outgoing Chief Financial Officer post completion of the proposed merger.

Audited information

Directors' remuneration – year ended 31 March 2016

The total remuneration of the individual Directors who served during the year is shown below. Total remuneration is the sum of emoluments plus Company pension contributions, and the value of long-term incentive awards vesting by reference to performance in the year to 31 March 2016, being £726,000 (2015: £1,460,000).

	Basic salary[a] £000	Benefits[b] £000	Bonus[c] £000	LTIP[d] £000	Pension entitlements[e] £000	Other[f] £000	SIP/SAYE awards[g] £000	Total remuneration £000
Executive Directors								
C P Blackwell[1]	107	2	—	359	21	621	—	**1,110**
J Ward-Lilley[2]	234	17	215	—	47	665	—	**1,178**
T M Phillips[3]	307	16	282	367	61	—	15	**1,048**
A J Oakley[4]	282	24	251	—	56	—	3	**616**
Non-Executive Directors								
B F J Angelici	130	—	—	—	—	—	—	**130**
J R Brown	52	—	—	—	—	—	—	**52**
S E Foden	52	—	—	—	—	—	—	**52**
N W Warner	52	—	—	—	—	—	—	**52**
P-O Andersson[5]	44	—	—	—	—	10	—	**54**
	1,260	59	748	726	185	1,296	18	**4,292**

(1) C P Blackwell stepped down as Chief Executive Officer on 30 June 2015.

(2) J Ward-Lilley was appointed as Chief Executive Officer on 24 September 2015. On appointment he received a cash payment of £164,784 which represented his anticipated bonus payment of £226,114, pro-rated for the proportion of bonus year that he year served at AstraZeneca. This payment was a compensation for his pro-rata bonus entitlement at his existing employer. In addition, he received an award over 571,988 nil cost options shares as one part of his buyout arrangements. Half of this tranche of options vested immediately with a value of £500,203, subject to a twelve-month holding requirement, with the remainder vesting twelve months after appointment subject to the achievement of personal performance conditions. The award of options is subject clawback in certain circumstances. The value of the bonus buy out bonus award and the value of the shares that vested immediately have been included within "Other" in the above table.

(3) T M Phillips' salary was temporarily increased from £281,875 to £381,875 for the period from 1 July 2015 to 24 September 2015 whilst he fulfilled the role of Interim Chief Executive Officer. In addition, T M Phillips receives benefits of £15,000 (US$22,588 at an average annual exchange rate) relating to US medical and dental insurance. T M Phillips also makes employee contributions towards this plan.

(4) A J Oakley was provided with a temporary relocation allowance of £2,500 per month starting from 1 November 2015 in order to assist with the cost of temporary accommodation and travel connected with his relocation from Switzerland to Chippenham. In addition, he receives benefits of £11,362 relating to worldwide medical and dental insurance.

(5) P-O Andersson was appointed to the Board as a Non-Executive Director on 1 April 2015. P-O Andersson receives a £2,000 allowance for each Board meeting that requires transatlantic travel and these amounts are shown as "Other" in the table above.

Directors' remuneration – year ended 31 March 2015

The total remuneration of the individual Directors who served during the prior year is shown below. Total remuneration is the sum of emoluments plus Company pension contributions, and the value of long-term incentive awards vesting by reference to performance in the year to 31 March 2015, being £1,460,000 (2014: £117,000).

	Basic salary[a] £000	Benefits[b] £000	Bonus[c] £000	LTIP[d] £000	Pension entitlements[e] £000	Other[f] £000	SIP/SAYE awards[g] £000	Total remuneration £000
Executive Directors								
C P Blackwell	400	2	320	1,144	80	—	5	**1,951**
T M Phillips[6]	275	16	231	316	55	—	5	**898**
A J Oakley[7]	69	—	58	—	14	—	4	**145**
P S Oliver[8]	165	2	108	—	33	278	5	**591**
Non-Executive Directors								
B F J Angelici	120	—	—	—	—	—	—	**120**
J R Brown	52	—	—	—	—	—	—	**52**
S E Foden	52	—	—	—	—	—	—	**52**
N W Warner	52	—	—	—	—	—	—	**52**
	1,185	20	717	1,460	182	278	19	**3,861**

(6) T M Phillips receives benefits of £15,000 (US$24,541 at an average annual exchange rate) relating to US medical and dental insurance. T M Phillips also makes employee contributions towards this plan.

(7) A J Oakley was appointed to the Board on 1 January 2015.

(8) P S Oliver stepped down as Chief Financial Officer and Company Secretary with effect from 1 January 2015.

Notes to the remuneration tables

(a) This is the amount earned in respect of the financial year.

(b) This is the taxable value of benefits paid in respect of the financial year. These benefits typically relate to death, disability and medical insurance. As disclosed in footnotes (3) and (6) above, T M Phillips also receives benefits in relation to US medical and dental insurance and, as disclosed in footnote (4), A J Oakley receives worldwide medical and dental insurance and was provided with a relocation allowance.

(c) This is the total bonus earned under the annual bonus scheme in respect of the financial year.

(d) The amount shown relates to the market value of LTIP awards that vested during the year. Refer to page 80 for details of LTIP awards which have vested during the year.

(e) UK tax legislation imposes penalty taxes on annual pension contributions where prescribed maximum amounts are exceeded. The Committee has previously determined that impacted Executive Directors would receive pension benefits limited by the prescribed maximum amounts and an additional taxable supplementary cash payment equal to the cost to the Company of the pension benefit foregone. The amount of the allowance awarded to any Executive Director so impacted has been set by the Committee so that there is no additional cost to the Company resulting from this arrangement.

(f) Other payments in 2015/16 relate to payments made under agreements with C P Blackwell and with J Ward-Lilley; these amounts are explained on page 83 of this report. Other payments in 2014/15 relate to payments made under an agreement with P S Oliver; these amounts were described in the Annual report on remuneration last year.

(g) This relates to matching and free share SIP awards granted during the year and SAYE awards which have vested during the year. The benefit of the SIP awards is calculated as the number of shares awarded multiplied by the share price on the date of the award. The benefit of the SAYE award is calculated as the number of options awarded multiplied by the discount to the market share price on the date the option was awarded.

Additional requirements in respect of the single total figure table of remuneration (audited information)

Performance-related pay earned in the year

Annual performance bonus

All employees are eligible for an annual discretionary cash bonus, whereby performance objectives are established at the beginning of the financial year by reference to suitably challenging corporate goals. The scheme is offered to all staff below Board level and maximum bonus opportunities range from 10% to 75% of salary, depending on grade. Bonus payments are not pensionable.

The Committee has consistently set stretching corporate goals, including goals around revenue generation, development pipeline progress, partnering successes and control of cash expenditure, which are weighted towards goals with the highest corporate significance.

In addition, a significant percentage of the bonus potential is set against challenging personal objectives which are linked to the overall business strategy. Bonuses are limited to a maximum of 100% of basic salary for each Executive Director.

For the year ended 31 March 2016 the performance objectives against which bonus payments were calculated are set out in the table overleaf. Full disclosure of some objectives has been restricted due to commercial sensitivity; however, full disclosure will be provided as and when the objectives cease to be commercially sensitive.

Additional requirements in respect of the single total figure table (audited information) continued

Performance-related pay earned in the year continued

Annual performance bonus continued

The Committee assessed that a bonus of 89%–92% (2014/15: 80%–84%) of salary was appropriate for the Executive Directors when judged by the achievement of the metrics set out in the tables below.

Performance measure	Weighting	Stretch	Achievement	Level of bonus awarded as a % of metric (% of full bonus)	Commentary
EBITDA progression	10%	£18.0m	£23.2m	100% (10%)	
Revenue growth	10%	£83.0m	£72.0m	90% (9%)	Slight underperformance to stretch target driven by a delay on VR315 US milestone announcement
Cash balance (excluding working capital and non-recurring expenses)	10%	£93.0m	£93.8m	100% (10%)	At target
Corporate strategy targets	10%	Qualitative assessment		100% (10%)	Long-term strategy reviewed and agreed with the Board
Activaero operations	5%	Close the Gemünden manufacturing site by 31 March 2016 Ensure site at Chippenham and contract manufacturing organisation are operating effectively to cover the manufacturing duties Ensure the management of the sites in Germany is fit for purpose and delivers integration without hindering progress of any programmes		100% (5%)	Gemünden site closed smoothly and manufacturing activities transitioned to UK sites and to contract manufacturing organisations
FAVOLIR® and SCIPE targets	15%	VR475 EU (FAVOLIR®), in Europe, clinical study progress Strategic plan agreed for SCIPE project in the US		87% (13%)	Good progress with strong patient recruitment reached FDA and Key opinion leader (KOL) interactions completed and strategic plan agreed
New deals and strategic partnerships	15%	Add value through partnerships demonstrated by either: • a positive net present value (NPV) adding value to the business • a positive perception of our technology/ business resulting from the deal announcement		67% (10%)	Good progress in planned deal flow with several opportunities identified Skyepharma planned merger announced
Management succession plan targets	5%	Progress leadership and succession planning Assess strategic capabilities and agree development plan		100% (5%)	Structured review completed and significant progress made Capability development plan in long-term strategy review
Total	**80%**			**72%**	

The personal objectives set in respect of the 2015/16 bonus plan are set out below:

	Personal objectives	Key aspects of performance against individual objectives	Performance	Payout (as % of salary)
J Ward-Lilley	Strategy development	Assessed of core strategy and critical capabilities of the organisation, current portfolio, new opportunities, assets and markets completed and presented to the Board.	Achieved	20%
	Leadership team assessment	Assessed and made recommendations for Executive Leadership Team (ELT) to execute strategy.	Achieved	
	Effective progression of acquisitions, merger and partnering	Evaluated M&A and core targets and progressed Skyepharma opportunity.	Achieved	
	Operational delivery	Delivered targets for 2015/16, progressing the VR315 US and FAVOLIR® programmes and the transfer of Activaero operations.	Achieved	
A J Oakley	Strategy development	Contributed to business strategy development, including relevant business shape and business development financing and transactions.	Achieved	17%
		Contributed to, prepared for, and facilitated of, the proposed merger with Skyepharma PLC		
	Development of the Group's financial processes	Enhanced the effectiveness of finance processes, management information and reporting.	Achieved	
	Development of the Company Secretariat	Enhanced Company Secretarial materials and improved the Board processes through advanced planning and preparation.	Partially achieved	
	Development of the Group's financial organisation	Ensured effective team development, including an appropriate structure for the finance function.	Partially achieved	
T M Phillips	Strategy development	Contributed to the generation and execution of the Company strategy.	Achieved	20%
	Interim Chief Executive Officer role	Enabled business growth through support of the establishment of new business development leads and contribution to proposed Skyepharma merger.	Achieved	
	Operational delivery	Delivered projects to time and budget targets throughout FY 2015/16.	Achieved	
	Business operations team development	Developed of management team to ensure business operations are effectively managed and led.	Achieved	

The resulting annual bonus awards were as follows:

	Maximum opportunity % salary	Actual % of salary	Total awarded
J Ward-Lilley	100	92	£215,000
A Oakley	100	89	£251,000
T M Phillips	100	92	£282,000[1]

(1) Based upon salary earned in the year, which was inclusive of a £100,000 uplift in salary during the three-month period Trevor Phillips was acting as Interim Chief Executive Officer.

Consistent with our policy, bonuses are paid entirely in cash.

Additional requirements in respect of the single total figure table (audited information) continued

LTIP scheme

Scheme interests vested during the year

On 12 September 2012, an award of LTIP options was made to the Executive Directors who were in office at this time.

Vesting of these awards was calculated in the year by PwC as follows:

Measure	Performance target		Actual performance
TSR against FTSE SmallCap Index	The vesting outcome for each comparator group is calculated as follows:		Ventura's TSR exceeded that of the Upper Quartile of the FTSE SmallCap Index over the measurement period. Consequently, 100% of this element of the awards were eligible to vest.
	Level of comparative performance during the performance period	Percentage of LTIP award released	
	Below median	—	
TSR against Euro Stoxx comparator group	At or above median	25[1]	Ventura's TSR was 20% below the median of the peer group over the measurement period. Consequently, none of this element of the awards was eligible to vest.
	Upper quartile	100[1]	
	(1) Linear vesting between points.		

The value of LTIP options which have vested during the year is as follows:

Director	Number of options awarded	Share price at vesting p	Percentage of award vested	Exercise price p	Value of LTIP awards vesting £
C P Blackwell	401,889	178.6	50%	0.025	358,836
T M Phillips	410,659	178.6	50%	0.025	366,666
Total	**812,548**				**725,502**

In accordance with the rules of Ventura's LTIP scheme, the Committee determined that Chris Blackwell should be treated as a good leaver. His outstanding awards under the plan are subject to pro-rating based on the period to the end of his notice period on 30 June 2016.

Scheme interests awarded during the year (audited)

Long-Term Incentive Plan (LTIP)

At a general meeting of the Company held on 24 September 2015, the 2015 LTIP scheme, as described in the remuneration policy on pages 71 to 72, was approved by shareholders.

Following shareholder approval, the following awards of nominal cost options were granted to the Executive Directors under the new 2015 LTIP scheme:

Director	Number of options awarded	Value of award	Share price used to determine level of award p	Face value £	Exercise price p	% that vests at threshold	Vesting date[1]
J Ward-Lilley	630,252	250%	178.5	1,125,000	0.025	15	See below
T M Phillips	394,782	250%	178.5	704,686	0.025	15	See below
A J Oakley	394,782	250%	178.5	704,686	0.025	15	See below
Total	**1,419,816**			**2,534,372**			

(1) 40% of the award vests on 24 September 2018 and the remaining 60% of the award (40% for the standard five-year award and 20% for the "kicker") vests on 24 September 2020. Details of the relevant performance conditions are set out on page 81.

Long-Term Incentive Plan (LTIP) (audited)

Award levels were calculated based on the closing share price of 178.5p on the trading day immediately preceding the date of grant. The face value of each award shown overleaf is based upon this share price.

The awards granted under the 2015 LTIP scheme on 24 September 2015 are subject to relative TSR, measured over three tranches over three or five years, against two comparator groups (each representing 50% of the total award), as set out in the table below:

	Proportion of total award (two equal parts)	Performance period	Comparator group	Performance required for vesting
Tranche 1	20%	3 years	FTSE 250 companies (excluding real estate and financial services)	Median (15%) to upper quartile (100%)
	20%	3 years	Selected European pharmaceutical companies	
Tranche 2	20%	5 years	FTSE 250 companies (excluding real estate and financial services)	Median (15%) to upper decile (100%)
	20%	5 years	Selected European pharmaceutical companies	
Tranche 3	10%	5 years	FTSE 250 companies (excluding real estate and financial services)	Upper decile (100%)
	10%		Selected European pharmaceutical companies	

The Committee reviewed the constituents of the European pharmaceutical peer group at the time of grant and determined that two companies in the proposed group, BB Biotech and Tubize, were not appropriate comparators as they are investment companies rather than businesses actively involved in the sector. It therefore decided that these companies should be replaced by Circassia and Consort Medical, who are competitors and relevant to Vectura's own business, in the final comparator group used for the 2015 award. The full European pharmaceutical comparator group used for these awards is AB Science, Ablynx, Actelion, ALK-Abelló, Almirall, Basilea, Bavarian Nordic, Biotest, Boiron, BTG, Celyad, CHR Hansen, Circassia, Consort Medical, Cosmo, Dechra, Evotec, Faes Farma, Galapagos, Genfit, Genmab, Genus, Grifols, Guerbet, Hikma, Innate Pharma, Ipsen, KRKA, Lonza, Lundbeck, Meda, Medivir, Merck KGaA, Morphosys, Novozymes, Orion, Pharma Mar, Qiagen, Recordati, Richter Gedeon, ROVI, Shire, Siegfried, SOBI, Sopharma, Stada-Arzneimittel, Stallergenes, ThromboGenics, Transgene, UCB, Valneva, Vétoquinol, Virbac, Zealand Pharma.

Performance against the conditions will be measured by the Committee's independent advisors.

Irrespective of the extent to which the relative TSR conditions have been met, the Committee may decrease the percentage vesting based on a range of factors, including the Group's performance, absolute shareholder returns and progress against milestones. Any exercise of this discretion by the Committee will be fully disclosed to shareholders with an explanation of the Committee's reasoning in the Remuneration report for the relevant year.

To the extent that the performance conditions are not met in full at the end of the three-year or five-year performance periods, awards lapse.

The Committee has the power to claw back and or apply a malus mechanism in respect of all or part of the awards/payments for one year following vesting in the event of a material misstatement, error in the calculation of performance against the performance conditions of the plan or any other matter which it deems relevant to this provision.

Free share awards

An award of free shares was made to all employees on 14 July 2015, under Vectura's Share Incentive Plan (SIP). The awards are subject to a three-year holding period and no performance conditions are attached. The awards made to Directors who held office on 14 July 2015 are shown in the table below:

Director	Number of shares awarded	Closing share price on date of grant p	Face value £	% that vests at threshold	Vesting date
T M Phillips	2,020	178.2	3,600	—	14/07/2018
A J Oakley	505	178.2	900	—	14/07/2018
Total	**2,525**		**4,500**		

Additional requirements in respect of the single total figure table (audited information) continued

Scheme interests awarded during the year (audited) continued

Matching share awards

On 6 July 2015, the Directors listed below purchased shares through the SIP. For every one share purchased, Vectura awarded a free matching share pursuant to the scheme rules. The value of the matching shares is shown below. The awards are subject to a three-year holding period and no performance conditions are attached.

Director	Number of shares awarded	Closing share price on date of grant p	Face value £	% that vests at threshold	Vesting date
T M Phillips	1,000	180	1,800	—	06/07/2018
A J Oakley	1,000	180	1,800	—	06/07/2018
Total	**2,000**		**3,600**		

Sharesave

Vectura Group plc also operates a Sharesave (SAYE) Share Option Scheme for employees and Executive Directors. Under this scheme all eligible employees and Executive Directors are invited to subscribe for options, which may be granted at a discount of up to 20% of market value and which vest after three years. The SAYE is an HMRC-approved all-employee plan to which performance conditions do not apply.

On 28 February 2016, the following Sharesave options vested:

Director	Number of options awarded	Share price at vesting p	Percentage of award vested	Exercise price p	Value of SAYE award vesting £
T M Phillips	11,718	162.6	100	77.0	10,054
Total	**11,718**				**10,054**

Approved and Unapproved Share Option Plans

Executive Directors hold options under the Approved and Unapproved Share Option Plans as detailed above. Historically, no performance conditions have been attached to the options granted under the above schemes. The exercise price is equal to the market value of Vectura Group plc's shares at the time the options are granted.

Total pension entitlements

As stated in the notes to the single figure remuneration table, UK tax legislation imposes penalty taxes on annual pension contributions where prescribed maximum amounts are exceeded. Impacted Executive Directors receive an additional taxable supplementary cash payment in lieu of pension contributions in excess of any limits.

	Paid into pension fund £000	Received in cash £000	Total pension £000
Executive Directors			
C P Blackwell	80	27	107
J Ward-Lilley	—	47	47
A J Oakley	56	—	56
T M Phillips	61	—	61
	197	**74**	**271**

Buyout of James Ward-Lilley's entitlements at his previous employer

As previously explained to shareholders, on 24 September 2015, James Ward-Lilley received an award of shares to compensate him for the loss of a number of long-term incentive awards received from his previous employer AstraZeneca. In accordance with the Group's approved remuneration policy, when structuring these awards the Committee sought to ensure that the expected value of the replacement awards was no greater than the expected value being forfeited and to replicate, to the extent possible, the form of payment, timing and degree of conditionality of the awards foregone. In addition, the Committee understood the importance of recruiting James without delay alongside ensuring alignment with Vectura's shareholders and the existing members of the ELT.

The awards made were as follows:

An award of nil cost options over 571,988 ordinary shares granted on 24 September 2015 as compensation for a one-off award linked to the achievement of certain therapeutic milestones at AstraZeneca. As a significant proportion of these milestones had been achieved by the time of his departure, half of this award vested immediately subject to a twelve-month holding requirement post vesting and clawback. The remainder of the award vests on 24 September 2016 subject to continued employment (other than departure as a good leaver), the achievement of commercially sensitive strategic targets measured in the first twelve months of employment and clawback if the 2015 milestone trigger/performance condition in the AstraZeneca arrangements were not achieved;

An award of nil-cost options over 285,994 ordinary shares which will vest on 7 June 2016. This was granted as compensation for an award granted in 2013 under the AstraZeneca LTIP which was due to vest in June 2016. Vesting of this award is subject to the TSR performance criteria of Vectura's 2013 LTIP award; and

An award of nil-cost options over 273,635 ordinary shares which will, subject to performance, vest on 1 July 2017. This award was granted as compensation for an award granted in 2014 under the AstraZeneca LTIP which was due to vest in March 2017. Vesting of this award is subject to the TSR performance criteria of Vectura's 2014 LTIP award.

James Ward-Lilley also forfeited an AstraZeneca award granted in 2015 which was due to vest in 2018; this was not bought out, as on appointment he received an award under Vectura's 2015 LTIP at the same time as other Vectura Executive Directors. He also received a cash payment of £164,784 in respect of his anticipated bonus payment of £226,114. This award was pro-rated to reflect the proportion of the AstraZeneca bonus year worked.

These awards were made under the terms of a share award agreement in connection with James' recruitment as Chief Executive Officer of Vectura. They were made to facilitate recruitment and to compensate for loss of certain benefits and share awards from James' previous employment, which were forfeited as a result of his employment by Vectura. The Remuneration Committee believes that these awards fairly reflect the awards James forfeited on leaving his previous employment in terms of value and timing of vesting. These one-off awards of nil-cost options were granted under the exemption to the requirement for prior shareholder approval to which Listing Rule 9.4.2(2) applies.

No consideration was paid for the grant of these awards and no consideration is due on the vesting of these awards. The awards made are in accordance with Vectura's approved remuneration policy and are subject to clawback in certain circumstances. The awards will be satisfied with the transfer of existing shares.

The share price on the date of grant of these awards was 174.9p. The targets that apply to the award that is due to vest on 24 September 2016, are commercially sensitive and will be disclosed in next year's report.

A summary of the share awards is provided in the table below:

Awards granted under LR 9.4.2(2)	Number of options awarded	Share price on date of award p	Face value £	Exercise price p	% that vests at threshold	Vesting date
Buyout of 50% of AstraZeneca milestone award	285,994	174.9	500,203	nil	n/a	24/09/2015
Buyout of 50% of AstraZeneca milestone award	285,994	174.9	500,203	nil	—	24/09/2016
Buyout of 2013 AstraZeneca LTIP award	285,994	174.9	500,203	nil	25%	07/06/2016
Buyout of 2014 AstraZeneca LTIP Award	273,635	174.9	478,588	nil	25%	01/07/2017
Total	**1,131,617**		**1,979,197**			

Payments made for loss of office and payments to past Directors (audited information)

As described in last year's Annual Remuneration report, Chris Blackwell continued in his role as Chief Executive until 30 June 2015. In April 2015, Vectura entered into an agreement with Chris Blackwell pursuant to which he received a payment in lieu of salary for his twelve-month notice period and a payment of £96,000 as full settlement of his legal rights against the Company. Vectura continues to provide Chris with contractual benefits and pension contributions for the duration of his notice period. He did not receive a bonus for the period worked in FY 2015/16.

In light of Chris Blackwell's strong performance and contribution to the growth of the business over his twelve years as Chief Executive, and in accordance with the Company's approved remuneration policy and the rules of Vectura's LTIP scheme, Chris was treated as a good leaver. His outstanding awards under the plan will be subject to pro-rating for time, based on the period elapsed from the date of grant to the end of his notice period on 30 June 2016. These awards will vest at the normal date, subject to achievement of the relevant performance conditions.

The Committee believes these arrangements are appropriate in light of Chris' performance in his role to the time of his departure and his tenure as Chief Executive.

Additional requirements in respect of the single total figure table (audited information) continued

Statement of Directors' shareholding and share interests (audited information)

As a direct link between Executive remuneration and the interests of shareholders, the Committee has implemented shareholding guidelines for Executive Directors and key senior employees. The guidelines require that Executive Directors build up and maintain an interest in the ordinary shares of the Company that is 200% of their annual base salary. In assessing compliance with this requirement, the value of the shareholding shown below is assessed using the share price on 31 March 2016, being 162.6p. The value as a percentage of salary has been calculated using the base salary as at 31 March 2016, as shown in the single figure remuneration table.

	Shares owned		LTIP awards subject to performance conditions*				
			Unvested				Vested[9]
	31 March 2016 ordinary shares of 0.025p each	Value of owned shares as a % of salary	2013 award[7]	2014 award[7]	2015 award[8]	Awards granted under LR 9.4.2(2)	Awards granted under LR 9.4.2(2) and LTIP schemes
Executive Directors							
C P Blackwell[1]	1,325,143	503	458,110	300,751	—	—	2,551,722
T M Phillips[2]	221,765	128	611,246	206,766	394,782	—	205,330
J Ward-Lilley[3]	—	—	—	—	630,252	845,623	285,994
A J Oakley[4]	2,505	—	—	—	394,782	—	—
Non-Executive Directors							
B F J Angelici	12,903	—	—	—	—	—	—
J R Brown[5]	322,570	—	—	—	—	—	—
S E Foden	11,000	—	—	—	—	—	—
P-O Andersson[6]	—	—	—	—	—	—	—
N W Warner	30,477	—	—	—	—	—	—

(1) The shareholding shown for C P Blackwell is his shareholding as at the date he ceased to be a Director of Vectura Group plc, 30 June 2015. The percentage of his salary held in shares is calculated using the share price as at 31 March 2016 and his annual salary at the point of his departure, £428,000. Options shown are Chris' option holdings on 30 June 2015, before the application of pro-rating and performance conditions.

(2) The holding of T M Phillips includes 25,198 ordinary shares of 0.025p each, which are held in the Vectura Group plc Employee Benefit Trust (SIP).

(3) J Ward-Lilley joined the Board on 24 September 2015. On joining he received an award under Listing Rule 9.4.2(2) as compensation for various forfeited LTIP awards at AstraZeneca. Details of the terms of these awards are provided on page 83.

(4) The holding of A J Oakley includes 2,505 ordinary shares of 0.025p each, which are held in the Vectura Group plc Employee Benefit Trust (SIP).

(5) The holding of J R Brown includes 20,457 ordinary shares of 0.025p each, which are held through nominees.

(6) P-O Andersson joined the Board on 1 April 2015.

(7) The 2013 and 2014 awards are subject to the same performance conditions measured over three years from the date of grant of each award. Vesting of 50% of the awards is dependent on relative TSR performance against the FTSE Small Cap and 50% against the following peer group selected from the constituents of the Euro Stoxx Index: Ablynx, Active Biotech, ALK-Abelló, BB Biotech, BTG, Faes Farma, Galapagos, Genmab, Hikma, Ipsen, Medivir, Pharma Mar, Recordati, Stada-Arzneimittel AG, Swedish Orphan Biovitrum, ThromboGenics NV, Tubize, Virbac. No vesting occurs if Vectura's TSR is below median, 25% of each element vests at median, rising to full vesting at upper quartile. At the time of setting the peer group for the new 2015 LTIP award, the Committee identified that Algeta had delisted early in the performance period for the 2013 and 2014 awards and, in accordance with the rules, determined that Algeta should be replaced by Thrombogenics in the Euro Stoxx peer group. Thrombogenics was selected as it was the next closest member of the Euro Stoxx Index in terms of market capitalisation at the time the peer group was decided upon. Prior to making this substitution the Committee satisfied itself that this change would not increase the level of vesting based on performance up to the date of amendment.

(8) Awards consist of a three-year tranche, a five-year tranche and a five-year "kicker'. Vesting conditions and peer group are set out on page 81.

(9) Trevor Phillip's vested LTIP awards relate to outstanding awards granted between 2005 and 2010. James Ward-Lilley's vested LTIP award relates to half of the award granted under Listing Rule 9.4.2(2) as compensation for his one-off milestone based AstraZeneca award as described on page 83.

* Details of the performance conditions applicable to the unvested LTIP awards are set out on page 81.

Until this level of shareholding has been attained, Executive Directors are required to retain at least half of any share awards vesting as shares (after paying any tax due) until they have a holding equivalent to at least 200% of their base salary.

The Directors who have held office during the year ended 31 March 2016 and their interests (in respect of which transactions are notifiable to the Company under the Financial Conduct Authority's Transparency Rules) in the share capital of Vectura Group plc at 31 March 2016 are shown in the table below.

There was no change in the Directors' interests between 31 March 2016 and 25 May 2016, the date of this report.

	Share option awards not subject to performance conditions					
	Unvested			Vested		
	Unapproved scheme	Approved scheme	Sharesave	Unapproved scheme	Approved scheme	Sharesave
	—	—	—	906,605	37,383	—
	—	—	—	—	—	11,718
	—	—	—	—	—	—
	—	—	15,734	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—

Unaudited information

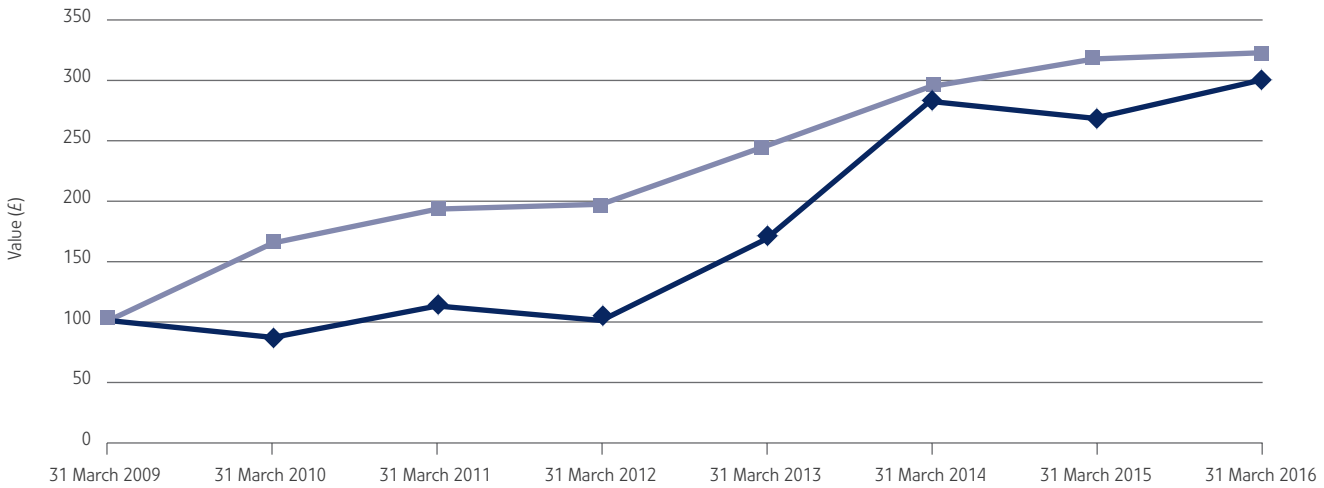
Performance graph and table

The following graph shows Vectura Group plc's cumulative total shareholder return (TSR) over the last seven financial years relative to the FTSE 250 Index. This Index was chosen as Vectura is one of the constituent companies and the Committee feels that it is the most appropriate against which to measure performance.

TSR is defined as the return on investment obtained from holding a company's shares over a period. It includes dividends paid, the change in the capital value of the shares and any other payments made to or by shareholders within the period.

Total shareholder return

Source: Thomson Reuters



This graph shows the value, by 31 March 2016, of £100 invested in Vectura Group plc on 31 March 2009, compared with the value of £100 invested in the FTSE 250 Index. The other points plotted are the values at intervening financial year ends.

◆ Vectura Group plc ■ FTSE 250

Unaudited information continued

Aligning pay with performance

Chief Executive Officer remuneration compared with annual growth in TSR:

	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	Chris Blackwell 2015/16 £000	James Ward-Lilley 2015/16 £000
Chief Executive Officer total remuneration	711	669	971	594	748	1,951	**1,110**	**1,178**
Actual bonus as a % of the maximum	47	62	53	59	100	80	**—**	**92**
Actual share award vesting as a % of the maximum[1] [2]	83.3	62.9	100	—	—	100	**50**	**100**

(1) No LTIP awards vested during FY 2012/13 or FY 2013/14.

(2) Upon appointment, James Ward-Lilley received nil-cost options, certain of which vested immediately. Refer to page 83 for further details.

Percentage change in remuneration of the Chief Executive Officer

Set out below is the change over the prior period in base salary, benefits, pension and annual performance bonus of the Chief Executive Officer and the Group's employees:

Chris Blackwell

	2015/16 £000	Chief Executive Officer Percentage change (FY 2014/15 v FY 2015/16)	All employees Percentage change (FY 2014/15 v FY 2015/16)
Salary	**428**	7	3.7
Benefits	**2**	—	—
Bonus	**—**	(100)	5

Relative importance of Executive Director remuneration

Total revenue, research and development expenditure and loss before tax have been selected as comparators for the employee costs as these three financial measures are strong indicators of the activity within the Group and of its performance.

	FY 2014/15 £m	FY 2015/16 £m	Change £m
Total employee remuneration	18.3	**22.9**	4.6
Revenue	58.0	**72.0**	14.0
Research and development expenditure	(36.1)	**(42.1)**	(6.0)
(Loss)/profit before tax	(6.2)	**(1.9)**	4.3
Distributions to shareholders	—	**—**	—

Statement of shareholder voting at 2015 AGM and GM

At last year's AGM and GM, held on 24 September 2015, votes cast by proxy and at the meeting in respect of the Directors' remuneration were as follows:

	For (including discretionary votes)	Against	Total votes cast (excluding votes withheld)	Votes withheld[1]	Total votes cast (including votes withheld)
To approve the Remuneration report	196,352,212	114,686,619	311,038,831	11,682,386	322,721,217
% of votes cast	63.13	36.87			
To approve the Directors' Remuneration policy	313,344,761	10,569,776	323,914,537	15,513	323,930,050
% of votes cast	96.74	3.26			
To approve the 2015 LTIP	307,865,652	16,053,141	323,918,793	11,257	323,930,050
% of votes cast	95.04	4.96			

(1) A vote that is withheld does not constitute a vote in law and has not therefore been included in the totals above.

As noted in the Committee Chairman's letter to shareholders, a number of investors did not feel able to support the vote on our Annual report on remuneration because they were concerned at the timing of the second part of a phased increase in Chris Blackwell's salary during his final year at the Company. As a result of this feedback from our investors we have consulted with our major shareholders, together with the Investment Association and ISS, to provide further details of the Committee's thinking and to offer the chance to discuss any remaining concerns, and we have taken on board the feedback received for future reference.

In the forthcoming year, the Committee will continue to engage with major shareholders and their representative bodies regarding the development and implementation of Vectura's remuneration policy.

Statement of implementation of remuneration policy in the following financial year

Base salaries

	Salary from 1 April 2016 or date of appointment	Increase
J Ward-Lilley	£461,250	2.5%
A J Oakley	£281,875	—
T M Phillips	£288,921	2.5%
A Derodra	£341,000	—

The Committee determined that a 2.5% increase was appropriate for the roles of Chief Executive Officer and Chief Operations Officer. This increase is below the overall increase of 3.5% across the wider workforce. Andrew Oakley's salary has not been increased.

Non-Executive Directors' fees

Non-Executive and Chairman fees have been reviewed in light of the merger with Skyepharma and, subject to completion of the merger, it is intended that the following changes will be effective from 1 July 2016:

	Fee	Increase
Chairman	£150,000	15.4%
Vice Chairman	£75,000	n/a
Committee Chairs/SID[1]	£58,000	10.6%
Other NEDs	£50,000	13.6%

(1) In the event that an individual holds a Committee Chairmanship and holds the position of Senior Independent Director they will receive an additional fee of £2,000 bringing the total maximum fee level to £60,000.

Contingent upon the completion of the merger, Frank Condella, who is currently the chairman of Skyepharma, will join the Vectura Board as Vice Chairman. Frank Condella will receive fees of £75,000 in respect of this role. Dr Thomas Werner will join the Vectura Board as a Non-Executive Director.

In addition, where a Non-Executive Director is required undertake transatlantic travel to attend a Board meeting an allowance of £2,000 is provided.

Bonus

The performance targets set for the performance bonus for future years will be disclosed in Vectura's 2016/17 Report and Accounts in accordance with the policy set out on pages 69 to 74 of this report.

Performance measures for continuing Executive Directors will include targets relating to creating strategic growth opportunities, securing existing pipeline value and achieving financial growth.

Proposed change of reporting date

Upon completion of the proposed merger with Skyepharma PLC, it is intended that the Enlarged Group will operate to a December year-end and therefore annual bonus elements, will be effective and measured over the nine-month period ended 31 December 2016 and bonuses will be payable in March 2017.

Executive Director bonuses will be calculated on actual base salary earned during the nine-month period ended 31 December 2016.

LTIP

As in 2015, LTIP awards will be structured as follows:

- a three-year element representing 40% of the total award that vests after three years subject to performance measured over three financial years, with an additional one-year holding period applying to post-tax vested shares from the date of vesting;
- a five-year element representing 40% of the total award that vests after five years subject to service and performance measured over five financial years;
- an additional 'kicker' of up to 20% of the total award may vest for performance at or above the upper decile after five years;
- the performance conditions (applying to both the three and five-year awards) will be as follows:
  - 50% relative TSR vs FTSE 250 Index excluding financial services and real estate sector companies; and
  - 50% relative TSR vs bespoke group of European pharmaceutical companies; and
- recovery and withholding conditions also apply.

Details of the relevant peer group for assessing performance are set out on page 81.

Unaudited information continued

Termination arrangements for Andrew Oakley

Andrew Oakley will step down from the role of Chief Financial Officer upon completion of the proposed merger with Skyepharma PLC. He will receive normal pay and benefits up to this date, and his 2015/16 bonus will be paid as normal in June. He will receive a payment in lieu of notice comprising his salary for his twelve-month notice period and a sum representing the value of his pension contributions and benefits.

As a good leaver he will also be entitled to be paid a pro-rata bonus payment for the period worked in the financial year 2016/17. This will be based on personal objectives linked to the completion and closing of the 2015/16 results, establishing targets and budgets for 2016/17 and the completion of the merger. This bonus will be paid at the same time as the first tranche of his termination payments.

He will also be treated as a good leaver under the LTIP. In light of the considerable delay in granting him his first LTIP award in late September 2015, which was due to the transition between Chief Executive Officers and the timing of the introduction of the new LTIP, his value and committed contribution to the development of strategy, and his importance to the completion of the proposed merger with Skyepharma, the Committee has determined that this award will be pro-rated based on the period between his joining the company on 1 January 2015 and his departure. The award will vest at the normal time subject to achievement of the performance conditions.

The company will contribute toward legal fees and provide an amount to assist with his outplacement costs.

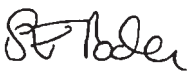
Full details will be disclosed at the time of Andrew's departure.

Remuneration for Andrew Derodra

Andrew Derodra will take on the role of Chief Financial Officer upon completion of the proposed merger with Skyepharma PLC. He will receive a base salary of £341,000 per annum and he will participate in the Company's private medical, dental, health insurance and life assurance schemes in place from time to time. He will also receive coverage under the Group's Directors and Officers insurance policy. The Company will provide pension contributions of 20% of salary and he will be eligible for holiday entitlement of 30 days plus bank holidays.

His bonus opportunity will be up to 100% of base salary (pro-rata in the first year of appointment) and he will be eligible for awards under the 2015 LTIP plan, with his first award granted as soon as is practicable post joining and on similar terms to the 2016 awards granted to other Executive Directors. Participation in the bonus scheme and the 2015 LTIP will be subject to the rules of the schemes and the Company's remuneration policy in place from time to time.

On behalf of the Board



Dr Susan Foden
Chair of the Remuneration Committee
25 May 2016

The following matters are reported by the Directors in accordance with the Companies Act 2006 ("the Act") in force at the date of this Annual Report and consolidated financial statements.

Principal activity

The principal activity of the Group undertaken during the year was research, development and commercialisation of novel therapeutic products and drug delivery systems for human use.

Review of business

The consolidated income statement for the year ended 31 March 2016 is set out on page 97. Key events during the past year are described in the Strategic report; highlights of FY 15/16 are shown on pages 1 to 3 and are referred to in more detail in the Chairman's statement, the Chief Executive's statement and the Financial review.

The Company is required to report annually the Group's greenhouse gas emissions; Director and employee gender, social, community and human rights disclosures. Details of the Group's policies in relation to these matters are set out within the Corporate responsibility section of the Strategic report on pages 47 to 50.

The Group's risk management process and the Board's assessment of the key risks and uncertainties facing the business, including the Viability statement, are set out on pages 20 to 29. During the year, the Board has reviewed the risk management policies in place, as summarised in the Corporate governance statement on pages 55 to 60. Key performance indicators are set out on pages 18 and 19.

The above-referenced disclosures, together with the Chairman's introduction, the Corporate governance statement, the Audit Committee report, the Nomination Committee report and the Remuneration Committee report, are incorporated into this report by reference and should be read as part of this report.

Group's result and dividend

The consolidated profit after tax for the year was £5.0m (2014/15: £3.7m). The Directors do not recommend the payment of a dividend (2014/15: £nil).

Financial instruments

The policy and practice of the Group with regard to financial instruments is disclosed in note 22 to the financial statements.

Directors

The Directors listed on pages 52 to 53 served throughout the year, with the exception of James Ward-Lilley.

James Ward-Lilley was appointed as Chief Executive Officer on 24 September 2015. Chris Blackwell served as a Director from 1 April 2015 to 30 June 2015.

Brief biographical details of each Director are set out on pages 52 and 53.

Details of Directors' remuneration and their interests in the share capital of the Company are given in the Remuneration report. None of the Directors has any interest in any contract of significance to the financial statements.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association ("the Articles"), the Code, the Act and related legislation.

The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Board's terms of reference, copies of which are available on request, and the Corporate Governance report on pages 55 to 60.

Directors' indemnities

The Company has granted an indemnity to its Directors against liability in respect of proceedings brought by third parties, which remains in force as at the date of approving the Directors' report.

Other than the indemnity provisions described above, none of the Directors had a material interest in any contract of significance to which the Company or any of its subsidiary undertakings was a party during the year ended 31 March 2016 and up to the date of the publication of this report.

Shares

Share capital

At 13 May 2016, the nearest practical date to the date of this report, the Company had a total of 3,240 ordinary shareholders and 410,618,150 ordinary shares in issue.

Rights and obligations

The rights and obligations attaching to the ordinary shares are set out in the Company's Articles. The Articles may only be amended by special resolution of the members of the Company. A copy of the Articles is available upon request.

Share price

The mid-market share price as shown by the London Stock Exchange Daily Official List on 31 March 2016 was 162.60p. The mid-market share price ranged from 143.25p to 200.10p during the year to 31 March 2016. The average share price for the period was 169.74p.

Capital structure

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 23.

The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The Company's ordinary shares are listed on the London Stock Exchange. The redeemable preference shares carry no interest, nor do they carry voting rights. The percentage of issued nominal value of the ordinary shares is 75.1% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles and prevailing legislation. The Directors are not aware of any restrictions on the transfer of ordinary shares other than certain restrictions imposed by laws and regulations, e.g. insider trading and pursuant to the Listing Rules of the Financial Conduct Authority whereby prior clearance is required from the Company in order for certain employees to deal in the Company's securities.

The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 23. Shares held by the Vectura Group plc Employee Benefit Trust abstain from voting.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Substantial shareholdings

On 13 May 2016, the Directors were notified of the following substantial holdings in the Company's share capital:

	Number of shares	
	'000	%
Invesco Asset Management Limited	66,019	16.1
Legal & General Investment Management Limited	27,257	6.6
OppenheimerFunds Inc.	25,980	6.3
Baillie Gifford & Co	24,640	6.0
AXA Investment Managers UK Limited	22,137	5.4
Neptune Investment Management Limited	17,763	4.3
Aviva Investors Global Services Limited	16,183	3.9
Templeton Investment Council LLC	14,001	3.4
Aberforth Partners LLP	13,857	3.4

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is provided. It is the policy of the Group that the training, career development and promotion of disabled employees should, as far as is possible, be identical to that of other employees.

Employee consultation

The Group places considerable value as the involvement of its employees and has continued to keep them informed on matters affecting them as employees. Refer to pages 48 and 49 for details of our employee communications.

Political and charitable donations

Vectura encourages employee involvement in charitable causes, but does not contribute itself because it continues to make an operating loss. There were no political donations during the year (2014/15: £nil).

Going concern

The accounts have been prepared on the going concern basis. Although certain economic conditions may place pressures on customers and suppliers who may face liquidity issues, the Group's product diversity and customer and supplier base substantially mitigate these risks. In addition, the Group operates in the relatively defensive pharmaceutical industry, which we expect to be less affected compared to other industries.

The Group made a profit after tax of £5.0m for the financial year ended 31 March 2016 (2014/15: £3.7m) and had £99.8m of cash and cash equivalents as at 31 March 2016 (2015: £90.0m). The Board operates an investment policy under which the primary objective is to invest in low-risk cash or cash equivalent investments to safeguard the principal. The Group's forecasts, taking into account likely revenue streams, show that the Group has sufficient funds to operate for the foreseeable future.

After reviewing the Group's forecasts and assessing the uncertain nature of some of the Group's forecast revenues, the Directors believe that the Group is adequately placed to manage its business and financing risks successfully. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Further information regarding the Directors assessment of going-concern and viability are set out in the Strategic report on page 29.

Annual General Meeting

The Annual General Meeting (AGM) will be held at the offices of Covington & Burling LLP, 265 Strand, London WC2R 1BH on 7 September 2016 at 12.00 p.m. Details of the business to be transacted at the forthcoming AGM will be given in a separate circular to shareholders.

Auditor

Deloitte LLP has expressed a willingness to continue in office as auditor and a resolution to reappoint them will be put to the members at the forthcoming AGM.

The Directors that were members of the Board at the time of approving the Directors' report are listed on pages 52 and 53. Having made enquiries of fellow Directors and of the Company's auditor, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditor is unaware; and
- each Director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

By order of the Board

Andrew J Oakley
Company Secretary
25 May 2016

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the European Union. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- present fairly the financial position, financial performance and cash flows of an entity;
- make judgements and estimates that are reasonable and prudent;
- properly select and apply accounting policies and then apply them consistently;
- state whether the Group financial statements have been prepared in accordance with IFRSs as adopted by the European Union;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties which they face; and
- the Annual Report and financial statements, taken as whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Andrew J Oakley
Director
25 May 2016

FINANCIAL STATEMENTS

Opinion on the financial statements of Vectura Group plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the Group financial statements, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the Group has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within page 90 and the Directors' statement on the longer-term viability of the Group contained within the strategic report on page 29.

We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 22 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 22–29 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the Directors' explanation on page 90 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below, which are unchanged from the prior year, are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Goodwill and intangible asset impairment	
The carrying value of goodwill (31 March 2016: £57.4 million; 31 March 2015: £56.8 million) and intangible assets (31 March 2016: £92.2 million; 31 March 2015: £104.3 million) relies on assumptions and judgements made by management concerning the estimated future cash flows from a combination of early and late stage research & development programmes, future royalty receipts and regulatory milestones; associated discount rates; and clinical commercial risk and market growth rates. Management have performed an impairment review under IAS 36. See note 1 and 9 to the financial statements where the key assumptions used in their impairment model have been disclosed.	We assessed and challenged management's assumptions used in their impairment model for goodwill and intangible assets, including: • The cash flow projections by discussing with senior operational management and considering the consistency of the forecasts with clinical and licensing partner data and contractual agreements; • Discount rates by engaging our valuation specialists to independently recalculate the Group's WACC and then performing an assessment of the risk adjustments applied by management; and • Sensitivity analysis of management's forecasts including assessing the impact of applying further sensitivities.
Revenue recognition	
The Group's two principal revenue streams are licence milestones and royalty income: • Recognition of revenue on product and technology licence milestones (31 March 2016: £24.4 million; 31 March 2015: £26.4 million) can be subjective and management exercises judgement in determining whether the Group has fulfilled all of its performance obligations, such as a regulatory approval or transfer of intellectual property, under that contract and therefore the relevant period over which to recognise revenue. This is a material judgement that impacts the financial statements; and • Royalty income (31 March 2016: £39.2 million; 31 March 2015: £25.2 million) is recognised over the course of the year based on information provided to Vectura by its partners, upon which it relies. As Vectura does not have direct visibility over the level of product sales being made (upon which royalties are earned) there is a material risk surrounding the completeness of this revenue stream. See notes 1 and 2 to the financial statements where the key assumptions in relation to revenue recognition have been disclosed.	We reviewed the key contracts for the Group and management's calculations for each milestone to assess consistency with the Group's accounting policies and compliance with IAS 18 'Revenue'. We challenged management's assumptions through discussions with the development team and review of supporting documentation such as licence agreements and regulatory announcements to assess whether the period of recognition for each milestone was appropriate. Our audit work focused on the completeness of royalty income and involved: determining completeness of royalty statements; reviewing press releases and third party publications about the related royalty streams; evaluating the design & implementation of controls employed by management to challenge sales amounts reported and used to calculate royalties by their partners; and analysing royalties received year-on-year and investigating unusual variances.

Last year our report included one other risk which is not included in our report this year being acquisition accounting as there have been no significant acquisitions during the year.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 62.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £2 million (2015: £2 million), which is approximately 1% of equity (2015: 1%), 5% of research and development costs and 3% of revenue. Due to the company achieving profits in the prior year we have considered several different bases to determine materiality in the current year. We have further included a consideration of research and development cost and revenue as these measures represent key aspects of the business which are becoming stable. Loss before tax fluctuates year on year as the Group progresses its R&D programmes; the chosen measures also reflect the Group's focus on cash generation and cash management.

We agreed with the Audit Committee that we would report to the Committee all misstatements identified in excess of £100,000 (2015: £40,000), as well as misstatements below that threshold that, in our view, warranted reporting on qualitative grounds. In the current year we have re-evaluated our consideration of what is clearly inconsequential in our reporting to the Audit Committee. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Based on that assessment, we focused our Group audit scope on the UK businesses which are managed from Chippenham, UK. These were subject to a full scope audit by the Group audit team using component materialities which were lower than Group materiality. Component materialities range from £1 million to £1.9 million. The UK businesses account for 100% (2015: 100%) of the components with net assets, 95% (2015: 95%) of the Group's revenue and 100% of the components with a profit before tax (2015: 100% of Group's loss before tax).

In addition, audit procedures were performed by the Group audit team in respect of the German business using a component materiality which is lower than Group materiality. Including goodwill and intangible assets this business accounts for 99% of the components with net liabilities (2015: 99%), 5% (2015: 5%) of the Group's revenues and 96% of the components with a loss before tax (2015: 96% of Group's loss before tax).

At the parent entity level we also tested the consolidation process and performed analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Matters on which we are required to report by exception continued

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

David Hedditch

David Hedditch (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Bristol, United Kingdom
25 May 2016

Consolidated income statement

for the year ended 31 March 2016

	Note	2016 £m	2015 £m
Revenue	2	**72.0**	58.0
Cost of sales		**(3.3)**	(2.4)
Gross profit		**68.7**	55.6
Research and development expenses		**(42.1)**	(36.1)
Other administrative expenses		**(4.8)**	(4.5)
Non-recurring transaction costs	31	**(5.6)**	—
Amortisation of intangible assets	10	**(18.8)**	(20.9)
Share-based compensation	24	**(2.5)**	(1.1)
Total administrative expenses		**(31.7)**	(26.5)
Operating loss	5	**(5.1)**	(7.0)
Presented as:			
EBITDA[1]		**23.2**	16.2
Non-recurring transaction costs	31	**(5.6)**	—
Amortisation of intangible assets	10	**(18.8)**	(20.9)
Depreciation of assets	11	**(1.4)**	(1.2)
Share-based compensation	24	**(2.5)**	(1.1)
Operating loss		**(5.1)**	(7.0)
Investment income	4	**2.7**	0.5
Finance gains/(costs)	4	**1.1**	1.7
Share of result of joint venture	14	**(0.6)**	(1.4)
Loss before taxation		**(1.9)**	(6.2)
Taxation	7	**6.9**	9.9
Profit after taxation attributable to equity holders of the Company		**5.0**	3.7
Earnings per ordinary share: basic	8	**1.2p**	0.9p
Earnings per ordinary share: diluted	8	**1.2p**	0.9p
Adjusted earnings (EBITDA)[1] per ordinary share: basic	8	**5.7p**	4.0p
Adjusted earnings (EBITDA)[1] per ordinary share: diluted	8	**5.6p**	3.9p

(1) Earnings before investment income, finance gains/(costs), tax, depreciation, amortisation, share-based compensation and adjusted for non-recurring items.

All results are derived from continuing activities.

Consolidated statement of comprehensive income

for the year ended 31 March 2016

	Note	2016 £m	2015 £m
Profit after taxation attributable to equity holders of the Company		**5.0**	3.7
Other comprehensive income/(loss):			
Items that may be subsequently reclassified through the income statement			
Foreign currency translation gains/(losses) from foreign operations	23f	**5.4**	(11.4)
Other comprehensive income/(expense)		**5.4**	(11.4)
Total comprehensive income/(loss) attributable to equity holders of the Company		**10.4**	(7.7)

Balance sheet

at 31 March 2016

	Note	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Assets					
Goodwill	9	**57.4**	56.8	**2.0**	2.0
Intangible assets	10	**92.2**	104.3	**—**	—
Property, plant and equipment	11	**11.6**	11.5	**—**	—
Investments in subsidiary undertakings	13	**—**	—	**234.3**	234.3
Investment in joint venture	14	**1.2**	1.7	**—**	—
Other receivables	15	**0.4**	0.4	**—**	—
Non-current assets		**162.8**	174.7	**236.3**	236.3
Inventories	16	**0.7**	0.9	**—**	—
Trade and other receivables	17	**22.2**	27.9	**—**	—
Amounts due from subsidiary undertakings	18	**—**	—	**47.2**	89.2
Cash and cash equivalents	22	**99.8**	90.0	**20.0**	—
		122.7	118.8	**67.2**	89.2
Non-current assets held for sale	12	**0.3**	—	**—**	—
Current assets		**123.0**	118.8	**67.2**	89.2
Total assets		**285.8**	293.5	**303.5**	325.5
Liabilities					
Trade and other payables	19	**(26.4)**	(20.6)	**(3.4)**	—
Deferred income	20	**(0.8)**	(0.2)	**—**	—
Deferred consideration	30	**—**	(25.6)	**—**	(25.6)
Current liabilities		**(27.2)**	(46.4)	**(3.4)**	(25.6)
Deferred income	20	**(1.0)**	(1.5)	**—**	—
Deferred tax liabilities	21	**(20.4)**	(23.7)	**—**	—
Non-current liabilities		**(21.4)**	(25.2)	**—**	—
Total liabilities		**(48.6)**	(71.6)	**(3.4)**	(25.6)
Net assets		**237.2**	221.9	**300.1**	299.9
Equity					
Share capital	23a	**0.1**	0.1	**0.1**	0.1
Share premium	23b	**101.6**	99.2	**101.6**	99.2
Special reserve	23c	**8.2**	8.2	**8.2**	8.2
Other reserve	23d	**124.9**	124.9	**123.7**	123.7
Share-based compensation reserve	23e	**17.4**	14.9	**17.4**	14.9
Translation reserve	23f	**(7.6)**	(13.0)	**—**	—
Retained (loss)/profit		**(7.4)**	(12.4)	**49.1**	53.8
Total equity		**237.2**	221.9	**300.1**	299.9

The financial statements of Vectura Group plc, registered number 03418970, were approved and authorised for issue by the Board of Directors on 25 May 2016 and were signed on its behalf by:

J Ward-Lilley
Director

A J Oakley
Director

Cash flow statement

for the year ended 31 March 2016

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Operating loss	**(5.1)**	(7.0)	**(5.6)**	(1.0)
Depreciation and amortisation	**20.2**	22.1	**—**	—
Share-based compensation	**2.5**	1.1	**—**	—
Non-recurring transaction costs paid	**2.1**	—	**—**	—
Decrease in inventories	**0.2**	0.1	**—**	—
Decrease/(increase) in trade and other receivables	**7.0**	(14.2)	**—**	—
Decrease/(increase) in inter-company receivables	**—**	—	**43.4**	(2.5)
Increase in payables	**4.0**	0.6	**3.4**	—
Increase/(decrease) in deferred income	**0.1**	(0.1)	**—**	—
Exchange movements	**1.6**	1.8	**1.0**	3.5
Net cash inflow from operations	**32.6**	4.4	**42.2**	—
Research and development tax credits received	**0.3**	3.6	**—**	—
Net cash inflow from operating activities	**32.9**	8.0	**42.2**	—
Cash flows from investing activities				
Interest received	**0.3**	0.4	**—**	—
Purchase of property, plant and equipment	**(1.5)**	(1.4)	**—**	—
Disposal of investments	**2.4**	—	**—**	—
Acquisition of Activaero GmbH [1]	**(24.6)**	(0.5)	**(24.6)**	—
Non-recurring transaction costs paid	**(2.1)**	—	**—**	—
Net cash outflow from investing activities	**(25.5)**	(1.5)	**(24.6)**	—
Net cash inflow before financing activities	**7.4**	6.5	**17.6**	—
Cash flows from financing activities				
Proceeds from issue of ordinary shares	**2.4**	1.8	**2.4**	—
Net cash inflow from financing activities	**2.4**	1.8	**2.4**	—
Increase in cash and cash equivalents	**9.8**	8.3	**20.0**	—
Cash and cash equivalents at beginning of year	**90.0**	81.7	**—**	—
Cash and cash equivalents at end of year	**99.8**	90.0	**20.0**	—

(1) The final element of the consideration for the acquisition of Activaero GmbH, being the non-contingent deferred consideration was paid in August 2015. No further payments are due to be made in respect of this acquisition.

Statement of changes in equity

for the year ended 31 March 2016

Group	Share capital £m	Share premium £m	Special reserve £m	Other reserve £m	Share-based compensation £m	Translation reserve £m	Retained loss £m	Total equity £m
At 1 April 2014	0.1	97.4	8.2	124.9	13.8	(1.6)	(16.1)	226.7
Profit for the year	—	—	—	—	—	—	3.7	3.7
Other comprehensive loss	—	—	—	—	—	(11.4)	—	(11.4)
Total comprehensive loss	—	—	—	—	—	(11.4)	3.7	(7.7)
Share-based compensation	—	—	—	—	1.1	—	—	1.1
Exercise of share options	—	1.8	—	—	—	—	—	1.8
At 31 March 2015	0.1	99.2	8.2	124.9	14.9	(13.0)	(12.4)	221.9
Profit for the year	—	—	—	—	—	—	5.0	**5.0**
Other comprehensive income	—	—	—	—	—	5.4	—	**5.4**
Total comprehensive income	—	—	—	—	—	5.4	5.0	**10.4**
Share-based compensation	—	—	—	—	2.5	—	—	**2.5**
Exercise of share options	—	2.4	—	—	—	—	—	**2.4**
At 31 March 2016	**0.1**	**101.6**	**8.2**	**124.9**	**17.4**	**(7.6)**	**(7.4)**	**237.2**

Company	Share capital £m	Share premium £m	Special reserve £m	Other reserve £m	Share-based compensation £m	Translation reserve £m	Retained profit £m	Total equity £m
At 1 April 2014	0.1	97.4	8.2	123.7	13.8	—	50.6	293.8
Profit for the year and total comprehensive income	—	—	—	—	—	—	3.2	3.2
Share-based compensation	—	—	—	—	1.1	—	—	1.1
Exercise of share options	—	1.8	—	—	—	—	—	1.8
At 31 March 2015	0.1	99.2	8.2	123.7	14.9	—	53.8	299.9
Loss for the year and total comprehensive expense	—	—	—	—	—	—	(4.7)	**(4.7)**
Share-based compensation	—	—	—	—	2.5	—	—	**2.5**
Exercise of share options	—	2.4	—	—	—	—	—	**2.4**
At 31 March 2016	**0.1**	**101.6**	**8.2**	**123.7**	**17.4**	**—**	**49.1**	**300.1**

1. Significant accounting policies

General information

Vectura Group plc is a public limited company incorporated in the United Kingdom under the Companies Act. The address of the registered office and principal place of business is given on the final page of this Annual Report. The nature of the Group's operations and its principal activities are set out in the Strategic report on pages 6 to 50.

The Company's ordinary shares are traded on the London Stock Exchange (LSE) under the ticker VEC.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out below.

Adoption of new and revised Standards

The following amendments to International Financial Reporting Standards ("IFRSs") and a new interpretation issued by the International Accounting Standards Board ("IASB") have been applied by the Group in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements.

Annual improvements to IFRSs 2010 – 2012 Cycle and 2011–2013 Cycle

The Group has adopted the amendments to IFRSs included in the *Annual Improvements to IFRSs 2010–12 Cycle and 2011–13 Cycle* for the first time in the current year. The adoption of the amendments has had no impact on the disclosures or amounts recognised in the Group's consolidated financial statements.

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the European Union ("EU"):

- IFRS 9 *Financial Instruments*
- IFRS 10 and IAS 28 (amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- IFRS 10, IFRS 12 and IAS 28 (amendments) *Investment Entities: Applying the Consolidation Exception*
- IFRS 11 (amendments) *Accounting for Acquisitions of Interests in Joint Operations*
- IFRS 14 *Regulatory Deferral Accounts*
- IFRS 16 *Leases*
- IFRS 15 *Revenue from Contracts with Customers*
- IAS 1 (amendments) *Disclosure Initiative*
- IAS 12 (amendments) *Recognition of Deferred Tax Assets for Unrealised Losses*
- IAS 16 and IAS 38 (amendments) *Clarification of Acceptable Methods of Depreciation and Amortisation*
- IAS 27 (amendments) *Equity Method in Separate Financial Statements*
- Annual IFRS Improvements Process 2012–2014 cycle (Sep 14): Amendments to: IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations,* IFRS 7 *Financial Instruments: Disclosures,* IAS 19 *Employee Benefits* and IAS 34 *Interim Financial Reporting*

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as follows:

- IFRS 9 simplifies financial instrument classifications and hedge accounting rules as well as introducing impairment requirements for loans.
- IFRS 15 is effective for annual periods beginning on or after 1 January 2018 and replaces all existing revenue requirements in IFRS. The core principle is that revenue will be recognised at an amount reflecting the consideration to which the company expects to be entitled in exchange for transferring goods or services to a customer. It may have an impact on revenue recognition and related disclosures.
- IFRS 16 is effective for annual periods beginning on or after 1 January 2019 and it removes the current distinction between an operating and finance lease, introducing consistent requirements for all leases similar to the current finance lease accounting. The lease value for leased premises as well as other smaller trade related operating leases will be brought onto the balance sheet at the fair value of the future minimum lease payments.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 and IFRSs and related interpretations as adopted by the European Union and, therefore, the Group financial statements comply with Article 4 of the EU International Accounting Standard (IAS) Regulation. The Group and Company financial statements are also consistent with IFRSs as issued by the IASB.

The separate financial statements of the Company are presented as required by the Companies Act 2006 and have been prepared in accordance with IFRSs as adopted by the European Union. The Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and the related notes that form a part of these approved financial statements. The parent company loss for the year ended 31 March 2016 is £4.7m (2014/15: £3.2m profit).

1. Significant accounting policies continued

Basis of preparation continued

The financial statements have been prepared on the historical cost basis, revised for use of fair values where required by applicable IFRSs. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if a market participant would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value measurements and/or disclosures in these consolidated financial statements are determined on such basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

The principal accounting policies adopted are set out below.

Going concern

The accounts have been prepared on the going concern basis. Although certain economic conditions may place pressures on customers and suppliers who may face liquidity issues, the Group's product diversity and customer and supplier base substantially mitigate these risks. In addition, the Group operates in the relatively defensive pharmaceutical industry which we expect to be less affected compared to other industries.

The Group made a profit after tax of £5.0m for the financial year ended 31 March 2016 (2014/15: £3.7m) and had £99.8m of cash and cash equivalents as at 31 March 2016 (2015: £90.0m). The Board operates an investment policy under which the primary objective is to invest in low-risk cash or cash equivalent investments to safeguard the principal. The Group's forecasts, taking into account likely revenue streams, show that the Group has sufficient funds to operate for the foreseeable future.

After reviewing the Group's forecasts and assessing the uncertain nature of some of the Group's forecast revenues, the Directors believe that the Group is adequately placed to manage its business and financing risks successfully. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Basis of consolidation

The consolidated annual financial statements comprise the financial statements of Vectura Group plc and entities controlled by the Company (its subsidiaries) as at 31 March each year. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group had control.

The financial statements of subsidiaries are prepared for the same reporting year as the parent Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Revenue recognition

Revenue represents the amount receivable for goods and services provided and royalties earned, net of trade discounts, VAT and other sales-related taxes. Revenue is recognised as follows:

Royalty income

Royalty income is recognised on an accruals basis and represents income earned as a percentage of product sales in accordance with the substance of the relevant agreement, net of amounts payable to other licensees.

Technology and product licensing

Technology and product licensing income represents amounts earned for licences provided under licensing agreements, including up-front payments, milestone payments and technology access fees. Revenues are recognised where they are non-refundable; the Group's obligations related to the revenues have been discharged and their collection is reasonably assured. Refundable licensing revenue is treated as deferred until such time that the above criteria have been met. Milestone payments relating to scientific or technical achievements are recognised as income when the milestone is accomplished.

Development services

Development services revenues principally comprise contract product development and contract clinical trial manufacturing fees invoiced to third parties. Revenues are recognised upon the completion of agreed tasks or numbers of person days and in the period to which they relate.

Device sales

Device sales are recognised when goods are delivered to customers.

1. Significant accounting policies continued

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the consolidated income statement as they are incurred. In accordance with IFRS 3 – Business Combinations, the Group has a twelve-month period in which to finalise the fair values allocated to assets and liabilities determined provisionally on acquisition.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the date of acquisition that, if known, would have affected the amounts recognised as of that date.

Goodwill

Goodwill recognised under UK Generally Accepted Accounting Principles (GAAP) prior to 1 April 2004 is stated at net book value at that date. Goodwill arising on the acquisition of subsidiary or associate undertakings and businesses subsequent to 1 April 2004, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is capitalised.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the Consolidated Income Statement. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets

Intangible assets acquired separately from a business combination are carried initially at fair value. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably.

Development expenditure on internally developed intangible assets is taken to the Consolidated Income Statement in the year in which it is incurred except where expenditure relating to clearly defined and identifiable development projects meets the following criteria, in which case development expenditure will be recognised as an intangible asset: in accordance with IAS 38:

- the project's technical feasibility and commercial viability can be demonstrated;
- the availability of adequate technical and financial resources and an intention to complete the project have been confirmed;
- the correlation between development costs and future revenues has been established; and
- the economic benefit is expected to flow to the entity.

Following initial recognition, the historic cost model is applied, with intangible assets being carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with a finite life have no residual value and are amortised on a straight-line basis over their expected useful lives with charges included in administrative expenses as follows:

Patents, trademarks and licence agreements – between three and ten years.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

1. Significant accounting policies continued

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and provision for impairment. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost of each asset, less its estimated residual value, on a straight-line basis over its expected useful life, as follows:

Buildings – twenty years

Leasehold improvements to buildings – three to seven years

Laboratory equipment – three to seven years

Office and IT equipment – three years

Freehold land is not depreciated

The carrying values of property, plant and equipment are reviewed for impairment when events or circumstances indicate the carrying values may not be recoverable. Useful life and residual value are reviewed annually.

Assets are classified as "under the course of construction" until such a time as the asset is capable of being used in the manner intended.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant or equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale if the carrying amount will be recovered principally through sale rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the assets (or disposal groups) are available for immediate sale in its present condition and management is committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of the classification.

Immediately prior to being classified as held for sale the carrying amount of assets and liabilities are measured in accordance with the applicable standard. After classification as held for sale it is measured at the lower of the carrying amount and fair value less costs to sell. An impairment loss is recognised in profit or loss for any initial and subsequent write-down of the asset and disposal group to fair value less costs to sell. A gain for any subsequent increase in fair value less costs to sell is recognised in profit or loss to the extent that it is not in excess of the cumulative impairment loss previously recognised.

Non-current assets or disposal groups that are classified as held for sale are not depreciated.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments for the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the Consolidated Income Statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investments in subsidiaries

Investments in subsidiaries are eliminated upon consolidation. In the Company accounts investments are carried at historic cost, less provision for impairment.

1. Significant accounting policies continued

Investments in associates and joint ventures

The Group's interests in its associates, being those entities over which it has significant influence and which are neither subsidiaries nor joint ventures, are accounted for using the equity method of accounting. The Group's interests in its joint ventures are also accounted for using the equity method of accounting. Under the equity method, the investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the entity, less distributions received and less any impairment in value of individual investments. The Group's Consolidated Income Statement reflects the Group's share of any income and expense recognised by the associate or joint venture outside profit and loss. The Group does not recognise losses in excess of the value of its investments.

Inventories

Inventories comprise goods held for resale and are stated at the lower of cost and net realisable value. Costs include the direct costs and, where applicable, an attributable proportion of distribution overheads incurred in bringing inventories to their current location and condition. Cost is determined on a first-in, first-out basis. Net realisable value is based on estimated selling price, less any further costs expected to be incurred to completion and disposal.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are recognised when the Group becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or as available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year end. When financial assets are recognised, initially they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Trade and other receivables

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively as finance income or finance costs. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability or, where appropriate, a shorter period.

Financial liabilities

Financial liabilities are initially measured at fair value and, if material, are subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments throughout the expected life of the financial liability.

Leasing

Operating leases and the annual rentals are charged to the Consolidated Income Statement on a straight-line basis over the period of the lease in accordance with the terms of the lease agreements.

1. Significant accounting policies continued

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at the exchange rate prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using cash flows estimated to settle the present obligation, its carrying amount is the value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Taxation

Current tax assets and liabilities are measured as the amounts expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill, or from an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise, deferred tax is recognised in the Consolidated Income Statement.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Research and development tax credits are recognised on an accruals basis.

Post-retirement benefits

The Group contributes a set proportion of employees' gross salary to defined contribution personal pension plans. The amount charged to the Consolidated Income Statement in respect of pension costs is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown either as prepayments or as payables in the balance sheet.

Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

1. Significant accounting policies continued

Share-based payments

The Group operates a number of executive and employee share option schemes, including a Long-Term Incentive Plan (LTIP), under which shares may be granted to staff members. The level of grant to members of staff under the LTIP is dependent upon the total shareholder return of Vectura (a market condition) compared to a peer group of UK pharmaceutical and biotechnology companies. In accordance with IFRS 2, for all grants of share options and awards, the cost of equity-settled transactions is measured by reference to their fair value at the date at which they are granted. The Black-Scholes model is used to determine fair value for options and the Monte Carlo binomial model for LTIP awards.

The cost of equity-settled share transactions is recognised, together with a corresponding increase in equity, over the period until the award vests. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. At each reporting date, the cumulative expense recognised for equity-based transactions reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the Directors at that date, will ultimately vest. The Group has taken advantage of the exemptions afforded by IFRS 1 in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 and not vested at 1 January 2005.

Critical accounting judgements and key sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions, in accordance with IFRS, that affect the amounts of assets, liabilities, revenues and expenses reported in the financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual amounts and results could differ from those estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The critical accounting judgements and key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the determination of the fair value of acquired intangible assets, the measurement and review for impairment of definite and indefinite-life intangible assets (goodwill), revenue recognition and the treatment of research and development expenditure in line with the relevant accounting policy.

Estimation uncertainty – Intangible assets

The measurement of intangible assets other than goodwill on a business combination involves estimation of future cash flows and the selection of a suitable discount rate. In determining the fair value of acquired intangibles, the Group uses market-observable data to the extent that is available. To the extent that such inputs are not available, the Group works closely with external valuation experts to establish the appropriate valuation techniques and inputs to the model.

Estimation uncertainty – Impairment of goodwill

The Group determines on an annual basis whether goodwill is impaired and this requires the estimation of the value in use of the cash-generating units to which goodwill is allocated. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

Critical accounting judgements – Revenue recognition

The recognition of milestone revenue income requires an assessment of the Group's future obligations under a given contract, which determines the period over which the revenue is recognised.

Critical accounting judgements – Research and development costs

The treatment of research and development expenditure requires an assessment of the expenditure in order to determine whether or not it is appropriate to capitalise onto the balance sheet in accordance with IAS 38.

2. Revenue

Revenue represents amounts invoiced to third parties, derived from the provision of licences and services that fall within the Group's sole principal activity, the research, development and commercialisation of novel therapeutic products and drug delivery systems for human use.

Revenue by category	2016 £m	2015 £m
Royalties	39.2	25.2
Product licensing	21.0	19.8
Technology licensing	3.4	6.6
Development services	4.7	3.9
Device sales	3.7	2.5
	72.0	58.0
Investment income:		
Total investment income (note 4)	2.7	0.5
Total revenue per IAS 18	74.7	58.5

Revenue by customer location	2016 £m	2015 £m
United Kingdom	13.2	6.0
Rest of Europe	37.4	29.0
United States of America	21.4	23.0
	72.0	58.0

Information about major customers

Revenue earned from the Group's major customers was as follows: Customer A – £33.6m (2014/15: £26.4m), Customer B – £13.4m (2014/15: £12.4m) and Customer C – £13.0m (2014/15: £5.8m).

3. Segmental information

The Group is engaged in a single business activity of pharmaceuticals and the Group does not have multiple operating segments. The Group's pharmaceutical business consists of the research, development and commercialisation of pharmaceutical products. The Executive Leadership Team is the Group's chief operating decision-making body, as defined by IFRS 8, and all significant operating decisions are taken by the Executive Leadership Team. In assessing performance, the Executive Leadership Team reviews financial information on an integrated basis for the Group as a whole, substantially in the form of, and on the same basis as, the Group's IFRS financial statements. Resources are allocated between activities and products on a Group-wide basis on merit.

All revenue and losses before taxation originate in the United Kingdom and Germany. Revenues from external customers in the United Kingdom were £68.0m (2014/15: £54.3m) and non-current assets originating in the United Kingdom were £170.3m (2015: £174.4m).

4. Investment income and finance gains/(costs)

	2016 £m	2015 £m
Investment income:		
Income from sale of investments[1]	2.4	0.1
Interest receivable on bank deposits and similar income	0.3	0.4
Total investment income	2.7	0.5
Finance gains/(costs):		
Foreign exchange gains	1.6	1.8
Finance costs[2]	(0.5)	(0.1)
Total finance gains/(costs)	1.1	1.7

(1) As announced on 1 May 2015, the Medicines Company received US FDA approval for RAPLIXA™ and the RaplixaSpray device. This triggered a payment to Vectura as part of the deferred consideration arrangements related to the acquisition of ProFibrix BV by the Medicines Company in 2013.

(2) Finance costs include arrangement fees relating to a Revolving Credit Facility (RCF) entered into during March 2016, and at the reporting date this facility remains undrawn.

5. Operating loss

Operating loss is the result for the Group before investment income, finance gains/(costs) and taxation, and is stated after charging:

	2016 £m	2015 £m
Amortisation of intangible assets	18.8	20.9
Depreciation of property, plant and equipment	1.4	1.2
Share-based compensation	2.5	1.1
Cost of inventories recognised as expense	—	0.3
Staff costs (note 6)	22.9	18.3
Non-recurring acquisition costs	5.6	—
Operating lease rentals:		
– land and buildings	0.5	0.5

Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2016 £000	2015 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	30	20
Fees payable to the Company's auditor and its associates for other services to the Group:		
– the audit of the Company's subsidiaries	65	72
Total audit fees	95	92
Audit-related assurance services	18	17
Taxation compliance services	4	4
Other taxation advisory services	—	—
Other services	560	—
Total non-audit fees	582	21
Total fees	677	113

Details of the Group's policy on the use of the auditor for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity was safeguarded are set out in the Audit Committee report on page 63.

In the current year, other services fees relate to work performed as the Reporting Accountant to support the proposed merger with Skyepharma PLC. No services were provided pursuant to contingent fee arrangements.

6. Employees

The average monthly number of employees (including Executive Directors) employed by the Group during the year was as follows:

	2016 Number	2015 Number
Research and development	255	228
Business development and administration	15	15
	270	243

The aggregate remuneration comprised:

	2016 £m	2015 £m
Wages and salaries	18.9	15.4
Social security costs	3.1	2.2
Other pension costs	0.9	0.7
	22.9	18.3

In addition to the wages and salaries analysis above are the effects of the charge for share-based compensation under IFRS 2 during the year of £2.5m (2014/15: £1.1m).

The ultimate parent Company, Vectura Group plc, had no employees during the years ended 31 March 2016 and 31 March 2015.

7. Taxation

The major components of the income tax credit for the years ended 31 March 2016 and 31 March 2015 were as follows:

	2016 £m	2015 £m
Research and development tax credits:		
– current year	2.0	2.5
– in respect of prior years	—	0.6
Decrease in net deferred tax liability	4.9	6.8
Total	**6.9**	9.9

Research and development tax credits are accrued based on the estimated receipt from Her Majesty's Revenue and Customs (HMRC).

The credit for the year can be reconciled to the loss per the statement of consolidated income statement as follows:

	2016 £m	2015 £m
Loss before tax	(1.9)	(6.2)
Loss before tax multiplied by standard rate of UK corporation tax of 20% (2014/15: 21%)	(0.4)	(1.3)
Effects of:		
Permanent differences – patent box benefit	(1.0)	—
Expenses not deductible for tax purposes	0.4	0.2
Unrecognised tax losses carried forward	1.0	1.1
Decrease in net deferred tax liability	(4.9)	(6.8)
Research and development tax credits:		
– current year	(2.0)	(2.5)
– in respect of prior years	—	(0.6)
Total tax credit for the year	**(6.9)**	(9.9)

In March 2015 the UK government announced the main rate of UK corporation tax would remain at 20% for the period to 1 April 2017 and that a further reduction to 18% from 1 April 2020 would apply. This announcement has been substantively enacted and therefore UK deferred tax assets and liabilities are recognised at a rate of 18% (2015: 20%). In March 2016, the UK government announced that the main rate of UK corporation tax would be further reduced to 17% with effect from 2020.

Factors that may affect future tax charges are set out in note 21.

8. Earnings per ordinary share

The calculation of earnings per share is based on the following data:

	2016	2015
Profit after tax for the year (£m)	5.0	3.7
EBITDA[1] for the year (£m)	23.2	16.2
Weighted average number of ordinary shares – basic earnings per share (m)	405.8	401.6
Effect of dilutive potential ordinary shares (share options) (m)	9.6	10.0
Weighted average number of ordinary shares – diluted earnings per share (m)	415.4	411.6
Earnings per ordinary share		
Basic	1.2p	0.9p
Diluted	1.2p	0.9p
EBITDA[1] per ordinary share		
Basic	5.7p	4.0p
Diluted	5.6p	3.9p

(1) Earnings before investment income, finance gains/(costs), tax, depreciation, amortisation, share-based compensation, and adjusted for non-recurring items.

9. Goodwill

Group	2016 £m	2015 £m
Cost:		
At 1 April	56.8	57.8
Effect of movements in foreign exchange	0.6	(1.0)
At 31 March	57.4	56.8
Net book value:		
At 1 April	56.8	57.8
At 31 March	57.4	56.8

The carrying value of goodwill is made up of balances arising on acquisition of the following companies:

Group	2016 £m	2015 £m
Co-ordinated Drug Development Limited (since renamed Vectura Limited)	1.5	1.5
Vectura Delivery Devices Limited	0.5	0.5
Innovata Limited	47.6	47.6
Activaero GmbH[1]	7.8	7.2
	57.4	56.8

Goodwill is allocated to cash-generating units (CGUs) which are tested for impairment on an annual basis, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are assessed using a value-in-use model. An impairment provision is recognised only if the goodwill carrying value exceeds this value in use.

The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates and expected changes to contribution during the period. The model has been based on the most recent cash flow forecasts prepared by management, which consist of detailed probability-weighted product-by-product analyses. These forecasts are based on development timings and specific projections for sales volumes over the likely period in which cash flows could be expected, being a period up to fifteen years for impairment review purposes. No terminal values have been included in the cash flow forecasts. No general growth rates are assumed. The pre-tax discount rates used in the forecasts range from between 12.3% and 14.4%. Following the acquisition of Activaero GmbH in March 2014, and for the purpose of impairment testing of goodwill, the Group is split into two CGUs, being the Vectura CGU and the Activaero CGU.

Goodwill has been allocated to the following CGUs:

	2016 £m	2015 £m
Vectura CGU	49.6	49.6
Activaero CGU[1]	7.8	7.2
	57.4	56.8

(1) The underlying currency of the goodwill associated with the Activaero GmbH CGU is the Euro. The goodwill balance of €9.9m is translated into sterling at the prevailing exchange rate on the balance sheet date. Any foreign exchange gain or loss is taken to the translation reserve, as shown in the consolidated statement of comprehensive income. The movement of £0.6m shown in the table above relates solely to movements in the £/€ exchange rate between 31 March 2015 and 31 March 2016.

The Group has conducted a sensitivity analysis on the impairment test of each CGU's carrying value. In each case the valuations indicate sufficient headroom such that a reasonably possible change in a key assumption is unlikely to result in an impairment of the related goodwill.

Company	£m
Carrying amount:	
At 31 March 2015 and **31 March 2016**	2.0

The goodwill in the Company arose on the acquisition of the Centre for Drug Formulation Studies, an unincorporated entity, in 1999. Amortisation of £0.7m was applied prior to 1 April 2004. Goodwill in the Company is tested for impairment using the same discount rates and on the same basis as for the Group.

10. Intangible assets

Group	Patents and trademarks £m	Licences £m	Total £m
Cost:			
At 1 April 2014	117.4	89.4	206.8
Effect of movements in foreign exchange	(13.1)	(1.7)	(14.8)
At 31 March 2015	104.3	87.7	192.0
Effect of movements in foreign exchange	8.1	1.1	9.2
At 31 March 2016	**112.4**	**88.8**	**201.2**
Amortisation:			
At 1 April 2014	(4.0)	(63.9)	(67.9)
Effect of movements in foreign exchange	(13.5)	(7.4)	(20.9)
Charge for the year	0.9	0.2	1.1
At 31 March 2015	(16.6)	(71.1)	(87.7)
Charge for the year	(12.6)	(6.2)	(18.8)
Effect of movements in foreign exchange	(2.1)	(0.4)	(2.5)
At 31 March 2016	**(31.3)**	**(77.7)**	**(109.0)**
Net book value:			
At 31 March 2015	87.7	16.6	104.3
At 31 March 2016	**81.1**	**11.1**	**92.2**

Intangible assets are being amortised on a straight-line basis over a period of between eight and ten years. The ultimate parent Company, Vectura Group plc, had no intangible assets at 31 March 2016 or at 31 March 2015.

11. Property, plant and equipment

Group	Assets in the course of construction £m	Freehold land and buildings £m	Lab equipment £m	Office and IT equipment £m	Total £m
Cost:					
At 1 April 2014	6.4	1.2	14.8	0.5	22.9
Additions	—	—	1.4	—	1.4
Disposals	—	—	(0.9)	—	(0.9)
At 31 March 2015	6.4	1.2	15.3	0.5	23.4
Additions	—	0.2	1.6	—	1.8
Transfer to assets held for sale	—	(0.3)	—	—	(0.3)
Disposals	—	—	(0.4)	—	(0.4)
At 31 March 2016	**6.4**	**1.1**	**16.5**	**0.5**	**24.5**
Depreciation:					
At 1 April 2014	—	—	(10.9)	(0.4)	(11.3)
Charge for the year	—	—	(1.1)	(0.1)	(1.2)
Disposals	—	—	0.6	—	0.6
At 31 March 2015	—	—	(11.4)	(0.5)	(11.9)
Charge for the year	—	—	(1.4)	—	(1.4)
Disposals	—	—	0.4	—	0.4
At 31 March 2016	**—**	**—**	**(12.4)**	**(0.5)**	**(12.9)**
Net book value:					
At 31 March 2015	6.4	1.2	3.9	—	11.5
At 31 March 2016	**6.4**	**1.1**	**4.1**	**—**	**11.6**

The ultimate parent Company, Vectura Group plc, had no property, plant and equipment at 31 March 2016 or at 31 March 2015.

12. Non-current assets held for sale

As at 31 March 2016, the Group was in the process of arranging the sale of its building in Gemünden, Germany. Accordingly, this asset is shown as a non-current asset held for sale at the balance sheet date. The carrying value of the asset was £0.3m. Following the year end, this asset was sold for proceeds of €370,000.

13. Investments in subsidiary undertakings

Company	Shares in subsidiary undertakings £m
Cost:	
At 1 April 2014	233.9
Additions (note 30)	0.5
At 31 March 2015	234.4
At 31 March 2016	**234.4**
Amounts written off:	
At 1 April 2014, 31 March 2015 and **31 March 2016**	**(0.1)**
Net book value:	
At 31 March 2015	234.3
At 31 March 2016	**234.3**

Details of the Company's subsidiary undertakings are as follows:

Name of undertaking	Country of incorporation	Holding	Proportion held	Nature of Business
Vectura Group Investments Limited	England	Ordinary	100%	Holding company
Vectura Inc.	USA	Ordinary	100%	Pharmaceuticals
Vectura GmbH	Germany	Ordinary	100%	Pharmaceuticals
Innovata Limited(1)	England	Ordinary	100%	Pharmaceuticals
Vectura Delivery Devices Limited(1)	England	Ordinary	100%	Pharmaceuticals
Vectura Limited(1)	England	Ordinary	100%	Pharmaceuticals
Quadrant Technologies Limited(2)	England	Ordinary	100%	Pharmaceuticals
Innovata Biomed Limited(2)	Scotland	Ordinary	100%	Pharmaceuticals
Quadrant Drug Delivery Limited(3)	England	Ordinary	100%	Pharmaceuticals
Innovata HK Limited(4)	Hong Kong	Ordinary	82.4%	Holding company
Quadrant Healthcare Limited(5)	England	Ordinary	100%	Pharmaceuticals
QDose Limited(6)	England	Ordinary	50%	Pharmaceuticals
Quadrant Healthcare (UK) Limited(6)	England	Ordinary	100%	Dormant
Quadrant Bioresources Limited(7)	England	Ordinary	100%	Dormant
Quadrant (USA), Inc.(7)	USA	Ordinary	100%	Dormant
Quadrant Trustee Limited(7)	England	Ordinary	100%	Dormant
Andaris Group Limited(7)	England	Ordinary	100%	Dormant
Quadrant Holdings Cambridge Limited(8)	England	Ordinary	100%	Dormant
Andaris (DDS) Limited(9)	England	Ordinary	100%	Dormant
Microshot Limited(9)	England	Ordinary	100%	Dormant
Protosome Limited(9)	England	Ordinary	100%	Dormant

(1) A subsidiary of Vectura Group Investments Limited.

(2) A subsidiary of Innovata Limited.

(3) A subsidiary of Quadrant Technologies Limited.

(4) A subsidiary of Innovata Biomed Limited.

(5) A subsidiary of Quadrant Drug Delivery Limited.

(6) A subsidiary of Quadrant Healthcare Limited.

(7) A subsidiary of Quadrant Healthcare (UK) Limited.

(8) A subsidiary of Andaris Group Limited.

(9) A subsidiary of Quadrant Holdings Cambridge Limited.

14. Investments in joint venture

The investment balance shown below relates to the Group's investment in Ventaleon GmbH, whose principal activity is the research and development of pharmaceuticals. Ventaleon is incorporated in Germany and its principal place of business is also Germany. The Group holds a 42.1% share in the Company (2014/15: 48%).

Group	£m
Cost:	
At 1 April 2014	3.4
Share of result of joint venture	(1.4)
Effect of movements in foreign exchange	(0.3)
At 31 March 2015	1.7
Share of result of joint venture	(0.6)
Effect of movements in foreign exchange	0.1
At 31 March 2016	**1.2**
Net book value:	
At 31 March 2015	1.7
At 31 March 2016	**1.2**

15. Other receivables

Group

Other receivables represent an investment bond of £0.4m (2015: £0.4m) in respect of a rental deposit paid under the terms of a lease agreement for the Group's premises at Chippenham. The deposit is for a fixed period of one year and is renewed annually. Under the terms of the lease agreement the deposit must be maintained until the Group has made three years of consecutive profits. The interest rate is 1% below the Royal Bank of Scotland base rate and was 0% for the year ended 31 March 2016. Interest is recognised using the effective interest method.

16. Inventories

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Raw materials	**0.1**	—	**—**	—
Finished goods	**0.6**	0.9	**—**	—
	0.7	0.9	**—**	—

17. Trade and other receivables

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Trade receivables	**1.6**	16.2	**—**	—
Other receivables[1]	**6.2**	2.9	**—**	—
Prepayments and accrued income	**13.6**	8.3	**—**	—
VAT recoverable	**0.8**	0.5	**—**	—
	22.2	27.9	**—**	—

(1) Includes research and development tax credits of £4.5m (2015: £2.8m).

The Directors consider that the carrying value of trade and other receivables approximates to their fair value.

18. Amounts due from subsidiary undertakings

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Amounts falling due within one year:				
Due from subsidiary undertakings	**—**	—	**47.2**	89.2
	—	—	**47.2**	89.2

19. Trade and other payables

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Amounts falling due within one year:				
Trade payables	**6.4**	3.5	**—**	—
Other payables	**1.4**	1.0	**—**	—
Accruals	**18.6**	16.1	**3.4**	—
	26.4	20.6	**3.4**	—

The Directors consider that the carrying value of trade and other payables approximates to their fair value.

20. Deferred income

Deferred income relates to amounts received under product licensing agreements. Vectura continues to provide services to these licensing partners over a period of time. Milestone payments under these licensing agreements are therefore spread over future periods, and income is deferred as follows:

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Amounts due within one year	**0.8**	0.2	**—**	—
Amounts due in more than one year	**1.0**	1.5	**—**	—
	1.8	1.7	**—**	—

21. Deferred tax liability

Group

A net deferred tax liability of £20.4m (2015: £23.7m) has been recognised on the Group balance sheet, being a deferred tax liability of £26.1m (2015: £29.0m), offset by a deferred tax asset of £5.7m (2015: £5.3m).

A total deferred tax liability of £26.1m exists as at 31 March 2016. This balance is broken down as follows:

£m	Arising on acquisition of Activaero	Arising on acquisition of Innovata	Other temporary differences	Total
As at 1 April 2015	(26.8)	(1.0)	(1.2)	(29.0)
Credited to the Consolidated income statement	4.0	0.9	—	4.9
Effect of movements in foreign exchange	(2.0)	—	—	(2.0)
As at 31 March 2016	**(24.8)**	**(0.1)**	**(1.2)**	**(26.1)**

This liability is offset by a deferred tax asset in respect of German and UK cumulative tax losses. UK cumulative tax losses of approximately £56.6m (2015: £54.0m losses), subject to agreement with HMRC are available within the Group to carry forward against future taxable profits. The total potential deferred tax asset in respect of UK tax losses, calculated at the rate of 18% (2015: 20%) is £10.2m (2015: £10.7m), and of this total an asset of £1.6m (2015: £2.2m) has been recognised.

The total recognised deferred tax asset of £5.7m is broken down as follows:

£m	Recognised on German cumulative tax losses	Recognised on UK cumulative tax losses	Total
As at 1 April 2015	3.1	2.2	5.3
Credited/(debited) to the Consolidated income statement	0.6	(0.6)	—
Effect of movements in foreign exchange	0.4	—	0.4
As at 31 March 2016	**4.1**	**1.6**	**5.7**

21. Deferred tax liability continued

Group continued

The Group has the following unrecognised potential deferred tax assets as at 31 March 2016 and 31 March 2015:

	2016 £m	2015 £m
On UK cumulative tax losses	8.6	8.5
On unclaimed capital allowances	0.1	0.2
On unexercised share options	0.9	1.0
	9.6	9.7

22. Financial instruments

Categories of financial instruments

Unless stated otherwise, all disclosures relate to the Group.

Under IFRS 7, and for the purposes of risk management, the following classes of financial assets and their carrying values have been identified:

	2016 £m	2015 £m
Cash and cash equivalents	99.8	90.0
Loans and receivables	22.6	28.3
	122.4	118.3

All financial assets fall due within the first quarter of the year, with the exception of the investment bond which is included within loans and receivables in the table above, the repayment of which is determined by the Group's results (see note 15).

In accordance with the arrangements for the £70m maximum partial cash alternative offered as consideration for the Skyepharma PLC merger, £20m of the Group's cash balance is currently held in an interest bearing Escrow account. Prior to the payment of the partial cash alternative, Vectura can only withdraw funds from this account with the agreement of J.P. Morgan Cazenove and N M Rothschild & Sons Limited who are acting as joint sponsor for the merger.

There were no provisions against impaired assets at 31 March 2016 (31 March 2015: £nil). There are no amounts past due but not impaired (2015: £nil).

Cash and cash equivalents comprise current accounts held by the Group with immediate access and short-term bank deposits with a maturity value of three months or less.

Under IFRS 7, and for the purposes of risk management, the following classes of financial liabilities and their carrying values (at amortised cost) have been identified:

	2016 £m	2015 £m
Other	(26.4)	(20.6)

All financial liabilities fall due within one year.

Fair value of financial assets and liabilities

The Directors consider there to be no material difference between the book value and the fair value of the Group's financial assets and liabilities at the balance sheet date.

Capital risk management

The Group manages its capital to ensure that all entities in the Group will be able to continue as a going concern whilst maximising the return to stakeholders. The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of Vectura Group plc, comprising issued share capital (note 23), reserves and retained earnings as disclosed in the statement of changes in equity.

On 16 March 2016, the Group entered into a loan agreement with HSBC Bank plc in relation to a £50.0m RCF. Under the terms of this arrangement, Vectura and HSBC have the option to extend the facility to £75.0m. The funds are available to Vectura for the purposes of, amongst other things, financing the merger with Skyepharma PLC. As at 31 March 2016, and to the date that these financial statements were issued, no funds were drawn against the facility.

Externally imposed capital requirement

Certain companies within the Group are now subject to capital maintenance obligations under the RCF agreement and these are reviewed for compliance on a regular basis. The Directors consider that all requirements and covenants have been complied with during the period covered by the financial statements and to the date the financial statements were authorised for issue.

22. Financial instruments continued

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

Financial risk management

The Group's objective in using financial instruments is to maximise the returns on funds held on deposit, to minimise exchange rate risk where appropriate, and to generate additional cash resources through the issue of shares when appropriate. Balance sheets at 31 March 2016 and 31 March 2015 are not necessarily representative of the positions throughout the year, as cash and short-term investments fluctuate considerably throughout the year depending on the timing of working capital receipts.

It is, and has been throughout the year, the Group's policy that no speculative trading in financial instruments is undertaken.

The Group is funded principally through equity and invests its funds in short-term bank deposits. The Group has access to the majority of these deposits at a maximum of 24 hours' notice. The Group's policy throughout the period has been to minimise the risk by placing funds in low-risk cash deposits, but also to maximise the return on funds placed on deposit.

Interest on overnight cash deposits is calculated on the basis of a floating rate set at between 5 and 10 basis points below seven-day sterling London Inter-Bank Offered Rate (LIBOR).

Foreign currency risk management

The Group's principal functional currency is sterling. However, the Group has a German subsidiary whose functional currency is the euro and the Group as a whole undertakes certain transactions denominated in foreign currencies. The Group's policy is to offset its currency exposure by matching foreign currency revenues with expenditure in the same foreign currency. Where there are no imminent foreign exchange transactions, the balances are exchanged for sterling at spot rate.

All financial assets and liabilities are denominated in sterling other than those shown below:

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Net financial assets:				
Euro	**0.7**	1.9	**—**	—
US dollar	**11.8**	22.9	**—**	—
	12.5	24.8	**—**	—

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 15% increase and decrease (2014/15: 10%) in sterling against the euro and US dollar; 15% represents management's assessment of a reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated items and adjusts their translation at the period end for a 15% (2014/15: 10%) change in foreign currency rates. A positive number below indicates an increase in profit and other equity where sterling weakens against the relevant currency and a negative number indicates a decrease in profit and other equity where sterling strengthens against the relevant currency.

Group

	2016 £m	2015 £m
Euro currency impact – gain	**0.1**	0.2
US dollar currency impact – gain	**2.1**	2.5
Euro currency impact – loss	**(0.1)**	(0.2)
US dollar currency impact – loss	**(1.5)**	(2.1)

Company

The sensitivity analysis includes only outstanding foreign currency denominated items, being the euro deferred consideration liability in the prior year. As explained above, the sensitivity analysis is conducted assuming a 10% increase and decrease in sterling against the euro. A positive number below indicates an increase in profit and other equity where sterling strengthens against the euro and a negative number indicates a decrease in profit and other equity where sterling weakens against the relevant currency.

	2016 £m	2015 £m
Euro currency impact – gain	**—**	2.3
Euro currency impact – loss	**—**	(2.8)

The Group and Company have a legal right of offset between its foreign currency bank accounts and certain of its sterling bank accounts.

22. Financial instruments continued

Interest rate risk management

As explained overleaf, the Group has an RCF with HSBC Bank plc. As at 31 March 2016 and as at the date of these financial statements, the facility has not been utilised and as such the Group has no external borrowings. Therefore it is not currently exposed to interest rate risk through borrowings.

Cash and cash equivalents earned £0.3m of finance income during the year (2014/15: £0.4m). If interest rates had been 0.5% higher/lower, being management's assessment of a reasonably possible change in interest rates, and all other variables were constant, the Group's operating loss for the year ended 31 March 2016 would decrease/increase by £0.5m (2014/15: £0.4m).

All the Group's monetary assets and liabilities are held at floating rates.

Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves and by continually monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Credit risk management

The Group's credit risk is primarily attributed to its cash and cash equivalents. The Board operates an investment policy, under which the primary objective is to invest in a diverse portfolio of low-risk cash or cash equivalent investments to safeguard the principal.

The Group's credit risk on trade and other receivables is low as the amounts are owed by large, multinational, pharmaceutical companies. For the same reason, the Directors assess the quality of these assets as high.

Market risk management

The Group's exposure to market risk primarily comprises interest rate exposure. Group funds are invested in cash deposits with the objective of maintaining a balance between accessibility of funds and competitive rates of return.

23. Equity

(a) Share capital

	2016		2015	
	£m	No. '000	£m	No. '000
Allotted, called up and fully paid:				
Ordinary shares of 0.025p each:				
At 1 April	0.1	403,458	0.1	399,654
Issued on exercise of share options	—	2,962	—	3,062
Issued on exercise of Sharesave options	—	934	—	181
Issued on exercise of LTIP options	—	3,176	—	561
At 31 March	0.1	410,530	0.1	403,458
Redeemable preference shares of £1 each:				
At 1 April and **31 March**	—	34	—	34

The rights attaching to the redeemable preference shares are summarised as follows: (a) the shares do not confer any right to dividend or other distributions; (b) on a return of capital on liquidation or otherwise, the assets of the Company available for distribution among the members are to be applied first in repaying to the holders of the redeemable preference shares the amounts paid up or credited as paid up in respect of such shares; (c) holders of redeemable preference shares have the right to receive notice of and attend general meetings, but have no right to vote there at; (d) the price per share at which redeemable preference shares are transferred may not exceed the amount paid or credited as being paid up; and (e) the Company may specify by notice in writing the date upon which it intends to redeem all (but not some only) of the shares. The price per share payable by the Company to the holders of the redeemable preference shares on their redemption shall be the amount paid up or credited as paid up on each such share.

Between 1 April 2015 and 31 March 2016 the Company issued 2,961,903 (2014/15: 3,062,229) ordinary shares of 0.025p each on the exercise of employee share options at a weighted average exercise price of 64.72p per share (2014/15: 56.38p).

Between 1 April 2015 and 31 March 2016 the Company issued 934,128 (2014/15: 180,691) ordinary shares of 0.025p each on the exercise of Sharesave options at a weighted average exercise price of 47.4p (2014/15: 64.25p) per share.

Between 1 April 2015 and 31 March 2016 the Company issued 3,175,633 (2014/15: 561,253) ordinary shares of 0.025p each on the exercise of LTIP nominal-cost options.

(b) Share premium

The share premium account consists of the proceeds from the issue of shares in excess of their par value (which is included in the share capital account) less amounts transferred to distributable reserves through capital conversion. Certain costs relating to share issues have also been charged to the share premium account.

23. Equity continued

(c) Special reserve

The special reserve was created on 19 May 2004 as part of the process prior to the Company's Initial Public Offering on 2 July 2004, to enable re-registration as a public company. It is a non-distributable reserve.

(d) Other reserve

The other reserve was created on the acquisition by the Company of Co-ordinated Drug Development Limited (since renamed Vectura Limited) in August 1999, of Vectura Delivery Devices Limited in February 2002 and of Innovata plc in January 2007. It is a non-distributable reserve.

(e) Share-based compensation reserve

The share-based compensation reserve represents the credit arising on the charge for share options, also matching and free shares awarded under the Vectura Group plc Share Incentive Plan, calculated in accordance with IFRS 2.

(f) Translation reserve

Exchange differences relating to the translation of the net assets of the Group's foreign operations, which relate to subsidiaries only, from their functional currency into the parent's functional currency, being sterling, are recognised directly in the translation reserve.

24. Equity-settled share option schemes and Long-Term Incentive Plan

The Company's Directors, officers and employees hold options under the Vectura Unapproved Share Option Plan ("Unapproved Plan") and under the Vectura Approved Share Option Plan ("Approved Plan"). Options are granted to acquire shares at the opening market price ruling on the date of grant. In general, options vest after three years and are exercisable during a period ending ten years from the date of grant.

On 18 January 2007, upon the acquisition of Innovata plc and in accordance with a scheme of arrangement, options over Innovata shares issued and outstanding at that date under the ML Laboratories plc 1989 Executive Option Scheme and the ML Laboratories plc 1999 Executive Option Scheme were exchanged for options over Vectura shares in accordance with the rules of the relevant Innovata Option Scheme. The exchange was on the basis that the option holders received new options representing 0.2858 Vectura shares for every one Innovata share.

The Company operates a Sharesave Scheme. All employees and Executive Directors are invited to subscribe for options to acquire shares in the Company, which may be granted at a discount of up to 20% of the market value on the offer date. The options granted vest after three years and are exercisable during a period of six months of the vesting date.

The Company also operates a Long-Term Incentive Plan (LTIP) under which Executive Directors and certain senior managers are granted conditional rights in the form of nil-cost options to receive a maximum number of shares at the beginning of a three-year period, a proportion of which they will be entitled to receive at the end of that period, depending on the extent to which the challenging performance conditions set by the Remuneration Committee at the time the allocation was made are satisfied. The nil-cost option entitlement is exercisable from the beginning of the fourth year to the end of the tenth year following the date of grant. Further information on the performance conditions of the LTIP is detailed in the Remuneration report. At 31 March 2016, Executive Directors and eligible senior managers hold rights to ordinary shares awarded under the LTIP, as follows:

Date of vesting	Ordinary shares vesting
22 November 2009	42,554
2 March 2010	104,758
25 May 2010	81,628
23 May 2011	357,447
7 June 2014	729,737
18 September 2015	500,516
7 June 2016[1]	1,963,022
1 July 2017[1]	883,435
24 September 2018[1]	1,361,983
24 September 2020[1]	1,249,526

(1) Maximum number of shares, subject to performance conditions.

In addition to the above arrangements, the Company made a one-off award of share options to James Ward-Lilley upon his appointment as Chief Executive Officer. This was an award under the provisions of LR 9.4.2(2) and the details are set out in the Remuneration report. There are no plans to make any further awards under this scheme.

Fair value calculations

With the exception of the LTIP awards, the fair value of the options was determined using the Black-Scholes pricing model. The fair value of the LTIP awards has been estimated using the Monte Carlo model, using the same basis for the assumptions for volatility, option life, expected dividend yield and risk-free rate of return as used for the Black-Scholes model. For the purposes of calculating the fair value of the LTIP, it was considered equally probable that the Company's performance would be such that it would perform in each of the quartiles established under the LTIP scheme, as described in the Remuneration report.

24. Equity-settled share option schemes and Long-Term Incentive Plan continued

Fair value calculations continued

Year of grant	2016	2015
The assumptions input into the Black-Scholes model were as follows:		
Weighted average share price of grants during the year	**158.6p**	136.3p
Weighted average exercise price of grants during the year	**132.2p**	114.4p
Expected volatility[1]	**32%–42%**	39%–41%
Expected life[2]	**3 years**	3 years
Expected dividends	**Nil**	Nil
Risk-free interest rate[3]	**0.6%–1.4%**	0.6%–1.4%
The assumptions input into the Monte Carlo model were as follows:		
Weighted average share price of grants during the year	**178.5p**	135.3p
Weighted average exercise price of grants during the year	**0.025p**	0.025p
Expected volatility[1]	**28%–31%**	40%
Expected life[2]	**3–5 years**	3 years
Expected dividends	**Nil**	Nil
Risk-free interest rate[3]	**0.6%–1.5%**	1.5%

(1) Expected volatility has been calculated by reference to the Company's historic share price since the IPO in July 2004, considered alongside the volatility of similar companies. The expectation of the cancellation of options has been considered in determining the fair value expense charged in the Consolidated Income Statement.

(2) The expected life used in the models is based on management's best estimate of behavioural consideration based on historic exercise patterns.

(3) The risk-free interest rate is the UK Gilt rate at the date of grant, commensurate with the expected term.

The charge is spread over the expected vesting period, utilising the fair value calculated by using the two models described overleaf, and after adjusting for the likelihood of cancellation of options when employees leave.

The share-based compensation charge for the year ended 31 March 2016, including the LTIP, was £2,470,000 (2014/15: £1,060,000).

The aggregate of the estimated fair value of options granted under the SAYE share option scheme and Share Incentive Plan during the year ended 31 March 2016 was £265,000 (2014/15: £373,000). The estimated fair value of LTIP awards during the year ended 31 March 2016 was £2,377,000 (2014/15: £768,000) and the estimated fair value of the executive award made during the year ended 31 March 2016 was £1,693,000 (2014/15: £nil).

	Share option schemes		SAYE Scheme		LTIP		Executive award	
Options outstanding	Number of options	WAEP (p)[1]	Number of options	WAEP (p)[1]	Number of options	WAEP (p)[1]	Number of options	WAEP (p)[1]
At 1 April 2014	7,521,655	61.67	1,466,323	59.41	8,343,020	0.025	—	—
Options granted	—	—	621,775	114.4	1,076,791	0.025	—	—
Options exercised	(3,062,229)	56.38	(180,691)	64.25	(561,253)	0.025	—	—
Options cancelled	(55,597)	62.63	(75,693)	85.12	(147,527)	0.025	—	—
At 31 March 2015	4,403,829	65.34	1,831,714	77.16	8,711,031	0.025	—	—
Options granted	—	—	464,783	132.32	2,611,509	0.025	1,131,617	Nil
Options exercised	(2,961,903)	64.72	(934,128)	47.40	(3,175,633)	0.025	—	—
Options cancelled	(79,451)	88.55	(33,019)	48.50	(872,301)	0.025	—	—
At 31 March 2016	**1,362,475**	**65.34**	**1,329,350**	**118.0**	**7,274,606**	**0.025**	**1,131,617**	**Nil**
Range of exercise prices		38.0p–104.0p		47.4p–130.4p		0.025p		Nil
Weighted average remaining contractual life (years)		2.52 (2015: 1.77)		2.57 (2015: 1.71)		4.83 (2015: 5.65)		2.50 (2015: nil)
Options vested								
At 31 March 2015	4,276,365	65.30p	—	—	4,212,451	0.025p	—	—
At 31 March 2016	**1,362,475**	**65.30p**	**—**	**—**	**1,816,640**	**0.025p**	**285,994**	**Nil**
Weighted average remaining contractual life (years)		2.52 (2015: 1.60)	—	—		3.98 (2015: 1.53)		nil (2015: —)

(1) Weighted average exercise price (p).

25. Analysis of net funds

Group	1 April 2015 £m	Cash flow £m	31 March 2016 £m
Cash and cash equivalents	90.0	9.8	**99.8**

The Company had net funds of £20m held in Escrow at 31 March 2016 (2015: nil).

26. Retirement benefit plans

The Group operates a number of defined contribution personal pension plans for all qualifying employees. The assets of the schemes are held separately from those of the Group and are independently administered. The total cost charged to the Consolidated Income Statement is detailed in note 6.

27. Operating lease arrangements

At the balance sheet date, the Group has aggregate outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Land and buildings		Other	
Group	2016 £m	2015 £m	2016 £m	2015 £m
Expiry date:				
Within one year	**0.7**	0.5	**—**	0.1
In the second to fifth years inclusive	**1.1**	0.5	**—**	—
	1.8	1.0	**—**	0.1

On 26 July 2002, the Group entered into a 25-year lease agreement in respect of the lease of premises at One Prospect West, Chippenham, Wiltshire. The Group has the right to break the lease in July 2017.

On 29 September 2011, the Group entered into an agreement in respect of the lease of premises at Five Prospect West, Chippenham, Wiltshire. The Group has the right to break the lease in July 2017.

On 13 November 2014, the Group extended two leases for adjacent premises at Cambridge Science Park, Milton Road, Cambridge for a further three years commencing 25 December 2014 and expiring on 24 December 2017. The Group and the landlord had the option to cancel the leases on 31 December 2015 or at any time thereafter on giving six months' prior written notice. The Group took the opportunity to break the lease at this date and have subsequently entered into a leasing arrangement for a new property on the Cambridge Science Park. The lease is a ten year lease and the Group has the right to break the lease in December 2020.

On 18 March 2014, the Group acquired, as part of the Activaero GmbH acquisition, an agreement in respect of premises at Gauting, Germany. The Group has the right to break the lease with a maximum of nine months' notice.

The Company had no operating lease arrangements at 31 March 2016 and 31 March 2015.

28. Capital and other commitments

At 31 March 2016 the Group had capital commitments contracted, but not provided for, of £0.2m (2015: nil). The Company had no capital and other commitments at 31 March 2016 and 31 March 2015.

29. Related party transactions

Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. Except as disclosed below, no Group company entered into a transaction with a related party that is not a member of the Group.

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below.

	2016 £m	2015 £m
Short-term employee benefits	5.0	3.8
Post-employment benefits	0.2	0.2
Share-based compensation	1.4	0.3
	6.6	4.3

Two Directors are members of money purchase pension schemes (2015: three).

Please refer to the Remuneration report on page 76 for the single figure of remuneration for each Director.

Company

Details of the Company-related party transactions with parties outside of the Group are noted above. In addition, the following details of trading within the Group are disclosed in accordance with IAS 24.

Related party	Recharge from related parties £m	Recharge to related parties £m	Amounts owed by related parties £m	Amounts owed to related parties £m
Subsidiaries:				
2015	—	1.1	89.2	—
2016	—	2.5	47.2	—

Amounts outstanding are unsecured. No provisions have been made for doubtful debts owed by related parties.

30. Business combinations

On 18 March 2014, the Group acquired 100% of the issued share capital and obtained control of Activaero GmbH ("Activaero"), a company focused on the development of products for the treatment of respiratory diseases.

The final element of the consideration for the acquisition, being the non-contingent deferred consideration of €35m, was paid in August 2015. The payment was translated into sterling at the prevailing £/€ exchange rate on the payment date and is shown as a cash outflow of £24.6m during the year ended 31 March 2016. No further payments are due to be made in respect of this acquisition.

In the prior year, an additional payment of €0.6m was made in respect of working capital items that were acquired during the transaction. This increased the Company's investment in the prior year. There have been no movements during the current year.

31. Post balance sheet events

Non-current assets held for sale

On 1 April 2016, the Group's building in Gemünden, Germany, was sold for gross proceeds of €370,000. The trade and activities previously conducted at this site are now undertaken at other Vectura sites.

Merger with Skyepharma PLC

On 16 May 2016, the Competition and Markets Authority ("the CMA") confirmed that the proposed recommended all-share merger of Vectura Group plc and Skyepharma PLC (the "merger") does not qualify for investigation under the Enterprise Act 2002. This confirmation satisfied the CMA clearance condition to the implementation of the proposed merger (including the Scheme) as set out in the announcement of the proposed merger released on 16 March 2016 and in Part 3 (Conditions to and Further Terms of the Merger) of the Scheme Document sent to Skyepharma's shareholders on 8 April 2016. As announced on 20 May 2016, it is now anticipated that the Scheme will become effective on 10 June 2016.

Upon completion of the merger, it is proposed that the enlarged Vectura Group will change its accounting reference date to the 31 December. This change would bring the Group's accounting reference date in line with its partners and peer group. The transaction will be accounted for in accordance with IFRS 3 in Vectura's consolidated balance sheet for the year ended 31 December.

Included within these financial statements are non-recurring costs of £5.6m relating to legal and professional fees for activities undertaken in support of the merger during the year ended 31 March 2016. Further legal and professional fees will be incurred during FY 2016/17 contingent upon completion of the transaction.

Five-year summary

year ended 31 March

Unaudited Year ended 31 March	2012 £m	2013 £m	2014 £m	2015 £m	**2016 £m**
Consolidated income statement					
Revenue	33.0	30.5	36.5	58.0	**72.0**
Gross profit	30.8	29.8	35.5	55.6	**68.7**
Gross profit margin	93%	98%	97%	96%	**95%**
Research and development expenses	(31.7)	(29.9)	(26.9)	(34.9)	**(40.7)**
Other administrative expenses	(3.3)	(3.3)	(3.4)	(4.5)	**(4.8)**
EBITDA	(4.2)	(3.4)	5.2	16.2	**23.2**
Depreciation of assets	(1.1)	(1.0)	(1.1)	(1.2)	**(1.4)**
Amortisation of intangible assets	(7.5)	(6.3)	(6.9)	(20.9)	**(18.8)**
Non-recurring transaction costs	—	—	(2.5)	—	**(5.6)**
Share-based compensation	(1.1)	(0.9)	(0.9)	(1.1)	**(2.5)**
Operating loss	(13.9)	(11.6)	(6.2)	(7.0)	**(5.1)**
Investment income	0.7	0.5	1.6	0.5	**2.7**
Finance gains/(costs)	—	0.7	(0.2)	1.7	**1.1**
Share of result of joint venture	—	—	—	(1.4)	**(0.6)**
Loss before taxation	(13.2)	(10.4)	(4.8)	(6.2)	**(1.9)**
Taxation	8.8	4.5	2.5	9.9	**6.9**
Profit/(loss) after taxation	(4.4)	(5.9)	(2.3)	3.7	**5.0**
Earnings/(loss) per ordinary share	(1.3p)	(1.8p)	(0.7p)	0.9p	**1.2p**
Cash flow statement					
Operating loss	(13.9)	(11.6)	(6.2)	(7.0)	**(5.1)**
Depreciation and amortisation	8.6	7.3	8.0	22.1	**20.2**
Share-based compensation	1.1	0.9	0.9	1.1	**2.5**
Non-recurring transaction costs paid	—	—	—	—	**2.1**
(Increase)/decrease in working capital	2.4	(1.1)	(8.3)	(13.5)	**11.2**
(Decrease)/increase in deferred income	(0.7)	(3.4)	0.4	(0.1)	**0.1**
Exchange movements	—	0.7	(0.2)	1.8	**1.6**
Taxation paid	—	—	—	—	**—**
Research and development tax credits received	4.6	4.4	4.7	3.6	**0.3**
Net cash inflow/(outflow) from operations	2.1	(2.8)	(0.7)	8.0	**32.9**
Net capital expenditure	(4.2)	(3.8)	(2.3)	(1.4)	**(1.5)**
Free cash flow inflow/(outflow)	(2.1)	(6.6)	(3.0)	6.6	**31.4**
Balance sheet					
Cash and cash equivalents	75.5	70.1	81.7	90.0	**99.8**
Shareholders' equity	139.5	135.1	226.7	221.9	**237.2**
Net current assets	61.7	60.3	79.4	72.4	**95.8**

Directors
Bruno F J Angelici
(Non-Executive Chairman)

James Ward-Lilley
(Chief Executive Officer)

Andrew J Oakley
(Chief Financial Officer)

Dr Trevor M Phillips
(Chief Operations Officer and President of US Operations)

Dr John R Brown
(Non-Executive and Senior Independent Director)

Dr Susan E Foden
(Non-Executive)

Neil W Warner
(Non-Executive)

Dr Per-Olof Andersson
(Non-Executive)

Company Secretary
Andrew J Oakley

Corporate broker
Peel Hunt LLP
Moor House
120 London Wall
London
EC2Y 5ET, UK

Corporate broker
J.P. Morgan Cazenove
25 Bank Street
Canary Wharf
London
E14 5JP, UK

Registrars
Computershare Investor Services plc
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH, UK

Public relations
Citigate Dewe Rogerson
3 London Wall Buildings
London Wall
London
EC2M 5SY, UK

Auditor
Deloitte LLP
3 Rivergate
Temple Quay
Bristol
BS1 6GD, UK

Bankers
Barclays Bank plc
28 Chesterton Road
Cambridge
CB4 3AZ, UK

Legal advisors
Olswang LLP
90 High Holborn
London
WC1V 6XX, UK

Legal advisors
Covington & Burling LLP
265 Strand
London
WC2R 1BH, UK

Vectura Group plc
One Prospect West
Chippenham
Wiltshire
SN14 6FH, UK

Forward-looking statement
This Annual Report and Accounts contains forward-looking statements, including statements about the discovery, development and commercialisation of products. Various risks may cause Vectura's actual results to differ materially from those expressed or implied by the forward-looking statements, including: adverse results in clinical development programmes; failure to obtain patent protection for inventions; commercial limitations imposed by patents owned or controlled by third parties; dependence upon strategic alliance partners to develop and commercialise produces and services; difficulties or delays in obtaining regulatory approvals to market products and services resulting from development efforts; the requirement for substantial funding to conduct research and development and to expand commercialisation activities; and product initiatives by competitors. As a result of these factors, prospective investors are cautioned not to rely on any forward-looking statements. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

consultancy, design and production by
designportfolio
design-portfolio.co.uk @WeAre_DP
Design Portfolio is committed to planting trees for every corporate communications project, in association with Trees for Cities.

Vectura Group plc
One Prospect West
Chippenham
Wiltshire SN14 6FH
United Kingdom

T +44 (0)1249 667700
F +44 (0)1249 667701
www.vectura.com

Registered in England and Wales
Number: 03418970

MIX
From responsible sources
FSC® C013343
www.fsc.org

Waterless Printing. Naturally.

The Group's commitment to environmental issues is reflected in this Annual Report, which has been printed on FSC® certified uncoated Edixion offset. It was printed in the UK using environmental Waterless printing technology, and vegetable-based inks were used throughout.

Both the manufacturing mill and the printer are registered to the Environmental Management System ISO14001 and are FSC® chain-of-custody certified.