



# Executing on our inhalation CDMO strategy

**Vectura Group plc**  
Annual Report and Accounts 2019



# Industry-leading inhalation contract development and manufacturing

In 2019 we announced a change in our strategy to focus on providing expert drug development services to help a wider range of customers bring their inhaled medicines to market. We have three clear ambitions for Vectura:

**1**

**Create the market-leading company in the inhalation CDMO\* space**

**2**

**Further enhance Vectura's capabilities and performance culture**

**3**

**Deliver long-term growth and sustained returns**



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For more information visit

[www.vectura.com](http://www.vectura.com)

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## Highlights

# Solid financial performance in 2019

### Financial highlights

- Total revenue of £178.3m, up 11.1% (FY18: £160.5m).
- Product supply revenue of £115m, up 34.3% (FY18: £85.6m), driven by growth in *flutiform*<sup>®</sup> product supply revenues of £101.4m, up 36.7% (FY18: £74.2m).
- As expected, royalty and other marketed revenue of £51.9m, down 11.1% (FY18: £58.4m), following Q3 2018 expiry of EXPAREL<sup>®</sup> patents and a one-off milestone in prior year.
- Following receipt of generic Ellipta<sup>®</sup> upfront licence fee from Hikma in 2018, development revenues fell back to £11.4m, down 30.9% (FY18: £16.5m).
- Gross profit of £95.3m, down 3.6% (FY18: £98.9m), impacted by normalisation of *flutiform*<sup>®</sup> supply chain margins and reduction in royalty and development services revenues.
- R&D costs of £50.2m, down 9.5% (FY18: £55.5m) in line with guidance, with approximately 50% of R&D spend focused on partnered programmes (FY18: 37.1%).
- Significant reduction in operating loss to £27.0m (FY18: £105.4m) as a result of a lower charge for amortisation and impairment of intangible assets, despite VR647 impairment of £8.2m.
- Adjusted EBITDA of £43.4m, up 11.3% (FY18: £39.0m), with revenue mix effects more than offset by a reduction in expenditure.
- Strong liquidity maintained with closing cash and cash equivalents of £74.1m (FY18: £108.2m), following a capital return of approximately £43.4m in H2 2019.



Vectura has delivered a solid set of financial results for 2019, with both revenue and adjusted EBITDA showing double-digit growth.

**Paul Fry, Chief Financial Officer**

### Operational highlights

- Executing on new strategy to become an industry-leading specialist inhalation CDMO.
- Submission of FDA response by partner Hikma in respect of generic Advair<sup>®</sup> (VR315 (US)) in Q4 2019 following completion of clinical endpoint study.
- Vectura awarded damages and ongoing royalties amounting to an estimated \$200m in total, following US jury verdict in patent litigation against GSK in the US, subject to appeal.

#### Reported revenue

£m

**£178.3m**  
+11.1%

12 months to 31/12/19

178.3

12 months to 31/12/18

160.5

#### Reported operating loss

£m

**£27.0m**  
(74.4%)

12 months to 31/12/19

(27.0)

12 months to 31/12/18

(105.4)

#### Adjusted EBITDA<sup>1</sup>

£m

**£43.4m**  
+11.3%

12 months to 31/12/19

43.4

12 months to 31/12/18

39.0

<sup>1</sup> Adjusted EBITDA is a non-IFRS measure comprising operating loss, adding back amortisation and impairment, depreciation, share-based payments and exceptional items. A reconciliation of operating loss to adjusted EBITDA is presented in note 9 of the financial statements.



## Leadership team changes

- Will Downie joined Vectura as Chief Executive Officer and Executive Director in November 2019 from Catalent, a world-leading CDMO.
- Post period, Vectura appointed two key leadership roles to support the Group's transition to a specialist CDMO organisation. Sharon Johnson joined Vectura as EVP – Delivery Management, and Mark Bridgewater joined as Chief Commercial Officer.

## Guidance and outlook

- The operational focus of the business in 2020 will be on the execution of our services-based strategy with a focus on building momentum in the business development funnel to support revenue growth over the medium term. Improvements in the gross margin mix of revenues, good cost management and a focus on simplifying the Group's operating model are expected to have a positive impact on the Group's operational leverage over the medium term.

## Financial guidance

- Revenues from existing development contracts are expected to be broadly similar to 2019, with new development services business expected to begin to complement these revenues from 2020.
- Royalties and marketed revenues are expected to show mid-single-digit percentage growth in 2020, despite the loss of the annual GSK royalty (£9m in 2019). This growth is dependent on the expected approval of both VR315 (US) and QVM149 by its partners in H2 2020.
- In-market partner sales of *flutiform*<sup>®</sup> are expected to grow in 2020, whereas Vectura product supply revenues are expected to be broadly similar to the H1 2019 run-rate. *flutiform*<sup>®</sup> underlying gross margin is expected to be in the range of 30–32% for 2020 and in the medium term.
- Overall R&D is expected to progressively reduce as capacity is released from its proprietary pipeline, and deployed towards revenue-generating partner business. At the same time, the Group will continue to invest in a prioritised technology roadmap that will meet the future needs of our customers to enable them to address the complex treatment requirements of their patients. The Group expects R&D investment for 2020 to be within the range of £40m to £45m.
- Reflecting the Group's transition towards a development services model, the Group also expects to incur mid-single-digit £millions of exceptional cash costs in 2020.



We have begun to execute on our new strategy to become the industry-leading specialist inhalation services company.

**Will Downie, Chief Executive Officer**

### Basic EPS

p

**(3.4)p**  
(74.2%)

12 months to 31/12/19

**(3.4)**

12 months to 31/12/18

**(13.2)**

### Cash and cash equivalents following capital return to shareholders

£m

**£74.1m**  
(31.5%)

As at 31/12/19

**74.1**

As at 31/12/18

**108.2**



## At a glance

# Providing innovative inhaled drug delivery services

### Molecules



Customers choose us for our unique combination of inhalation development expertise, formulation science and device technology



#### Device platforms

Proprietary devices and development capability: DPI, pMDI and nebuliser

#### Formulation

Proven formulation capability



### Medicines

## Investment case

1

A proven track record with highly differentiated inhalation expertise, technology and IP

2

Competing in an attractive, specialist segment of the wider, growing outsourced healthcare market



## Reshaping our business to become the industry-leading inhalation CDMO

In doing so, we will continue to drive our strong base business, where we have been successful with our core products, in particular *flutiform*<sup>®</sup>, and revenues from ongoing royalties.

**+ Read more on our in-market product performance on page 23**

We expect to see significant value created from our existing partnered pipeline, in particular VR315 (US), our generic Advair<sup>®</sup> programme partnered with Hikma, which is currently under FDA review. In addition, launch of Novartis' inhaled combination of indacaterol, glycopyrronium and mometasone (QVM149) is pending and our partnership with Hikma to develop generic versions of GSK's Ellipta<sup>®</sup> portfolio progresses well. Work also continues with our partner Sandoz on VR2081, a generic pMDI.

On top of all of this, we have started the process of building a successful CDMO business that will provide a steady stream of development revenues in the years to come.

**+ Read more about our strategy on page 16**

# 20+

years' experience in inhaled product development

# 11

inhaled in-market medicines, launched by our partners and licensees

# \$10bn

total sales of products using our formulation and device technology since launch<sup>1</sup>

# 9m

patients using products utilising Vectura's intellectual property in 2018<sup>1</sup>

<sup>1</sup> Source: Evaluate Pharma, internal estimates.

## Current partnerships and licensees



**hikma.**



*Kyorin*



**NOVARTIS**

**SANDOZ** A Novartis Division

# 3

Lower-risk service delivery strategy, focused on meeting the growing demand for complex inhalation services

# 4

Cash-generative business, with a strong balance sheet



## Chairman's statement

# A year of change for Vectura

### Dear Shareholder,

2019 has been an important year for Vectura. The Company has delivered a positive set of financial results that have exceeded expectations, and seen good progress with VR315 (US), QVM149 and the implementation of a new strategy.

During the first part of the year, the Board recognised that the previous strategy, which had been implemented following the merger with Skyepharma plc, was unlikely to create the value in a timeframe that shareholders would find acceptable.

As a Board we came to the conclusion that a new strategy and business model should be adopted. In July 2019 we therefore announced that we would be focusing on providing expert drug development services to a wider range of customers, improving the Group's risk profile and moving away from our previous narrower product development focus. As a consequence, the Board felt it was the right time to bring in new leadership, with contract development and manufacturing organisation (CDMO) experience, to lead the next phase of the Group's evolution.

### Financial performance

Vectura delivered financial performance ahead of expectations, with both revenue and EBITDA growing 11% versus last year. This growth was underpinned by strong product supply demand from our partners for *flutiform*<sup>®</sup>, which grew 36.7% versus 2018. This product remains an important cash generator for the Group, and we continue to work closely with our partners to ensure *flutiform*<sup>®</sup> reaches its full potential. At the same time, the Board's aim is also to further diversify the Group's earnings profile over coming years, with the focus on growing CDMO revenues.

In line with expectations, our R&D expenditure reduced from £55.5m to £50.2m – a fall of nearly 10%, with a shift in balance towards partnered R&D in line with the new strategic direction of the Group.

In light of the new strategy and our strong cash position at half year, the Board again reviewed the Group's capital allocation priorities. The shift in strategy to a lower risk, less capital intensive CDMO model, and strong cash balance, led to the announcement in September of a £60m capital return to shareholders through a mix of special dividend and share buyback.

### Operational performance

In 2019 we saw the progression of our partnered development programmes. In May, we recognised milestone revenue of \$2.5m, received following the acceptance of a Marketing Authorisation Application (MAA) made by Novartis to the EU Regulatory Authorities for the regulatory approval of QVM149.

Following a US jury trial in May 2019, Vectura was awarded damages and estimated ongoing royalties amounting to approximately \$200m in total, due to patent infringement by GSK. This decision is still subject to appeal and, as such, no amounts are recognised in our 2019 financial statements.

In November 2019, Hikma Pharmaceuticals confirmed that it had submitted responses to the US Food and Drug Administration (FDA) for review, which included data from a further clinical endpoint study requested by the FDA in a Complete Response Letter (CRL) in respect of VR315 (US).



Throughout the year, a continued effort was also made to engage colleagues and further engender a strong sense of pride and belief in the Group.





## Strategic focus

I appreciate that our shareholders have been asking questions about the rationale for our change in strategy during 2019. Disappointingly, Vectura's proprietary VR475 and VR647 assets did not progress as we would have wanted. We understood the risks in developing our own clinical products – and the investments needed to bring VR647 and VR475 to market – but these programmes did not in the end succeed. We were unable to successfully partner VR647 and we halted VR475 development following its failure in a Phase III European trial.

Furthermore, the capital required to progress our pipeline of Vectura Enhanced Therapies (VEtT) turned out to be more substantial than originally anticipated as we moved towards clinical development, reducing the attractiveness of these projects. Taking all this into consideration, we had to recognise that a significant proportion of our proposed R&D expenditure was not going to create the expected value in a meaningful timeframe.

The Board therefore came to the conclusion that we should operate a business model with a reduced level of risk and with a smoother and diversified earnings profile.

Finally, it became clear that our focus on developing our own assets meant we did not have the bandwidth to pursue a number of potential significant opportunities in the attractive inhalation CDMO market. In this market, there are presently 300 inhalable products under development and outsourcing rates are very strong and expected to rise to about 40–50% in the next five years. This represents an important growth opportunity for Vectura to generate new revenues by providing development services to new customers.

Some shareholders queried the timing of our strategy shift and leadership change, which was announced a few weeks after the AGM. Our change in strategy was agreed by the Board at a meeting in late May 2019 after a lengthy period of discussion and in-depth analysis. Once the decision was taken, the Board considered it was, clearly, in the best interests of the Group and shareholders to move quickly and prepare to implement the new strategy including initiating a search for a new CEO to lead Vectura as a CDMO. We are pleased that we were able to attract Will Downie, an extremely well qualified executive in the CDMO sector, and he joined in November 2019, fewer than five months after the announcement. Will's appointment brings a wealth of relevant experience, which will help Vectura to grow and deliver on this new strategic focus.

## People and culture

We are highly dependent on the capabilities, innovation and creativity of our employees for our future growth and success. It is important that we have a culture and set of values that are understood and integrated across the business. A revised set of values, building on our existing ones, was rolled out at the end of 2019 to align with our CDMO strategy; see page 40.

Throughout the year, a continued effort was also made to engage colleagues and further engender a strong sense of pride and belief in the Group. On behalf of the Board, I would like to thank each one of our employees for their hard work and continued commitment.

## Board changes

On 29 March 2019, I was delighted to welcome Kevin Matthews to the Board of Vectura. Kevin brings highly relevant experience as the former CEO of Isogenica Ltd, a UK-based antibody drug discovery business. In addition, he was a non-executive director and remuneration committee chair of Elementis plc, a FTSE 250 speciality chemical business.

On 30 June 2019, James Ward-Lilley left the Board and his position as CEO. James joined Vectura at the time of the merger with Skyepharma and was instrumental in successfully integrating both companies.

Following James' departure, Paul Fry, CFO, assumed the role of Interim CEO until the appointment of Will Downie as CEO on 7 November 2019, when he then resumed his responsibilities as CFO. I would like to thank Paul Fry for his significant contribution after stepping into the Interim CEO role and driving the necessary changes to begin the implementation of our new strategic focus.

Dr Susan Foden stood down from the Board on 30 September 2019 and the Board wishes to thank her for her important contribution over twelve years.

## Governance

As a Board, we are committed to the principles of good corporate governance. We have continued to comply with the provisions of the Corporate Governance 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. Full details, including of the independent Board evaluation carried out during the year together with the steps we have taken in relation to Board diversity and succession planning, can be found in the Corporate governance statement on pages 53 to 55.

## Shareholders

I would like to thank our shareholders for their continued support throughout 2019. I am looking forward to building further value as we deliver on our strategy to become a leading inhalation CDMO.

## Outlook

2020 will be a year of transition in our revenues as the GSK Ellipta royalty comes to an end, and we look forward to new royalty streams from VR315 (US) and QVM149. We also expect to see new CDMO business begin to complement the existing development services contracts from 2020, alongside a focus on building momentum in the business development funnel to support revenue growth over the medium term. During this transition, R&D will continue to reduce, and be progressively redeployed towards revenue-generating contracts as well as continued investment in the Group's differentiated proprietary platforms and technologies.

I am very encouraged by the early progress being made, and look forward to seeing the strategy turning into action and results in 2020. Read more about guidance and outlook on page 3 and strategic priorities on page 16.

## Bruno Angelici Chairman

16 March 2020



# Chief Executive's statement

## Focused on growth: delivering our new strategy

Having had the privilege of joining the Company in November 2019, I am delighted to welcome you to this year's Annual Report, my first as the new CEO of Vectura. Now is a very exciting time for our business, as we look to build on our solid performance last year and drive our growth in the Contract Development and Manufacturing (CDMO) market.

Before joining Vectura, I spent ten years with Catalent Inc., one of the largest and most successful players in the pharmaceutical outsourcing market, where I served as the senior vice president, global sales and marketing. Prior to the last decade in the CDMO market, I worked in international roles with GE Healthcare and Amersham Health, and in my early career held a range of senior leadership positions with Quintiles, Sanofi and Merck.

As we embark on a new fiscal year, I am currently working with the Board and Executive Team to execute on our collective ambition for Vectura:

- to transform the business into a true leader in the inhalation CDMO market;
- to further enhance Vectura's capabilities and performance culture; and
- to deliver long-term growth and provide sustained returns for our shareholders.

### Company strategy

Vectura owns a relatively unique position in the market today, providing our customers with expertise in product and formulation development, together with world-class device technology solutions across a range of platforms: dry powder inhalers (DPIs), pressurised meter dose inhalers (pMDIs) and smart nebulisers.

The development of inhalation products can be very challenging for innovators and generic companies. Having access to the kind of deep scientific know-how that a company like Vectura offers, across the entire pharmaceutical development and device spectrum, can be a very potent advantage for clients. By working with only one partner, they can optimise their probability of success, while simplifying their partner and supply chain base.

Over the course of the last 20 years, Vectura's track record of enabling its customers to successfully bring products to market has been particularly impressive. Today, there are eleven Vectura-partnered commercial products on the market, with cumulative end-user market sales of more than \$10bn since 2012. This strong heritage of helping clients to overcome formulation and development challenges so that they can successfully bring their molecules to market is one of the most important considerations a prospective customer will make when they are choosing a potential provider.

### Delivering our strategy will reshape our business profile

**New CDMO opportunities** ~300<sup>2</sup> new molecules

**Existing partnerships** hikma. NOVARTIS SANDOZ A Novartis Division

**Base business** Kyorin SANDOZ A Novartis Division mundi pharma BAYER

- Exposure to a growing healthcare market opportunity
- Lower-risk R&D profile
- Diversified revenues
- Smoother earnings profile



Now that we are pivoting our attention to grow our business in the CDMO space, we will be looking to work with a more diversified customer base, with a clear focus on helping it bring more molecules to market across a broader range of disease states.

This will enable our ultimate mission, which is to improve the lives of patients who can benefit from the successful delivery of medicines through an inhaled route of administration. So, as we look to drive our efforts in the outsourced pharmaceutical services market, our strategy will be built on five major cornerstones:

- targeting a much broader inhalation market, moving beyond our narrower focus on respiratory generics;
- continuing to invest in our differentiated capabilities and technologies in order to meet the future needs of our customers;
- moving our revenue profile towards a development services model, with less dependency on milestones. The opportunity for licensing fees and royalties will continue to remain important for the company going forward;
- driving operational and quality rigour in everything we do, together with a strong sense of customer satisfaction; and
- maintaining financial discipline with a lower-risk R&D profile and capital allocation focused on core business priorities.

### Market opportunity

Having worked in the pharmaceutical services space for the last ten years, I can confirm that the CDMO market has never been more buoyant. As a relatively fragmented space, outsourcing rates continue to increase, as large companies seek to consolidate their supplier base and small innovators look for cutting-edge solutions to drug development challenges. The underlying growth of the market is likely to continue at 7%<sup>1</sup> for the next several years, with investors looking to find ways to identify opportunities for long-term, sustained growth.



I can confirm that the CDMO market has never been more buoyant. As a relatively fragmented space, outsourcing rates continue to increase, as large companies seek to consolidate their supplier base and small innovators look for cutting-edge solutions to drug development challenges.

Within the inhalation segment of the broader CDMO market, there are several fundamental dynamics that make the space particularly attractive for Vectura:

- The science around inhaled product development and device technology is very challenging. Being a thought leader and leading expert in this niche market is a true advantage for our Company.
- The barrier to entry in the market is high, which will continue to limit the ability for new competitors to enter the arena.
- The growth of the segment is currently very encouraging, with over 300 molecules in development today requiring an inhaled route of administration. The majority of these products are in early-stage development (70% in pre-Phase II)<sup>2</sup>, which is a true sweet spot for Vectura's business.
- The ability to combine drug development and device technology is rare in the marketplace today. Our expertise in helping clients with formulation and device solutions, together with connected digitisation, can unlock the potential of our clients' product challenges.

<sup>1</sup> Out EY report: Consolidation of the CDMO industry: opportunities for current players and new entrants, September 2017.

<sup>2</sup> Global data pipeline analysis (July 2019) – "Respiratory" includes infectious disease assets small and medium-sized respiratory companies excludes companies with significant in-house inhalation capabilities: Astra Zeneca, GSK, Bayer, Novartis, BI, Pfizer, Chiesi, Orion 1 Contact development and manufacturing organisation.



# Chief Executive's statement continued

## Executing on our strategy

A great culture of high performance and excellence starts with leadership. In order to drive our momentum in 2020, we have added two CDMO industry experts to our Executive Leadership Team: Sharon Johnson (Executive Vice President, Delivery Management) and Mark Bridgewater (Chief Commercial Officer). The experience that both Sharon and Mark bring to the Company complements perfectly the deep domain expertise of our existing senior team. I am confident that our newly assembled executive staff will energise our organisation and provide clarity of purpose and clear leadership at all times.

To deliver on our new strategy, we are investing more in commercial excellence by building a strong business development and marketing engine. On the frontline, we are increasing the size of our salesforce with highly trained, scientific business developers who are adept at meeting the needs of CDMO customers. We are also applying more resources to our marketing effort, with a new and distinctive brand identity, which clearly communicates our thought leadership and scientific know-how in inhalation. This is coupled by an increase in our marketing spend to make Vectura's presence much more prominent in the outsourcing space.

The heart of our Company lies in the world-class expertise of our scientific colleagues, who are adept at working across the spectrum of pharmaceutical development and device technology. We will continue to invest in a prioritised technology roadmap that will meet the future needs of our customers so that they can solve the complex treatment requirements of their patients. Also, integral to any successful CDMO player is being able to deliver for its customers with excellence, quality and operational rigour. By streamlining our internal processes, we will be able to further meet the demands of our customers and ensure high levels of satisfaction at all times.

Over the course of the next several years we will reshape our business to meet the needs of our customers and shareholders.

- We will continue to drive our base business where we have been successful with core products, in particular *flutiform*<sup>®</sup>, and our royalties which will continue for many years to come.
- We will continue to see significant value created from our existing partnered pipeline products, in particular generic Advair Diskus<sup>®</sup> with Hikma (VR315 (US)), which is currently under FDA review; the pending launch of Novartis' first inhaled combination of indacaterol, glycopyrronium and mometasone (QVM149); and our portfolio of generic Ellipta<sup>®</sup> products being developed with Hikma.



In building a culture of togetherness and collaboration, our teams have recently developed a revised set of values that embody the passion we have to help the lives of patients across the world.

- As we build momentum in the CDMO space, we will augment our partnered revenue streams with a development services business that will drive incremental growth in the medium term. Our focused strategy and increasingly diversified customer base will deliver value for our shareholders, through more predictable, lower-risk development revenue and a smoother earnings profile. In line with this, we will be reducing our internal R&D spend, which was previously directed towards the development of our own product portfolio.

+ For more information about our investment case, see pages 4 and 5

## People, culture and values

We are fiercely proud of the extensive talent and technical expertise we have within Vectura and are committed to being at the forefront of science and innovation. In building a culture of togetherness and collaboration, our teams have recently developed a revised set of values that embody the passion we have to help the lives of patients across the world. Our values have been carefully crafted with input from our staff and are described as follows:

- Deliver for patients with pride – we are agile, efficient and deliver our commitments. We take pride in successfully developing medicines that transform lives.
- Create a great customer experience – our customer focus guides everything we do. We use our insight and capability to create a great experience for our customers.
- Work together as one team – we collaborate to achieve shared goals, using our combined knowledge and expertise to enable success.
- Do the right thing – quality is at the heart of everything we do. We work with integrity, consistently delivering to high standards.
- Innovate and improve – we thrive on learning and apply our expertise to innovate and be the best at what we do.

## COVID-19 outbreak

Events in relation to the COVID-19 outbreak have continued to evolve rapidly, and we are monitoring the situation closely to mitigate any impact on supply chain, product supply and development services activities. We will continue to put in place risk mitigation plans where appropriate.

Our first priority is the safety and health of our employees and visitors. We have increased our vigilance on hygiene across all sites and have appropriate protocols in place.

## Summary

2019 saw a solid year of performance for Vectura, providing a strong business base from which to build. In refocusing our Company strategy to becoming a leading player in the inhalation segment of the CDMO market, I am encouraged by the enthusiasm of our organisation to embrace the change in strategy and the many opportunities that lie ahead. In 2020, we will be putting our collective energy into transforming the business and executing on our growth plan for success.

This is an exciting time for the Company, and I look forward to working with the team to realise our ambitions for the Group.

**Will Downie**  
Chief Executive Officer

16 March 2020



# Q&A

with new CEO Will Downie



“

I am looking forward to driving the new business strategy and ensuring the Company achieves its long-term goal of becoming a world-class CDMO organisation in the inhalation space.

**Q What were your first impressions of Vectura?**

**A** Since joining the Company in November I have been excited to visit each of our sites and meet the whole team. Even in this short amount of time it has become clear to me that Vectura, with more than 20 years of experience, is uniquely positioned to help customers succeed in bringing their inhaled medicines to market. This is due to the deep science that exists in the organisation and highly experienced employees, whose combined formulation, device technology and product development expertise is truly impressive.

**Q What is your background and most recent experience?**

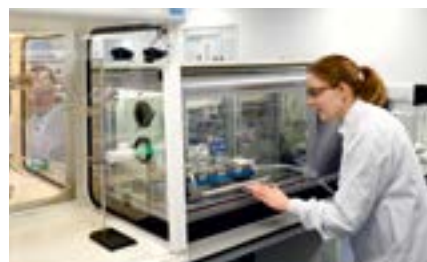
**A** Prior to joining the Company, I spent the last ten years as the SVP sales and marketing at Catalent, one of the largest CDMO players in the outsourcing market, a \$2.5bn company headquartered in New Jersey, US. Before that, I worked in a range of senior leadership roles with General Electric and prior to that at Quintiles, Sanofi and Merck.

**Q What are your immediate priorities as CEO?**

**A** We are investing more in the front end of the business by building strong capabilities in business development and marketing. We will continue to take advantage of our strong product development and scientific capability to remain differentiated by prioritising our investments in the technologies that will have the biggest impact in the market and for patients. And having customers at the heart of everything we do is crucial, making sure we deliver with excellence, quality and operational rigour.

## Market opportunity

# Inhalation is an attractive CDMO market segment



The underlying dynamics of the overall CDMO market are very strong, with current growth of approximately 7%<sup>1</sup> likely to continue for several years to come.

Within the inhalation space, outsourcing rates are very strong and expected to rise to about 40–45% in the next five years, across both large and small pharmaceutical companies. For smaller businesses and biotechs, the rate of outsourcing is even higher<sup>2</sup>.

As companies look to develop new treatments for patients, the inhalation route is becoming increasingly an area for exploration. In the inhalation segment of the CDMO market, there are more than 300 molecules in development and more than 70% of them are in pre-clinical or very early development.<sup>3</sup>

Product development in inhalation is very difficult – the barriers to entry are high and the number of competitors is relatively low. All these factors combined make the inhalation CDMO space an attractive market for Vectura.

## ~40–45%

**outsourcing rates within the CDMO market in the next five years, across both large and small pharmaceutical companies**

<sup>1</sup> EY report: Consolidation of the CDMO industry: opportunities for current players and new entrants, September 2017.

<sup>2</sup> Expert interviews (n=20) and expert survey (n=35) based on a sample of executives from CDMOs, pharmaceutical and medtech companies.

<sup>3</sup> Global data pipeline analysis (July 2019) – “Respiratory” includes infectious disease assets small and medium-sized respiratory companies excludes companies with significant in-house inhalation capabilities: Astra Zeneca, GSK, Bayer, Novartis, Bi, Pfizer, Chiesi, Orion 1 Contact development and manufacturing organisation.

### Trends for innovation

In the broad healthcare environment, we can see the following macro trends:

- Digital health is already prevalent on the high street – the combination of smart devices and pharmaceuticals will continue to become even more important in the future.
- Personalised medicine or precision medicine has at last become a reality. Companies are now targeting product development to treat smaller sub-populations of patients, orphan disease states and, in some cases, even individual patients.
- There is a steady increase in the number of large molecules coming to market and being developed.

In the inhalation space, we see the following market characteristics:

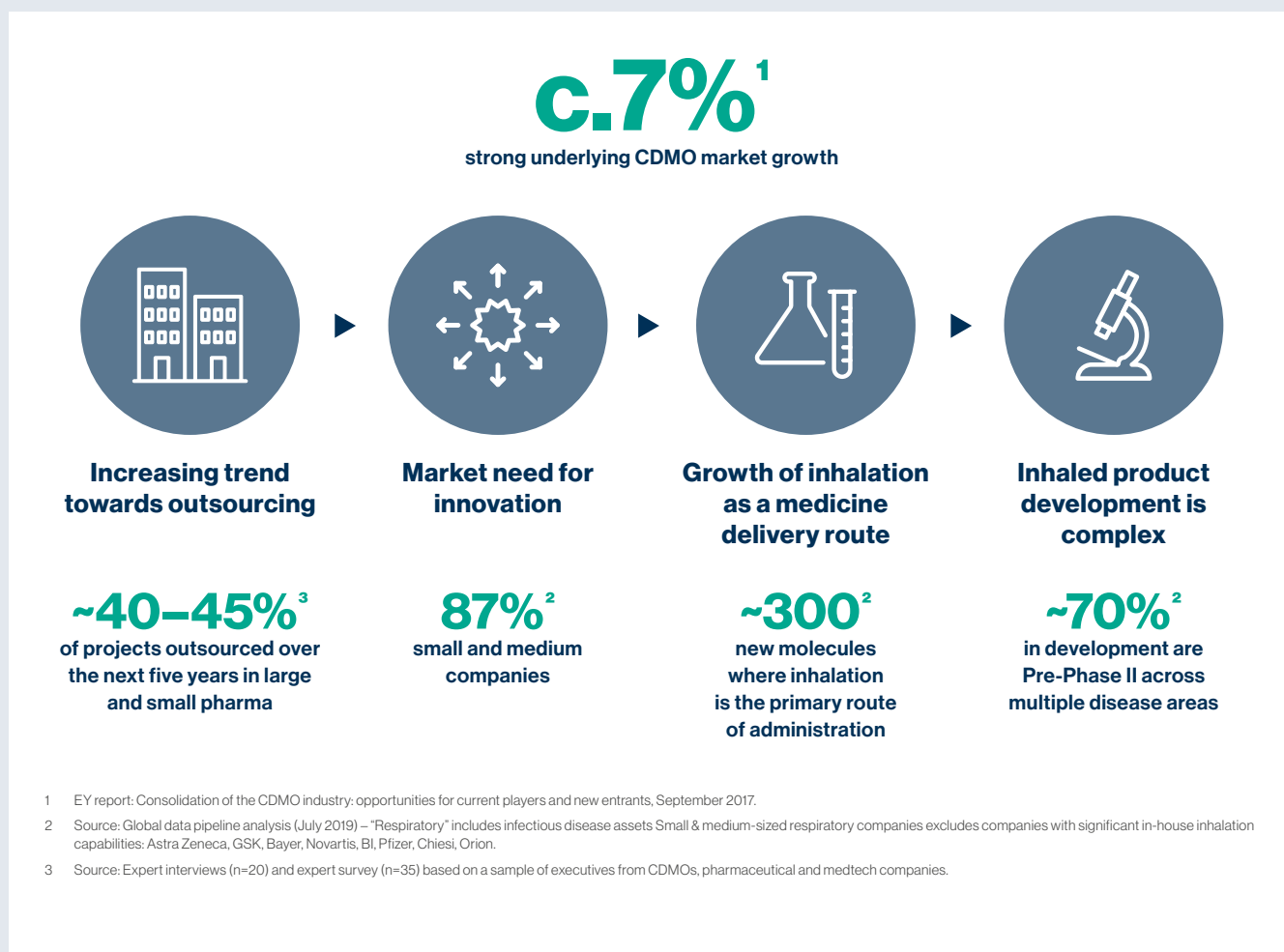
- Inhalation is being explored as the route of delivery to treat diseases beyond the historical focus on asthma, COPD and other respiratory conditions.
- There is a need for the optimisation of complex combination drug products.
- Demand for complex generics is continuing.

We are able to respond to the market dynamics and enable development of new treatments by addressing the following:

- the need for effective particle engineering and formulation of large (as well as small) molecules;
- the digital drive to combine devices with smartphones and apps;
- the growth of smart nebulisers in the future in order to more effectively deliver product to the lungs; and
- high payload DPIs.



## Dynamics in a growing CDMO market



## Opportunities to support the treatment of non-respiratory diseases through inhalation

### Oncology

Tumours in the lungs can be directly targeted via inhaled cytotoxic drugs, increasing exposure in the affected organ and tumour, whilst reducing the potential for systemic toxic adverse effects

### CNS

The lung provides a large surface area for non-invasive delivery of drugs to the lung and thereby systemic circulation is triggered simply by the patient's inspiratory manoeuvre, e.g. in Parkinson's disease

### Endocrinology

Biologic agents, e.g. hormones, can be rapidly delivered via inhalation to the systemic circulation, reducing the need for multiple injections, e.g. insulin and growth hormones

### Pulmonary vascular

Pulmonary arterial hypertension affects the precapillary space in the lungs. Inhalation of drugs allows for rapid absorption and targeting of the area where pathology is situated, potentially reducing side effects

# Business model

## A focused service offering throughout the development lifecycle

### Resources and relationships

#### Our talented people

Over 450 employees working internationally across five sites with expertise throughout the development and regulatory processes

#### Our shared culture

Our new evolved values foster a strong culture which is a definitive expression of "how we do things" at Vectura

#### Our intellectual property

We have a broad IP base covering our technologies and capabilities, managed by our experienced in-house team

#### Our strong partnerships

We pride ourselves in our array of active partnerships with leading pharmaceutical and biotech companies

# 450

employees working internationally across five different sites

# 7

partnerships with leading pharmaceutical and biotech companies

Molecules ▼

### Drug delivery services



### Device platforms

Proprietary devices and development capability: DPI, pMDI and nebuliser

#### Phases of development

▶ Complex drug device selection

▶ Device design and development ▶







## Formulation

Proven formulation capability

Full pharmaceutical development ▶ Device scale-up and industrialisation ▶ Technology transfer and manufacturing

## Medicines

### Value we create for our stakeholders

#### Patients

Developing products alongside our customers to improve patients' lives. Promoting affordable quality products with our generics pipeline and supporting patient access through development of innovative technologies and solutions to address major areas of unmet medical need

#### Our shareholders

Maintaining lower-risk R&D profile, with diversified revenue streams providing a smoother earnings profile. Looking to deliver special returns of capital in the absence of future inorganic opportunities

#### Our people

Creating a dynamic and rewarding place to work with clear development opportunities

#### Our customers and partners

Delivering scientific and operational excellence to ensure a broad range of technologies and capabilities are leveraged to support customers to bring their inhaled medicines to patients

#### Our environment and local communities

Constantly looking at how we can do business in a sustainable way. Offering good quality employment opportunities in our communities

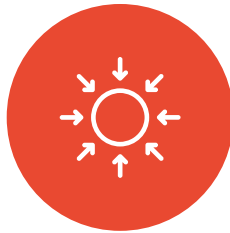
[+ Read more on page 40](#)

## Our strategy

# New strategic focus as a leading inhalation CDMO

In 2019 we announced a change in our strategy to focus on providing expert drug development services to a wider range of customers.

This strategy is built on targeting a growing inhalation market and moving away from our previous narrower product development focus. We are continuing to invest in our technologies and capabilities in areas where we are differentiated from the competition, whilst focusing on achieving a smoother earnings profile with lower-risk R&D investment. All this is underpinned by our drive for operational excellence, quality rigour and financial discipline in everything we do.



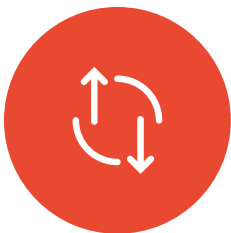
### Target a broad inhaled services market opportunity

- Generics and new molecular entities
- Respiratory and non-respiratory disease area focus



### Provide a differentiated offering

- Invest in proprietary technologies
- Deep expertise
- Strong track record



### Shift towards development services model

- Smoother revenue profile
- Less dependence on milestones
- Opportunity for licence fees and royalties



### Drive operational excellence

- Excellence in our execution
- Excellence in relationships with our partners
- Excellence in our people
- Operating responsibly



### Maintain financial discipline

- Lower-risk R&D profile
- Capital allocation focused on core business priorities



# How will we measure success in 2020?

We have set ourselves clear priorities for the year ahead that align with the cornerstones of our new strategy, which are set out on the opposite page.

Corporate goal	Objective
<b>1 Financial accountability</b>	<ul style="list-style-type: none"> <li>• Deliver our 2020 financial targets</li> </ul>
<b>2 Transform the Company into a successful CDMO</b>	<ul style="list-style-type: none"> <li>• Drive Vectura's presence in the CDMO market, by driving sales success, market awareness and a full rebranding of the Company</li> <li>• Build an organisation with effective end-to-end processes across business development, product development, delivery management and operations</li> <li>• Sign new CDMO business deals in order to meet 2020 financial targets and build the funnel to support future long-term growth</li> </ul>
<b>3 Drive product development and delivery management excellence</b>	<ul style="list-style-type: none"> <li>• Execute on all aspects of the prioritised technology roadmap</li> <li>• Effectively drive seamless processes across product development and delivery management teams</li> </ul>
<b>4 Quality and operational excellence</b>	<ul style="list-style-type: none"> <li>• Deliver on all aspects of agreed customer requirements</li> <li>• Further enhance Vectura's quality culture and ensure strong risk management processes are in place</li> <li>• Prompt mitigation of any quality and regulatory risks</li> </ul>

+ Read more in the CEO's statement on page 8

+ See the progress we have made in 2019 with our KPIs on page 18



I am looking forward to driving the new business strategy and ensuring the Company achieves its long-term goal of becoming a world-class CDMO organisation in the inhalation space.

**Will Downie, Chief Executive Officer**

# Key performance indicators

## Measuring our progress

We measure our success by tracking key performance indicators (KPIs) that reflect our strategic priorities and growth drivers. Success against these KPIs forms a component of the remuneration of the Executive Directors and senior management.

### Changes to our strategy this year

In last year's Annual Report, our KPIs were aligned to the five pillars of our business strategy:

-  **Strong financial performance**
-  **Maximising partnering value**
-  **Maximising pipeline value**
-  **Operational excellence**
-  **Great place to work**

In July we announced that we were introducing a new strategy as we refocus our business to become a leading CDMO in the inhalation space. Details of the new strategy can be found on page 16.

To allow for clear comparison of our 2019 performance versus 2018, the KPIs below remain aligned to our previous strategy. Details of our performance objectives for 2020 can be found on page 17.

### Changes to our KPIs this year

The KPIs for 2019 reflect a greater weighting given to key financial indicators, as well as focus on pipeline progression measures, which were considered critical to the valuation of the Company. As a result, broader collective measures encompassing project and clinical study progression have not been included as key performance metrics at a Company level in 2019.

### Financial KPIs

#### Revenue growth

£m

**£178.3m** +11.1%

2019



2018



[Link to strategy](#) 

#### Why is it a KPI?

Revenue is a critical KPI as it drives profit and cash growth for the Group. The KPI is the total of revenues generated by the Group's business model, comprising:

- supply of finished or semi-finished product to commercial distribution partners;
- royalties and sales-based milestones and product approval and launch milestones; and
- development revenues including licence fees to access intellectual property, milestone payments for specific clinical or other development-based outcomes, or fees billed directly for development services provided.

#### How is it measured?

Revenue is recognised in accordance with the Group's accounting policies as presented in note 3 of the consolidated financial statements.

#### 2019 performance

Revenues have increased by 11.1% driven by 36.7% growth in *flutiform*<sup>®</sup> product supply revenues. Growth is partially offset from the loss of a share of EXPAREL<sup>®</sup> net sales in 2019 and the inclusion in 2018 of £4.2m of upfront licensing revenues from the deal signed with Hikma to develop generic versions of GSK's Ellipta<sup>®</sup> portfolio, and of £2.4m as part of an agreement with Sandoz regarding revised territory rights for AirFluSal<sup>®</sup> Forspiro<sup>®</sup>.

#### Adjusted EBITDA progression

£m

**£43.4m** +11.3%

2019



2018



[Link to strategy](#) 

#### Why is it a KPI?

Adjusted EBITDA is an important non-statutory measure used by the Board, Executive Leadership Team and managers to monitor the Group's performance, as it provides useful information about the Group's underlying cash-generating performance.

#### How is it measured?

Adjusted EBITDA is defined as the Group's loss before taxation adding back exceptional items, amortisation and charges for share-based payments and depreciation.

Refer to note 9 of the consolidated financial statements for a reconciliation of the Group's loss before taxation to adjusted EBITDA.

#### 2019 performance

Adjusted EBITDA has improved by 11.3% driven by lower R&D expenditure. Although revenues have improved by 11.1%, gross margin excluding depreciation has declined slightly, as revenue mix moved in favour of product supply and several high-margin revenue items seen in 2018 did not reoccur.



**Net cash**

£m

**£66.5m**

2019

66.5

2018

104.2

**Link to strategy****Why is it a KPI?**

Availability of sufficient liquidity is important in ensuring the viability of the Group, funding investment, providing strategic flexibility and supporting potential capital returns.

**How is it measured?**

Cash and cash equivalents less drawn short and long-term debt.

**2019 performance**

Net cash has decreased by £37.7m as cash generated from operations in 2019 has been more than offset by payment of a special dividend of approximately £40.0m and completion of £3.5m of a £10.0m share buyback announced in September 2019.

**Non-financial KPIs****Pipeline progression performance measures****VR315 (US)**

Helping our customers and partners to develop and launch successful pharmaceutical products is critical to creating long-term value. In November 2019, the additional clinical endpoint study was completed for VR315 (US) and the data from the study included in a submission to the US FDA in November 2019 by Vectura's development partner, Hikma Pharmaceuticals.

VR315, our generic Advair®, still represents an important opportunity for Vectura and Hikma. Market volumes and values remain high, even after the entry of two generics early in 2019.

**Business development and alliance performance measures****VR647**

VR647 is a drug device combination based on the Group's proprietary nebuliser platform for paediatric use in the US market. It showed promising results in Phase II studies, and in 2019 the Group looked forward to finding a partner to take the asset into Phase III and, ultimately, commercialisation. The Group was not successful in finding a licensing partner and in September 2019 the Board concluded that it was appropriate to impair the intangible asset in full, resulting in an impairment charge in H2 2019 of £8.2m, offset by the release of deferred tax liabilities of £2.2m.

**Employee engagement**

Percentage point increase in favourable responses versus last survey

**+11 ppts****Link to strategy****Why is it a KPI?**

Having empowered and engaged people is fundamental to Vectura's success. We monitor our employee engagement to ensure that adverse trends or issues can be addressed in a timely manner.

**2019 performance**

The annual employee engagement survey helps us to measure how we are doing against our goal of Vectura being a great place to work where employees feel engaged, supported, valued and proud of the business.

88% of employees took part in the 2019 survey and the results show significant improvement across all areas compared to the March 2018 survey. Favourable responses were 53%, the highest since 2016.

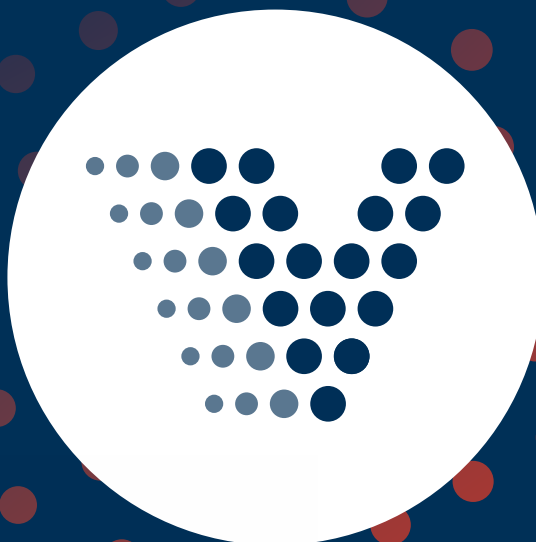
The 2018 survey was conducted during a period of significant restructuring and change in the Group and, consequently, the results were down, which was not entirely unexpected. It is therefore pleasing to see that the actions taken since have generated significant improvement.

The 2019 survey shows that external benchmarks are exceeded in two areas and we are close to meeting or exceeding external benchmarks in nine out of the twenty categories surveyed. Our ambition is to have better results than the external benchmarks, so, whilst our progress is encouraging, we continue to work to realise this ambition.



## Services and products

# Tailored inhalation services for a diverse range of customers



# Our services at a glance

## Formulation

Inhaled formulation development is increasingly complex with a wide variety of small molecules and biologics, increasing use of combination products and the need for targeted lung delivery or deep lung deposition for systemic delivery.

We offer formulation services for DPI, pMDI and nebuliser development, including small molecules and biologics, complex combinations and generic products.

## Pharmaceutical analysis

Our large, experienced inhalation group of analytical scientists can undertake the complete spectrum of test methodologies and physical properties characterisation required to support the development of DPI, pMDI and nebulised products.

With extensive, state-of-the-art analytical testing facilities and equipment, our expert teams are able to fully develop and validate all methods required to characterise complex inhalation products.

## Device platforms

We are one of the few companies globally that have developed DPIs, pMDIs and nebulisers to deliver a broad range of complex inhaled therapies.

Customers can optimise device selection for their inhaled programme, depending on the stage of development, molecule type and patient characteristics.

## Process development and tech transfer

We have the expertise to develop robust manufacturing processes. This allows us to scale up from laboratory through to clinical and commercial scale, with a seamless transfer to commercial manufacturing sites. We also have installation engineering capability to design, install and qualify manufacturing equipment and offer post-installation technical support.

## Product manufacturing

We can manufacture drug product and medical devices for use in development studies and clinical trials using our in-house manufacturing facilities and equipment.

In addition, we have separate good manufacturing practice (GMP) manufacturing facilities for DPI, pMDI and nebuliser devices, as well as one dedicated to the handling of large molecules. Our GMP manufacturing facilities and equipment are state of the art, meet all required environment, health and safety, quality and regulatory standards and are operated by a dedicated manufacturing team.

## Medical and regulatory

Formulation, device and development services are fully supported by our medical, regulatory and pharmacovigilance teams to assist customers' programmes and ensure the smoothest path to product approval.

We offer medical insight into pharmacovigilance activities and can act as Medical Monitor for clinical studies through all phases of drug development. In addition, we have extensive experience in regulatory agency interactions and can provide support for the authoring of the various regulatory submission documents.

Pre-clinical development	Phase I	Phase II	Phase III	Submission and approval	Commercialisation	
<b>F</b> Formulation and product development					<b>R</b> Post-approval support: lifecycle management and continuous improvement activities Regulatory guidance	
	<b>P</b> Formulation and product manufacturing process scale-up and industrialisation		<b>P</b> Product manufacturing technical transfer			
<b>A</b> Comprehensive analytical, characterisation and stability services						
	<b>A</b> Orally inhaled drug product in vitro bioequivalence testing					
<b>D</b> Device selection and development for clinical studies						
	<b>P</b> Device industrialisation and commercialisation					
<b>M</b> Pre-clinical and clinical supply			<b>M</b> Phase III clinical and commercial supply managed via CMO		<b>M</b> Supply chain expertise	
<b>R</b> Global medical, regulatory, device vigilance and pharmacovigilance support						
Key	<b>F</b> Formulation	<b>P</b> Process development	<b>A</b> Pharmaceutical analysis	<b>D</b> Device platforms	<b>M</b> Manufacturing	<b>R</b> Medical and regulatory

# Services and products continued

## Devices

### DRY POWDER INHALERS

Our dry powder inhalers are built on a commercially validated platform giving customers confidence of performance and a proven regulatory track record

- Range of multi- and single-dose devices
- Simplicity of design with low component count, but high functionality
- Robust and low cost
- Intuitive user interface
- Built on commercially proven GyroHaler® DPI platform (marketed by Sandoz as AirFluSal® Forspiro®)
- Add-on or integrated connectivity (available for Open-Inhale-Close)
- Consistent performance
- Broad and long-dated patent coverage



GyroHaler®



Lever-operated



Open-Inhale-Close



Multi-use single unit dose

### PRESSURISED METERED DOSE INHALERS

Significant pMDI expertise based on the successful development of flutiform® with partners

- Development of tailored solutions based on commercially available pMDI devices
- Optimisation of container closure systems
- Designed for high-volume manufacture



Dose indicating pMDI actuator

### NEBULISERS

Our breath-actuated nebulisers aim to improve the effectiveness of inhaled drugs, deliver better clinical outcomes and shorten treatment times

#### VIBRATING MESH NEBULISER

- Low inspiration flow rate
- Controlled inhalation volume
- Potential for use with large molecules including biologics
- Guided inhalation and real-time feedback



FOX®

#### JET NEBULISER

- Breath actuation
- Potential to increase efficiency and reduce drug dosage
- Intuitive colour touchscreen
- Bluetooth® enabled for adherence applications
- Guided inhalation and real-time feedback



AKITA® JET





# In-market products

## flutiform®

**Mundipharma, Europe and Rest of World (ex. North America/ Kyorin, Japan), for the treatment of asthma** had a very strong year in 2019, growing product supply revenues by 36.7% and combined revenues, including *flutiform*® royalties from Japan, by 35.3%. This increase was driven partially by a low 2018 comparator, where H1 2018 revenues were depressed following partner de-stocking in late 2017 and early 2018. However, *flutiform*® also continued to perform well in the competitive asthma ICS/LABA market (ex. US), generating total in-market sales of €254.5m (at constant exchange rates (CER)) during 2019, up 10.4% in value (CER) and up 12.1% in volume compared to the prior year. Both partners also adopted more conservative supply chain management policies, which also supported higher shipped volumes in 2019.

- In Europe *flutiform*® in-market sales grew by 3.6% in value (CER), and volume up 5.3% in a competitive and genericised ICS/LABA market, which declined by 2.0% in value (CER) compared to the prior year.<sup>1</sup>
- In Japan *flutiform*® in-market sales grew by 11.3% (CER) and volumes by 13.6% compared to 2018. Japan sales also contributed royalty revenue of £6.3m, an increase of 18.9% compared to the prior year.<sup>1</sup>
- In the Rest of World territories, *flutiform*® remains at an early stage of its lifecycle and has continued to grow strongly, with in-market sales of €29.3m (CER) up 46.4% compared to the prior year.<sup>1</sup>
- Total revenue from product supply and royalties of £107.7m was up 35.3% from 2018 (2018: £79.6m).



## Ultibro® Breezhaler®

**Seebri® Breezhaler®, Utibro™ Neohaler® Inhalation Powder and Seebri™ Neohaler® (Novartis/Sunovion, US) for the treatment of COPD**

- Ultibro® Breezhaler® continues its class leadership of the dual bronchodilator LAMA/LABA class (ex. US). Novartis' full year 2019 results reported a decline in Ultibro® sales of 1.3% (CER) to \$424.3m, mainly due to competition.
- Seebri® Breezhaler® reported sales declined by 10.3% to \$122.1m (CER) again mainly due to competition.
- Vectura recognised royalties of £18.4m in respect of sales of Ultibro® and Seebri® (2018: £17.8m), but declined by 1.1% on a CER basis.



<sup>1</sup> IQVIA SMART MIDAS constant currency sales. Royalties payable to the Group by partners are based on agreed contractual definitions of net sales, which differ from IQVIA reported sales and may include other adjustments or deductions.

# Services and products continued

## Our track record

Our formulation and device technology has contributed to the success of eleven inhaled medicines, launched by our partners and licensees.

**flutiform®**



**flutiform® K-Haler®**



**Ultibro® Breezhaler®**



**Seebri® Breezhaler®**



**AirFluSal® Forspiro®**



**Airbufo® Forspiro®**



**Breelib™**



**Incruse® Ellipta®**



**Anoro® Ellipta®**



**Relvar/Breo® Ellipta®**



**Trelegy® Ellipta®**



**11**

inhaled products currently on the market

**c.\$10bn<sup>1</sup>**

cumulative sales of inhaled products using our technology since initial launch in 2012

**>25**

years of experience

<sup>1</sup> Source: Evaluate Pharma and partner quarterly statements.

Anoro® Ellipta®, Relvar®/Breo® Ellipta®, Trelegy® Ellipta® and Incruse® Ellipta® are registered trade marks of GSK, photos courtesy of GSK. Formulation technology licence, product not developed by Vectura. Ultibro®, Seebri®, Breezhaler® are registered trademarks of Novartis AG, AirFluSal®, AirBuFo® and Forspiro® are registered trademarks of Novartis AG, photos courtesy of Novartis.



# Financial review and risk management



## Financial review

# Solid financial results with revenue and adjusted EBITDA up 11%

Vectura has delivered a solid set of financial results for 2019, with both revenue and adjusted EBITDA showing double-digit growth. Whilst revenue mix, alongside some one-off margin benefits in 2018, have diluted gross margin for 2019, this reduction has been offset by cost reductions resulting in a 2019 adjusted EBITDA margin in-line with the prior year. Loss per share improved significantly in the period.

### Summary financial information for the year ended 31 December 2019

	2019 £m	2018 £m	% change
Product supply revenues	<b>115.0</b>	85.6	34.3%
Royalty and other marketed revenues	<b>51.9</b>	58.4	(11.1%)
Development revenues	<b>11.4</b>	16.5	(30.9%)
<b>Revenue</b>	<b>178.3</b>	160.5	11.1%
Cost of sales	<b>(83.0)</b>	(61.6)	34.7%
<b>Gross profit</b>	<b>95.3</b>	98.9	(3.6%)
Gross profit margin	<b>53.4%</b>	61.6%	(8.2) ppts
Research and development (R&D) expenditure	<b>(50.2)</b>	(55.5)	(9.5%)
Other operating expenditure and income	<b>(15.0)</b>	(12.8)	17.2%
Exceptional items	<b>(3.5)</b>	(9.0)	(61.1%)
Amortisation and impairment	<b>(53.6)</b>	(127.0)	(57.8%)
<b>Operating loss</b>	<b>(27.0)</b>	(105.4)	(74.4%)
Adjusted EBITDA	<b>43.4</b>	39.0	11.3%
Adjusted EBITDA margin %	<b>24.3%</b>	24.3%	n/a
<b>Loss per share (basic and diluted)</b>	<b>(3.4p)</b>	(13.2p)	(74.2%)

Revenue growth of 11.1% reflects strong growth in product supply revenues. *flutiform*<sup>®</sup> in-market demand and partner supply chain management drove a 34.3% increase in product supply revenues to £115.0m. *flutiform*<sup>®</sup> product supply delivered a gross margin of 35.8% contributing £36.3m to gross profit (2018: 39.2% gross margin; £29.1m gross profit).

Overall gross profit declined by 3.6% as the increased contribution from *flutiform*<sup>®</sup> product supply was offset by the loss of the share of net sales of EXPAREL<sup>®</sup> following patent expiry in 2018 (2018: £5.1m) and licensing revenue recognised in 2018 following the signing of the generic Ellipta<sup>®</sup> agreement with Hikma (2018: £4.2m).

The decline in gross margin was more than offset by cost reductions. R&D expenditure declined 9.5% due mainly to the reduction in clinical costs associated with VR475 following termination of the programme in 2018. As a result, adjusted EBITDA, a measure of underlying performance, increased by 11.3% to £43.4m (2018: £39.0m). The Group ended the year with a considerably reduced operating loss of £27.0m (2018: loss of £105.4m) following significant impairments in 2018.



## 1. Revenue

### 1.1 Product supply revenue

The Group generates significant revenues from the supply of finished or semi-finished products, largely manufactured by third-party suppliers, to commercial distribution partners. The costs incurred to deliver these revenues are reported under cost of sales. These revenues grew by 34.3% in 2019, driven by strong volume demand from partners for *flutiform*<sup>®</sup>.

#### Total product supply revenues and gross margin

	2019 £m	2018 £m	% change
<i>flutiform</i> <sup>®</sup>	<b>101.4</b>	74.2	36.7%
Other inhaled products	<b>3.2</b>	3.1	3.2%
Non-inhaled products	<b>10.4</b>	8.3	25.3%
<b>Revenue</b>	<b>115.0</b>	85.6	34.3%
Cost of sales	<b>(83.0)</b>	(61.6)	34.7%
<b>Gross profit</b>	<b>32.0</b>	24.0	33.3%
Gross profit margin %	<b>27.8%</b>	28.0%	(0.2) ppts

#### *flutiform*<sup>®</sup>

Vectura earned 56.9% (2018: 46.2%) of the Group's total reported revenue from the supply of finished *flutiform*<sup>®</sup> products to Mundipharma (Europe and Rest of World) and Kyorin (Japan).

*flutiform*<sup>®</sup> product supply revenues grew to £101.4m, a 36.7% increase versus the prior period, driven primarily by three factors. Firstly, a low 2018 comparator, where first half 2018 revenues were depressed following partner destocking in late 2017 and early 2018. Secondly, in 2019, both partners adopted more conservative supply chain management policies which supported higher shipped volumes in 2019. Lastly, *flutiform*<sup>®</sup> continued to perform well in the competitive asthma ICS/LABA market ex. US, with total in-market sales up 10.4% on a constant exchange rate (CER) basis, compared to the prior period, with volume growth of 12.1%.<sup>1</sup>

#### *flutiform*<sup>®</sup> revenues

##### In-market *flutiform*<sup>®</sup> sales<sup>1</sup> (CER)

	2019 £m	2018 £m	% change
Territory			
Europe	<b>121.5</b>	117.2	3.6%
Japan	<b>103.8</b>	93.2	11.3%
RoW (ex. North America)	<b>29.3</b>	20.0	46.4%
<b>Total in-market sales</b>	<b>254.5</b>	230.4	10.4%

#### Vectura product supply revenues and gross profit

	2019 £m	2018 £m	% change
<i>flutiform</i> <sup>®</sup> product supply revenue	<b>101.4</b>	74.2	36.7%
Cost of sales	<b>(65.1)</b>	(47.4)	37.3%
One-off margin credit	—	2.3	n/a
<b>Gross profit</b>	<b>36.3</b>	29.1	24.7%
Gross profit margin %	<b>35.8%</b>	39.2%	(3.4) ppts
Gross profit margin % (ex. 2018 one-off credits/(debits))	<b>35.8%</b>	36.1%	(0.3) ppts

*flutiform*<sup>®</sup> gross margin was down 3.4 percentage points compared to 2018 as the prior year benefited from the release of a £1.1m supplier provision and a £1.2m credit from Sanofi in settlement of historical claims prior to the sale of the Holmes Chapel manufacturing facility to Recipharm. Despite market price reductions in Japan in April 2018, which impacted the Group's supply prices in 2019, the gross margin earned for product supply sales, excluding one-off items, was 35.8% (2018: 36.1%), slightly ahead of guidance. The gross margin in 2019 benefited from a positive geographical mix effect with an unusually high proportion of product supply sales to high margin territories. This geographical mix effect contributed approximately 1.1% to the margin in 2019.

In 2020 we expect continued growth of *flutiform*<sup>®</sup> partner in-market sales, with Vectura product supply revenues expected to be broadly similar to the 1H 2019 run-rate. Underlying gross profit margin expectations for 2020 and in the medium term are approximately 30-32% as a result of regional mix changes, pricing pressure in Japan and Rest of World, and an expectation of additional compliance costs following the UK's exit from the European Union.

The Group also earns royalties on *flutiform*<sup>®</sup> sales made by Kyorin in Japan. Including these royalties, total revenues for *flutiform*<sup>®</sup> were £107.7m (2018: £79.6m).

#### Other inhaled products

Vectura also earns revenue from the supply of devices to partners including the GyroHaler<sup>®</sup> device for the AirFluSal<sup>®</sup> Forspiro<sup>®</sup> product to Sandoz and the FOX<sup>®</sup> device to Bayer for use in its Breelib<sup>™</sup> product. In total this revenue stream contributed £3.2m, an increase of 3.2% compared to the prior period.

#### Non-inhaled products

The Group's oral manufacturing facility in Lyon, France, generates product supply revenues from sales of oral products to partners. In 2019, product supply revenues from Lyon were £10.4m, a 25.3% increase compared to the prior period (2018: £8.3m).

The operational focus of the Lyon site continues to be on improving profitability by replacing steady volume declines in mature and off-patent products, with growing new manufacturing volumes, supply revenues and associated development fees through new agreements.

Some of the products manufactured at the Lyon site also earn the Group royalties, reported separately.

<sup>1</sup> IQVIA SMART MIDAS constant currency sales. Royalties payable by partners to the Group are based on agreed contractual definitions of net sales, which differ from IQVIA reported sales and may include other adjustments or deductions.



# Financial review continued

## 1. Revenue continued

### 1.2 Royalty and other marketed revenues

The Group also generates revenues from products marketed by partners which incorporate Vectura's intellectual property. These revenues typically comprise royalties, sales-based milestones, and product approval and launch milestones. These revenues reflect financial returns from historical R&D investments in partnered programmes. These revenues are earned without further material costs being incurred by the Group.

#### Total royalty and other marketed revenues

	2019 £m	2018 £m	% change
Ultibro® and Seebri®	18.4	17.8	3.4%
Ellipta®	9.0	9.0	n/a
flutiform®	6.3	5.4	16.7%
AirFluSal® Forspiro®	2.3	2.9	(20.7%)
Other inhaled royalties	0.3	—	n/a
Non-inhaled royalties	14.2	14.5	(2.1%)
<b>Royalty revenue</b>	<b>50.5</b>	49.6	1.8%
Share of net sales of EXPAREL®	—	5.1	n/a
Other marketed revenues	1.4	3.7	(62.2%)
<b>Royalty and other marketed revenues</b>	<b>51.9</b>	58.4	(11.1%)

Ultibro® Breezhaler® and Seebri® Breezhaler® are established products in Europe and Ultibro® continues to be the leading LAMA/LABA combination treatment for COPD ex. US.

Vectura revenues for Ultibro® and Seebri® Breezhaler® are derived from a royalty percentage of net sales reported by Novartis. Royalties from Ultibro® and Seebri® Breezhaler® remained virtually flat in 2019, although declined by 1.1% on a CER basis.

In respect of GSK's Ellipta® products Vectura has recognised the capped annual royalty of £9.0m during 2019. This royalty is not expected to recur in 2020.

flutiform® royalties for Europe and most of the Rest of World territories are subject to the terms of the agreement with Mundipharma, which limits the aggregate amount of royalties that can be earned by Vectura. As a result of this cap, royalties from Mundipharma were virtually nil in 2019 (2018: £0.1m).

Strong in-market performance by Kyorin drove value and volume growth in Japan, up 11.4% (CER) and 13.6% respectively. As a result royalties from Japan grew by 18.9% (CER 12.3%), to £6.3m (2018: £5.3m). Vectura is entitled to continue to receive royalties from Japan in addition to any product supply revenues.

New product launches, VR315 (US) and QVM149 are expected to contribute royalties in H2 2020. Vectura will earn an \$11m milestone upon approval of VR315 (US) plus a mid-teen royalty on net sales of the product. Vectura will earn a \$5m milestone upon European approval of QVM149 plus a low single-digit royalty on net sales.

Non-inhaled royalties comprise royalties earned on oral and other non-inhaled products which benefit from the Group's historical intellectual property. Many of these products are manufactured at the Group's production facility in Lyon.

Total non-inhaled royalties remained virtually flat due to strong RAYOS® royalty growth, up 27.3% to £9.8m, offsetting the decline in other royalties which are coming to the end of their lifecycle. The increase in RAYOS® royalties is attributable to continued promotional activity. The licence agreement for RAYOS®/LODOTRA® was amended with effect from 1 January 2019 and Vectura is now eligible for a minimum \$8.0m annual royalty for RAYOS® for the calendar years 2019 to 2022.

Following patent expiry in September 2018 the Group did not receive a share of net sales of EXPAREL® revenue in 2019, a reduction of £5.1m versus 2018. The Group remains eligible to receive a non-patent dependent \$32m sales milestone when twelve-month net sales of EXPAREL® reach \$500m on a cash received basis. On 9 January 2020, Pacira reported 2019 full-year EXPAREL® net product sales of \$407.9m, up 23.2% compared to 2018.

Other marketed revenues are made up of primarily a £1.3m milestone received on the anniversary of the first European launch of Breelib™. Under the terms of its agreement with Bayer, Vectura is eligible to receive a further €2.75m in milestones spread over the next four years, paid annually.

In 2018, the Group also recognised revenues of £2.4m during the period as part of an agreement with Sandoz regarding revised territory rights for AirFluSal® Forspiro®.

### 1.3 Development revenues

The Group also earns revenue from agreements with partners which draw on Vectura's device, formulation and development capabilities to deliver commercially attractive inhalation products. Under these agreements, during the development phase Vectura typically receives a series of cash flows in consideration for a variety of activities, which may comprise an upfront fee as consideration for the licence to access intellectual property, milestone payments for specific clinical or other development-based outcomes, or fees billed directly for work performed. Together these revenues have been categorised as development revenues. Revenues are recognised when contractual performance obligations are deemed to have been met, with the profile of these revenues varying by programme and over time.

As a consequence of the Group's shift towards more service-based agreements, it is expected that development revenues for new agreements will increasingly be derived from fees billed directly for work performed, rather than milestone payments which are contingent on specific clinical or development-based outcomes. The Group will continue to earn licence fees and royalties where partners have accessed Vectura intellectual property.

Costs to deliver these revenues have been reported under research and development (R&D) expenditure in the Consolidated income statement.

#### Development revenues by programme

	2019 £m	2018 £m	% change
Licensing of intellectual property			
QVM149 (Novartis)	1.9	—	n/a
Generic Ellipta® portfolio (Hikma)	—	4.2	n/a
Other inhaled programmes	0.5	0.4	25.0%
<b>Total licensing revenues</b>	<b>2.4</b>	4.6	(47.8%)
Development services			
Inhaled development services	6.9	10.4	(33.7%)
Non-inhaled development services	2.1	1.5	40.0%
<b>Total development services</b>	<b>9.0</b>	11.9	(24.4%)
<b>Total development revenues</b>	<b>11.4</b>	16.5	(30.9%)



## Licensing revenues

### QVM149

In May 2019, Vectura recognised a \$2.5m (£1.9m) milestone under an exclusive licensing agreement with Novartis AG following EU Regulatory Authorities' acceptance of a valid Marketing Authorisation Application (MAA) made by Novartis for its QVM149 product. European launch is expected in H2 2020, subject to regulatory approval.

Vectura is due to receive a further milestone payment of \$5.0m on European regulatory approval of the product and thereafter royalties on net sales from launch.

### Generic Ellipta® portfolio

In November 2018, Vectura signed a global development and commercialisation agreement with Hikma for the development of an AB-rated substitutable drug device combination of generic versions of the GSK Ellipta® portfolio. Upon signing of the deal, Vectura received an upfront cash payment of \$15m (£11.4m). Of this total, £6.6m was recognised in 2018, split between licensing revenues (£4.2m) and inhaled development services revenue (£2.4m).

### Inhaled development services

Overall inhaled development services revenue has decreased primarily due to lower activity for Mundipharma's k-haler® following product launch in September 2018 and the final balance of £1.7m recognised for the VR2076 project in 2018. Work has continued on the generic Ellipta® programme with Hikma; the revenue is broadly flat at £2.8m (2018: £2.4m).

### Non-inhaled development services

The Group earned £2.1m in 2019 (2018: £1.5m) from the provision of development services related to products which are or will be manufactured at its oral tablet production facility in Lyon, France.

## 2. Research and development (R&D) expenditure

The Group's R&D expenditure has historically been presented under two distinct categories:

**a) Partnered** – this category represents R&D expenditure to progress partnered programmes. This expenditure is principally funded by development revenues earned from the partner, which may be contingent upon the achievement of certain future milestones;

**b) Pre-partnered** – this category of R&D expenditure reflects investments funded by the Group on programmes yet to be partnered, as well as investments in its own innovative proprietary technology platforms. These investments are the basis for generating future partnering and licensing revenue opportunities.

### Total R&D expenditure by category

	2019 £m	2018 £m	% change
Partnered R&D	<b>24.5</b>	20.6	18.9%
Pre-partnered R&D	<b>25.7</b>	34.9	(26.4%)
<b>Total R&amp;D</b>	<b>50.2</b>	55.5	(9.5%)

### Partnered R&D

Partnered R&D expenditure in 2019 represented 49% of total R&D expenditure (2018: 37%). Within this total, 79% of the Group's partnered R&D spend was focused on generic programmes (2018: 70%).

### Pre-partnered R&D

Pre-partnered R&D expenditure in 2019 represented 51% of total R&D expenditure (2018: 63%). Vectura will continue to invest in proprietary platform technologies as stated above; however, following the shift in strategy Vectura will no longer invest in its own proprietary pipeline of programmes. In line with this, further work on VR647 and the three VEnT pipeline projects announced in 2018 ceased in the second half of 2019.

Overall R&D in 2020 is expected to progressively reduce as capacity is released from its proprietary pipeline, and deployed towards revenue-generating partner business. At the same time, the Group will continue to invest in a prioritised technology roadmap, creating intellectual property to drive future licensing and royalty income. The Group expects R&D investment for 2020 to be within the range of £40m to £45m.

## 3. Other operating expenditure and income

Other operating expenditure comprises a £2.7m non-cash charge for share-based compensation (2018: £2.6m) as well as corporate, administrative and selling and marketing costs of £14.0m (2018: £12.8m).

The increase in corporate, administrative, and marketing costs is driven by the costs relating to consultancy costs and the departure of Vectura's previous CEO at the end of June 2019.

## 4. Amortisation and impairment

The Group recognised a £53.6m charge for amortisation and impairment of intangible assets, compared to £127.0m in the prior period. The significantly lower charge in 2019 is largely the result of the full impairment (£39.8m) of the VR475 intangible asset in 2018 following confirmation that the Phase III study did not meet its primary endpoint. In addition *flutiform*® amortisation is lower following an extension to certain Japanese patents. In 2019 the Group recognised an impairment charge of £8.2m following the decision to cancel further development of VR647 in September 2019.

In addition, the EXPAREL® intangible asset of £11.7m was fully amortised in 2018, further reducing the carrying value of intangible assets to be amortised.

## 5. Exceptional items

Exceptional items of £3.5m in 2019 (2018: £9.0m) include £3.0m of legal fees from proceedings against GSK for the enforcement of Vectura's patents in respect of the Ellipta® products.

## 6. Adjusted EBITDA

Adjusted EBITDA is a non-statutory measure that demonstrates the Group's underlying performance, excluding exceptional items and material non-cash accounting charges, as shown below. It is used by management and the Board to monitor the Group's performance over time.

As shown in note 9 to the consolidated financial statements, adjusted EBITDA is calculated by adjusting the statutory operating loss for non-cash items such as depreciation, amortisation and share-based compensation and for items that are exceptional in nature and do not represent the underlying trends of business performance.

Adjusted EBITDA of £43.4m increased by 11.3% compared to the prior period benefiting from strong growth in product supply gross profit, offset by a reduction in higher margin royalties and other marketed revenues. A reduction in R&D costs has enabled the Group to maintain operational leverage, with the 2019 adjusted EBITDA margin in line with the prior year (24.3%).

## Financial review continued

### 7. Net finance income

Net finance income of £0.9m in 2019 has remained virtually flat compared to 2018.

### 8. Loss before tax

The Group's statutory loss before tax of £26.1m has reduced by 75.1% from £104.8m in 2018 largely as the result of a £73.4m decrease in amortisation and impairment of intangible asset charges.

### 9. Taxation

The Group's effective tax rate (ETR) is a 15.3% credit (2018: 15.8% credit). The reduction in the credit arises from a lower deferred tax credit driven by a decrease in amortisation and impairment charges as explained above and the partial derecognition of deferred tax assets.

### 10. Loss per share

Despite the share consolidation implemented in October 2019, the loss per share in 2019 has reduced markedly from 13.2p to 3.4p largely due to lower amortisation and exceptional charges, as well as continued growth in adjusted EBITDA.

### 11. Foreign exchange exposure

The Group receives revenue and incurs expenses in a number of foreign currencies and, as such, movements in foreign exchange rates can materially impact the Group's financial results. Had foreign currency rates in 2019 remained constant with those of 2018, the Group's reported adjusted EBITDA would have been approximately £1.2m lower.

As an indication, a 5% strengthening or weakening of sterling against the euro, US dollar and Swiss franc would have had an impact of between £3.3m and £3.7m on the Group's adjusted EBITDA in 2019.

#### Balance sheet

##### Goodwill

The decrease of £1.2m in goodwill to £162.2m at 31 December 2019 arises from foreign exchange losses upon revaluation of goodwill denominated in foreign currencies, primarily the Swiss franc.

##### Intangible assets

The £55.8m decrease in the carrying value of intangible assets is due to amortisation of £45.4m and an impairment charge of £8.2m relating to the VR647 programme following cancellation of the programme. Other movements primarily relate to foreign exchange losses partially offset by £1.3m of software additions.

##### Property, plant and equipment

The net book value of property, plant and equipment is £55.1m, £2.7m lower than at 31 December 2018. The key movements are £10.7m of depreciation and impairment and £1.2m of foreign exchange losses partially offset by £6.1m of additions and £3.6m non-cash additions relating to the recognition of right-of-use property assets on adoption of the IFRS 16 Leases standard.

##### Inventory

Inventory is £1.0m higher with approximately 90% of the £27.7m carrying value at 31 December 2019 attributable to *flutiform*<sup>®</sup>. The increase in inventories is driven by continued growth in *flutiform*<sup>®</sup> volumes and the need to build strategic stocks for Brexit-related risks, partially offset by a foreign exchange loss.

##### Swiss defined benefit retirement liability

The Swiss defined benefit retirement liability has increased by £1.4m to £4.5m (31 December 2018: £3.1m) due to a decrease in the discount rate used to value the defined benefit obligation.

##### Cash and liquidity

Vectura ended the year with cash and cash equivalents of £74.1m (2018: £108.2m) following the payout of a special dividend of approximately £40.0m and the completion of £3.5m of an approved £10.0m share buyback programme. Directly attributable execution costs associated with these capital returns were £0.3m.

Cash generated from operating activities was £19.3m in 2019 (2018: £35.1m). The difference between adjusted EBITDA of £43.4m and cash generated from operating activities is primarily driven by the reduction in payables since 2018. The key movements in payables are the payment in 2019 of £3.1m GSK legal fees accrued in 2018; the payment of £2.0m for contractual *flutiform*<sup>®</sup> liabilities; and the payment in 2019 of £3.0m for VR475 liabilities accrued at 31 December 2018. In addition, £3.5m of revenue was recognised in 2019 for which the cash was received in 2018; this primarily relates to the upfront payment of £11.4m for the generic Ellipta<sup>®</sup> agreement with Hikma received in 2018. The remaining £2.0m of the £11.4m upfront cash payment is expected to be recognised as revenue in 2020.

The table below shows the reconciliation of adjusted EBITDA to cash generated from operating activities.

	2019 £m	2018 £m
<b>Adjusted EBITDA</b>	<b>43.4</b>	39.0
Presentational		
– Exceptional cash outflow – GSK litigation	<b>(3.0)</b>	(7.1)
– Research and development tax credit income presented outside of operating cash	<b>(1.7)</b>	(1.5)
Working capital		
– Generic Ellipta <sup>®</sup> (Hikma) and VR2081 revenue recognition timing	<b>(3.5)</b>	6.5
– (Decrease)/increase in payables	<b>(11.1)</b>	0.6
– Increase in receivables	<b>(3.5)</b>	(0.4)
– Increase in <i>flutiform</i> <sup>®</sup> inventory	<b>(1.3)</b>	(2.0)
<b>Cash generated from operating activities</b>	<b>19.3</b>	35.1

The Group received research and development tax credits of £2.4m (2018: £1.0m), which were partially offset by scheduled corporation tax payments relating to its US and Swiss operations of £1.3m (2018: £6.0m).

Net cash outflows from capital expenditure were £7.2m, £5.1m lower than 2018. These included investments in manufacturing equipment for the Lyon site, as well as investment in the Group's laboratories and platform technologies.

The Group has access to a £50.0m multi-currency revolving credit facility with Barclays Bank PLC and HSBC Bank PLC. This facility expires in August 2021 and remains undrawn.

By order of the Board

**Paul Fry**  
Chief Financial Officer  
16 March 2020





## Risks

# Risk management and internal control

Our risk management process is designed to ensure that existing or emerging significant risks are identified, assessed, managed and reported to relevant stakeholders in a timely manner to inform and support decision making. This process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts.

Our process aims to mitigate the significant risks faced by Vectura in accordance with our risk appetite. As already noted in the Strategic report, the Group is transitioning its business model towards offering development services where a smaller proportion of the overall contract value is delivered through contingent milestones. This new business model is lower risk and provides for a smoother revenue profile.

It is recognised that no risk management process can provide absolute assurance against loss.

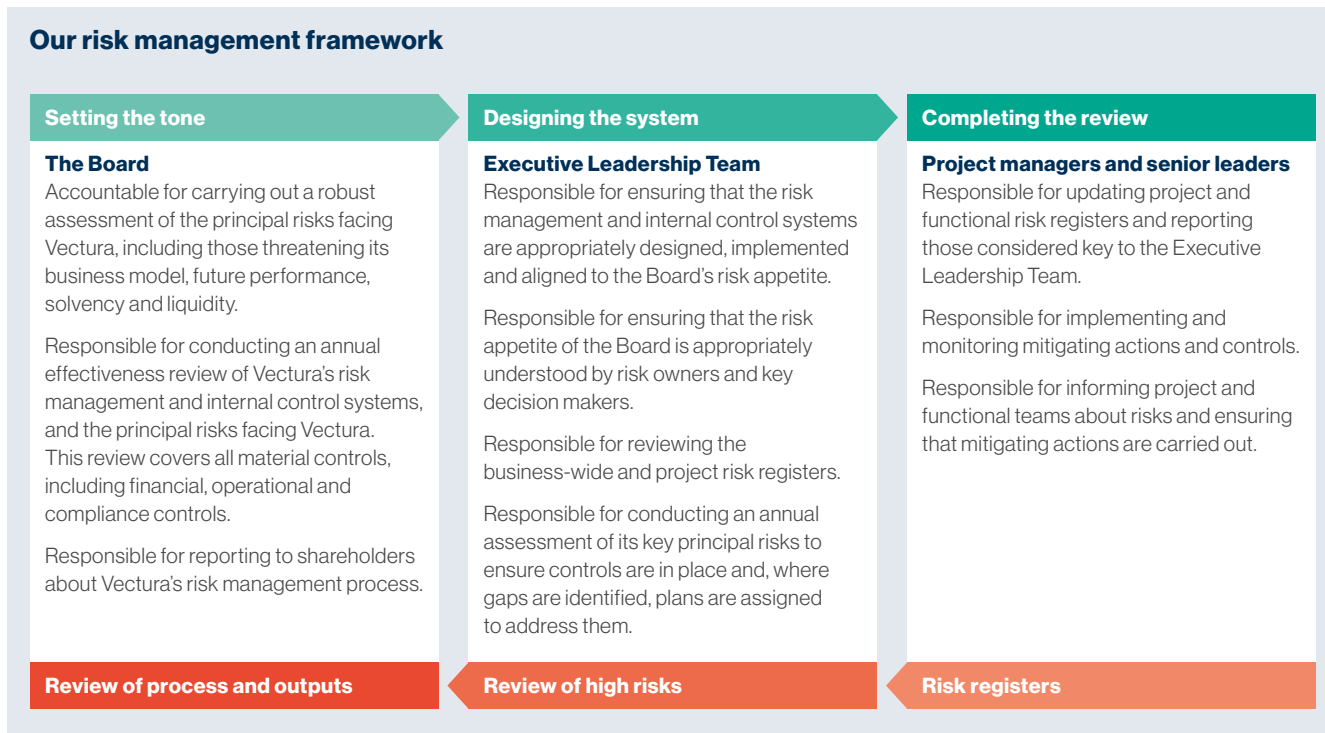
This section provides an overview of our risk management process, the key risks faced by the business, and the actions that we have taken to mitigate them. Not all the risks identified as part of our risk management processes are detailed in this section; instead we focus on those risks that the Directors believe to be the most important and which could cause Vectura's results to differ materially from expected and historical results and significantly impact our strategy. Not all of these risks are within the control of the Group and other factors besides those listed may affect the Group's performance. As with all businesses operating in a dynamic environment, some risks may not yet be known whilst other low-level risks could become material in the future.

### Objectives of our 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 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.



# Risks continued



The Audit Committee reviews the effectiveness of Vectura's risk management and internal control at least annually, on behalf of the Board. This review has been undertaken during the year and the Board believes that it has taken all reasonable steps to satisfy itself that the risk management process is effective and fit for purpose. No material control weaknesses or deficiencies were identified as part of this review.

## Brexit

In response to the uncertainty as to the terms of the UK exiting the EU following the referendum on 23 June 2016, an internal taskforce was formed with members from the Group's Finance, Legal, Regulatory, Supply Chain and HR functions. The purpose of the taskforce was to identify risks and form risk mitigation strategies in the event of a disorderly or "hard" Brexit. Despite the UK exiting the EU on 31 January on favourable terms under the Withdrawal Agreement, the implementation period completes on 31 December 2020. Therefore, if the UK and EU fail to agree on a beneficial trading relationship by this date, or fail to extend the implementation period, then a hard Brexit will arise. Therefore, risk mitigation in the event of a "hard" Brexit is still relevant and ongoing.

## Our approach to assessing risk

Risk is assessed net of the application of current control activities using a standard matrix which considers the potential likelihood of a risk event occurring and the potential impact on the business were such an event to occur. The output of this matrix allows the business to prioritise risks and mitigating actions. Risks are considered within the timeframe of at least three years, which is the same period that has been used in the Viability statement.

## How our principal risks have evolved since the 2018 Annual Report

The principal risk of "Failure or delay in partnering VR647 for Phase III development" materialised in 2019. Accordingly, this risk is no longer a principal risk.

Following the shift to a CDMO business model, a new principal risk of "Failure to win new customer contracts for development services and execute these profitably" has been added. In addition, in recognition of the importance of IT to the Group and increased regulation around data privacy, a new principal risk has been added, being "Failure to protect critical and sensitive data and systems".



# Risk management and principal risks

## Principal risks

### Principal risks specific to Vectura's business model – Brexit

#### Short-term supply chain disruption from the UK exiting the implementation period on 31 December 2020 without agreeing a beneficial trading relationship with the EU (a "hard" Brexit)

**Risk movement:**



**Corporate Goals impact:**



**What is the risk?**

The Group's largest single product, *flutiform*<sup>®</sup>, is manufactured in the UK and commercialised by its partners in Europe, Japan and Rest of World. The Group imports raw materials into the UK and the Group's partners export *flutiform*<sup>®</sup> from the UK into overseas markets. Delays to cross-border movement of goods could disrupt the *flutiform*<sup>®</sup> supply chain.

**What would the impact be?**

Major disruption to the *flutiform*<sup>®</sup> supply chain could result in lost product supply revenues and lost in-market sales which generate royalties for Vectura. If in-market sales are lost, patients may switch to alternative products and not switch back when availability returns.

**What could cause the risk to be realised?**

- Disruption at ports of entry and exit which significantly slows the movement of goods such that stocks of products in overseas markets cannot be sufficiently replenished, or imports of raw materials are limited, reducing manufacturing output below normal levels.
- Alternative routings or methods of transportation are unavailable.
- New *flutiform*<sup>®</sup> release testing capability for the EU does not perform to the required level, slowing or reducing the release of batches into the EU.

**How do we manage the risk?**

- Partners have reviewed stock levels in light of Brexit risks, and these have been increased where deemed appropriate. Mitigation of these risks is reviewed regularly by the Group and its partners.
- The Group has reviewed its raw material inventory levels and has built stocks where appropriate.
- Vectura, partners and suppliers have engaged third-party logistics providers with import and export expertise.
- Alternative routings or methods of transportation available to Vectura, suppliers and partners have been reviewed and contingency plans developed.
- Training of internal supply chain staff on import/export complexities has been undertaken.
- Provision for *flutiform*<sup>®</sup> release testing in the EU has been implemented.

#### Adverse regulatory changes resulting in higher operating costs over the short, medium and longer term

**Risk movement:**



**Corporate Goals impact:**



**What is the risk?**

If the UK fails to agree a beneficial trading relationship before the transition period ends on 31 December 2020, future trading with the EU and other countries may result in increased costs for Vectura, for example costs associated with the application of new import or export tariffs.

In addition, from a regulatory perspective, an EU legal entity is required for medicinal product and medical device submissions and clinical trials in the EU. Vectura also requires a notified body with a legal entity in the EU. A notified body conducts conformity assessments for European directives related to medical devices.

**What would the impact be?**

Trading with the EU without a free trade agreement could impact the Group as follows:

- tariffs on raw materials imported from the UK for *flutiform*<sup>®</sup> reducing product supply margins. These are incurred directly or via supplier price increases;
- additional testing or regulatory compliance costs to Vectura, which erode product supply margins; and
- adverse regulatory changes increase costs of compliance, constraining funds for investment.

**What could cause the risk to be realised?**

A beneficial trading relationship between the UK and EU is not established before the transition period ends on 31 December 2020.

Insufficient expertise and resources are available to deal with increased compliance activity.

**How do we manage the risk?**

- The Group has sought out guidance and intelligence from the relevant professional bodies and trade organisations to shape its planning.
- The Group has established a legal entity within the EU to enable it to comply with EU regulations for medicinal products and devices. The Group has also appointed a new EU notified body.
- The Group has established a capability to perform EU release testing post 31 December 2020.
- Resource and training requirements have been assessed and actioned accordingly.

**Our corporate goals**



# Risk management and principal risks continued

## Principal risks

### Principal risks specific to Vectura's business model – non-Brexit

#### Failure to win new customer contracts for development services and execute these profitably

**Risk movement:**

**Corporate Goals impact:**

**NEW** New risk

1 2

**What is the risk?**

Developing a strong pipeline of opportunities and converting these opportunities into revenues is critical to the success of the new CDMO business model.

In addition, Vectura must be able to deliver customer requirements profitably which requires efficient management of development capacity and investment in new technologies and intellectual property.

**What would the impact be?**

Vectura is unable to deliver growth from competing in the inhaled CDMO market.

**What could cause the risk to be realised?**

- Insufficient investment in business development resources and marketing to drive presence and awareness.
- Organisation structure, processes and systems not fit for purpose.
- Market offering not competitive, for example: pricing, technology and delivery timelines.
- Inefficient cost base to deliver inhaled development services.

**How do we manage the risk?**

- The recently appointed CEO brings a wealth of CDMO experience.
- The Group is recruiting experienced business development personnel in the EU and US and investing in branding and marketing.
- A technology roadmap is in place which is reviewed annually. Funding for execution of the roadmap is in place.
- A CDMO strategy implementation project is in place with appropriate governance and resourcing by experienced senior leaders.
- KPIs have been defined and are currently being implemented to track progress on business development and operational efficiency.
- Financial targets set and finance business partners in place to support delivery of an efficient cost base and appropriate pricing of services.

#### Supply chain disruption

**Risk movement:**

**Corporate Goals impact:**

▶ Stable

1 4

**What is the risk?**

Vectura manages the supply chain for certain commercial products (*flutiform*<sup>®</sup>, *AirFluSal*<sup>®</sup> *Forspiro*<sup>®</sup> and *Breelib*<sup>™</sup>) and also relies on suppliers for the provision of quality compliant materials for R&D.

**What would the impact be?**

Major disruption to, or failure of, these supply chains, particularly for *flutiform*<sup>®</sup>, could result in lost revenues and business opportunities, stock shortages, liabilities and significant damage to profitability and prospects for Vectura. Such disruption could be either quality or capacity related.

**What could cause the risk to be realised?**

- Supply chain disruption involving a single point of failure for which Vectura has high dependency and limited resilience.
- Supplier capacity constraints.
- Supplier loss of licence or regulatory action impacting Vectura.

**How do we manage the risk?**

- Vectura has strong working relationships with its suppliers; we have established due diligence processes to ensure that our stringent quality standards are maintained and we have put in place appropriate systems that will provide an early warning of potential issues.
- A dedicated Commercial Quality Director has oversight of release of commercial product and ensures appropriate management of quality for commercial products.
- Monthly meetings are held to discuss customer demand forecasts and to review Vectura's ability to meet these forecasts. Vectura has established contingency arrangements to ensure that production capacities exceed forecast demand so that it would be possible to catch up on any shortfall in production or meet unexpected demand. Appropriate levels of safety stock are maintained.
- Supply chain mapping has been undertaken, and is regularly reviewed, to identify potential points of failure and mitigating actions. Where economically feasible, additional sources of supply are established and contracts negotiated to include appropriate provisions for replacement of defective goods.
- The Group also has appropriate insurance, but it is not possible to insure against all risks and not all insurable risks can be fully insured on an economically feasible basis.

**Our corporate goals**

1 **Financial accountability**

2 **Transform the Company into a successful CDMO**


3 **Drive product development and delivery management excellence**

4 **Quality and operational excellence**



### Failure to launch VR315 (US) in a competitive timeframe

#### Risk movement:

 Decreasing

#### Corporate Goals impact:

#### What is the risk?

On 10 May 2017, our partner, Hikma Pharmaceuticals PLC ("Hikma"), received a Complete Response Letter (CRL) from the US FDA in relation to its abbreviated new drug application for its generic version of GSK's Advair Diskus®. This CRL was categorised as "Major".

In November 2019, Hikma submitted responses to the US FDA for review, which includes data from a further clinical endpoint study.

Vectura believes the submission addresses the outstanding questions raised by the FDA in its CRL and remains confident in the prospects for the approval of VR315 (US).

If VR315 (US) is approved, we are likely to be the second generics company on the market after Mylan and the third generic including the authorised generic distributed by Prasco Laboratories.

#### What would the impact be?

The product is launched later than those of competitors resulting in loss of potential future revenues and funds for investment.

#### What could cause the risk to be realised?

- VR315 (US) not being the second generic of GSK's Advair Diskus® product.
- Sales (volumes and/or pricing) of GSK's Advair Diskus® could decline faster than expected prior to launch of VR315 (US).

#### How do we manage the risk?

- The Group is unable to take direct action to mitigate this risk.
- We will continue to support Hikma in responding to any queries raised by the US FDA to the November 2019 resubmission. In addition, we will continue to monitor the market and progress of competitors.

#### Risk movement

Decreasing following resubmission in November 2019 and Sandoz discontinuing development of its generic version in 2020.

### Failure of partners to deliver on their obligations

#### Risk movement:

 Stable

#### Corporate Goals impact:

#### What is the risk?

Vectura earns revenues from a number of partnered in-market assets, most notably *flutiform*®, and is dependent upon these partners for maintaining regulatory approvals and for the marketing of the products. Development service revenues also depend on partners delivering on their obligations in order for programmes to progress to plan.

Royalty revenues depend on partners both to generate sales of the product but also to accurately calculate and pay over royalties according to the terms of the licence.

#### What would the impact be?

Failure of a partner to maintain regulatory approvals, to comply with relevant codes or regulations, or to commit an appropriate level of resource could result in loss of product supply revenues to Vectura.

Failure by a development partner to deliver on their obligations during the development phase could result in a delay or cessation of development. This in turn could cause a delay in development activities which could reduce revenues. It may also delay the product reaching the market which could undermine the product's commercial potential and result in lower returns on investment for Vectura.

The marketing, supply chain and commercialisation strategies deployed by partners for existing on-market products could materially impact the level of royalties and sales milestones earned by Vectura.

#### What could cause the risk to be realised?

- Change in partner strategy or priorities.
- Partner viability or insolvency.
- Partner's marketing, supply chain or commercialisation strategy is sub-optimal or not executed successfully.
- Partner failure to obtain appropriate pricing and reimbursement.
- Partner failure to comply with relevant legislation or regulations.
- Partner failure to comply with the terms of a licence.

#### How do we manage the risk?

- All collaborations are performed under a suitable legal agreement which is assessed by Vectura and its legal advisors. Non-performance of these obligations can result in escalation within the partner organisation, or appointment of a third-party audit, independent arbitration or, in extreme cases, legal action.
- Typically, for collaborations, a joint steering committee (JSC) is established involving both Vectura and partner personnel. This provides Vectura with a mechanism to ensure that any joint project activity is managed appropriately, and where concerns can be escalated.
- At a product or project level, regular operational meetings take place to review progress, plans and forecasts.
- The Group also has a Commercial and Business Development department which maintains regular dialogue with existing and potential new partners.

#### Our corporate goals

 **Financial accountability**

 **Transform the Company into a successful CDMO**

 **Drive product development and delivery management excellence**

 **Quality and operational excellence**



# Risk management and principal risks continued

## Principal risks

### Principal risks specific to Vectura's business model – non-Brexit continued

#### Failure or delay in achieving development milestones required to advance the generic product pipeline

**Risk movement:**



**Corporate Goals impact:**



**What is the risk?**

Failure or delay in achieving development milestones for the Group's generic programmes would have a material adverse impact on the value of these programmes.

**What would the impact be?**

Termination of projects or significant delays could materially affect future revenues, profitability and prospects of Vectura.

**What could cause the risk to be realised?**

- Manufacturing issues associated with a particular device or product for clinical trials.
- Ineffective design and execution of development activities.
- Insufficient capacity or prioritisation of competing projects.

**How do we manage the risk?**

- Vectura 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.
- Individuals with the necessary skills and experience have been recruited to lead and oversee the development of our generic pipeline assets. Vectura continues to work with a network of experienced consultants and contractors who provide additional support and expertise as required.
- Operational excellence initiatives within the development function have been and continue to be implemented to maximise development capacity.

#### Failure to develop the FOX® nebuliser platforms to secure future growth in new customer contracts

**Risk movement:**



**Corporate Goals impact:**



**What is the risk?**

The Group receives significant interest in its FOX® nebuliser technology from existing and prospective customers.

The Group is also in the process of closing down its German site, where its nebuliser technology originated.

Continuing to develop this technology is critical to securing future growth in customer contracts as a provider of inhalation development services.

**What would the impact be?**

Failure to be competitive versus other similar platforms, and risk losing current or future revenue opportunities.

**What could cause the risk to be realised?**

- Failure to transfer knowledge and skills to the UK from the Group's German site following the announcement of the German site closure in 2018.
- Failure to develop the platform to respond to customer demands and a growing range of formulations.
- Failure to maintain quality standards.

**How do we manage the risk?**

- In respect of the closure of the Group's German site, transition of knowledge is progressing well. A retention scheme is in place for key employees from the closing site and resources have been recruited into receiving sites in the UK. A transition team continues to exercise oversight.
- We work closely with our third-party suppliers to continue to improve the platform, including processes, controls and components. These processes and controls are documented, and supplier audits ensure they are operated. Remediation is undertaken where issues are identified.
- An integrated Programme team ensures all activities which impact the development of the FOX® nebuliser platform are managed cohesively.

**Our corporate goals**

**1** Financial accountability

**2** Transform the Company into a successful CDMO

**3** Drive product development and delivery management excellence

**4** Quality and operational excellence



## Principal risks specific to the industry in which Vectura operates

## Changes in the regulatory, operating or pricing environment

## Risk movement:



Stable

## Corporate Goals impact:



## What is the risk?

Vectura operates in the highly regulated international pharmaceutical industry, which is subject to change.

## What would the impact be?

Changes in the pharmaceutical regulatory landscape, operational restrictions and downward pricing pressure could adversely impact:

- the number and value of customer opportunities to provide development services; and
- the value or viability of the generic pipeline products or those products already developed and commercialised by partners.

## What could cause the risk to be realised?

- Political change.
- Competitor pricing strategies.
- Regulatory action on pricing.

## How do we manage the risk?

- Regulatory changes tend to be considered due to lengthy consultations and discussions between regulators and the pharmaceutical industry. 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.
- We work with a number of blue-chip pharmaceutical partners who have significant regulatory expertise.
- Our technology roadmap is reviewed at least annually and takes account of evolving market trends, customer needs and the competitive landscape.

## Failure to attract or retain talent/key personnel

## Risk movement:



Stable

## Corporate Goals impact:



## What is the risk?

Vectura relies upon a number of key qualified management, scientific, technical, marketing and support personnel. Competition for such personnel is intense and there can be no assurance that the Group will be able to continue to attract and retain such personnel.

## What would the impact be?

The loss of talent or key personnel could adversely impact the effectiveness of the Group's operations.

## What could cause the risk to be realised?

- Inadequate succession planning and talent management.
- Organisational disruption and/or change.
- Failure of reward and/or incentive strategy.

## How do we manage the risk?

- Vectura seeks to develop employees for current and future roles and our career development and talent management programmes remain a key area of focus for the Executive Leadership Team. We continue to invest in ongoing training and development with leadership and management development programmes in place.
- Succession plans for key roles have been developed to ensure a talent pool is identified, developed and ready for appointment. These plans include the identification of "emergency successors" in the case of unanticipated and immediate absence.
- Vectura regularly benchmarks its reward strategy to ensure it continues to incentivise, motivate and retain our talented employees. This benchmarking covers both short and long-term incentives. Salaries of all employees are reviewed annually to ensure we remain market competitive.

## Our corporate goals

**1** Financial accountability

**2** Transform the Company into a successful CDMO

**3** Drive product development and delivery management excellence

**4** Quality and operational excellence



# Risk management and principal risks continued

## Principal risks

### Principal risks specific to the industry in which Vectura operates continued

#### Failure to protect intellectual property

**Risk movement:**



Stable

**Corporate Goals impact:**



**What is the risk?**

Patent infringement by a competitor organisation or failure to obtain patents for technology developed by Vectura could impact on the value of Vectura's market offering as a CDMO and inhibit the delivery of the generic pipeline.

**What would the impact be?**

Such infringement or failure could result in Vectura or a customer having to take a license to third-party IP in order to develop a product, or even being unable to commercialise a product, materially impacting Vectura's future revenues, profitability and prospects.

**What could cause the risk to be realised?**

- Competitor successful in challenging Vectura or partner patent.
- Critical information missing from filed patent.

**How do we manage the risk?**

- Dedicated internal resource, supplemented with external expertise, files for and prosecutes patents and other forms of intellectual property.
- In conjunction with our partners where relevant, Vectura takes steps to enforce these rights.
- Third-party rights that may be of interest to and/or have adverse effects on Vectura's activities are also monitored so that action can be initiated where appropriate.

#### Failure to protect critical and sensitive data and systems

**Risk movement:**



New risk

**Corporate Goals impact:**



**What is the risk?**

Data and information technology systems are critical to our operations. Significant disruption to systems due to computer viruses, cyber threats, malicious intrusions or unintended or malicious behaviour by employees, contractors or service providers could affect the Group's operations. In addition, such disruption may compromise the integrity of information and result in the inappropriate disclosure of confidential information, or may lead to false or misleading information about the Group.

The cyber security incidents that we have experienced to date have not resulted in significant disruption to our operations. However, as the threats evolve we cannot provide assurance that our efforts in protecting our systems and data will always be successful.

**What would the impact be?**

The loss of proprietary or other commercially sensitive information may provide competitors with a competitive advantage resulting in competitive or operational damage to the Group.

The disclosure of confidential information about the Group's employees, customers, suppliers or other third parties could also expose the Group to liability.

The potential for fraud from manipulation of payment processes.

Failure to effectively prevent or respond to a major breach or cyber-attack may also subject the Group to significant reputational damage.

**What could cause the risk to be realised?**

- Security vulnerability in our systems.
- External cyber-criminal activity.
- Employee or contractor non-maliciously introduces a vulnerability which is exploited by a malicious actor.
- Lack of employee training around the cyber threat.

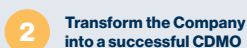
**How do we manage the risk?**

- Security and access control standards in place with compliance monitored.
- Vectura has a dedicated security engineer who provides oversight and actively monitors cyber security.
- Daily backup of systems and data.
- Employee laptops and mobile phones are protected via secure encryption.
- Cyber security training provided to all employees.
- Cyber risk insurance cover in place.
- Ongoing programme to enhance our information and system security capabilities.

### Our corporate goals



**Financial accountability**



**Transform the Company into a successful CDMO**



**Drive product development and delivery management excellence**



**Quality and operational excellence**





## Viability statement

In accordance with the provisions in the UK Corporate Governance Code (provision 31 of the 2018 code), the Directors have assessed the viability of the Group over a three-year period. The Directors' assessment has been made with reference to the Group's current strategy, strong balance sheet including positive cash reserves of £74.1m at 31 December 2019, the availability of the £50m revolving credit facility to August 2021 and principal risks as described in this Strategic report.

Whilst the Directors have no reason to believe that the Group will not be viable over a longer period, a three-year period is considered appropriate as it is possible that one or more principal risks could reasonably be realised in the period which could materially impact the viability of the Group. In addition, this period is more than double that used for the going concern assessment. The Group continues to be strongly cash generative before distributions to shareholders and has cash and cash equivalents of £74.1m at 31 December 2019. The use of the Group's £50m revolving credit facility is not forecast during the three-year viability period. This facility expires in 2021 and the Board expects that it will be renewed. The three-year period therefore provides the Board with an appropriate degree of confidence while still providing a suitable longer-term outlook.

The process adopted to assess viability this year is unchanged from 2018 and involved collaborative input from a range of business functions to model a series of plausible "stress test" scenarios linked to the Group's principal risks. These scenarios included both significant adverse financial outcomes and operational failures. Consideration was given to the impact of mitigations as well as their interdependencies. The Audit Committee reviewed the process before the viability evaluation was provided to the Board to assist in its assessment.

The key assumptions underpinning the assessment during the period are as follows:

- minimal disruption to the supply of *flutiform*<sup>®</sup> and no tariffs on raw materials imported into the UK following the end of the Brexit implementation period on 31 December 2020;
- projected *flutiform*<sup>®</sup> product supply volumes and the related supply margin;
- manufacturing and assembly of *flutiform*<sup>®</sup> by Recipharm continues in line with contractual obligations;
- forecast net royalties from Seebri<sup>®</sup>/Ultibro<sup>®</sup> Breezhaler in EU/RoW and Rayos<sup>®</sup> in the US;
- the timing of receipt of development phase milestones from partnered programmes, particularly from development of generic versions of GSK's Ellipta<sup>®</sup> portfolio;
- timing of approval and forecast royalty revenues from VR315 (US) and QVM149; and
- growth in new development services revenues from transition to a CDMO business model.

The Group continues to monitor closely evolving events concerning trade negotiations between the EU and the UK. Despite an expectation of a UK-EU trade deal, the Group has implemented and continues to implement a number of measures to mitigate the risks should this not be the case. The Group still expects the end of the implementation period to be relatively orderly within an expected range given the extent of these measures. However, if this is not the case, then the Group has assessed that the supply chain for *flutiform*<sup>®</sup> could be disrupted. Within this context, and to provide confidence of ongoing viability, the Group's plans have been stress tested against a severe but reasonably possible downside scenario. In such a scenario, the *flutiform*<sup>®</sup> supply chain is assumed to be disrupted in 2021 resulting in lower product supply revenues and in-market sales, which also adversely impact royalty revenues. It has also been assumed that once supply is normalised, there is only a partial recovery of in-market sales. In addition, costs from assuming World Trade Organisation tariffs on certain raw materials, sharing of incremental costs with the Group's partners for EU release testing and an increased batch failure rate from this additional testing have also been modelled.

The Group is also closely monitoring the COVID-19 outbreak situation. At this point product supply and development services activities continue to progress normally. The Group has considered reasonably plausible scenarios in relation to potential supply chain disruption, business disruption and revenue impact based upon the expected peak of the outbreak.

In addition to the above Brexit sensitivity and the COVID-19 outbreak scenario, the following additional, reasonably plausible stress tests were performed:

- lower royalty revenues from Seebri<sup>®</sup> and Ultibro<sup>®</sup> Breezhaler<sup>®</sup>, being the Group's most significant royalties;
- failure to launch VR315 (US) and subsequent termination of the Ovoid programme;
- failure to receive regulatory approval for QVM149; and
- significant delays in growing the revenues of the CDMO business.

As a worst case, the combined impact of these downside scenarios was assessed in combination against the Group's liquidity. Based on this assessment and stress testing, the Directors have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the three-year period of assessment.

### Going concern

At the time of approving the financial statements the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the 2019 Annual Report and Accounts.

## Doing business responsibly

# Having a positive impact

By operating responsibly, we want to further build a business that is not only commercially successful but delivers long-term value for all our stakeholders. We assess our performance across four key areas: our people; our partners, customers and suppliers; our patients; and corporate citizenship.

Our values are the principles that guide how we do things and in 2019 we refreshed them to reflect our new strategy.

### 1 Deliver for patients with pride

We are agile, efficient and deliver our commitments. We take pride in successfully developing medicines that transform lives.

### 2 Create a great customer experience

Our customer focus guides everything we do. We use our insight and capability to create a great experience for our customers.

### 3 Work together as one team

We collaborate to achieve shared goals, using our combined knowledge and expertise to enable success.

### 4 Do the right thing

Quality is at the heart of everything we do. We work with integrity, consistently delivering to high standards.

### 5 Innovate and improve

We thrive on learning and apply our expertise to continually innovate and be the best at what we do.

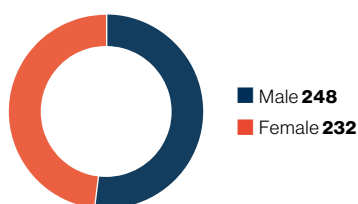


# Our people

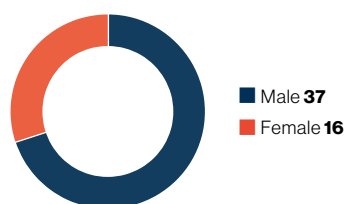
## Our values

- 3 Work together as one team 4 Do the right thing 5 Innovate and improve

### Gender breakdown

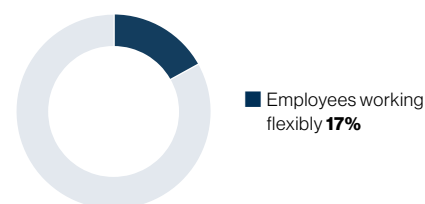


### Males/females in senior manager and above roles\*



\* Director level and above.

### Percentage of employees working flexibly



## Culture and values

In light of our strategy to transform Vectura into a leading inhalation CDMO, we have reviewed our culture to ensure alignment with our ambitions. Founded on the rich heritage of the previous values, our revised guiding principles build on the innovation, collaboration, patient focus and achievement ethos which remain critical to our success. They also highlight the need for us to provide a great experience for our customers and to ensure quality is at the heart of everything we do. These revised values were brought to life by compelling stories, blogs and comments from colleagues across the business using myVectura, our new social intranet. As we look ahead to 2020, we will ensure we embed the values through a programme of internal communications and engagement activity, and in all of our people processes to reinforce our culture as the definitive expression of "how we do things at Vectura". This alignment will enable us to continue to demonstrate our support for the Corporate Governance Code by ensuring our policies and practices are consistent with our values.

## Inclusivity

We believe in a diverse and gender-balanced workforce, and our Equal Opportunities Policy ensures the provision of equal opportunities in all aspects of employment, for all individuals, irrespective of age, disability, sex, gender reassignment, pregnancy, maternity, race (which includes colour, nationality and ethnic or national origins), sexual orientation, religion or belief, or marital status. Whilst we do not meet the threshold which requires all companies that employ 250 UK-based employees or more to report their gender pay and bonus pay gaps, we have elected to do so voluntarily because we believe this is the right thing to do. Our Gender Pay Gap Report is published annually on our website and includes details of our inclusivity action plan that we continue to deliver.

## Employee engagement and communication

At Vectura, we wholeheartedly believe in the power of engagement and its impact on business performance and employee retention. To support the updated Corporate Governance Code, we appointed Per-Olof Andersson as the nominated Non-Executive Director who oversees engagement between the Board and the workforce. During 2019, five Non-Executive Board members undertook four site visits.

For the nominated Non-Executive Director, this also included meetings with the Employee Representative Forum and with representatives from the Lyon Workers Council. In addition, the Chairman took part in employee Q&A sessions. A summary of employee feedback and sentiment was provided by the Executive Vice President for HR and the nominated NED to the Board in September 2019.

We operate an annual employee engagement survey and 88% of colleagues took part in 2019. Encouragingly, the results indicated improvements in all areas compared to the March 2018 survey. However, our ambition is to exceed the external benchmarks and whilst we achieved this in two categories (compensation/reward and communication) we still have much to do and have used these results to inform our usual analysis and action planning at corporate, site and functional levels. We have well-established engagement channels which we regularly review and leverage to share progress updates and to continue driving towards our corporate mission of creating a great place to work.

We ensure that corporate strategy is clearly communicated and well understood through regular all-employee business updates, hosted by members of the Executive Leadership Team and Business Leadership Team. To ensure we are harnessing the latest digital technology to communicate with colleagues in a transparent, open way, we used their feedback to develop and launch a new social intranet in 2019. myVectura provides improved access to news and information, along with new, online spaces for collaboration and real-time feedback, questions and comments that can be posted by all staff. In the first three months, every colleague used the platform and on a regular weekday there is an average of 600 visits.

In October 2019, our Corporate Communications team was shortlisted for Best Employee Engagement Programme in the 2019 CorpComms Awards.

Colleagues' individual goals are linked up to our corporate scorecard which is regularly updated and communicated. Our "Science Live" campaign, launched in 2018, connects us to patients and our new strategic focus – helping customers to bring their inhaled medicines to market – whilst celebrating our unique combination of device, formulation and development capabilities.



## Doing business responsibly continued

### Our people continued

#### Listening to and empowering our colleagues

Our Employee Representative Forum of elected representatives from across the Group allows colleagues to drive the agenda and discuss issues that matter to them. Our family-friendly policies enabled 17% of employees to work flexibly, as at 31 December 2019, and our internal Leadership and Management Development Programmes clarify the expectation, and provide the skills, for leaders to treat people as individuals by understanding and supporting their working preferences. We cement the personal accountability we all share for living our values and delivering our corporate ambitions by measuring both the "what" and the "how" via regular performance reviews.

#### Developing our people

Our Talent Management Framework is used by all functions, resulting in the identification, support and development of our talented employees. Personal development plans are encouraged for all and a Career Framework articulates the skills and experiences required to progress both laterally and/or vertically. In addition to investment in general training and development, we continue to offer all employees the opportunity to apply for scholarship funding through our Vocational Qualifications Award. In 2019 we have supported applications for a variety of professional qualifications including a Certificate in Procurement and Supply Operations, Master of Business Administration (MBA), PRINCE2 Project Management and Systematic Business Coaching. We develop the essential skills needed to manage employees through our in-house Leadership Development Programme and Management Development Programme, the latter being newly launched in 2019 for supervisors and team leaders.

#### Rewarding our people

We recognise the importance of a fair and competitive reward package and seek to provide well-constructed and regularly benchmarked reward systems which incentivise superior performance and align the interests of our employees with those of our shareholders.

The annual bonus is derived from corporate and individual performance, and our remuneration packages include a pension entitlement, permanent health insurance, life insurance and medical care. Additionally, all employees can participate in our share plans. For more details of our all-employee share plans, please refer to the Remuneration report.

In addition to the performance management process, recognition for the role models of our values or for those who have gone above and beyond in any aspect of their working life is provided through our Recognition Policy, comprised of "thank you" cards or small financial rewards, such as dinner with a partner, and through our "People's Champion" annual award ceremony.

#### Our commitment to health and safety

Keeping our colleagues, visitors and contractors safe is a priority for us, and strong environment, health and safety (EHS) engagement is key. We have established three tiers of health and safety consultation, comprising a quarterly Steering Committee of senior leaders which reviews safety compliance, performance and defines strategy; a monthly EHS Committee which reviews performance and discusses corporate initiatives and issues; and EHS sub-groups to work on tactical improvements and localised proactive initiatives. EHS key performance indicators are both lagging and leading in nature and drive performance and action plans. EHS was part of the 2019 corporate scorecard to reinforce its criticality. In addition, all functional leaders in the Operations function have personal EHS goals focused on driving improvements. In 2020, all colleagues will be encouraged to increase the number of safety observations reported as one of the prime leading indicators of a strong safety culture and, ultimately, to keep one another safe. Corporate updates are provided to the Board at least once a year and functional reports are provided to the ELT, enabling it to reinforce the importance of compliance and a strong safety culture.

We have continued to roll out our Employee Wellbeing Programme, which provides information, resources and support to help our people stay healthy. We also trained and appointed Mental Health First Aiders to provide additional, on-site support as a supplement to our Employee Assistance Programme. Acknowledging the importance of "psychological safety" for both employee wellbeing and engagement, our Leadership and Management Development Programmes equip people managers with the understanding and tools to create an environment of openness and learning. Will Downie is the Board member to whom responsibility for health and safety has been assigned. We have an excellent safety record and there have been no major incidents or accidents to report to the Health and Safety Executive in the UK or to the equivalent bodies in Germany, Switzerland or France during the period.

#### Policies and practices

As a responsible employer operating in our highly regulated industry, we have a comprehensive Code of Conduct and supporting policies, including Whistleblowing, Anti-Bribery and Anti-Slavery and Human Trafficking Policies, which set standards for ensuring that our business activities are conducted in a responsible manner for the benefit of our shareholders, clients, employees and suppliers. Vectura has zero tolerance to any form of bribery and corruption, both within our business and in any dealings with our customers, suppliers and other third parties we may deal with in the course of our business. Our Anti-Bribery Policy and the latest Modern Slavery Statement can be found on our website ([www.vectura.com](http://www.vectura.com)). We operate a whistleblowing process for employees if they suspect anything inappropriate or experience any serious misconduct or wrongdoing in our business. 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 of the Vectura Group. All employees and Board members are expected to demonstrate and promote high standards of ethical business conduct and to know and follow our Code with pride.



We have established three tiers of health and safety consultation, as part of our efforts to keep colleagues, contractors and visitors safe.



# Our partners, customers and suppliers

## Our values

### 2 Create a great customer experience

Partnerships continue to drive significant value for Vectura. For this reason we work closely with our alliance partners to develop and improve the ways in which we collaborate.

A key catalyst is the Collaboration in Partnership™ programme which we started in 2017. As part of this initiative, we are now able to repeat health check surveys at 18–24 month intervals and follow up with joint workshops to identify and improve specific elements of each alliance and the quality of each business relationship overall. Themes common to several of our alliances, in where we are learning and focusing to improve, include:

- quality of product;
- alignment on strategy and objectives;
- clarity on roles and governance;
- continuous improvement to processes, delivery and costs;
- increasing mutual value; and
- clarity and openness of communication.

Tim Wright, Vectura's VP for Alliances, plans to leverage the programme further: "By revisiting these focus areas at more frequent intervals, we have been more consistently engaged with our partners, which helps standardise the drive for improvements. We will continue to roll out the Collaboration in Partnership™ programme in 2020 and use it as a foundation for establishing and developing longer-term partnerships in our CDMO business."



In addition to working closely with our existing partners, we have redefined our business and outlined our service offering for new customers in the CDMO space.

## New customers

In addition to working closely with our existing partners, we have redefined our business and outlined our service offering for new customers in the CDMO space.

Vectura has engaged in external market research with leading global pharmaceutical and biotech companies to gain an in-depth understanding of customers' requirements and determine how we are able to meet their needs. This research demonstrated that we are well positioned to provide the services that a wide range of clients, from biotech start-ups to large multi-national pharmaceutical companies, require.

The Drug Delivery to the Lungs conference held in Edinburgh in December 2019 is the largest inhaled drug delivery meeting in the world and we used it to showcase our new strategy and validate our offering with potential customers. We received extremely positive feedback about the new strategy and left the conference confident that our offering meets customers' expectations.

## Suppliers

Throughout 2019 we have also engaged with a diverse supplier base as we seek to unlock value for the business and deliver a first-class approach to procurement.

Our talented team is passionate about solving complex procurement challenges by working closely with our suppliers so that value can be achieved for all involved. Collaboration is key, and during 2019 we have continued to strengthen our relationships with critical suppliers and contract manufacturing organisations. Regular business review meetings help to build trust and transparency, which is fundamental to adding value, improving efficiency and reducing the cost of goods.

In 2019, we were proud to be shortlisted by the Chartered Institute of Performance and Supply in the "Procurement Team of the Year – Small Teams" category in the Supply Management Awards.

Looking forward, strong supplier relationships will continue to be essential as we implement our CDMO strategy, knowing that assurance of supply, quality and service are already in place.

Quality will continue to be at the heart of what we do, and supplier quality meetings ensure there is continued focus in striving for perfection in the materials, components and services we purchase.

# Doing business responsibly continued

## Our patients

### Our values

- 1 Deliver for patients with pride
- 4 Do the right thing
- 5 Innovate and improve

### How we engage

We seek to address the needs of patients by maintaining an in-depth appreciation of clinical innovation, as well as dialogue with patients and their caregivers to understand their respective therapeutic needs. It is recognised that the lung can be used for the delivery of drugs to treat systemic diseases, in addition to diseases of the airways, and Vectura is also keen to address these patients' drug delivery needs.

We ensure that our employees understand the impact on patients of the diseases that our partners and customers are trying to treat, as well as the science behind the diagnosis and treatment of these conditions. Our internal "Science Live" programme showcases Vectura's science, innovation and patient focus through presentations and podcasts, from our own teams and from guest speakers.

Our teams actively consider patients' needs throughout the development process, striving to progress relevant products and easy-to-use device platforms to help improve patient adherence and thus compliance and treatment effectiveness.



Our teams actively consider patients' needs throughout the development process.



'Deliver for patients with pride' is one of our values and a key motivator for many of our colleagues.

### Affordable quality products

Our diverse portfolio includes a number of generics programmes. Vectura is a responsible partner to major pharmaceutical companies, such as Hikma and Sandoz, and aims to reliably supply affordable, high-quality generic medicines to meet today's diverse healthcare needs.

### Improving access

Vectura currently licenses its products, technologies and know-how to partner companies. We play an important role in improving access to healthcare through the development of innovative technologies and solutions that address major areas of unmet medical need, and the need to improve patient compliance and outcomes and reduce overall costs of healthcare.

### Patient safety

Although our business does not include direct marketing and sales to patients, patient safety is our number one priority in the development, testing, manufacturing and ultimate use of our products. All medicines have potential risks as well as benefits. Vectura's robust policies and governance framework are designed to help us and our partners detect and act on any side effects that may be associated with our involvement in the development of customers' medicines.



Our internal 'Science Live' programme showcases Vectura's science, innovation and patient focus through presentations and podcasts.



# Corporate citizenship

## Our values

- 4 Do the right thing 5 Innovate and improve

As a responsible business, we are committed to having a long-term positive impact on our environment and society, including the communities in which we operate. We maintain close relationships with our local schools and universities, support our employees in local and national charity endeavours, and monitor our carbon footprint.

We continue to provide opportunities for colleagues to participate in local volunteering and fundraising via our Charitable Support Policy. Our highly effective and active Social Committee continues to organise a multitude of fundraising events and, for the fifth year running, in 2019 we supported a charity bike ride with 20 employees participating in a Lyon to Paris route and a further 50 participating in a shorter (25 miles) one-day event, focused around each of our five sites. These events raised £14,791.32 for Asthma UK and £2,700 for charities in Germany and Switzerland, as well as reinforcing our Company values.

We continue to collaborate academically with local universities, and our science, technology, engineering and maths (STEM) ambassadors encourage students to select STEM subjects at an early age, with members of our laboratory teams providing local schoolchildren with valuable insight into careers in science.

## Our carbon footprint

Vectura is committed to the generally accepted definition of sustainability: meeting the needs of the present without compromising the ability of future generations to meet their own needs. Due to the nature of our business, we consider that we have a low environmental impact. However, we are committed to playing our part in environmental stewardship and running our business in a socially responsible way.

All waste is segregated across our locations and recycled where possible, and we require employees to act responsibly by minimising waste and helping to preserve water and other natural resources. An Environmental Improvement team has been organised in 2019 and will work with the Environment, Health and Safety department with the aim of meeting our aspirations of aligning Company policy and procedure to the ISO 14001:2015 standard and certification. Antony Fitzpatrick, Executive Vice President for Operations, has responsibility for reporting relevant environmental matters to the Board.

With the increased focus on how business impacts climate change, we have set up a sustainability taskforce led by members of the Executive Leadership Team to look at how we can build on our current activity and raise our ambition to meet the Paris Accord commitments. We are reviewing all our environmental and sustainability policies, and hope to publish our long-term sustainability strategy and shorter-term action plan in 2020.



As a responsible business, we are committed to having a long-term positive impact on our environment and society, including the communities in which we operate.

## Energy efficiency

In 2019, Vectura renegotiated its electrical utility contracts for its main two sites in the UK, Chippenham and Cambridge, moving to providers with power from 100% renewable generation sources. We continue to renew our lighting with low-energy LED, and the Chippenham site has a solar array which provides power directly to the grid and offsets site utility costs.

## Greenhouse gas emissions

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

Travel is necessary for global businesses; however, we will continue to find ways to mitigate and reduce the impact of our activities in this area. The Company will maintain its efforts to decrease airline use and business travel carbon emissions. We will also continue efforts to increase our use of teleconferencing and other technologies as an alternative to travel.

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 except for our office in London, as it is considered to be negligible for these purposes. The amounts shown below for Scope 1 and Scope 2 emissions are those required to be reported under the Regulations.

Greenhouse gas emission by source <sup>1</sup>	Year ended 31 December 2019	Year ended 31 December 2018
Scope 1	<b>2,763</b>	2,543
Scope 2	<b>1,172</b>	1,249
Total emissions (Scope 1 and 2)	<b>3,935</b>	3,792
Emissions reported (tonnes of CO <sub>2</sub> per sq ft) <sup>2</sup>	<b>0.01</b>	0.01

- GHG emissions reported in metric tonnes of carbon dioxide equivalent. Emissions factors were sourced from the UK DEFRA database.
- 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.



# Stakeholder engagement

## Section 172 statement

Whilst the Board is primarily responsible to shareholders for the overall direction and control of the Company and has the powers and duties set out in the Companies Act 2006 (the "Act") and the Company's Articles of Association, we have always endeavoured to hold shareholder interests and those of our wider stakeholders in equilibrium as is the Directors' duty under s172 of the Act.

The long-term success of the business is dependent on the way we work with a large number of important stakeholders and continues to require effective engagement, constructive working practices and a recognition of stakeholder views in order to create value for our shareholders and

stakeholders alike. Our Company values, relaunched during the year, underpin every relationship built and business decision made and make clear our intention to do the right thing for both shareholders and wider stakeholders.

**+ More information on our Company values can be found on page 40**

The table below shows our key stakeholders and how we engage with them, together with examples of how the Board has taken the stakeholders into account during the year when making decisions and how those decisions may promote the long-term success of the Company.

Why they matter to us	What matters to them	How we engaged, its influence on decision making and its long-term effect
<b>Our shareholders</b>		
<p>They are our providers of capital without whom we could not grow and invest for future success. They are the key beneficiary in the value which we create and we have a responsibility to them to be transparent and open about our strategy and its implementation.</p>	<ul style="list-style-type: none"> <li>• Share price evolution</li> <li>• Strategic focus</li> <li>• Directors' remuneration</li> <li>• Board succession planning</li> </ul>	<p><b>+ See pages 63 to 65 for more information on shareholder engagement</b></p> <p>Feedback from shareholders was an important contribution to the Board concluding that a new strategy and business model should be adopted. This model aims to deliver a smoother revenue profile, reduced risk and access to a more diverse customer base in order to deliver increased returns. Shareholders have been consulted on the new Remuneration Policy, which will be subject to approval at the AGM in May 2020. Shareholders were consulted extensively on Board succession plans as we continue to ensure compliance with the new Corporate Governance Code.</p>
<b>Our employees</b>		
<p>Our ability to deliver our strategy and innovate for the future is dependent on the skills, expertise and commitment of our workforce. By empowering and rewarding colleagues appropriately we give them the confidence and ability to help enable us to succeed.</p>	<ul style="list-style-type: none"> <li>• Belief in the future, and pride in the Company</li> <li>• Strong purpose, vision and values</li> <li>• Career development</li> <li>• Flexibility and equality</li> <li>• Recognition</li> <li>• Open and honest communication</li> <li>• Workspace</li> </ul>	<p><b>+ See page 41 for more information on employee engagement</b></p> <p>The CEO and CFO hold town hall style meetings throughout the year to help give clarity about Company ambitions, strategy and progress. Non-Executive Directors (NEDs) periodically visit our sites and they and the Chairman have undertaken employee Q&amp;A sessions. The designated Employee Engagement NED attends an Employee Representative Forum and meets with representatives from the Lyon Workers Council annually. There is an annual Board update on employee engagement by the designated NED and EVP-HR, together with terms of engagement for Board/workforce engagement, which is annually reviewed and continuously improved. These activities, along with feedback from colleagues via the annual Employee Engagement Survey, fed into the revision of our corporate values and the inclusivity action and site strategy plans approved by the Board.</p>





Why they matter to us

What matters to them

How we engaged, its influence on decision making and its long-term effect

**Our partners****+ See page 43 for more information on partner engagement**

Partnerships continue to drive significant value for Vectura. For this reason we work closely with our alliance partners to develop and improve the ways in which we collaborate.

- Utilising our knowledge and expertise to develop solutions for their product delivery
- Improving how we collaborate, ensuring productivity and standardisation of work practices
- Driving efficiencies

We engage with each of our partners through multiple mechanisms including joint steering committees and partnership health check surveys that seek to identify and improve specific elements of each alliance and the quality of each business relationship overall. In addition, employees collaborate frequently with our partners to understand and agree demand forecasts, and supply schedules and manage operational improvement initiatives. In 2019 the Board met directly with senior leaders from partner organisations to discuss industry trends and further collaboration.

**Our suppliers****+ See page 43 for more information on supplier engagement**

Understanding the needs of our business in order to supply us with quality goods and services at a fair price.

- The opportunity to understand our business and access opportunities in our supply chain
- A transparent and collaborative relationship with us through which they receive fair value for their products and services

Throughout 2019 we have engaged with a diverse supplier base as we seek to unlock value for the business and deliver a first-class approach to procurement. Regular business review meetings are held with critical suppliers to help build trust and transparency.

**Our patients****+ See page 44 for more information on patient engagement**

Without patient insight we cannot differentiate ourselves in the market as a leader in the development of inhaled products. As the end users of inhaled products, patients, caregivers and patient groups help validate our innovations.

- We understand the diseases they have and issues they face in living with them
- Inhaled products are safe and effective
- Products have been designed with patient use in mind

We seek to address the needs of patients by maintaining an in-depth appreciation of clinical innovation, as well as dialogue with patients and their caregivers to understand their respective therapeutic needs.

**Our communities and environment****+ See page 45 for more information on our social impact**

We are committed to having a long-term positive impact on our environment and society. Having a good reputation as a responsible and sustainable business ensures we have a licence to operate. Being able to attract and retain people from our local communities with relevant skills and expertise is important to us.

- Reassurance that we are a responsible business that takes its corporate citizenship seriously
- Focus on our environmental impact and reduced carbon footprint
- Support for global and local initiatives, including charitable giving, employee wellbeing and links with local schools and colleges to promote careers in science, technology, engineering and mathematics (STEM)

We maintain close relationships with our local schools and universities to encourage careers in STEM subjects.

As part of our commitment to reducing our environmental impact, we have procured electricity from renewable sources for our Chippenham and Cambridge sites. In addition, our Chippenham site has a solar array installed which contributes to the site's electricity usage, with any excess being sold to back to the grid.

The Board has endorsed a Charitable Support Policy which provides financial support for the fundraising activities of employees.



# Governance

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## Introduction from the Chairman

The Board remains committed to maintaining high standards of corporate governance and diversity, which we believe are integral to the long-term success of Vectura.

**Bruno Angelici**

### Dear Shareholder

During the year the Board has continued to focus on further improving the corporate culture of the Group and remains committed to maintaining high standards of corporate governance and diversity, which we believe are integral to the long-term success of Vectura and its purpose of transforming the lives of airways disease patients. As previously reported, the Board has reviewed and taken significant steps in respect of the succession planning of the Board and its Committees to ensure continuity for the business. Maintaining the development of good governance throughout the Group is a high priority and the Company continues to take advice from leading governance advisors.

### Statement of compliance with the Code

This is our first year reporting against the 2018 UK Corporate Governance Code (the "Code"), which is available on the Financial Reporting Council website ([www.frc.co.uk](http://www.frc.co.uk)), and I am pleased to confirm that the Board considers that it has been in compliance with the Code throughout the year ended 31 December 2019.

### Succession planning

Dr Susan Foden stepped down in September 2019 and I would like to take the opportunity to thank Susan for her significant contribution to Vectura and commitment to the Group during her tenure. We all wish her every success for the future.

During the year, the Board has consulted with shareholders regarding succession planning for the Board in respect of both Neil Warner and Dr Thomas Werner. I can confirm that Neil will not be standing for re-election at the 2020 AGM.

Dr Thomas Werner provides a significant element of continuity given his nine plus years on the combined board of Skyepharma and Vectura. In light of changes to the Board with Will Downie, the new CEO, having been appointed in November 2019 and the other Executive Director, Paul Fry, CFO, having been in post for around 17 months, the Board believes that the level of continuity Thomas provides is important.

Some shareholders indicated that, whilst they supported the proposal for Thomas to remain on the Board until the 2021 AGM, they would prefer that he step down from Board Committees and as Senior Independent Director (SID). In light of this, I can confirm that the Nomination Committee and Board have agreed that at the 2020 AGM Thomas will stand down from all Board Committees.

Having reviewed the situation with regard to the position of SID, the Board continues to believe that Thomas is currently the best qualified Director to fulfil this role. The Board considers Thomas to be independent in his fulfilment of his Director and SID roles. This belief is further supported by Independent Audit Limited, which undertook a full evaluation of the Board and its Committees towards the end of 2019 (see page 53 of this report and the Nomination Committee report on pages 56 to 58 for further information).

It is proposed that Thomas remain a Director until the 2021 AGM, whilst the Board identifies a suitable candidate to bring onto the Board in his place. As part of this search, the Board will continue to be mindful of the composition of the Board in respect of the position of SID, contract development and manufacturing organisation (CDMO) experience and of diversity.

### S172 statement – Directors' duty to consider stakeholders

Whilst the Board is primarily responsible to shareholders for the overall direction and control of the Group we have always endeavoured to hold shareholder interests and those of our wider stakeholders in equilibrium as required in s172 of the 2006 Companies Act.

The long-term success of our business is dependent on the way we work with a large number of important stakeholders and continues to require effective engagement, constructive working practices and a recognition of stakeholder views in order to create value for our shareholders and stakeholders alike.

The new s172 statement, giving an overview of our key stakeholders and examples of how we have engaged with and given consideration to them during the year, can be found on pages 46 and 47.

**Bruno Angelici**  
Chairman

16 March 2020



# Board of Directors



## 1 Bruno Angelici Non-Executive Chairman

**N R**

**Nationality** French

**Appointment to the Board** Bruno Angelici was appointed to the Vectura Board in December 2013 and became Non-Executive Chairman in February 2014. Following the merger with Skyepharma in June 2016, Bruno became Chairman of the enlarged Vectura Group plc.

**Experience and expertise** Bruno has 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 business leadership experience, including in the US, and brings a deep understanding to the Company of the medical device and pharmaceutical industries. Bruno was a member of the supervisory board of Wolters Kluwer NV, a global information services and publishing company, and also a non-executive director of Novo Nordisk A/S, a global healthcare company and world leader in diabetes care.

**Current external appointments** Bruno is a non-executive director of Smiths Group plc, a technology group.



## 2 Will Downie Chief Executive Officer

**Nationality** British

**Appointment to the Board** Will Downie was appointed Chief Executive Officer in November 2019.

**Experience and expertise** Will holds a BSc (Hons) in biochemistry from the University of Edinburgh.

Prior to joining Vectura, Will spent ten years as the senior vice president, global sales and marketing at Catalent Inc. In this role, Will led the commercial effort and had responsibility for global sales, marketing and commercial operations activities. During his tenure, he developed an outstanding track record in helping drive the long-term growth of the company, as well as positioning Catalent as one of the leading brands in the pharmaceutical services space.

He has a deep understanding of the development and advanced drug delivery market, and has amassed significant experience in driving sustained long-term results, as well as building performance-focused organisations and meeting customer needs on a global scale.

Prior to Catalent, Will held positions as vice president & general manager, global molecular imaging at GE Healthcare, vice president sales EMEA at Amersham Health and director of business development and commercial operations at Quintiles Innovex UK Limited. In his early career, he worked in a range of sales and marketing management positions at both Sanofi and Merck & Co.

**Current external appointments** Will does not currently hold any other directorships.



## 4 Thomas Werner Senior Independent Non-Executive Director

**A N R**

**Nationality** German

**Appointment to the Board** Thomas Werner was appointed to the Board of Skyepharma as a Non-Executive Director in May 2009 and joined the Board of Vectura following the merger in June 2016.

**Experience and expertise** He holds a degree in chemistry from the University of Göttingen.

Thomas has over 30 years of experience in the pharmaceutical industry, previously as senior vice president of GlaxoSmithKline, where he was managing director for Germany and also co-ordinated its European oncology business. Prior to that, he was responsible for Glaxo Wellcome Germany and Central Europe, Bristol-Myers Squibb Germany and Convatec Germany/Central Europe. He has held various non-executive positions including Riemser Pharma GmbH and New Oncology AG. Beside his business responsibilities, he has previously served for many years on the board of trustees of the Paul Ehrlich Foundation and the Robert Koch Foundation and was a director of the American Chamber of Commerce in Germany representing healthcare companies. Until October 2019 he was chairman of Fertin Pharma, a Danish medicated chewing gum company.

**Current external appointments** Thomas is chairman of the investment advisory committee of the Seventure (France) Health for Life capital investment fund. He is also vice chairman of Basilea Pharmaceutica Ltd.



## 3 Paul Fry Chief Financial Officer

**Nationality** British

**Appointment to the Board** Paul Fry was appointed Chief Financial Officer in October 2018.

**Experience and expertise** He graduated from Oxford University in 1988 and qualified as an accountant with the Chartered Institute of Management Accountants in 1991.

Paul joined Vectura from Immunocore, a privately held T Cell Receptor biotechnology company, where he had been chief financial officer since January 2017. Before joining Immunocore, he served as director of global finance operations at Vodafone Plc, where he was responsible for key financial controller activities and core processes as well as large transformation programmes. Prior to his role at Vodafone, he spent more than 25 years at GlaxoSmithKline (GSK), where he held a number of senior roles including head of global finance services and as CFO for GSK's Italian pharmaceutical business.

**Current external appointments** In February 2020 Paul became a non-executive director of AIM-listed Avacta Group plc, a developer of Affimer® biotherapeutics and reagents. He is also its audit committee chair.



## 5 Neil Warner\* Non-Executive Director

**A R**

**Nationality** British

**Appointment to the Board** Neil Warner was appointed to the Board of Vectura as a Non-Executive Director in February 2011.

**Experience and expertise** Neil holds an economics degree from the University of Leeds and is a Fellow of the Institute of Chartered Accountants.

Neil brings significant financial and leadership experience in multinational listed companies. 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, Neil 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 was formerly 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.

**Current 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. He is also a non-executive director, chair of the audit committee and member of the remuneration committee of Directa Plus plc which floated on AIM in May 2016. Directa Plus is one of the world's largest producers of graphene-based materials, marketed under its "Graphene Plus" (G+) brand, which can be used by third parties in a wide variety of industrial and commercial applications.

\* Neil Warner will not be standing for re-election at the 2020 AGM. Following the 2020 AGM Juliet Thompson will become the Audit Committee Chair, handing over the chairmanship of the Remuneration Committee to Dr Kevin Matthews who, by then, will have been a member of the Committee for over a year as required by the Code.

- A** Audit Committee
- N** Nomination Committee
- R** Remuneration Committee
- C** Committee Chair





**6 Per-Olof Andersson**  
Non-Executive Director and  
workforce engagement representative

**A N**

**Nationality** Swedish

**Appointment to the Board** Dr Per-Olof Andersson joined the Vectura Board in April 2015.

**Experience and expertise** He holds a degree in medicine from Lund University, Sweden.

Per-Olof is an expert in international research and development within the pharmaceuticals, bio-pharmaceuticals and speciality pharmaceutical industry and has 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 pharma companies. To support the 2018 Corporate Governance Code, Per-Olof has been appointed as the nominated Non-Executive Director who will oversee engagement between the Board and the workforce.

**Current external appointments** Per-Olof does not currently hold any other directorships.



**8 Anne Whitaker**  
Non-Executive Director

**N R**

**Nationality** American

**Appointment to the Board** Anne Whitaker was appointed to the Board as a Non-Executive Director in June 2018.

**Experience and expertise** She has more than 25 years of experience in the life science industry, including senior leadership roles with large pharmaceutical, biotech and speciality pharma companies. She has significant experience in the US respiratory sector and was, until recently, serving as president and chief executive officer of KNOW Bio, LLC and its wholly owned subsidiary, Novoclem Therapeutics, Inc. Previously, Anne was executive vice president and company group chairman at Valeant Pharmaceuticals. Prior to that, Anne served as president and chief executive officer of Synta Pharmaceuticals, now part of Madrigal Pharmaceuticals, Inc. She also served as president, North America pharmaceuticals at Sanofi, and held several commercial leadership roles at GlaxoSmithKline.

**Current external appointments** Anne is currently a director and CEO of Dance Biopharma Holdings Inc., an independent director of Cree, Inc., a NASDAQ traded company, and an independent director of Mallinckrodt plc. She is also a trustee for the University of North Alabama.



**7 Juliet Thompson\***  
Non-Executive Director

**A R**

**Nationality** British

**Appointment to the Board** Juliet Thompson was appointed to the Board as a Non-Executive Director in December 2017.

**Experience and expertise** Juliet has a BSc in economics and is a chartered accountant.

She has spent over 20 years actively involved in the life sciences sector working as an investment banker and strategic advisor to healthcare companies in Europe. She headed up the European healthcare team at Stifel (formerly Oriel) and prior to this was a founding partner of Code Securities, a healthcare investment banking boutique which was acquired by Nomura, later forming Nomura Code.

**Current external appointments** Juliet sits on the boards of Novacyt S.A., a French diagnostic company whose shares are admitted to trade on AIM and Euronext, and GI Dynamics, Inc., a US headquartered, Australian stock exchange-listed company. She chairs the audit committee of both of these companies. Juliet is also a trustee of Leadership through Sport & Business, a social mobility-focused charity.



**9 Kevin Matthews\***  
Non-Executive Director

**N R**

**Nationality** British

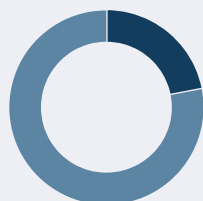
**Appointment to the Board** Kevin Matthews joined the Board in March 2019.

**Experience and expertise** Kevin has more than 20 years' experience in senior management roles in the chemical, technology and pharmaceutical sectors and has significant marketing, strategy and management expertise. Kevin is CEO of privately held speciality chemicals company Scott Bader Limited and was, until the end of 2018, executive chair of Itaconix plc, an AIM-listed polymer business, having successfully led the organisation as chief executive officer. A Fellow of the Royal Society of Chemistry, Kevin has a strong technical background and has previously held CEO roles at technology companies including IsoGenica, a privately held antibody drug discovery company, and Oxonica plc, an advanced materials business. Prior to this he held leadership roles in multinational chemical companies. He served as a non-executive director and remuneration committee chair of Elementis plc, a FTSE 250 speciality chemicals business from 2005 to 2014. He also served as a non-executive director of Cellectric AB, a Swedish biotechnology company dedicated to drug discovery and research in the areas of chronic pain and neurodegenerative disease, from 2011 to 2014.

**Current external appointments** Kevin is chief executive officer of the privately held speciality chemicals company Scott Bader Limited.

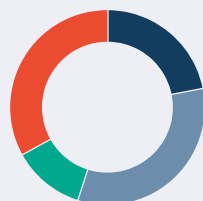
**As at 31 December 2019**

**Board composition**



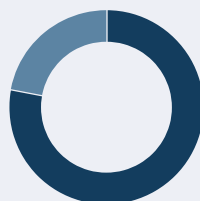
Executive **22.2%**  
Non-Executive **77.8%**

**Board tenure**



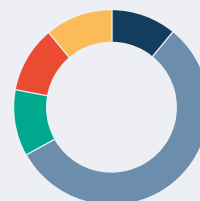
<1 year **22.2%**  
1-3 years **33.3%**  
4-6 years **11.1%**  
6+ years **33.3%**

**Board gender diversity**



Male **77.8%**  
Female **22.2%**

**Board nationality diversity**



French **11.1%**  
British **55.6%**  
German **11.1%**  
Swedish **11.1%**  
American **11.1%**

+ More information on Board diversity can be found in the Nomination Committee report on page 58

+ Full biographies of the Board are available to view on [www.vectura.com](http://www.vectura.com)



# Executive Leadership Team



1



2



3



4



5



6



7



8



9



10

## 1 Will Downie Chief Executive Officer

Read Will Downie's experience and expertise on page 50.

## 2 Paul Fry Chief Financial Officer

Read Paul Fry's experience and expertise on page 50.

## 3 John Murphy General Counsel and Company Secretary

**Appointment** John Murphy joined Skyepharma as general counsel in March 2006 and was appointed as General Counsel and Company Secretary of Vectura in June 2016 following the merger.

**Experience and expertise** John is a lawyer with extensive experience in legal and company secretarial roles in listed pharmaceutical and biotechnology companies including Medeva PLC, Celltech Group PLC and Pharmagene PLC. He is chairman of the BIA Intellectual Property Advisory Committee and a member of the EuropaBio Intellectual Property Working Group. He holds a BSc in aeronautical engineering from Bristol University and is a qualified solicitor.

## 4 Mark Bridgewater Chief Commercial Officer

**Appointment** Mark Bridgewater joined Vectura in March 2020.

**Experience and expertise** Mark has more than 20 years of experience in medical device and pharmaceutical services. Prior to joining Vectura he was VP Business Development and Account Management for Europe and Asia at Flex, a global design, engineering and manufacturing organisation. Prior to this, he was VP Global Business Development, Advanced Delivery Technologies at Catalent, and earlier in his career worked as Head of Global Manufacturing Services at Wockhardt and Senior Business Manager, Italy, for Patheon.

## 5 Geraldine Venthoye Executive Vice President – Pharmaceutical Development

**Appointment** Dr Geraldine Venthoye joined Vectura in June 2016 upon completion of the merger with Skyepharma PLC, where she had been executive vice president – pharmaceutical development since 2013, having joined Skyepharma as head of the inhalation business unit in September 2003.

**Experience and expertise** Geraldine is a UK registered pharmacist and holds a doctorate degree in pharmaceuticals from the University of London.

Geraldine held senior CMC leadership and scientific roles in Inhale/Nektar Therapeutics, San Carlos, California, US, and prior to this in the UK held scientific positions in inhalation drug delivery at Vandsons Research and Norton Healthcare.

## 6 Antony Fitzpatrick Executive Vice President – Operations

**Appointment** Antony Fitzpatrick joined Vectura in July 2017.

**Experience and expertise** Antony has a first-class BSc in aeronautical engineering from Manchester University and an MSc in numerical computation from the University of Manchester Institute of Science and Technology.

Antony joined Vectura from Baxter where he had worked since 1999, having been responsible for global supply chain and most recently VP manufacturing and supply chain for EMEA. This role included operations with 24 manufacturing sites, production values worth over \$1.5bn, 9,000 employees and capex of over \$100m. His Baxter experience includes operating in both a pharma product environment and in product device and pure medical device operations. Prior to working at Baxter he worked in various manufacturing and logistics roles for Ingram Micro (IT technology), Exel Logistics, Coopers and Lybrand and Mobil Oil.

## 7 Joanne Hombal Executive Vice President – Human Resources

**Appointment** Joanne Hombal joined Vectura in January 2015.

**Experience and expertise** Joanne has a BSc in psychology from the University of Birmingham and 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.

## 8 Christina Olsen Executive Vice President – Corporate Strategy and Communications

**Appointment** Christina Olsen joined Vectura in November 2016 and was appointed to the Executive Leadership Team in August 2019.

**Experience and expertise** Christina graduated from the Stockholm School of Economics with a Master's in business and economics, majoring in finance and business strategy.

Before joining Vectura, Christina spent almost a decade in leadership roles at AstraZeneca, where her responsibilities included strategic insight to shape corporate strategy, as well as product strategy across therapeutic areas. Christina also led a corporate initiative delivering a step-change in payer capabilities. Her last role at AstraZeneca was as VP for competitive intelligence and forecasting for the global respiratory, inflammation and autoimmune portfolio.

She also worked for Chiron Corporation for three years, leading business development, and spent nine years at Boston Consulting Group, where she led and managed client projects, including biotech and top ten pharmaceutical company mergers.

## 9 Sharon Johnson Executive Vice President – Delivery Management

**Appointment** Sharon Johnson joined Vectura in February 2020.

**Experience and expertise** Sharon holds a postgraduate diploma in industrial pharmaceutical studies with distinction from Brighton University and a BS honours degree in biological sciences/microbiology from North East Surrey College of Technology.

Sharon has more than 30 years' experience in the pharmaceutical industry, and prior to joining Vectura held a number of executive positions, most recently senior vice president, global quality and regulatory affairs, at Catalent, where her role was expanded to also include responsibility for product development. Whilst at Catalent, Sharon was also responsible for the implementation of a project management organisation with strong governance and transparency, ensuring customer expectations of product development excellence were delivered. Earlier in her career she held the position of vice president of quality for GE Healthcare's medical diagnostic division, and worked in roles of increasing responsibility for Baxter Healthcare and Sanofi Aventis.

## 10 David Lescuyer Executive Vice President – Oral Business

**Appointment** David joined Vectura in June 2016 upon completion of the merger with Skyepharma PLC where he had been executive vice president – oral business since April 2016.

**Experience and expertise** David, a French national, holds a BSc in mechanical engineering and an MBA from HEC Paris.

David joined Skyepharma from Patheon Pharmaceuticals, where he was executive director and general manager, Patheon France, and more recently global VP, operational excellence. Prior to Patheon, David's career included experience with Fareva, Cenexi and Catalent in senior operational and general management roles.



# Corporate governance statement

## Introduction

The 2018 UK Corporate Governance Code (the "Code"), issued by the Financial Reporting Council (FRC) (available on the FRC website ([www.frc.org.uk](http://www.frc.org.uk))), came into effect for all reporting periods starting on or after 1 January 2019. The following Corporate governance statement explains how the Company applied the provisions of the Code, as required by the Listing Rules of the Financial Conduct Authority (FCA), and meets the relevant provisions of the FCA Disclosure Guidance and Transparency Rules (DTR).

The Group's risk management and internal control framework and the principal risks and uncertainties are described on pages 31 to 38. The Directors' report on pages 87 and 88 and Nomination Committee report on pages 56 to 58 also contain information required to be included in this Corporate governance statement. Both are incorporated into this statement by reference as allowed by DTR 7.2.9.

## Statement of compliance with the Code

This is the Company's first year reporting against the Code and the Board considers that it has been in compliance with the Code throughout the year ended 31 December 2019.

## The Board and its processes

### Board composition

At the date of this statement, the Board comprises two Executive and seven Non-Executive Directors. Will Downie joined the Board as Chief Executive Officer on 7 November 2019 and Dr Kevin Matthews joined the Board as a Non-Executive Director on 29 March 2019.

James Ward-Lilley and Dr Susan Foden served as Directors during the year and stepped down from the Board on 30 June and 30 September 2019 respectively.

The Board is supported in its role by the Audit, Nomination and Remuneration Committees, details of which are set out on page 54.

With regard to the appointment and replacement of Directors, the Company is governed by its articles of association (the "Articles"), the Code, the Companies Act 2006 (the "Act") and related legislation. The Articles themselves may be amended by special resolution of the shareholders.

The Articles provide that Directors may be appointed by an ordinary resolution of the Company's members or by a resolution of the Directors. All the Directors will retire at the 2020 Annual General Meeting (AGM) and all except Neil Warner will stand for election or re-election as appropriate. The Board's recommendations concerning appointment or reappointment are contained in the Report of the Nomination Committee on pages 56 to 58. Biographical details of the Directors and Committee membership information are available on pages 50 and 51 and in the AGM Notice of Meeting.

The Executive Directors have service contracts that can be terminated on twelve months' notice. The appointments of the Non-Executive Directors can be terminated on three months' notice. The Chairman's appointment can be terminated on six months' notice.

### Board balance and independence

The Board considers that the balance achieved between Executive and Non-Executive Directors during the year was appropriate and effective for the business.

The Board considers that all of its Non-Executive Directors are independent in character and judgement, and their knowledge, diversity of experience and business interests continue to enable them to contribute significantly to the work of the Board including developing strategy and challenging the executive management appropriately and constructively. The Board is satisfied that the Non-Executive Directors who have been members of the Board for longer than nine years continue to demonstrate their independence and have no evidence that their length of tenure has impacted on this.

An external Board evaluation took place during the year, as required by the Code, and supports the Board's view regarding independence. Specifically in relation to Dr Thomas Werner, Independent Audit Limited said:

*"In September–December 2019, we conducted a Board Effectiveness Review at Vectura Group plc which involved interviewing each Board member individually and observing meetings of the Board and certain of its Committees. We found no reason to question the objectivity and independence of mind of Thomas Werner. On the contrary, we observed him making a valuable contribution to the Board and its Committees in his challenge to management. His background and experience is particularly valuable as the Company further develops and executes its new strategy. We agree with the Vectura Board that he is the best individual to act as SID for a period until the 2021 AGM and we found him to be exercising his role effectively, with due care and diligence."*

Further information on the Board's succession plans can be found in the Nomination Committee report on pages 56 to 58.

### The role of the Board

The Board is collectively responsible for the long-term success of the Company, its governance and internal controls and is accountable for its activities. The Board reviews the operational performance of the Group on a regular basis and also exercises a number of reserved powers as determined by applicable legislation and the Company's Articles. The matters reserved for the Board are reviewed annually to ensure that they are appropriate for the Group and are available via the Company's website ([www.vectura.com](http://www.vectura.com)).

The Directors have been authorised to issue and allot ordinary shares, pursuant to the Articles. These powers are referred to shareholders at each AGM for renewal.

### Register of conflicts and time commitments

The Board formally considers any potential conflicts between a Director and the Company. Any situational conflicts must be notified to the Board for authorisation as and when they arise, notwithstanding a Director's general duty to avoid such conflicts. Transactional conflicts must be notified to the Board in person or in writing at the next meeting, where the Board can decide, in the absence of the Director concerned, whether or not to authorise such conflict and how to manage the conflict if authorised. Prior to finalising an appointment, a new Director is required to confirm his or her existing appointments and discuss the time commitment required to deal appropriately with the affairs of the Group. At each Board meeting, Directors are requested to inform the Board if there are any changes in their commitments or other appointments. Significant changes in a Director's outside commitments are discussed with the Board prior to a Director accepting further appointments.

## Corporate governance statement continued

### The Board and its processes continued

#### Induction development and information flows

New Directors received formal induction training, including site visits and meetings with the Company's advisors, brokers, auditor and major shareholders, and ongoing training is encouraged and provided upon request and as appropriate. This training is customised for each Director and varies depending upon their skills, experience and background.

Directors also receive regular updates on changes and developments in the business, legislative and regulatory environments. The Anti-Bribery and Modern Slavery Policies were reviewed by the Board during the period. Each Board pack contains a copy of the Directors' statutory duties. Directors are encouraged to discuss with the Chairman any further training requirements which they feel are needed. This is included in the discussions held during the annual performance evaluation.

Good information flows between the Board and management are essential for effective governance. The Board, together with senior management, ensure:

- that the agendas are appropriate for the business and are forward looking as well as providing historical and current results data;
- that papers are of an appropriate length and content for the Non-Executive Directors to be able to understand and review; and
- that sufficient time is given for Directors to read and review the papers prior to meetings.

#### Board meetings

Ordinarily, the Board meets between six and eight times a year and on an ad hoc basis as required. In the year ended 31 December 2019, in addition to the six scheduled formal Board meetings which were held, there were ten ad hoc meetings held to discuss specific topics including the approval of the special dividend, share consolidation, share buyback and changes to the Board. Attendance at scheduled Board meetings is set out in the table to the right.

At each formal meeting the Board considers reports on the key activities of the Group and reports from the Chairs of the Audit, Nomination and Remuneration Committees as appropriate. It also receives information on important forthcoming events and reports on strategy, investor relations, legal affairs and environmental and health and safety matters. The Board regularly receives papers and presentations from senior management, which gives the Board the opportunity to meet executives below Board level. In addition, there is an annual two-day Board meeting to focus on strategic development, looking at the Group's longer-term outlook.

The Non-Executive Directors held meetings without management present after each Board meeting and, in addition, had discussions with the Senior Independent Director, to review the performance of the Chairman during the year, including the leadership of the Board and ensuring its effectiveness. The Chairman, with assistance from the General Counsel and Company Secretary, is responsible for the governance arrangements including meeting agendas, timely information flows and dialogue between Executive and Non-Executive Directors, encouraging an open and supportive culture.

### Board Committees

There are three main Committees, all of which operate within written terms of reference, which assist the Board in its execution of its duties. Activities carried out by the respective Committees are reported at the next Board meeting.

The Committee terms of reference are available on the Company website ([www.vectura.com](http://www.vectura.com)) or by request from the Company Secretary.

Each of the Committees is authorised, at the Company's expense, to obtain legal or other professional advice to assist in carrying out its duties. No person other than a Committee member is entitled to attend the meetings of these Committees. However, in order to facilitate good information flows and provide challenge where appropriate, the Committees may invite, for example, the Chief Executive Officer, the Chief Financial Officer, the General Counsel and Company Secretary, the Group Financial Controller and senior representatives of the external auditor to attend as required.

The members, work and activities of the Committees are further described in their respective reports on pages 56 to 86. Details of attendance at Committee meetings in 2019 can be found in the table below.

#### Board and Committee meeting attendance

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Bruno Angelici	6/6	—	5/5	6/7
Will Downie (appointed 7 November 2019)	1/1	—	—	—
Paul Fry	6/6	—	—	—
James Ward-Lilley (stepped down 30 June 2019)	3/3	—	—	—
Per-Olof Andersson	6/6	5/5	5/5	—
Susan Foden (stepped down 30 September 2019)	4/5	—	4/4	—
Neil Warner	6/6	5/5	—	7/7
Thomas Werner	6/6	4/5	4/5	7/7
Juliet Thompson	6/6	4/5	—	6/7
Anne Whitaker	6/6	—	5/5	6/7
Kevin Matthews (appointed 29 March 2019)	4/4	—	1/1	5/5

Attendance above is in relation to members of the Board/Committees.

Other Non-Executive Directors and senior executives attended by invitation.

### Executive Leadership Team

The Board delegates day-to-day management of the Group to the Chief Executive Officer and his team. The Executive Leadership Team (ELT) supports the Chief Executive and is accountable for delivery of the strategy adopted by the Board. The ELT consisted during the period of the Executive Directors, General Counsel and Company Secretary, Executive Vice President – Pharmaceutical Development, Executive Vice President – Operations, Chief Commercial Officer, Executive Vice President – Human Resources, Executive Vice President – Corporate Strategy and Communications, Executive Vice President – Delivery Management and Executive Vice President – Oral Business. Biographies of the ELT can be found on page 52.





## Board diversity policy

We believe in a diverse and gender-balanced workforce, and our Equal Opportunities Policy ensures the provision of equal opportunities in all aspects of employment and applies equally to the Board and the wider employee workforce. In addition, we will continue to prioritise the Hampton-Alexander Review requirements on gender diversity in the boardroom.

## Policy on other appointments

The Board believes that Directors should be able to accept other appointments where no significant actual or potential conflicts of interest arise and provided that the Director is able to maintain their time commitments to the Company. These other appointments enable Directors to develop further skills and experience from which the Company benefits, provided that such commitments do not impinge on their duties to the Company.

Details of any appointments held by each Director are listed under their biographies on pages 50 and 51. Following the year end Paul Fry became a non-executive director of Avacta Group plc, an AIM-listed company. Will Downie does not currently hold any external non-executive positions; however, this would be considered as part of his future development.

## Share capital – special rights and restrictions

Pursuant to the general provisions of the Articles and prevailing legislation, there are no specific restrictions on the size of a shareholding or on voting rights of holders of ordinary shares. The Directors are not aware of any restrictions on the transfer of ordinary shares in the Company other than certain restrictions which may from time to time be imposed by law and regulations, e.g. insider trading laws, and pursuant to the Listing Rules of the FCA whereby certain employees of the Company require the prior approval from the Company to deal in the Company's securities.

The Company is not aware of any agreements between shareholders that may result in restrictions on voting rights and the transfer of securities. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

## Substantial shareholdings

As at 31 December 2019 and 13 March 2020, being the latest practicable date, the Company had received notifications, in accordance with the DTR over shares and financial instruments, as detailed in the table below:

	As at 31 December 2019		As at latest practicable date	
	Number of ordinary shares	Percentage of voting rights and issued share capital	Number of ordinary shares	Percentage of voting rights and issued share capital
Invesco Ltd	72,617,132	10.91	50,105,591	8.27
AXA Investment Managers	33,635,342	5.50	36,394,328	6.02
Aberforth Partners LLP*	n/a	n/a	30,417,248	5.03
M&G Investment Management Limited	29,915,265	4.89	29,730,297	4.91

\* Aberforth Partners LLP notified the Company following the year end that they had reached the initial 5% notification threshold required for an investment firm.

## Relations with shareholders

Executive management runs an extensive programme of roadshows and ad hoc meetings with both existing and potential new shareholders. In 2019, meetings were held in the UK, Europe and the US as well as calls with potential investors in other countries. Executive management also presented regularly at investor and industry conferences. Both the Chairman and Senior Independent Director have held meetings with shareholders independently of Executive Directors during the year and are regularly available for such meetings if requested.

The Company holds updates post results with analysts and institutional investors. The Board also receives regular updates from its brokers on the views of shareholders about the Company and its operating market to ensure that the Non-Executive Directors in particular gain an understanding of the views of major shareholders about the Company.

At the 2019 AGM all of the resolutions put to shareholders were passed. Whilst not falling below the 80% approval, a number of shareholders followed recommendations by several of the proxy voting agencies to vote against the resolution to reappoint Dr Susan Foden as a Director. As had previously been communicated to shareholders, in November 2018, the intention was that Dr Foden would step down from the Board by the 2020 AGM. Susan stepped down as a Non-Executive Director in September 2019.

An update on the succession planning was sent to shareholders in November 2019 and again in February 2020 updating members of the changes, anticipated and unanticipated, that had occurred during the year. The Board has requested support for Dr Thomas Werner to remain on the Board for a further period to the 2021 AGM rather than 2020 as previously indicated in order to ensure an element of continuity and balance whilst a new Non-Executive could be appointed. More information regarding this can be found in the Nomination Committee report on pages 56 to 58.

## Annual General Meeting

The Company continues to welcome dialogue with investors, including retail investors, for which the AGM is an opportunity to meet with the Directors and put questions to the Board. The AGM will be held at the offices of Vectura Group plc, 46–48 Grosvenor Gardens, London, SW1W 0EB on Wednesday 27 May 2020.

As required by the Code the resolutions regarding each Director's appointment or reappointment will be accompanied by information on why their contribution is, and continues to be, important to the Company's long-term sustainable success.

The Company proactively encourages shareholders to vote at general meetings by providing electronic voting for shareholders who wish to vote online and personalised proxy cards to shareholders electing to receive them, ensuring that all votes are clearly identifiable. The Company presently takes votes at general meetings on a poll, the results of which are reported after each resolution and published on the Company's website ([www.vectura.com](http://www.vectura.com)).

## Nomination Committee report

# Ensuring Board diversity, skills and independence



The Nomination Committee keeps the structure, size and composition of the Board and its Committees under review in order, primarily, to match the skills, knowledge and expertise to the strategy and business requirements of the Company.

**Bruno Angelici**



### Composition and attendance at meetings

The Nomination Committee during the period consisted of Bruno Angelici (Chair), Dr Per-Olof Andersson, Dr Thomas Werner, Anne Whitaker, Dr Kevin Matthews (joined on 21 November 2019) and Dr Susan Foden (stepped down on 30 September 2019). Other members of the Board Executive Leadership Team (ELT) attended by invitation.

The Nomination Committee met five times during the year and the attendance at meetings is shown on page 54.

### Role of the Nomination Committee

The role of the Nomination Committee is to optimise Board performance, enabling the Group to grow, compete and manage risk effectively as it seeks to become the leading contract development and manufacturing organisation (CDMO). It keeps the structure, size and composition of the Board and its Committees under review in order, primarily, to match the skills, knowledge and expertise to the strategy and business requirements of the Company.

A copy of the Nomination Committee's terms of reference, which were reviewed and updated with minor changes during the year, are available on the Company's website ([www.vectura.com](http://www.vectura.com)).

### Review of the period

During the year, the Nomination Committee continued its work to find a further Non-Executive Director to supplement the independence and knowledge of the existing Board and to ensure appropriate succession planning is in place. This resulted in the appointment of Kevin to the Board, in March 2019. His recruitment was made with the assistance of an external search consultancy, Odgers Berndtson, which does not have any other connection with the Group. Kevin joined the Nomination Committee on 21 November 2019.

James Ward-Lilley, Chief Executive Officer (CEO), stepped down from the Group with effect from 30 June 2019 and Will Downie was appointed as the new CEO in November 2019, with Paul Fry, Chief Financial Officer (CFO), acting as the interim CEO in the intervening period.

Dr Susan Foden, Non-Executive Director and Senior Independent Director (SID), stepped down from the Board with effect from 30 September 2019. Following her departure, Dr Thomas Werner became the SID.

During the year and following feedback received from shareholders, the Nomination Committee also considered the size and composition of the Board and its Committees. More information on this can be found in the Board succession planning section of this report.



### Board evaluation

In accordance with the 2018 UK Corporate Governance Code an externally facilitated evaluation was carried out during the year by Independent Audit Limited (IAL), a company which has no other connection with the Group. The focus this year was around boardroom culture and constructive relationships, whether the Board has the right impact and value for the Executive Leadership Team, and if there were people and processes in place to enable effective Board oversight.

The evaluation involved Board members being interviewed, meetings being observed, and discussions of the themes emerging from the review feeding into development actions.

IAL highlighted that the Board had demonstrated key strengths including:

- a thorough and inclusive process to select the new CEO;
- a clear consensus on the strategic direction;
- a constructive atmosphere at board meetings;
- a strong contribution of the CFO as interim CEO; and
- well-functioning committees.

The key outcomes were:

- ensuring that Board time and energy is focused on significant issues (over and above business as usual) and risk management now that the strategy is focused on becoming a leading CDMO;
- for management to provide Board with updates on the Company's principal operating frameworks and governance as appropriate;
- that all Non-Executive Directors should attend all Committee meetings irrespective of membership to ensure that all are kept up to date and reduce the time required for formal Committee reports to the Board meetings; and
- that the Board should continue to receive specific training on various aspects of running a CDMO business to increase its knowledge further.

The review supported the Board's view that it should have an appropriate level of CDMO expertise. The Board has considered the comments and suggestions made by IAL and will implement a number of these during the year in order to achieve the above objectives.

### Board succession planning

The Board has reviewed the succession plans for both its composition and that of its Committees and the continued development of the Board.

With effect from 1 January 2019, Juliet Thompson was appointed as the Remuneration Committee Chair, taking over from Susan, who remained as a Non-Executive Director and SID until her departure from the Board in September 2019, when Thomas became SID in her place.

The Board has consulted extensively with shareholders regarding succession planning resulting in significant support for the proposals detailed below.

First, given the changes that have taken place during the year, not all of which were anticipated at the start of the year, the Board considers that it is in the best interests of the Group to retain the services of Thomas for up to a further year. All of the other Board members believe that Thomas should continue on the Board until the 2021 AGM to assist in ensuring a smooth implementation of succession plans, despite his tenure, in aggregate, on the combined Skyepharma and Vectura boards, being over nine years.

There are a number of compelling reasons to support this course of action. Firstly, Thomas provides a significant element of continuity, which the Board believes to be important with Will Downie, the CEO, having been in post since November 2019 and the other Executive Director, Paul Fry, the CFO, having been in post since October 2018.

Secondly, in light of the refocusing of the Group's strategy to a more service-based CDMO model, it is important for the Board to have non-executive expertise available to it in this area. Will, the newly appointed CEO, has extensive CDMO experience and this played an important part in his selection. Equally, it is important for the Board to be balanced in its expertise and to have Non-Executive Directors who can support and, where necessary, challenge the Executive Directors. Thomas has over 30 years of pharmaceutical business experience, and within that, almost 10 years of CDMO experience.

Therefore, it is proposed that at the 2020 AGM Neil Warner will not stand for reappointment and Juliet will assume his role as Chair of the Audit Committee. Kevin, having served on the Remuneration Committee for over twelve months will become Chair of the Remuneration Committee. It is further proposed that Thomas be reappointed as a Non-Executive Director for up to a further year for the reasons given above and whilst a further Non-Executive Director is sought.

Some shareholders indicated that, whilst they supported the proposal for Thomas to remain on the Board up until the 2021 AGM, notwithstanding his tenure, they would prefer that he step down from Board Committees and as SID.

In light of this, the Nomination Committee and Board have agreed that at the 2020 AGM Thomas will stand down from all Board Committees. Having reviewed the situation with regard to the position of SID, the Board continues to believe that Thomas is currently the best qualified Director to fulfil this role and independent in his fulfilment of his Director and SID roles; this belief is further supported by Independent Audit Limited, which undertook a full evaluation of the Board and its Committees at the end of 2019. Independent Audit Limited said:

*"In September–December 2019, we conducted a Board Effectiveness Review at Vectura Group plc which involved interviewing each Board member individually and observing meetings of the Board and certain of its Committees. We found no reason to question the objectivity and independence of mind of Thomas Werner. On the contrary, we observed him making a valuable contribution to the Board and its Committees in his challenge to management. His background and experience is particularly valuable as the Company further develops and executes its new strategy. We agree with the Vectura Board that he is the best individual to act as SID for a period until the 2021 AGM and we found him to be exercising his role effectively, with due care and diligence."*

Following the 2020 AGM, the Board will consist of eight Directors, two of whom will be women, and it will have a new Chair for both the Remuneration and Audit Committees. Since Susan stepped down in September 2019 there has been a new SID. With the exception of Thomas, no Director has served more than seven years and over half the Board has served for fewer than four years.

The Nomination Committee recommends the appointment of Will and the reappointment of all other Directors standing for re-election at the 2020 AGM.

## Nomination Committee report continued

### Diversity

The Group is committed to encouraging equality and diversity among its workforce. We aim to create an inclusive working environment based on merit, fairness and respect to enable us to attract and retain the most talented people from all backgrounds and cultures. We are also working to achieve a diverse Board and, just as importantly, diverse management teams. Appointments to the Board are based on merit and consideration of the Group's strategic objectives. The Nomination Committee has a formal and rigorous appointment process involving all Board members and makes recommendations based on the capabilities of individual candidates, having due regard for the benefits of diversity and the need to ensure the effective functioning of the Board both now and in the future.

The Group supports the principles of the Hampton-Alexander Review on gender and the recommendations of the Parker Review on ethnic diversity.

For half of 2019 the Board met the recommendation of women representing 33% of the Board. Following the arrival of Dr Kevin Matthews at the end of March 2019, and the departures of James Ward-Lilley at the end of June and Susan at the end of September 2019, the Board comprised two women and seven men. Therefore, as at 31 December 2019, the Group did not meet the Hampton-Alexander recommendation. Following the 2020 AGM there will be two women and six men.

Taking into account shareholders' views regarding the size and diversity of the Board, and despite the Group not currently being a FTSE 350 constituent, the Board will give appropriate weight to both gender and ethnicity when looking for a new Non-Executive Director to replace Dr Werner when he retires at the 2021 AGM.

We believe that members of the Board and senior management should collectively possess a diverse range of skills, expertise, nationality and ethnic and societal backgrounds. The Board comprises one Swedish national, one French national, five British nationals, one German national and one United States national, demonstrating a diverse range of cultures and experiences. In terms of the next level of management, our Executive Leadership Team, excluding the Executive Directors, totals eight, of which there are three female members, thereby exceeding the Hampton-Alexander 33% target. In 2019 the Executive Leadership Team plus its senior direct reports who were part of our Business Leadership Team consisted of 42 individuals, of whom 15 were female, resulting in representation of 35.7%. As a Company, our strategy continues to be maintaining and improving on these levels, so that the objectives of the Hampton-Alexander Review continue to be met throughout 2020.

**Bruno Angelici**  
**Nomination Committee Chair**  
 16 March 2020



Vectura Group plc is committed to encouraging equality and diversity among its workforce. We aim to create an inclusive working environment based on merit, fairness and respect to enable us to attract and retain the most talented people from all backgrounds and cultures.



# Monitoring all aspects of financial reporting and risk



In addition to challenging the key judgements and estimates for external reporting, the main focus of the Committee in 2019 has been on risk management and mitigating controls particularly in relation to Brexit, the partnering of VR647 and the transition of the business model.

Neil Warner



### Composition and attendance at meetings

After serving just over nine years on the Board and as Audit Committee Chair, I will be standing down as Non-Executive Director at the end of the 2020 AGM. The role of Audit Committee Chair will transition smoothly to Juliet Thompson, who has been a member of the Committee since December 2017. I express my thanks and appreciation to my fellow Committee members for their support throughout my tenure.

The Audit Committee during the period consists of Neil Warner (Chair), Dr Per-Olof Andersson, Dr Thomas Werner and Juliet Thompson. Other members of the Board and Executive Leadership Team (ELT) attended by invitation.

All the members of the Audit Committee are independent Non-Executive Directors in accordance with provision 24 of the 2018 UK Corporate Governance Code (the "Code"). The Board has determined that Neil Warner as the Committee Chair has recent and relevant financial experience as required by the Code due to his prior experience and other current non-executive directorships and by way of his Fellowship of the Institute of Chartered Accountants. As a whole, the Committee possesses experience relevant to the business through the financial experience of Neil Warner and Juliet Thompson, also a chartered accountant. Biographies of the members of the Committee are set out on pages 50 and 51.

The Audit Committee met five times during the year and the attendance at meetings is shown on page 54.

### Responsibilities of the Committee

The Committee's main duties are as follows:

- monitoring and reviewing the integrity of the financial reporting process and reviewing the financial statements, including the appropriateness of judgements and estimates taken in preparing the financial statements and preparations for the introduction of new accounting standards;
- monitoring and reviewing the effectiveness of the Group's internal financial controls including approval of the scope and review of the results of internal audit activities;
- monitoring and reviewing the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- making recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- to review any proposal for the external auditor to supply non-audit services, in view of Group policy and relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and
- to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

## Audit Committee report continued

### Main activities of the Committee

During the period, and through to the finalisation of the Annual Report and Accounts for the year ended 31 December 2019, the main activities and principal issues considered by the Audit Committee are detailed below.

### Review of the Group risk register

As part of its review, the Committee considered:

- **Risks from Brexit uncertainty:** Despite the orderly withdrawal of the UK from the EU commencing on 31 January, downside risk remains as the transition period afforded by the Withdrawal Agreement expires on 31 December 2020. If this period is not extended or the UK and EU fail to reach agreement regarding their future relationship, then the Group may suffer disruption. The Committee reviewed management's downside sensitivities and the most severe sensitivity would result in impairment of the goodwill allocated to the Swiss cash-generating unit.
- **Progress of VR647 partnering discussions:** Following developments in the status and timing of partnering discussions and the revision to the Group's R&D investment priorities announced in July 2019, the Committee agreed with the impairment of the related intangible asset in full in September 2019 and the release of the related deferred tax liability.
- **Risks relating to the transition to a CDMO business model:** The Committee agreed with the addition of a new principal risk of "Failure to win new customer contracts for development services and execute these profitably".
- **Risks relating to the loss of critical and sensitive data and systems:** The Committee agreed with the addition of a new principal risk of "Failure to protect critical and sensitive data and systems".

### Review of critical areas of accounting judgement and estimates

The Committee reviewed the following matters of judgement and estimate considered critical to the reported amounts of assets, liabilities, revenues and expenses. These included, but were not limited to:

- **Revenue (critical judgements and estimates):** The Committee reviewed management's assessment of variable consideration to be constrained and concurred that these were not highly probable. Despite formulation services commencing for a product under the agreement with Hikma to develop generic versions of GSK's Ellipta® portfolio, all performance obligations are success based and there is no enforceable right to payment until the success criteria are met. Accordingly, the Committee agreed with management that these development services do not yet meet the definition of a contract per IFRS 15.
- **Impairment of goodwill acquired through business combinations (critical estimate):** Given the relatively low headroom in the prior year impairment test and the shift to a CDMO business model, the Committee challenged management's key assumptions used to calculate the recoverable amount of the CGU. The Committee noted the change to declining terminal growth versus a nil terminal growth assumption applied previously to reflect the decline phase of *flutiform*® and the low likelihood that the Group will make a similar R&D investment. Following this review and challenge, the Committee agreed that the assumptions were reasonable and no impairment is required.

The sensitivities and the related content in note 15 to the consolidated financial statements were also reviewed by the Committee with the level of disclosure considered appropriate.

- **Useful economic lives of intangible assets (critical estimate):**

The Committee considered the useful economic lives of the Group's on-market intangible assets and concurred with the increase in the useful economic life of the *flutiform*® intangible following the granting of certain Japanese patent extensions in 2019.

- **Uncertain tax position (critical judgement):** The Committee noted an uncertain tax position recognised relating to the utilisation of historical losses claimed in an overseas jurisdiction. This provision was partially released to the Consolidated income statement in 2019 in line with the annual Statute of Limitation closure (the period during which the tax authority can enquire into each tax return). No contact has been received from the IRS in respect of the uncertainty and therefore the judgement of IRS challenge has not changed. The remainder of the provision is expected to be fully resolved in 2021 when the Statute of Limitation closes.

- **Actuarial assumptions on Swiss pension benefits (critical estimate):** The Committee reviewed and agreed with the actuarial assumptions used by management having received advice from a local pension expert.

- **UK exiting the EU (critical estimate):** The Committee reviewed management's assessment of the impact of the UK exiting the EU on the carrying amounts of assets and liabilities in the Group financial statements and agreed that no impairment triggers have been identified.

- **Legal and other matters (critical judgement):** The Committee reviewed management's accounting treatment and disclosures in relation to the various legal proceedings which arise in the ordinary course of business and agrees that the treatment and disclosures are appropriate.

### Further specific matters

The Committee considered the following specific matters:

- **Creation and protection of distributable reserves to support capital returns:** In 2019, Vectura paid a special dividend of approximately £40m and commenced a £10m on-market share buyback. In addition, the Board announced that it intends to undertake a further on-market £10m buyback to be announced after the completion of the first tranche. In anticipation of these capital returns, the Committee reviewed two intra-group transactions to increase the parent company's distributable reserves and reduce the risks from impairment of its investments which in itself would reduce the level of distributable reserves. The Committee was satisfied with the accounting, tax and legal due diligence performed and recommended the transactions to the Board for approval. In addition, the Committee noted that the proposals provided further benefits of simplifying the Group structure and a mechanism to support potential distributions beyond those anticipated in 2019. The proposals were approved by the Board and executed in June 2019.
- **Swiss tax reform:** As the Group generates significant taxable profits in Switzerland and has material Swiss deferred tax liabilities, the Committee continued to monitor progression of proposed reforms to the country's tax regime. In May 2019, the reforms were approved via a public referendum and apply from 1 January 2020. Enactment of the proposals in the cantons of Basel-Landschaft and Zug, where the Group's principal Swiss trading company and Swiss holding companies are located, ensued in the second half of 2019. The Committee reviewed the assessment of taxes expected to be paid post 1 January 2020, noting that management had received support from its external tax advisors, and concurred with the revisions to the carrying value of the Group's deferred tax liabilities.



- **Adoption of IFRS 16:** Management's final assessment from adopting IFRS 16 from 1 January 2019 was reviewed and agreed by the Committee comprising the cumulative effect adjustment to opening equity, key judgements and the disclosures provided in note 33 to the consolidated financial statements.

### Going concern and viability

The Audit Committee reviewed management's assessment of going concern and viability noting continued uncertainty from Brexit. The Committee still considered the three-year viability period to be appropriate. The Group continues to be strongly cash generative before distributions to shareholders and has cash and cash equivalents in excess of £70m at 31 December 2019. Additionally, the Group's £50m revolving credit facility which expires in August 2021 is expected to be renewed.

Management's viability stress tests, including that of severe disruption to the *flutiform*<sup>®</sup> supply chain due to the UK and EU failing to agree a beneficial trading relationship by 31 December 2020 and the potential impact of the COVID-19 outbreak, were reviewed by the Committee and considered to be reasonable.

The Committee recommends to the Board the adoption of the going concern basis of accounting and is satisfied that the Group has adequate resources to continue for the foreseeable future and for the three-year period assessed in the Viability statement on page 39.

### Fair, balanced and understandable assessment

In addition to the annual reporting being understandable, the Committee also considered it to be fair and balanced. The report acknowledges the challenges from the transition to a CDMO business model, failure to partner VR647 and ongoing uncertainty from Brexit amongst others, as well as the strengths and opportunities for the Group.

### Committee evaluation

The Board undertook a full evaluation supported by Independent Audit Limited. Please refer to the Nomination Committee report on pages 56 to 58 for more information.

### Establishment and terms of reference

Under its terms of reference, the Audit Committee is constituted by at least three independent Non-Executive Directors. Its role and responsibilities are contained in the terms of reference, which are available on the Vectura website ([www.vectura.com](http://www.vectura.com)).

### Membership, skills, experience and training

Members of the Committee are determined by the Board, on the recommendation of the Nomination Committee, in consultation with the Audit Committee Chair. When determining membership, the individual's financial skills and experience, and knowledge of the sector are of importance. The individual must bring independent thought and abilities to the role. As such, their previous roles and qualifications will have a bearing on their appointment to the Committee, together with the existing members, so that at least one member has recent and relevant financial experience and that, as a whole, the Committee has sufficient competence in the pharmaceutical sector that the Group operates in. Sufficient information to enable the Committee to discharge its responsibilities is made available from management and the Committee has access to the Company Secretary and to employees more widely if there are any matters for which the Committee requires further information. Committee members are provided with a tailored induction and receive updates on emerging financial and audit-related issues.

### Meetings

Meetings are held around the primary financial reporting periods and during the course of the year. Papers are provided typically one week before the meeting to Committee members. The Chair of the Committee may hold pre-meetings to discuss matters with management and the external auditor as appropriate. Where possible there is sufficient time between the Audit Committee meeting and the Board meeting in order for matters to be considered and any further work carried out.

The Committee has authority from the Board to seek independent advice if it wishes.

### Relationship with the Board

The Committee Chair provides a verbal update to the Board following the Committee meetings. Any recommendations or further work required on major issues are reported in order to keep the Board apprised of matters within the Committee's remit. If there is a disagreement between the Committee and the Board, the Committee could report that to shareholders in this Audit Committee report.

### Annual Reports and periodic reports

The Committee reviews and reports to the Board on significant financial reporting issues and judgements made in connection with the preparation of the financial statements, interim reports, preliminary announcements and related formal statements. The Committee considers significant accounting policies and any changes to them, whether the Group has adopted appropriate accounting policies and, where necessary, whether the Group has made appropriate estimates and judgements.

The Committee reviews the Report and Accounts, the related information presented with the financial statements, including the Strategic report and Corporate governance statement relating to the audit and risk management. It advises the Board on whether it considers that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and that the non-financial information provided is consistent with the financial statements. The Committee also reviews and recommends to the Board the disclosures in the Annual Report and Accounts relating to internal control, risk management, going concern and viability statements. The Committee will also review, where practicable, information required for other statements where financial information is provided, such as a release of price-sensitive information, prior to Board review.

### Internal control and risk management systems

Whilst overall responsibility for risk management and internal controls systems resides with the Board, the Committee reviews the Group's principal risks and internal financial controls, including the systems for identifying, assessing, managing and monitoring financial risks. Management retains responsibility for day-to-day oversight of the risk management and internal controls and provides the Committee with reports on the effectiveness of the systems.

### Internal audit

Considering the Group's scale, diversity, complexity, risk profile and controls within the Finance function, the Committee and Board do not believe that a separate internal audit function is required at this time. This remains under review and the Committee will report on this again to shareholders in the next Annual Report.

## Audit Committee report continued

### External audit

2019 is the third year where KPMG is the Group's appointed auditor. The current Audit Partner is Adrian Wilcox, who has held the role since KPMG's appointment in 2016. UK legislation requires the tender of the external auditor firm after ten years and rotation after 20 years. The Audit Partner should be rotated every five years.

The Committee is responsible for making recommendations to the Board in relation to the appointment, reappointment or removal of the external auditor. The Committee reviews and assesses the auditor annually including its effectiveness when proposing to the Board whether shareholders should be requested to reappoint the auditor.

The Committee has primary responsibility for overseeing the relationship with, and performance of, the external auditor, KPMG LLP (KPMG), which is engaged to conduct a statutory audit and express an opinion on the financial statements. This includes determining the fee and scope of the audit and leading the tender process.

The terms of engagement and fees of the external auditor are determined by the Committee, and are reviewed and agreed prior to the start of the audit process. The scope and fee levels are considered such that an appropriate, effective audit can be carried out at the fee level proposed. The Committee reviews the plans in place for the annual audit including the work plan and resources, as well as the seniority and expertise of the audit team. The effectiveness of the annual audit is assessed by the Committee. This includes the quality of the audit, taking into account, for example, the auditor's quality control processes and the contribution of the auditor in relation to key judgements.

### Independence, including non-audit services

The independence and objectivity of the auditor is reviewed by the Committee, taking into consideration relevant laws and standards. Any threats to independence, and appropriateness of safeguards, are considered with the auditor. The level of non-audit fees compared to audit fees is kept under review. The Committee agrees with the Board the Group's policy in relation to the provision of non-audit services by the auditor taking into account the relevant standard and legal requirements, keeping such policy under review.

The Committee is responsible for approving non-audit services with the objective that the provision of such services does not impair the auditor's independence or objectivity. In doing so it considers various factors relating to whether it is appropriate for the auditor to provide such service, including that the auditor's skills and experience make it the most suitable supplier.

In 2019, the non-audit services performed by KPMG related to the review of the Group's interim financial report, audit-related work on the interim financial statements for the parent company and audit-related work on the reporting to the providers of the Group's revolving credit facility on a "frozen GAAP" basis following the adoption of IFRS 15, IFRS 16 and IFRS 9.

At both the half year and the full year, KPMG confirmed that its independence and objectivity have been maintained.

### Anti-Bribery and Whistleblowing Policies

The Group has a Whistleblowing Policy, which provides a formal mechanism whereby every Group employee can, on a confidential basis, raise concerns over potential malpractice or impropriety within the Group. In 2020, an external whistleblowing facility will be introduced to provide additional ways employees can raise concerns confidentially, including anonymously if they wish.

The Group also has in place a policy with regards to compliance with the Bribery Act 2010. The Group's Anti-Bribery Policy reflects the Directors' zero-tolerance approach to bribery and corruption of all kinds. More information on our commitment to "Doing business responsibly" can be found on pages 40 and 45.

### Communication with shareholders

The Committee is keen to provide shareholders with the information required for them to understand the process that the Committee has been through to achieve effective oversight of the financial reporting and internal controls for the Group. It is intended that the Chair of the Committee will attend the AGM in order to meet with and answer questions from shareholders relating to the Committee's activities and matters within the Committee's remit.

#### Neil Warner Audit Committee Chair

16 March 2020



The Committee is keen to provide shareholders with the information required for them to understand the process that the Committee has been through to achieve effective oversight of the financial reporting and internal controls for the Group.





# Enabling the Company to attract the best talents in the market in order to maximise shareholder value



In designing the Proposed Policy, the Committee consulted with Vectura's major shareholders. We were pleased to see that shareholders were broadly supportive of all the proposed changes to the Policy.

**Juliet Thompson**



### Dear Shareholder

On behalf of the Board, I am pleased to present the Vectura Remuneration report (the "Report") for the year ended 31 December 2019. At the 2020 AGM the current Remuneration Policy (the "Policy") will expire and a new Remuneration Policy (the "Proposed Policy") will be submitted to a binding shareholder vote. This Report sets out the Proposed Policy, the supporting rationale for its design, and also sets out the decisions taken by the Committee with regard to remuneration which will be subject to an advisory vote.

### Proposed Policy for 2020, 2021 and 2022 – subject to binding vote at the 2020 AGM

The Policy was designed in 2016/17 to support Vectura's strategy at that time. It incorporated elements of prevailing corporate governance best practice and was approved at the 2017 AGM, when it received support from 96.56% of shareholders. In preparation for the introduction of the Proposed Policy at the 2020 AGM, the Committee conducted a review in 2019 to identify whether the Policy continues to appropriately support our strategy, reflects the views of our shareholders, and incorporates elements of best practice.

Following the review, the Committee determined that the Policy has sufficient flexibility to support Vectura's strategy. In particular, no changes were required to the overall structure and there was sufficient flexibility to allow appropriate performance measures to be chosen to support our strategic direction. However, the Committee also determined that changes should be made to reflect the new 2018 UK Corporate Governance Code (the "Code"), market practice for deferral mechanisms and Long Term Incentive Plan (LTIP) threshold vesting, and feedback from shareholders. The proposed changes are as follows:

#### 1. Pension

Taking account of investor guidance on pension contributions, contributions for new Executive Directors will be in line with those for the average of the UK workforce (currently 6% of base salary). The pension contributions for all current Executive Directors will be aligned with the average UK workforce level by the end of 2022.

#### 2. Annual bonus

The deferral mechanism will be strengthened and brought in line with market practice. The Policy only requires deferral if the bonus amount is above 100% of base salary. If the annual bonus is below this level, then the bonus is paid entirely in cash. The Proposed Policy will introduce a stronger mandatory deferral mechanism that would defer 25% of any bonus in shares for two years, regardless of the amount of the bonus. This approach will increase shareholder alignment, enforce faster achievement of the shareholding guideline and facilitate the use of existing clawback provisions.

## Remuneration Committee report continued

### Proposed Policy for 2020, 2021 and 2022 – subject to binding vote at the 2020 AGM continued

#### 3. LTIP

The Proposed Policy would also bring the Executive Directors' threshold vesting level for the LTIP in line with market practice by increasing it from 15% to 25% of the maximum vesting level. The Committee will take into consideration this increase in the threshold vesting level when setting the targets for the 2020 LTIP awards.

#### 4. Post-employment shareholding requirement

Executive Directors will be required to satisfy a post-employment shareholding requirement for the two years immediately after their date of cessation of employment. The level of holding will be the lower of: (i) 100% of base salary and (ii) their holding as at the date of cessation.

No other changes would be made to the Policy. All current best practice features would be maintained. These include the two-year post-vesting holding requirement for LTIP awards, clawback provisions for the annual bonus and LTIP, and the operation of a discretionary underpin for LTIP awards.

The Proposed Policy, if approved at the 2020 AGM, would apply to the annual bonus in respect of 2020 and the 2020 LTIP awards. In summary, the proposed changes would:

- retain the structure, flexibility, maximum opportunity, and best practice features of the Policy;
- increase shareholder alignment by bringing the deferral mechanism in line with current market practice which reduces the cash annual bonus but increases the portion of remuneration delivered in shares;
- bring the LTIP threshold vesting level in line with current market practice; and
- bring the Policy in line with the Code through bringing the pension contribution levels for future and current Executive Directors in line with the average UK workforce level and the introduction of post-employment shareholding requirements.

In designing the Proposed Policy, the Committee consulted with Vectura's major shareholders. We were pleased to see that shareholders were broadly supportive of all the proposed changes to the Policy and did not raise any major concerns. The consultation also influenced the design of the Proposed Policy. As a result of the consultation, the Committee decided to bring the CFO's pension in line with the workforce level by the end of 2022 to reflect the views of some shareholders.

### Outcomes for the period under review – subject to advisory vote

The Group delivered strong financial performance in 2019. Revenue and adjusted EBITDA have shown annual improvements of +11.1% and +11.3% respectively. In addition, although FOX® and VR647 development did not progress as desired, resulting in no pay out in respect of these elements, the resubmission of VR315 represented a significant milestone achievement. A key area of focus in 2019 was making Vectura a "great place to work". A number of important steps were taken towards this goal, which resulted in a significant improvement across all areas of employee engagement and in HSE culture and performance.

During the year, the Committee reviewed the bonus scorecard in light of the change of the Company's focus towards a CDMO operation. As a result, the Committee exercised its discretion to remove an objective related to VEnT wave 1 milestones, which was no longer appropriate. The previous weighting on this objective was reallocated among the financial goals. Achievement against the scorecard resulted in an overall annual bonus outcome for Executive Directors for the financial year to 31 December 2019 of 77.3% of the maximum. A detailed breakdown of the targets set, the payments awarded, and how discretion was applied is set out on pages 77 to 79.

As disclosed prior to last year's AGM, LTIP award levels in 2019 were reduced for the CEO from 185% of salary to 138.75% of salary. This reduction was made despite strong financial and operational performance and followed feedback from shareholders received in consultation relating to the share price progression in 2017 and 2018.

The Committee considered whether a similar reduction to the 2019 LTIP award levels should apply to the CFO. It noted that Paul Fry joined Vectura in October 2018; that he did not receive an LTIP award in 2018 and the share price performance had remained stable since his appointment to the date of grant. It was therefore decided that it would be appropriate to grant the CFO an award at the normal level of 185% of salary in 2019.

The performance period of the second and third tranches of the 2015 LTIP ended on 31 December 2019. The vesting of these awards was based on Vectura TSR performance. However, these awards lapsed in full due to Vectura's TSR falling below the median of the two peer groups. The performance period of the 2017 LTIP also ended on 31 December 2019. This award was subject to TSR and adjusted EBITDA performance conditions. Whilst Vectura's TSR did not meet the threshold target, strong adjusted EBITDA performance resulted in 34.5% of this award vesting. Neither of the current Executive Directors were in role when the 2015 or 2017 LTIP awards were granted, and so did not receive any shares from the vesting of these awards. Further details of LTIP vesting against targets are set out on page 79 of the Report.

### Remuneration for James Ward-Lilley in relation to his departure

James Ward-Lilley stepped down as CEO on 30 June 2019. Remuneration arrangements in respect of his departure were determined by the Committee in line with his service contract and the Policy. In light of his service and contribution to the Group, including with respect to the merger with Skyepharma, the Committee applied discretion to treat him as a good leaver. In summary, and set out in more detail on pages 81 and 82 of the Report, James' remuneration was treated as follows:

- payment in lieu of notice for base salary, pension and other benefits (payment in three equal tranches on cessation and then in October 2019 and February 2020);
- payment for accrued holiday and contributions to legal costs and outplacement support;
- pro-rata annual bonus for 2019 subject to performance testing at the normal time;
- LTIP awards pro-rated and vesting at the normal time subject to performance; and
- SIP awards vested under the good leaver rules.

### Remuneration for Paul Fry as Interim CEO

Upon the departure of James Ward-Lilley, Paul Fry was appointed Interim CEO with effect from 1 July 2019. On his appointment, his base salary was temporarily increased from £339,020 to £420,000, which was below the level of the outgoing CEO. In addition, his bonus opportunity was temporarily increased from 125% to 135% of base salary, but his pension was frozen and calculated on his normal base salary. When he resumed his role as CFO, his base salary and annual bonus opportunity returned to their original levels.



## Remuneration arrangements for the new CEO, Will Downie

Will Downie was appointed CEO on 7 November 2019. His ongoing remuneration arrangements are set out below:

- base salary of £460,000, below that of his predecessor;
- pension at 6% of base salary, in line with the average of the workforce;
- annual bonus opportunity of 135% of base salary;
- annual grant under the LTIP with a face value of 185% of base salary;
- share ownership guideline of 200% of base salary; and
- no buyout awards were made in the recruitment of the CEO.

Note that subject to the CEO demonstrating his performance and gaining experience in the role it is anticipated that above inflation salary increases in base salary may be awarded in future. This remuneration arrangement is below that of the previous CEO and has further reduced the expected ongoing cost of our Executive Director team, which will be below the level in 2018.

## Remuneration for 2020

The salary for the CEO, Will Downie, will not be increased in 2020. The salary for the CFO, Paul Fry, was reviewed shortly after his temporary appointment as Interim CEO came to an end. Paul performed very strongly in the role of Interim CEO, and this role provided him with a period of accelerated development which materially increased his value to the Group following the CEO transition. In addition, he returned to a role which increased in both its scope and its importance to the implementation of our strategy. As a result, and following consultation with major shareholders, the Committee decided to increase his base salary from £339,020 to £372,922 from January 2020 to recognise his development in role and strong performance. This represents a 7.8% increase above the UK employee workforce general increase of +2.2%, but a reduction of -11.2% from his base salary as Interim CEO. It also results in a similar level of base salary to that of our former CFO if he had remained in role (this assumes that the former CFO would have received normal base salary increases in line with the average UK workforce level of 2.4% in 2019 and an assumed 2.2% in 2020).

The 2020 annual bonus and 2020 LTIP awards will be in line with the Proposed Policy (which is more stretching than the Policy). No change will be made to the performance measures for the LTIP, although the use of adjusted EBITDA will continue to be kept under review with a view to moving to a more all-encompassing measure of profitability such as EPS when it becomes appropriate to do so. However, the weighting on the financial element for the 2020 annual bonus will be increased to 75% of the bonus opportunity. This change supports the shift in emphasis of Vectura's strategy from R&D to CDMO, and reflects recent feedback received from shareholders.

## AGM

The Proposed Policy will be subject to a binding vote at the forthcoming AGM and the Report will be subject to an advisory vote. I very much hope that you will join me in supporting the resolution at the 2020 AGM.

Yours sincerely

**Juliet Thompson**  
Remuneration Committee Chair

16 March 2020

## Principal subjects of the Committee's business during the period

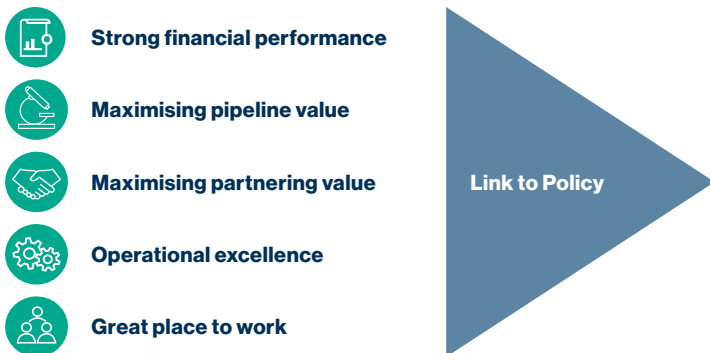
The Committee met seven times during the year ended 31 December 2019.

The principal matters considered by the Committee during the period are summarised below:

- follow-up and consideration of shareholder feedback following the 2019 AGM;
- review of the 2019 bonus scorecard in light of the Group's change of focus towards a CDMO operation;
- review of achievement against the 2019 corporate goals, including the achievement against personal goals for Executive Directors, approval of the percentage of the bonus pool to be paid out across the Group, and consideration of the use of discretion in the bonus award;
- determination of performance against the TSR and adjusted EBITDA conditions for awards under the LTIP;
- approval of the grant of the 2019 LTIP awards and performance conditions;
- determination of the leaver arrangements for James Ward-Lilley;
- determination of the interim arrangements for Paul Fry;
- determination of the joiner arrangements for Will Downie;
- review of the Policy including consultation with major shareholders and discussion of feedback received;
- approval of 2020 base salary increases for Executive Directors and other members of the Executive Leadership Team, ensuring that, with the exception of special cases, these are aligned both internally and externally;
- review of the Group's gender pay gap data; and
- review of remuneration packages for the appointment of new senior executives and, where appropriate, confirming approval.

# Remuneration at a glance

## Remuneration link to strategy



2019 annual bonus metrics included revenue generation, adjusted EBITDA, partnering deals, pipeline and "great place to work".

LTIP awards linked to achievement of the Group's strategy through the use of relative TSR and an adjusted cumulative EBITDA metric.

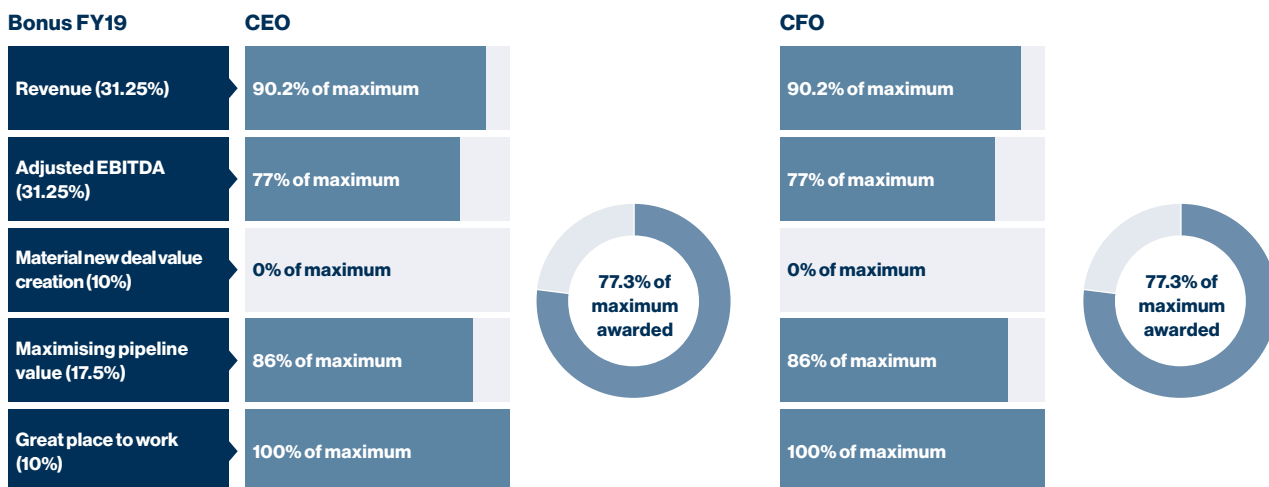
## Key strategic highlights



- Adjusted EBITDA and revenue targets exceeded.
- Resubmission of VR315, a key value driver for the Group.
- Successful steps taken to make Vectura a "great place to work" resulting in increased employee engagement in all areas and improved HSE performance.

## Outcomes in 2019

### Annual bonus



Any bonus achieved above 100% of base salary will be deferred into shares for a minimum of two years.



## Single total remuneration figure £000

**Chief Executive Officer** 0 years, 2 months in post

50.9% 49.1%

£145

**Chief Financial Officer**

0.3%

54.5% 45.2% £809

■ Fixed pay ■ Bonus (cash) ■ Long term (shares)

## Actual Shareholding – achievement against guideline

**Chief Executive Officer** 0 years, 2 months in post

200%

**Chief Financial Officer** 1 year, 2 months in post

200%

■ Achieved ■ Outstanding

Full details of the single total remuneration figure can be found on page 76.

## Package for 2020

### Salary

- No change to the CEO's base salary. An increase in line with the average of the UK workforce plus 7.8% (i.e. 10%) for the CFO
- CEO: £460,000
- CFO: £372,922

### Pension and benefits

- CEO: 6% of base salary
- CFO: reduced to 15% (from 20%) of base salary and to be aligned with workforce by end of 2022

### Annual bonus

- Maximum opportunity is unchanged at 135% of base salary for CEO and 125% for CFO

The scorecard will be:

- Revenue (37.5%)
- Adjusted EBITDA (37.5%)
- CDMO transformation (10%)
- Product development and delivery management (10%)
- Quality and operational excellence (5%)

25% of any bonus achieved will be deferred into shares for a minimum of two years

### LTIP

- Maximum opportunity up to 185% of base salary
- Measures are unchanged, being relative TSR and adjusted cumulative EBITDA
- Two-year holding period applies

# Remuneration report

The following section sets out the Proposed Policy which will be submitted for approval by shareholders in a binding vote at the 2020 AGM on Wednesday 27 May 2020.

The Proposed Policy can also be found on the Group's website ([www.vectura.com](http://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 Guidance and Transparency Rules.

## Proposed Policy

The Proposed Policy is driven by the Group'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
<b>How it is influenced by the remuneration philosophy</b>	Broadly mid-market.			Set no higher than mid-market and is the least significant variable element. Has stretching financial and non-financial targets that support Vectura's annual goals and its overall strategy. Deferral of a proportion in shares increases alignment with shareholders.	The most significant element of the package. Has stretching targets that are clearly aligned with shareholder value. Performance measured over three years and subsequent holding requirement for a further two years to align with the long-term interests of the Group.	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 Proposed Policy, the Committee has regard to the policy for remuneration of employees across the Group 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 and participation in Vectura's all-employee share schemes and many employees are eligible to receive a bonus.
- The bonus scheme for Executive Directors and employees is designed to reward corporate and personal performance, and all individuals work towards challenging personal goals related to their roles.
- When determining the annual salary increases and remuneration packages for the Executive Directors, the Committee considers the general base salary increase for the wider employee workforce.

More information on wider employee conditions can be found on pages 41 and 42.



The following table and accompanying notes set out the main principles of reward for the Executive Directors as set out in the Proposed Policy.

<b>Executive Directors</b>			
<b>Purpose and link to strategy</b>	<b>Operation</b>	<b>Maximum opportunity</b>	<b>Performance metrics</b>
<b>Base salary</b>			
<p>To recruit and retain Executive Directors of the highest calibre who are capable of delivering the Group's strategic objectives, reflecting the individual's experience and role within the Group.</p> <p>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.</p>	<p>The Committee aims to set base salary at levels that are broadly aligned with the midpoints for equivalent roles in comparable companies in the UK, adjusted to reflect the Group's size and complexity.</p> <p>Salaries are normally reviewed annually and changes are generally effective from 1 January.</p> <p>The annual salary review of Executive Directors takes a number of factors into consideration, including:</p> <ul style="list-style-type: none"> <li>• business performance;</li> <li>• salary increases awarded to the overall employee population;</li> <li>• skills and experience of the individual over time;</li> <li>• scope of the individual's responsibilities;</li> <li>• changes in the size and complexity of the Group;</li> <li>• market competitiveness; and</li> <li>• the underlying rate of inflation.</li> </ul>	<p>Base salary increases are awarded at the discretion of the Committee; however, salary increases will normally be considered in relation to the average pay rises awarded to the wider employee workforce.</p> <p>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.</p>	<p>No formal metrics, although increases will take account of Group performance.</p>
<b>Benefits</b>			
<p>Benefits in kind offered to Executive Directors are provided on a market-competitive basis, to assist with the retention and recruitment of staff.</p>	<p>The Group aims to offer benefits that are in line with market practice.</p> <p>The main benefits currently provided are life assurance, permanent health insurance and private medical and dental insurance.</p> <p>Under certain circumstances, the Group will offer relocation allowances to employees.</p> <p>Executive Directors are eligible for other benefits which are introduced for the wider workforce on broadly similar terms.</p>	<p>The value of each benefit is not predetermined and is based upon the cost to the Group.</p>	<p>Not performance related.</p>
<b>Pensions</b>			
<p>The Group aims to provide market-competitive retirement benefits, to reward sustained contribution.</p>	<p>The Group operates a money purchase scheme and all employees, including Executive Directors, are invited to participate.</p> <p>For Executive Directors who are affected by the HMRC lifetime or annual allowances, the Group may provide cash supplements in respect of benefits above the allowance.</p>	<p>For new Executive Directors, the contribution level will be capped at appointment at the average contribution level for the workforce based in the United Kingdom.</p> <p>For Executive Directors appointed before the 2020 AGM, pension will be brought in line with the average contribution level for the workforce based in the United Kingdom by the end of 2022.</p>	<p>Not performance related.</p>

# Remuneration report continued

## Proposed Policy continued

Executive Directors continued			
Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<b>Annual performance bonus</b>			
<p>An annual 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.</p> <p>Delivery of a proportion in shares provides alignment with shareholders and facilitates the operation of clawback.</p>	<p>Objectives are agreed with the Committee, and the Board as a whole, at the start of each financial year.</p> <p>Different performance measures and weightings may be used each year, as agreed with the Committee, to take into account changes in the business strategy.</p> <p>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.</p> <p>Bonuses are typically paid in April. 25% of any bonus is normally compulsorily deferred into shares for two years. Participants may also be entitled to receive dividend equivalents on vested shares.</p> <p>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 Group'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.</p>	<p>Bonuses are limited to a maximum of 135% of base salary for the CEO and 125% of base salary for the CFO.</p>	<p>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.</p> <p>Goals set are specific, measurable and linked to the Group's long-term strategy.</p> <p>Up to 20% of the maximum is payable at threshold performance against each measure.</p>
<b>LTIP</b>			
<p>The 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 incentivise growth in the longer term and align them with shareholders' interests.</p>	<p>Discretionary annual award of nil or nominal cost options that vest according to performance conditions normally measured over three financial years.</p> <p>Participants may also be entitled to receive dividend equivalents on vested shares.</p> <p>Awards granted to Executive Directors from 2017 onwards are subject to an additional two-year post-vesting holding requirement on the net of tax value of shares vesting.</p> <p>Awards will be subject to clawback where there has been a misstatement of the Group'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.</p> <p>Awards are subject to the discretions contained in the relevant plan rules.</p>	<p>Annual awards of up to 185% of salary may be granted.</p>	<p>Awards normally based on key measures linked to achievement of Vectura's strategy such as relative total shareholder return (TSR) and/or financial metrics measured over three years.</p> <p>The Committee retains the discretion to vary the chosen relative TSR peer group or the weighting between the metrics and/or introduce new metrics aligned to the Group's strategy 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.</p> <p>25% of the maximum award vests at the threshold/median performance level, rising to 100% vesting at maximum/upper quartile.</p> <p>Awards are also subject to an underpin based on the Committee's assessment of the Group's underlying performance against a range of factors, including the Group'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.</p> <p>The performance conditions for previous LTIP awards are described in the Report.</p>





**Executive Directors** continued

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<b>All-employee share schemes</b>			
<p>All employees, including Executive Directors, are encouraged to become shareholders of the Group through participation in our all-employee share schemes.</p> <p>The Group currently offers UK employees the opportunity to participate in the Vectura Sharesave (SAYE) scheme and the Vectura Share Incentive Plan (SIP). Where possible, similar plans will operate for overseas employees.</p>	<p>Both of the schemes offered are HMRC-approved schemes and operate on standard terms.</p>	<p>Participation limits are set by the relevant tax authorities from time to time.</p>	<p>Not performance related and no performance conditions apply.</p>

**Share ownership guidelines**

<p>Share ownership guidelines for Executive Directors and senior employees are designed to strengthen the alignment between the interests of senior management with those of Vectura's shareholders.</p>	<p>In accordance with best practice, share ownership requirements apply during and after employment.</p> <p>During employment, Executive Directors are required to retain at least half of any LTIP awards vesting as shares (after paying any tax due) until they have reached the required level of holding.</p> <p>After their employment, Executive Directors are required to maintain a holding in the Group's shares until the second anniversary of the date they ceased to be an Executive Director.</p>	<p>During their employment, Executive Directors are required to build and retain a holding of the Group's shares equivalent to at least 200% of their base salary.</p> <p>After their employment, Executive Directors are required to hold the lower of: (i) their holding on their date of resignation; and (ii) 100% of base salary.</p>	<p>Not performance related.</p>
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**Chair and Non-Executive Directors**

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<b>Fees</b>			
<p>Set at a level that is sufficient to attract and retain a high-calibre Non-Executive Chair and Directors who have a broad range of skills and experience to oversee the implementation of the Group's strategy.</p>	<p>The Chair 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 the Employee Engagement designated NED.</p> <p>Additional fees may also be paid in the event that a Director's normal annual time commitment is significantly exceeded in any year.</p> <p>Fees are normally paid monthly and reviewed annually.</p> <p>The Chair and the Non-Executive Directors do not participate in any performance-related incentive schemes, nor do they receive any benefits, other than limited travel (including transatlantic travel fee) and hospitality-related benefits, in connection with their roles.</p>	<p>When reviewing fee levels, account is taken of market movements in the fees of the Non-Executive Chair and Directors, Board Committee responsibilities and ongoing time commitments.</p>	<p>Not performance related.</p>

# Remuneration report continued

## Proposed Policy continued

### Notes to the Proposed Policy table

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

The Proposed Policy differs from the Policy in the following areas:

- the annual bonus deferral mechanism has been strengthened so that 25% of any bonus must be deferred in shares;
- pensions for new Executive Directors will be set at the average level for the workforce in the United Kingdom, and pensions for existing Executive Directors will be in line with this average by the end of 2022;
- the threshold level of vesting for the LTIP has been brought in line with market practice and is set at 25% of the award; and
- a post-cessation shareholding requirement has been introduced.

In operating the Proposed Policy, the Committee may exercise the discretion set out below and in accordance with the relevant sections of the various plan rules.

### Performance conditions

The Committee selected the performance conditions outlined in the Proposed Policy because they are aligned with the Group's overall strategy and they are the key metrics used by the Executive Directors to oversee the operations of the business. The Committee considers that the performance targets for the LTIP and the bonus represent an appropriate balance between the long-term and short-term performance of the Group, as well as an appropriate balance between external and internal assessments of performance.

The targets for the bonus scheme for the forthcoming year will be set out in general terms in the Report, subject to limitations with regards to commercial sensitivity. The full details of the targets will be disclosed when they are in the public domain, usually following the end of the relevant financial year, in the Report.

Relative TSR has been chosen as a performance metric for 50% of the 2020 LTIP awards as it is aligned with shareholders' expectations and it reflects the returns that we generate for our shareholders relative to the returns of the general market. The FTSE 250 index (excluding financial services and real estate companies) has been chosen as it is a published index, is transparent for shareholders and provides a robust comparator group of similarly sized companies.

The Committee believes that a financial metric for the remaining 50% of the LTIP awards reflects the Group's growth ambitions and the increasing maturity of our business. Over the life of the Proposed Policy, the choice of financial metric and basis of measurement may be varied to reflect the Group's development and strategic priorities. For awards granted in 2020 cumulative adjusted EBITDA has been selected as the financial metric; however, the Committee intends to keep the choice of metric under review for future awards.

The proposed performance conditions for the LTIP awards to be granted in 2020 are outlined on page 86 of the Report.

### Committee discretion

The Committee operates under the powers it has been delegated by the Board. In addition, it complies with rules that have either been approved by shareholders (LTIP and Deferred Share Bonus Plan (DSBP)) or by the Board (annual performance bonus scheme). These rules provide the Committee with certain discretions which serve to ensure that the implementation of the Proposed Policy is fair, both to the individual Directors and to the shareholders. The Committee also has discretion to set components of remuneration within a range, from time to time. The extent of such discretions is set out in the relevant rules and the Maximum opportunity or the Performance metrics sections of the Proposed Policy table set out on pages 69 to 71. To ensure the efficient administration of the variable incentive plans outlined above, the Committee will apply certain operational discretions.

These include the following:

- selecting the participants in the incentive plans on an annual basis;
- determining the timing of grants of awards and/or payments;
- determining the quantum of awards and/or payments (within the limits set out in the Proposed Policy table on pages 69 to 71);
- reviewing performance against LTIP performance metrics;
- determining the extent of vesting based on the assessment of performance;
- making the appropriate adjustments required in certain circumstances, for instance for changes in capital structure;
- determining "good leaver" status for incentive plan purposes and applying the appropriate treatment; and
- undertaking the annual review of weighting of performance measures and setting targets for the incentive plans, where applicable, from year to year.

If an event occurs which results in the annual bonus plan or LTIP performance conditions and/or targets being deemed no longer appropriate (e.g. material acquisition or divestment), the Committee will have the ability to adjust appropriately the measures and/or targets and alter weightings, provided that the revised conditions are not materially less challenging than the original conditions.

### Remuneration scenarios for Executive Directors

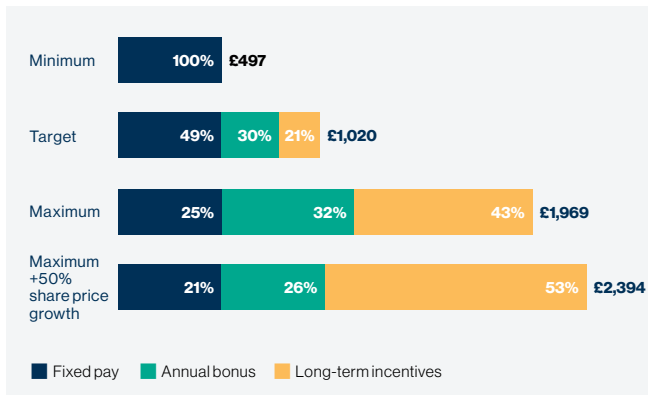
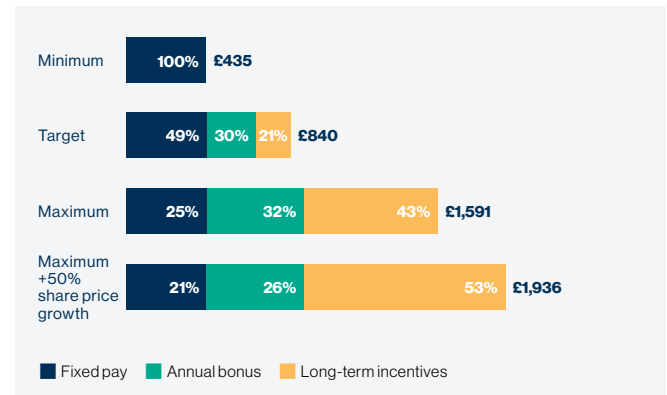
The charts on page 73 show hypothetical values of the 2020 remuneration package for each Executive Director under four assumed performance scenarios and these scenarios are based upon the Proposed Policy set out on pages 68 to 71. The information presented below uses the level of salary, benefits and pension entitlements for each of the Executive Directors as at 1 January 2020.

Base salaries for 2020: CEO – £460,000 and CFO – £372,922. Benefits of £9,000 and £6,000, respectively, and a pension allowance of 6% of salary for the CEO and 15% of salary for the CFO 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 remuneration receivable* – this scenario assumes that the Executive Directors receive a bonus payout of 67.5% (CEO) or 62.5% (CFO) of salary (i.e. 50% of maximum award) and that LTIP awards worth 46.25% of salary at grant would ultimately vest.



**CEO (£000)****CFO (£000)**

*Stretch remuneration receivable* – this scenario assumes that the Executive Directors receive a maximum bonus payout of 135%/125% (CEO/CFO) of their salary and that a maximum LTIP award of 185% of salary would ultimately vest.

*Stretch remuneration receivable plus 50% share price growth* – this scenario assumes that the Executive Directors receive a maximum bonus payout and that a maximum LTIP award of 185% of salary would ultimately vest with a 50% share price growth.

The actual amounts earned by Executive Directors under these scenarios will depend on actual Group and share price performance over the vesting period. For simplicity, the value of participating in the Group'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 Group 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;
- Executive Directors 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 cash award by the Committee in good leaver circumstances;

- the rules of the LTIP and DSBP contain provisions setting out the treatment of awards where a participant ceases to be employed by the 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 the employing company or business out of the Group or for any other reason, at the discretion of the Committee, awards will not be forfeited but will instead normally vest on the original 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 the case of LTIP awards. DSBP awards will normally vest in full at the original vesting date. In exceptional circumstances, the 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 the case of LTIP awards. In either case, the 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 Group'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 and may make a contribution towards outplacement costs.

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

### 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. 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. In accordance with the Code all Executive Directors are subject to annual re-election at each AGM.

# Remuneration report continued

## Proposed Policy continued

### Other remuneration policies continued

#### 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 Chair. 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 all Non-Executive Directors are subject to annual re-election at each AGM.

The dates of appointment of each of the Directors serving at 31 December 2019 are summarised in the table below.

	Date of contract or date of appointment
<b>Executive Directors</b>	
W Downie	7 November 2019
P Fry	22 October 2018
<b>Non-Executive Directors</b>	
P-O Andersson	1 April 2015
B F J Angelici	1 December 2013
K Matthews	29 March 2019
J Thompson	1 December 2017
N W Warner	1 February 2011
T Werner	10 June 2016
A Whitaker	1 June 2018

An external independent Board evaluation was performed by Independent Audit Limited (IAL) in November 2019 and the Board confirmed that all Non-Executive Directors were regarded as independent, including Dr Thomas Werner, who was previously a non-executive director of Skyepharm plc and who has service greater than nine years. Notwithstanding his length of service, Thomas is considered by the Board and IAL to be independent in both character and judgement and there has been significant Board refreshment during his tenure. Further details of the evaluation are contained in the Nomination Committee report on page 57.

#### 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 prevailing Policy.

In setting base salaries for new Executive Directors, the Committee will consider the existing salary package of the new Executive Director and the individual's level of experience. 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 Executive Director, even though this may involve increases in excess of inflation and the increases awarded to the wider workforce.

In setting the annual bonus, the Committee may wish to set different performance metrics (to those of other Executive Directors) in the first year of appointment.

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 the Group.

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 the relevant 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 Group.

The terms of appointment for a Non-Executive Director will be in accordance with the Proposed Policy for Non-Executive Directors as set out in the Proposed Policy table on page 71. This was the case with the appointment of Dr Kevin Matthews in March 2019.

#### Consideration of employment conditions elsewhere in the Group

Whilst the Committee did not consult directly with employees regarding the Proposed Policy, the Committee considered the general base salary increase for the wider employee workforce when determining the annual salary increases and remuneration packages for the Executive Directors. Accordingly, the Committee confirms that the Proposed Policy has been designed with due regard to the policy for remuneration of employees across the Group.

The remuneration of senior executives below Board level is reviewed by the Committee on an annual basis. The remuneration packages of these senior executives are consistent with the Proposed Policy outlined earlier, save that lower bonus percentages ranging from 50% to 75% of salary and lower LTIP opportunities are made, in part as nil-cost options and in part as restricted stock vesting after three years. Variable pay elements for senior executives are driven principally by market comparatives and the overall impact of the role the individual holds at Vectura. Long-term incentives are provided to those individuals identified as having significant potential to influence Group performance.

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 and participation in Vectura's all-employee share schemes and many have eligibility to receive a bonus. The bonus scheme for Executive Directors and employees is designed to reward performance, and all individuals are required to achieve challenging personal goals.

#### How shareholders' views are taken into account

The Committee takes seriously shareholders' views and voting on the Report. In developing the Proposed Policy, the Committee engaged directly with major shareholders and their representative bodies.

The Committee will continue to engage directly with major shareholders and their representative bodies should any material changes to the Policy be proposed. During the year 2019, the Committee engaged extensively with major shareholders both in the run-up to and following the 2019 AGM and in the second half of 2019 wrote to shareholders outlining the proposed changes to the Policy in order to seek their views and took those into account in the Policy changes.



## Annual remuneration report

### Remuneration Committee (the “Committee”)

#### Governance

The Committee consists entirely of independent Non-Executive Directors. The Committee members during the year were as follows:

Juliet Thompson (Chair)

Bruno Angelici

Thomas Werner

Neil Warner

Anne Whitaker

Kevin Matthews (from April 2019)

In accordance with the requirements of the Code, the Board has confirmed that Bruno Angelici was independent upon his appointment to the Board. No conflicts of interest with respect to the work of the Committee have arisen during the period and none of the members of the Committee have 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 Chair and the CEO. The fees of the Chair are determined by the Committee.

The Committee's principal function is to support Vectura's strategy by ensuring that those individuals responsible for delivering the strategy are appropriately incentivised and rewarded through the operation of Vectura's Policy. In determining the Policy, and in constructing the remuneration arrangements for Executive Directors and senior executives, 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 executives of the highest calibre.

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](http://www.vectura.com)).

### Advice to the Committee

The Committee takes account of information from both internal and independent sources, including Aon Rewards Solutions (Aon plc's executive remuneration consultancy), which acts as the Committee's principal, and only material, advisor. Aon advises on all aspects of Vectura's Policy and reviews Vectura's remuneration structures against corporate governance best practice.

Aon 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 objective. The Committee reviews the performance and independence of its advisors on an annual basis. During the period, Vectura incurred fees of £153,578 (plus VAT) from Aon, which included £104,332 fees in support of the Committee's annual agenda and £36,162 of ad hoc project-based work. In addition to its support to the Committee, Aon provided support in relation to share plans and IFRS 2 calculations to the Committee, the fees for which amounted to £13,084.

The Group's Executive Vice President – Human Resources 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. The CEO and CFO also attend at the Committee's request but are not present in discussions directly regarding their own remuneration.

# Remuneration report continued

## Audited information

### Directors' remuneration – financial year ended 31 December 2019

The total remuneration of the individual Directors who served during the period is shown below. Total remuneration is the sum of emoluments plus Group pension contributions, and the value of long-term incentive awards vesting by reference to performance in the twelve months to 31 December 2019.

	Year	Basic salary <sup>(a)</sup> £000	Benefits <sup>(b)</sup> £000	Bonus <sup>(c)</sup> £000	LTIP <sup>(d)</sup> £000	Pension entitlements <sup>(e)</sup> £000	Other <sup>(f)</sup> £000	SIP awards <sup>(g)</sup> £000	Total fixed remuneration £000	Total variable remuneration £000	Total remuneration £000
<b>Executive Directors</b>											
W Downie <sup>1</sup>	<b>2019</b>	<b>68</b>	<b>1</b>	<b>71</b>	<b>—</b>	<b>5</b>	<b>—</b>	<b>—</b>	<b>74</b>	<b>71</b>	<b>145</b>
	2018	—	—	—	—	—	—	—	—	—	—
J Ward-Lilley <sup>2</sup>	<b>2019</b>	<b>264</b>	<b>5</b>	<b>276</b>	<b>161</b>	<b>53</b>	<b>10</b>	<b>4</b>	<b>332</b>	<b>440</b>	<b>772</b>
	2018	516	9	487	—	103	—	4	628	491	1,119
P Fry <sup>3,4</sup>	<b>2019</b>	<b>367</b>	<b>6</b>	<b>366</b>	<b>—</b>	<b>68</b>	<b>—</b>	<b>2</b>	<b>441</b>	<b>368</b>	<b>809</b>
	2018	66	1	58	—	13	311	—	80	369	449
<b>Non-Executive Directors</b>											
B F J Angelici	<b>2019</b>	<b>150</b>	<b>60</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>210</b>	<b>—</b>	<b>210</b>
	2018	150	58	—	—	—	—	—	208	—	208
N W Warner	<b>2019</b>	<b>58</b>	<b>5</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>63</b>	<b>—</b>	<b>63</b>
	2018	58	6	—	—	—	—	—	64	—	64
P-O Andersson <sup>5,6</sup>	<b>2019</b>	<b>54</b>	<b>12</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>6</b>	<b>—</b>	<b>72</b>	<b>—</b>	<b>72</b>
	2018	50	12	—	—	—	4	—	66	—	66
T Werner <sup>8</sup>	<b>2019</b>	<b>52</b>	<b>11</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>63</b>	<b>—</b>	<b>63</b>
	2018	50	5	—	—	—	—	—	55	—	55
J Thompson	<b>2019</b>	<b>58</b>	<b>5</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>63</b>	<b>—</b>	<b>63</b>
	2018	50	4	—	—	—	—	—	54	—	54
A Whitaker <sup>5</sup>	<b>2019</b>	<b>50</b>	<b>8</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>4</b>	<b>—</b>	<b>62</b>	<b>—</b>	<b>62</b>
	2018	29	6	—	—	—	6	—	41	—	41
K Matthews <sup>7</sup>	<b>2019</b>	<b>38</b>	<b>2</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>40</b>	<b>—</b>	<b>40</b>
	2018	—	—	—	—	—	—	—	—	—	—
S Foden <sup>9</sup>	<b>2019</b>	<b>43</b>	<b>2</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>45</b>	<b>—</b>	<b>45</b>
	2018	60	5	—	—	—	—	—	65	—	65
<b>Total</b>	<b>2019</b>	<b>1,203</b>	<b>117</b>	<b>713</b>	<b>161</b>	<b>125</b>	<b>20</b>	<b>6</b>	<b>1,466</b>	<b>879</b>	<b>2,345</b>
	2018	1,209	107	545	—	116	321	4	1,262	860	2,122

1 W Downie joined the Board on 7 November 2019.

2 J Ward-Lilley stepped down from the Board on 30 June 2019. The amount in "Other" relates to payment of accrued holiday up to his leaving date. In addition to the amounts reported in the single figure table, he received a payment in lieu of notice of £640,558, plus £20,000 in respect of outplacement and legal costs. Full details on his leaving arrangements are set out on pages 81 and 82.

3 P Fry was appointed Interim CEO on 1 July 2019. At that time, his base salary was temporarily increased from £339,020 to £420,000 before it returned to £339,020 when he resumed his role as CFO. His bonus maximum as CFO was 125% of his base salary (pro-rated for time served as CFO) and his bonus maximum as Interim CEO was 135% of his base salary (pro-rated for time served as Interim CEO). Further information is provided on page 64.

4 For P Fry, in 2018 "Other" includes a cash payment of £142,692 made in respect of forfeited bonuses at Immunocore, which reflects (i) an entitlement to a cash retention bonus of £50,000, (ii) compensation of an additional project-related cash bonus of £20,000 and (iii) a pro-rated annual bonus of £72,692. These awards are subject to certain clawback provisions. "Other" also includes forfeitable shares worth £167,500 as part of a buyout of equity entitlements at Immunocore.

5 P-O Andersson and A Whitaker received a £2,000 allowance for each Board meeting that requires transatlantic travel and these amounts are shown as "Other" in the table above.

6 P-O Andersson receives an additional £4,000 a year in relation to his role as Board employee representative.

7 K Matthews joined the Board on 29 March 2019.

8 T Werner became Senior Independent Director on 1 October 2019, replacing S Foden following her departure.

9 S Foden stepped down on 30 September 2019. In addition to the amounts reported in the single figure table, she received a payment in lieu of notice of £14,500. Full details on her leaving arrangements are set out on page 82.



## Notes to the remuneration table

- (a) This is the amount earned in respect of the financial period.
- (b) This is the taxable value of benefits paid or payable in respect of the financial period. These benefits typically relate to death, disability and medical insurance.
- Following a review of our reporting processes, we have identified that the benefit figures for the Non-Executive Directors were omitted from last year's disclosure. These relate to the reimbursement, in accordance with our Policy, of travel and accommodation expenses incurred by the Chair and Non-Executive Directors in performance of their duties, which are deemed by HMRC to be taxable benefits in kind.
- (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 whose performance period ended during 2019. Refer to page 78 for details of LTIP awards. Over the vesting period the share price fell from £1.274 at grant on 25 May 2017 to £0.8593 which was the average share price over October, November and December 2019. This resulted in a reduction in value of the vesting shares of around £180,000.
- (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 to the prescribed maximum amounts and an additional taxable supplementary cash payment equal to the cost to the Group 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 Group resulting from this arrangement.
- (f) For Paul Fry, refer to footnote 4. For the remaining Executive and Non-Executive Directors, this relates to transatlantic travel allowances; refer to note 5.
- (g) 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.

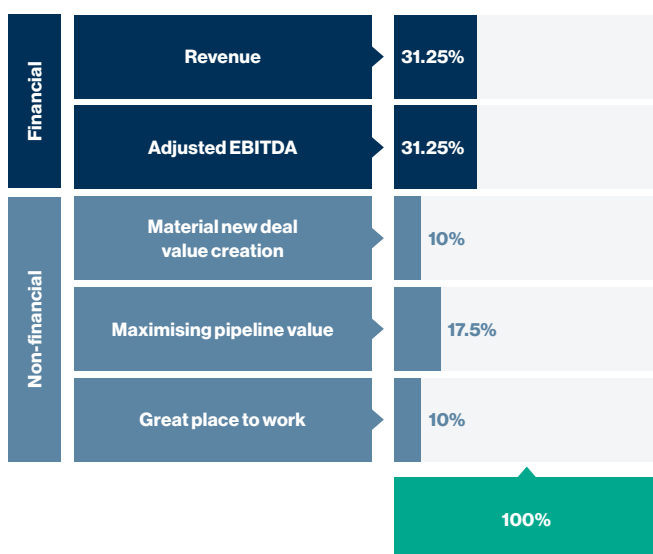
## Additional requirements in respect of the single total figure table of remuneration (audited information)

### Performance-related pay earned in the year to 31 December 2019

#### Annual bonus

Performance objectives are established at the beginning of the financial period by reference to suitably challenging corporate and personal goals. The scheme is offered to many 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 sought to set stretching corporate goals, including financial measures, 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.

For 2019, the Executive Directors were measured against a scorecard of financial and non-financial objectives, as follows:



The maximum bonus opportunity was 135% of basic salary for Will Downie and was pro-rated to reflect time served during the year. For Paul Fry, the maximum bonus opportunity was 125% of basic salary for his time as CFO, and 135% of base salary for his time as Interim CEO. In accordance with his leaver terms, James Ward-Lilley is eligible for a bonus but pro-rated for time served in the year.

## Remuneration report continued

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

#### Performance-related pay earned in the year to 31 December 2019 continued

##### Annual bonus continued

The Committee assessed the metrics as follows:

#### Financial metrics

Vectura's sector is notable for the long development cycles involved in successfully bringing products to market. Each programme carries a different level of risk with different probability of success rate and each has different development requirements, meaning that certain programmes will take longer to realise value or get to market than others. Each year, the Committee sets targets for the bonus which are considered stretching in the context of the business plan for the year. Revenue and adjusted EBITDA in 2019 have continued to show good growth. The targets for 2019 were again based on the business plan with reference to broker consensus forecasts. Actual performance against both measures was close to the maximum levels.

		Threshold								Maximum	Actual
Revenue (31.25% weighting)	Revenue (£m)	149.9	153.9	158.0	162.0	166.1	170.1	174.2	178.2	182.3	178.3
	% of bonus	20.0%	30.0%	40.0%	50.0%	60.0%	70.0%	80.0%	90.0%	100.0%	90.2%
Adjusted EBITDA (31.25% weighting)	Adjusted EBITDA (£m)	32.0	34.0	36.0	38.0	40.0	42.0	44.0	46.0	48.0	43.4
	% of bonus	20.0%	30.0%	40.0%	50.0%	60.0%	70.0%	80.0%	90.0%	100.0%	77.0%
<b>Total</b>		<b>12.50%</b>	<b>18.75%</b>	<b>25.00%</b>	<b>31.25%</b>	<b>37.50%</b>	<b>43.75%</b>	<b>50.00%</b>	<b>56.25%</b>	<b>62.50%</b>	<b>52.30%</b>

#### Non-financial metrics

Performance measure	Weighting	Targets	Level of bonus awarded as a % of metric (% of full bonus)	Commentary
Material new deal value creation	10.0%	VR647 Phase III partnering agreement signed Signing of new development and supply contracts for the Lyon site achieving stretch profitability target	0.0%	Partnering agreement was not achieved. Lyon site break-even delayed until 2020.
Maximising pipeline value	17.5%	VR315 resubmission Q4 2019 Development of FOX® and AKITA® nebuliser platforms, and improvements in manufacture	15.0%	Hikma Pharmaceuticals, with the support of the Vectura team, resubmitted VR315 (US) to the FDA in November 2019. FOX® improvements progressed, and this platform continues to generate significant customer interest. Further AKITA® developments contingent on partner interest.
Great place to work	10.0%	Strong employee engagement Site strategy implementation including Gauting transition Improved HSE culture/performance with simplified reporting and data visibility/action follow-up	10.0%	The annual employee engagement survey helps us to measure how we are doing against our goal of Vectura being a great place to work. 88% of employees took part in the 2019 survey and the results show improvement across all areas compared to the March 2018 survey. Favourable responses were 53%, the highest since 2016. Absenteeism and attrition remain below the UK average. Site strategy and working environment improvements were implemented, including decisions to sell surplus buildings and improve site utilisation. The Gauting site closure progressed to plan, and good progress was made on executing the Group's site footprint strategy. A significant investment has been made in HSE in 2019, with new leadership and a greater focus on improving both culture and key metrics. The recordable incident rate was zero in 2019, which is a very strong performance.
<b>Total</b>	<b>37.5%</b>		<b>25.0%</b>	





During the year the Committee reviewed the scorecard in light of the shift of the Group's focus towards a CDMO operation. As a result of this review, the Committee concluded that the maximising pipeline objectives should be amended so that objectives related to VEnT wave 1 milestones be removed, as these were no longer consistent with the focus of the business, but that the goals related to FOX® and AKITA® development should remain unchanged. At the time of this decision the specific VEnT wave 1 objectives were on-track. In exercising its discretion the Committee determined that the percentage of the overall bonus (2.5% of the maximum for Executive Directors) allocated to the VEnT wave 1 milestones should be reallocated equally to the two financial metrics. Prior to making this change the Committee satisfied itself that the impact of this change did not result in the scorecard targets being no less stretching than the original scorecard.

As noted in the Chair's statement, the Committee reviewed the formulaic outcome of the scorecard and concluded that the scorecard outcome, as shown above, reflected the performance of the Executive Directors in the year. The Committee did not exercise discretion in determining the annual bonus outcome.

The resulting annual bonus awards under the Policy, i.e. bonus awards of up to 100% of salary payable in cash, with the remainder deferred into shares for two years, are as follows:

	Bonus scorecard outcome	Actual % of maximum	Maximum opportunity % of salary	Actual % of salary	Total cash % of salary	Total shares % of salary
W Downie <sup>1</sup>	£71,390	77.3	135%	104.4	100	4.4
J Ward-Lilley <sup>2</sup>	£275,597	77.3	135%	104.4	100	4.4
P Fry <sup>3</sup>	£366,199	77.3	129%	99.7	99.7	0.0

1 For bonus purposes, W Downie's 2019 salary was £68,410, which was his base salary after pro-rating for time served in 2019 (7 November to 31 December).

2 For bonus purposes, J Ward-Lilley's 2019 salary was £264,096, which was his base salary after pro-rating for time served in 2019 (1 January to 30 June).

3 P Fry received a bonus for his time as Interim CEO (when his bonus maximum was 135% of £420,000, pro-rated for time served as Interim CEO) and separate bonus for his time as CFO (when his bonus maximum was 125% of £339,020, pro-rated for time served as CFO). His combined bonus maximum was £473,737, which was 129% of his combined base salary for the year.

## LTIP scheme

### Scheme interests vested during the period

On 24 September 2015, an award of LTIP options was made to the Executive Directors who were in office at that time. The awards 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). The first tranche comprised 40% of the award and lapsed on 1 August 2018 (with performance measured up to 31 December 2017). The second and third tranches comprise the remaining 60% of the award (40% for the standard five-year award and 20% for the "kicker" award) and are due to vest on 24 September 2020.

Vesting of the second tranche of this award was calculated by Aon as follows:

Measure	Threshold <sup>1</sup> 15%	Maximum <sup>1</sup> 100%	Actual	Vesting
TSR against constituents of the FTSE 250 companies (excluding real estate and financial services) (50% of award)	Median 37.72%	Upper quartile 191.45%	-41.76%	0%
TSR against selected European pharmaceutical companies (50% of award) <sup>2</sup>	Median 47.46%	Upper quartile 210.43%	-41.76%	0%

1 Linear vesting between these points.

2 The full European pharmaceutical comparator group used for these awards is Ablynx NV, ALK-Abelló A/S, Almirall SA, arGEN-X NV, Basilea Pharmaceutica AG, BTG plc, Circassia Limited, Clinigen Group Plc, Consort Medical, Cosmo Pharmaceuticals S.p.A., DBV Technologies S.A., Evotec AG, Faes Farma, Genmab A/S, Hikma Pharmaceuticals PLC, Indivior PLC, Molecular Partners AG, Morphosys AG, Orion Oyj, Pharma Mar, Recipharm AB (publ), Recordati SpA, Stada-Arzneimittel AG, Stallergenes Swedish Orphan Biovitrum AB, Vernalis plc and Zealand Pharma.

The vesting of the third tranche of this award required Vectura TSR to exceed the upper decile of the two comparator groups set out above.

However, as shown in the table above, Vectura's TSR's over the performance period was below the upper decile level and vesting is therefore 0%.

As a result, the second and third tranches of the LTIP options awarded to Executive Directors in 2015 will lapse as set out below:

Director	Type of award	Vesting date	Number of options awarded	Percentage of award vested	Exercise price p	Value of LTIP awards vesting £
J Ward-Lilley	2015 LTIP – tranche two	24 September 2020	252,101	0%	0.0271	—
J Ward-Lilley	2015 LTIP – tranche two	24 September 2020	126,051	0%	0.0271	—
<b>Total</b>						<b>—</b>

# Remuneration report continued

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

### LTIP scheme continued

#### Scheme interests vested during the period continued

An award of LTIP options was also granted on 25 May 2017 to Executive Directors in office at the time. Of the Executive Directors employed during 2019, only James Ward-Lilley held an outstanding award from this grant. This award has a performance period of three years ending 31 December 2019 and is due to vest on 25 May 2020. Performance has been assessed by the Committee as set out below:

Measure	Threshold <sup>1</sup> 15%	Maximum <sup>1</sup> 100%	Actual	Vesting
TSR against constituents of the FTSE 250 companies (excluding real estate and financial services) (50% of award)	Median 25.1%	Upper quartile 66.8%	-38.62%	0%
Cumulative adjusted growth in adjusted EBITDA (50% of award) <sup>2</sup>	£86.7m	£120.6m	108.2m	68.9%

<sup>1</sup> Linear vesting between these points.

As a result of this vesting outcome, the Committee determined that 34.5% of the total LTIP awards will vest to James Ward-Lilley, but subject to a pro-rata reduction for his time served during the vesting period. This will result in 24.1% of the shares under award vesting as set out below:

Director	Type of award	Vesting date	Number of options awarded	Percentage of award vested	Exercise price p	Value of LTIP awards vesting £
J Ward-Lilley	2017 LTIP	25 May 2020	776,242	24.1%	0.0271	160,620
<b>Total</b>						<b>160,620</b>

<sup>1</sup> The original number of shares under award were 776,242 but these were performance tested and pro-rated so that only 160,620 shares (24.1% of the original award) will vest to J Ward-Lilley.

<sup>2</sup> As the awards will not vest before the publication of this report and so the value of vesting will not be known, these awards have been valued using the average share price over the last three months of 2019 of 85.93p. The value will be restated next year in the single figure table when the share price at the vesting date is known.

### Scheme interests awarded during the period (audited)

#### Long-Term Incentive Plan (LTIP)

After due and careful consideration by the Committee, the following awards of nominal cost options were granted to the Executive Directors under the LTIP on 25 April 2019:

Director	Date of grant	Number of options awarded <sup>1</sup>	Value of award	Share price used to determine level of award pence per share <sup>2</sup>	Face value £	Exercise price <sup>4</sup> pence per share	% that vests at threshold	End of performance period <sup>1</sup>
J Ward-Lilley <sup>3</sup>	25 April 2019	1,010,706	138.75%	72.51	732,864	0.0271	15	31 December 2021
P Fry	25 April 2019	864,966	185.00%	72.51	627,187	0.0271	15	31 December 2021
<b>Total</b>		<b>1,875,672</b>			<b>1,360,051</b>			

<sup>1</sup> Details of the relevant performance conditions are set out below.

<sup>2</sup> The share price used for awards made on 25 April 2019 was the average price of the five days preceding the award date.

<sup>3</sup> These awards will be pro-rated for time served at vesting because J Ward-Lilley stood down from the Board in June 2019. The amount shown is before pro-rating.

<sup>4</sup> Following the share consolidation programme in October 2019, the share awards remained unchanged in number. However the exercise price per share was amended to reflect the new nominal share value.

The awards set out above which were granted on 25 April 2019 are subject to relative TSR and cumulative growth in adjusted EBITDA, measured over three years (each representing 50% of the total award), as set out in the following table:

Proportion of total award	Performance period	Measure	Threshold <sup>1</sup> 15%	Maximum <sup>1</sup> 100%
50%	3 years	Relative TSR against FTSE 250 companies (excluding real estate and financial services)	Median	Upper quartile
50%	3 years	Cumulative growth in adjusted EBITDA	£115m	£150m

<sup>1</sup> Linear vesting between these points.

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

Irrespective of the extent to which the 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 Report for the relevant year.



To the extent that performance conditions are not met in full at the end of the three-year performance period, 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 as set out in our Policy.

## Buyout of entitlements at previous employer for new joiners

No buyout awards were made in 2019.

### SIP – free share awards

An award of free shares was made to all employees on 30 May 2019 under the SIP. The awards are subject to a three-year holding period and no performance conditions are attached, except for continued employment. The awards made to Executive Directors are shown in the table below:

Director	MMQ price on day before grant p	Number of shares awarded pre-consolidation	Face value £	Number of shares awarded post consolidation	Face value £	% that vests at threshold	Vesting date
J Ward-Lilley <sup>3</sup>	78.4	4,591	3,599	4,237	3,322 <sup>1</sup>	100	29 May 2022
P Fry	78.4	2,678	2,100	2,663 <sup>2</sup>	2,088	100	29 May 2022
<b>Total</b>		<b>7,269</b>	<b>5,699</b>	<b>6,900</b>	<b>5,410</b>		

1 J Ward-Lilley received a cash dividend of £275.46 in respect of his pre-consolidation holding.

2 P Fry reinvested his pre-consolidation dividend of £160.68 using the DRIP, receiving an additional 191 shares.

3 J Ward-Lilley exercised his SIP option as a good leaver following his departure in June 2019.

## SAYE

The SAYE is open to employees including Executive Directors. Under this scheme all eligible employees are invited to subscribe for options, which may be granted at a discount of up to 20% to market value and which vest after three or five years. The SAYE is an HMRC-approved all-employee plan to which performance conditions do not apply. No SAYE options vested for Executive Directors during the year.

## 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.

	Received in cash £000	Received as pension £000
<b>Executive Directors</b>		
W Downie <sup>1</sup>	5	—
J Ward-Lilley <sup>2</sup>	53	—
P Fry	68	—
<b>Total</b>	<b>126</b>	<b>—</b>

1 W Downie joined the Board on 7 November 2019 and receives an employer pension contribution of 6% of salary.

2 J Ward-Lilley stood down from the Board on 30 June 2019 and received an employer pension contribution of 20% of salary.

## Outside directorships

Neither Executive Director held an outside directorship during 2019. Following the year end Paul Fry became a non-executive director of AIM-listed Avacta Group plc, a developer of Affimer® biotherapeutics and reagents. He is also its audit committee chair.

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

James Ward-Lilley stepped down as CEO in June 2019. Remuneration arrangements in respect of his departure were determined by the Committee in line with his service contract and the Policy. Following his departure, his remuneration was treated as follows:

- payment in lieu of notice of £640,558 for base salary, pension and benefits subject to mitigation. Payment in three equal tranches - on cessation and then in October 2019 and February 2020;
- payment for accrued holiday of £10,158;
- contribution to legal costs of £10,000;
- contribution to outplacement counselling of £10,000;
- a pro-rata annual bonus for 2019 of £275,597. This was determined in line with the performance assessment set out earlier in this Report and was pro-rated for time served. The bonus is subject to clawback; and
- SIP awards vested under good leaver rules.



# Remuneration report continued

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

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

In addition, James Ward-Lilley's LTIP awards will be pro-rated for time served and will vest at the normal time subject to performance. A table setting out the treatment of these awards is set out below:

Normal vesting date	Shares under award at grant	Shares lapsed	Shares under award after pro-rating for time in employment
24 September 2020	630,252	252,100	284,596
1 August 2021	780,838	312,335	272,736
25 May 2020	776,242	—	542,519
22 March 2021	1,286,051	—	545,632
1 March 2022	1,010,706	—	60,863

Dr Susan Foden stepped down on 30 September 2019. Remuneration arrangements in respect of her departure were determined by the Committee in line with her terms of engagement which provides for three months' notice and as such she received a sum of £14,500 in lieu of notice.

There were no other payments to past Directors.

### Statement of Directors' shareholdings and share interests (audited information)

As a direct link between Executive Director remuneration and the interests of shareholders, the Committee has shareholding guidelines for Executive Directors. Executive Directors are required to build up and maintain an interest in Vectura shares of 200% of base salary. There is currently no prescribed timescale in which to meet the guidelines although the Committee monitors progress towards achievement of the guidelines. The value of the shareholding shown below is assessed using the share price on 31 December 2019, being 92.7p. Base salary is as at 1 January 2020.

Executive Directors are required to retain at least half of any share awards exercised as shares (after paying any tax due) until they reach the guideline level. No exercises of options took place in the year or in the previous year.

Both Executive Directors currently hold 0% as a percentage of salary (excludes unvested options). The Committee will keep under review a plan for building the shareholding in the Group to ensure that they meet the 200% requirement within, or close to, five years from the date of their appointment.

The Directors who have held office during the year ended 31 December 2019 and their interests (in respect of which transactions are notifiable to the Group under the Financial Conduct Authority's rules) in the share capital of Vectura at 31 December 2019 are shown in the following tables.

As at 13 March 2020 (the latest practicable date prior to publication of this report), the serving Directors of the Company had a beneficial interest in an aggregate of 470,077 ordinary shares, representing 0.08% of the Company's total voting rights.

	31 December 2019 ordinary shares of 0.0271p each <sup>6</sup>	Unvested and subject to continued employment only	Value of shares as a % of salary <sup>7</sup>	Unvested and subject to performance conditions
<b>Executive Directors</b>				
W Downie <sup>1</sup>	—	—	0%	—
J Ward-Lilley <sup>2</sup>	433,832	—	152%	1,706,346
P Fry <sup>3</sup>	—	228,404	58%	225,741
<b>Non-Executive Directors</b>				
B F J Angelici	219,602	—	—	—
P-O Andersson	46,153	—	—	—
N W Warner	28,132	—	—	—
T Werner	114,776	—	—	—
J Thompson	45,261	—	—	—
A Whitaker	—	—	—	—
S Foden <sup>4</sup>	16,153	—	—	—
K Matthews <sup>5</sup>	—	—	—	—

1 W Downie was appointed to the Board on 7 November 2019.

2 J Ward-Lilley stepped down in June 2019. At that time, his outstanding awards were pro-rated for time served.

3 P Fry's share value as a percentage of salary is based on his combined CFO and CEO salary for 2019.

4 S Foden stepped down in September 2019.

5 K Matthews was appointed to the Board on 29 March 2019.

6 The ordinary shares were consolidated for every 13 shares; 12 new shares were given in October 2019.

7 The share price used to calculate share value was as at close on 31 December 2019 of 92.7p per share.



	LTIP awards subject to performance conditions					Awards granted under LR 9.4.2(2) and LTIP schemes <sup>6</sup>	Share option awards not subject to performance conditions	
	Unvested						Unvested	Vested
	2015 award <sup>1,2</sup>	2016 award <sup>1</sup>	2017 award <sup>3</sup>	2018 award <sup>4</sup>	2019 award <sup>5</sup>		SIP <sup>7</sup>	SIP
W Downie	0	0	0	0	0	0	0	0
J Ward-Lilley	378,152	468,503	776,242	1,286,051	<b>1,010,706</b>	0	0	0
P Fry	0	0	0	225,741	<b>864,966</b>	225,741	2,663	0

- The 2015 and 2016 awards consist of a three-year tranche, a five-year tranche and a five-year "kicker". In accordance with the outcome of the performance conditions for the three-year tranches, 40% of the 2015 LTIP award lapsed and 40% of the 2016 LTIP award lapsed. The above unvested awards reflect the remaining five-year tranche and five-year "kicker", but will be pro-rated for time at vesting as J Ward-Lilley stood down from the Board in June 2019.
- In accordance with the outcome of the performance conditions as outlined on page 79, all the unvested 2015 options will lapse.
- The 2017 awards are subject to performance conditions measured over three years from 1 January 2017. Vesting of 50% of the awards is dependent on relative TSR performance against FTSE 250 (excluding financial services and real estate sector companies) and the remaining 50% based on cumulative three-year growth in adjusted EBITDA. As set out on page 80, only 160,620 of these awards will vest and the remainder will lapse.
- The 2018 awards are subject to performance conditions measured over three years from 1 January 2018. Vesting of 50% of the awards is dependent on relative TSR performance against FTSE 250 (excluding financial services and real estate sector companies) and the remaining 50% based on cumulative three-year growth in adjusted EBITDA. For P Fry, this is the award granted under the LTIP on 22 October 2018, which is subject to the same performance conditions as the 2018 LTIP award.
- The 2019 awards are subject to performance conditions measured over three years from 1 January 2019. Vesting of 50% of the awards is dependent on relative TSR performance against FTSE 250 (excluding financial services and real estate sector companies) and the remaining 50% based on cumulative three-year growth in adjusted EBITDA.
- For P Fry, unvested awards relate to the award granted under LR 9.4.2(2), which vest subject to continued employment (and clawback and malus). Details of these awards were provided in the 2018 Report.
- For J Ward-Lilley, Share Incentive Plan awards were granted on 28 December 2016, 30 May 2018 and 30 May 2019. These awards were exercised under the good leaver rules. For P Fry, awards were granted on 30 May 2019. The awards are subject to a three-year holding period with no performance conditions. Details of these awards can be found on page 81.

## Unaudited information

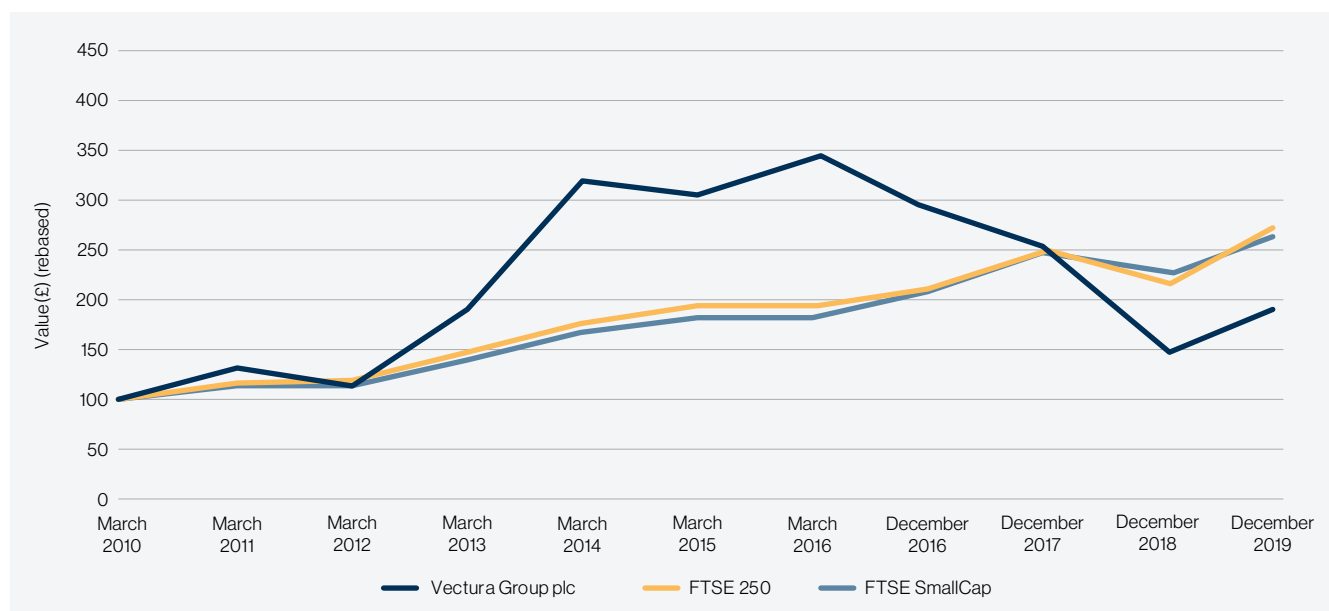
### Performance graph and table

The following graph shows Vectura's cumulative TSR over the last ten financial years relative to the FTSE 250 index and the FTSE SmallCap index. These indices were chosen as Vectura is or was recently one of the constituent companies and the Committee considers that they remain 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: FactSet.



This graph shows the value, by 31 December 2019, of £100 invested in Vectura on 31 March 2010, compared with the value of £100 invested in the FTSE 250 and FTSE SmallCap indices on the same date.

The other points plotted are the values at intervening financial year ends.

# Remuneration report continued

## Unaudited information continued

### Aligning pay with performance

CEO remuneration compared with annual growth in TSR:

	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	Chris Blackwell	James Ward-Lilley	2016 <sup>1</sup> £000	2017 £000	2018 £000	James Ward-Lilley <sup>2</sup>	Paul Fry <sup>2</sup>	Will Downie <sup>2</sup>
						2015/16 £000	2015/16 £000				2019 £000	2019 £000	2019 £000
CEO total remuneration	669	971	594	748	1,951	1,110	1,178	1,409	1,041	1,119	<b>772</b>	<b>326</b>	<b>145</b>
Actual bonus as a % of the maximum	62.0	53.0	59.0	100.0	80.0	—	92.0	99.5	60.0	70.0	<b>77.3</b>	<b>77.3</b>	<b>77.3</b>
Actual share award vesting as a % of the maximum <sup>3,4</sup>	62.9	100.0	—	—	100.0	50.0	100.0	75.0	—	—	<b>24.1</b>	—	—

1 Nine-month period.

2 Shows amounts for the three incumbents during 2019, namely J Ward-Lilley from 1 January to 30 June, P Fry from 1 July to 6 November, and W Downie from 7 November to 31 December 2019.

3 No LTIP awards vested during FY 2012/13, FY 2013/14, FY 2017, FY 2018 or FY 2019.

4 Upon appointment, J Ward-Lilley received nil-cost options, certain of which vested immediately and certain of which vested on the first anniversary of appointment subject to performance conditions. Refer to pages 98 and 99 of the Annual Report and Accounts for the financial year ended 31 December 2017 for further details.

### Percentage change in remuneration of the CEO

Set out below is the change over the prior period in base salary, benefits, pension and annual performance bonus of the CEO and the Group's employees. The remuneration for the CEO is based on the aggregate remuneration for the three incumbents during 2019. For ease, the aggregate remuneration for the three incumbents is set out below. These figures have been used for both this section and the CEO pay ratio below.

	Salary	Benefits	Bonus	LTIP	Pension	Other	SIP	Total fixed	Total variable	Total
CEO 2019 salary (aggregated)	479	8	500	161	81	10	4	578	665	1,243
								CEO <sup>1</sup>	All employees <sup>2</sup>	
								2019 £000	Percentage change (FY 2018 vs FY 2019)	Percentage change
Salary								<b>479</b>	- 7.1%	2.9%
Benefits								<b>8</b>	- 7.5%	- 12.2%
Bonus								<b>500</b>	2.7%	- 9.5%

1 For 2019, this is based on the sum of remuneration for the three incumbents during 2019, namely J Ward-Lilley from 1 January to 30 June, P Fry from 1 July to 6 November, and W Downie from 7 November to 31 December.

2 Percentage figures based on annualised change.

### Relative importance of Executive Director remuneration

Total revenue, research and development expenditure and adjusted EBITDA 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 2018 £m	FY 2019 £m	Change £m
Total employee remuneration	41.1	<b>42.9</b>	1.8
Employee headcount as at 31 December (no. of heads)	453	<b>480</b>	73
Revenue	160.5	<b>178.3</b>	17.4
Research and development expenditure	55.5	<b>50.2</b>	(5.5)
Adjusted EBITDA	39.0	<b>43.4</b>	5.2
Distributions to shareholders	—	<b>39.9</b>	39.9

### CEO pay ratio

The following table shows the ratio between the total remuneration of the CEO and the median total remuneration of our UK employees. Employee total remuneration has been calculated using "Option A" of the published methodology.

Financial year ending	Methodology	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2019	Option A	31:1	23:1	14:1



The above ratios have been calculated using the single figure for the CEO and the following statistics for our UK employees:

	CEO	25th percentile	50th percentile	75th percentile
Total salary	£479,133	£33,229	£44,485	£65,350
Total remuneration (single figure)	£1,243,316	£39,815	£55,161	£87,891

The above table sets out the ratios of the CEO single total figure of remuneration to the equivalent pay for the lower, median and upper quartile UK employees (calculated on a full-time equivalent basis). The ratios have been calculated in accordance with the Companies (Miscellaneous Reporting) Requirements 2018 (the "Regulations"), which apply for the first time for Vectura's financial year beginning 1 January 2019. These pay ratios form part of the information that is provided to the Committee on broader employee pay policies and practices.

The Regulations provide flexibility to adopt one of three methods of calculation; the ratio has been calculated using Option A which is a calculation based on all UK employees on a full-time equivalent basis. To calculate the ratio, the total remuneration figure, comprising base salary, benefits, pension, bonus and long-term incentives and any one-off payments such as recognition awards or sign-on bonuses, for all UK employees was calculated for the year ending 31 December 2019, in line with the same reporting regulations that apply to the Executive Directors. Full-time equivalent figures are calculated on a pro-rated basis. All UK employees were ranked by their total remuneration as at 31 December 2019. From this the three individuals at the 25th, 50th and 75th percentiles (known as P25, P50 and P75, respectively) were identified. The single figures for the P25, P50 and P75 employees are known as Y25, Y50 and Y75, respectively. The aggregated CEO pay is as shown in the Percentage change in remuneration of the CEO section on page 84.

Annual bonus has not been calculated using the statutory method for single-figure pay. Instead, it was calculated using target annual bonus values multiplied by the actual Group performance for 2019 (so disregarding personal performance).

The reason for this is that the annual bonus results will not be known in time to calculate the ratio. Based on a sample, the impact of estimated bonus figures rather than actual is expected to be limited.

The CFO was appointed as interim CEO for the period 1 July to 6 November. For the purpose of calculating the CEO pay ratio, his pay for this period has been included in the CEO's single figure and his pay for the role of CFO has been included as though he was in post for the full year.

The median ratio is consistent with Vectura's pay, reward and progression policies for employees which relate pay levels to performance and market benchmarks. The majority of our employees participate in bonus and share-based longer-term incentives in order to incentivise performance and create alignment with shareholders. Under our Policy, in line with practice in our sector the extent to which total pay is dependent on performance is linked to seniority, with more senior roles having higher levels of variable remuneration ensuring their pay is more dependent on Group performance and has the greatest alignment with shareholders.

In 2019, 53% of the single figure for the position of Chief Executive was delivered through performance-related pay. The performance-related pay is directly linked to the Group's financial and operational performance. Each of the P25, P50 and P75 employees received an annual bonus and shares that are subject to service conditions and are invited to participate in the SIP and SAYE share schemes on the same terms as the CEO.

## Statement of shareholder voting at 2019 AGM

At last year's AGM held on 29 May 2019, 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 <sup>1</sup>	Total votes cast (including votes withheld)
To approve the Directors' remuneration report	483,282,866	27,808,998	511,091,864	7,381,219	518,473,083
% of votes cast	94.56%	5.44%			

<sup>1</sup> A vote that is withheld does not constitute a vote in law and has not therefore been included in the totals above.

The Policy was last put to a binding shareholder vote at the AGM held on 25 May 2017 with the following outcome:

	For (including discretionary votes)	Against	Total votes cast (excluding votes withheld)	Votes withheld <sup>1</sup>	Total votes cast (including votes withheld)
To approve the Policy	518,828,772	18,505,659	537,334,431	16,469,480	553,803,911
% of votes cast	96.56%	3.44%			

<sup>1</sup> A vote that is withheld does not constitute a vote in law and has not therefore been included in the totals above.

# Remuneration report continued

## Unaudited information continued

### Statement of implementation of Policy in 2020

<b>Base salary</b>	<p>Base salary was not increased for the CEO. Base salary was increased by 10% for the CFO:</p> <ul style="list-style-type: none"> <li>• CEO: £460,000</li> <li>• CFO: £372,922</li> </ul>
<b>Pension</b>	<ul style="list-style-type: none"> <li>• CEO: 6% of base salary</li> <li>• CFO: reduced to 15% (from 20%) of base salary and to be aligned with workforce by end of 2022</li> </ul>
<b>Annual bonus</b>	<p>The annual bonus maximum is 135% of salary for the CEO and 125% of salary for the CFO.</p> <p>Performance measures for Executive Directors will include targets relating to creating strategic growth opportunities, securing existing pipeline value and achieving financial growth, with the following weightings:</p> <ul style="list-style-type: none"> <li>• Revenue (37.5%)</li> <li>• Adjusted EBITDA (37.5%)</li> <li>• CDMO transformation (10%)</li> <li>• Product development and delivery management (10%)</li> <li>• Quality and operational excellence (5%)</li> </ul> <p>The performance targets set for the above measures will be disclosed in Vectura's 2020 Annual Report and Accounts in accordance with the Policy set out on pages 68 to 73 of this Report.</p>
<b>LTIP</b>	<p>Awards granted in 2020 will normally consist of:</p> <ul style="list-style-type: none"> <li>• a grant of performance shares, at a level to be determined by the Committee, taking into account the Group's recent share price performance and historical levels of grant;</li> <li>• to be measured over three financial years based against the two following performance conditions: <ul style="list-style-type: none"> <li>• 50% against relative TSR; and</li> <li>• 50% against growth in cumulative adjusted EBITDA. Targets have not been set at the time of publication but will be disclosed to shareholders at the time of grant;</li> </ul> </li> <li>• 25% of the total award vesting at threshold/median performance, increasing to 100% vesting at stretch/upper quartile performance;</li> <li>• on vesting, these awards will be subject to a further two-year holding period; and</li> <li>• recovery and withholding conditions continue to apply.</li> </ul> <p>Any changes to the metrics will be subject to consultation with major shareholders and disclosed at the time of grant.</p>

### Non-Executive Directors' fees

With effect from 1 January 2020, the Chair and Non-Executive Director fees have been increased by 5% from the previous fees which were effective from 1 July 2016. On his appointment as the Employee Engagement designated NED, P-O Andersson received an additional £4,000 per annum which is also subject to the 5% increase.

	Fee
Chair	£157,500
Employee Engagement designated NED	£56,700
Committee Chairs/SID <sup>1</sup>	£60,900
Other NEDs	£52,500

<sup>1</sup> 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 £2,100, bringing the total maximum fee level to £63,000.

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

On behalf of the Board

**Juliet Thompson**  
**Remuneration Committee Chair**  
16 March 2020





# Directors' report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2019. The following additional disclosures are made in compliance with the Companies Act 2006 (the "Act"), the Disclosure Guidance and Transparency Rules (DTR) and the 2018 UK Corporate Governance Code (the "Code").

The Directors' report (the "Report") comprises these pages and the sections of the Annual Report detailed in the table on page 88, which are incorporated into this Report by reference.

## Strategic report

The Act requires the Strategic report to be a balanced and comprehensive analysis of the development and performance of the Company's business during the financial year and the position of the Company's business at the end of that year, consistent with the size and complexity of the business. The strategic report of the business of the Company and its subsidiaries is given on pages 2 to 47.

The Board has taken advantage of section 414C(11) of the Act to include disclosures in the Strategic report on those items indicated in the table at the end of this Report.

For the purposes of DTR 4.1, the required content of the management report can be found in the Strategic report and this Report, including the sections of the Annual Report incorporated by reference.

## Corporate governance statement

DTR 7.2 requires certain information to be included in a corporate governance statement in the Directors' report. Information that fulfils these requirements can be found in the Corporate governance statement on pages 53 to 55 and are incorporated into this Report by reference.

## Directors

The Directors who served during the period were Bruno Angelici, Will Downie (appointed 7 November 2019), Paul Fry, Dr Thomas Werner, Neil Warner, Dr Per-Olof Andersson, Juliet Thompson, Anne Whitaker and Dr Kevin Matthews. James Ward-Lilley and Dr Susan Foden stepped down from the Board on 30 June 2019 and 30 September 2019 respectively. Biographies of the current Directors can be found on pages 50 and 51.

## Capital structure

During the year ended 31 December 2019 the Company undertook a consolidation of its ordinary shares. The share consolidation replaced every thirteen existing 0.025p ordinary shares with twelve new 0.0271p ordinary shares. As all ordinary shares were consolidated, each shareholder's percentage holding in the total issued share capital of the Company immediately before and after the implementation of the share consolidation (save in respect of fractional entitlements) remained unchanged.

The Company has two classes of shares. Ordinary shares of 0.0271p (0.025p prior to consolidation), representing 99.99% of the total share capital (as at 13 March 2020, being the latest practicable date prior to publication) of the Company, carry no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Company. The ordinary shares are listed on the London Stock Exchange.

The Company also has redeemable preference shares of £1.00 each, representing 0.01% of the total share capital (as at 13 March 2020, being the latest practicable date prior to publication) of the Company, which were not affected by the share consolidation of the ordinary shares. These shares are not listed on any exchange and carry no rights to dividend or other distribution. Holders have the right to receive notice of meetings and to attend, but not to vote at the same.

Movements in the Company's issued share capital, listed on the London Stock Exchange, during the year are shown in note 28 "Ordinary share capital".

Details of employee share schemes are set out in note 29 "Share-based payments". Shares were issued and allotted during the period only in relation to the administration of the employee share plans. Shares held by the employee benefit trusts are not voted by the Trustees of each Trust.

## Results and dividends

The Group made a loss after tax for the year ended 31 December 2019 of £22.1m (2018: £88.2m loss). During the year and prior to the share consolidation, the Company paid a special dividend of 6p per ordinary share. The Directors do not recommend payment of a final dividend (2018: nil).

## Acquisition of the Company's own shares

The Company purchased 4,127,660 of its own ordinary shares at a total cost (excluding all costs) of £3,537,789.56 in the year under review, being 0.67% of the issued share capital at the date the authority was granted. The nominal value of the shares was 0.0271p per share and the weighted average price paid per share was 85.709p. The purpose of the buyback was to reduce the share capital of the Company and all shares purchased were immediately cancelled.

The current buyback programme began in October 2019 and authority was given to purchase shares up to a value of £20m in two tranches, each of £10m. The first tranche is nearing completion. It has not yet been decided when the second tranche will begin; however, a resolution will be proposed at the 2020 AGM to give the Company authority to acquire ordinary shares following expiry of the current authority to ensure the buyback programme can continue. The Directors will use this authority for the second buyback tranche as previously announced, and otherwise only after careful consideration, taking into account market conditions prevailing at the time, other investment opportunities, appropriate gearing levels and the overall position of Vectura. In particular, this authority will be exercised only if the Directors believe that it is in the best interests of shareholders generally.

## Shares held in trust

As at 31 December 2019, there were 5,379,547 0.0271p ordinary shares held by the Vectura Group Employee Benefit Trusts (EBTs) for the benefit of Group employees. These shares had a nominal value at 31 December 2019 of 0.0271p and a market value of £4,986,840. The shares held by the EBTs may be used to satisfy share-based incentives for the Group's employee share plans. Of the shares currently held in the EBTs, 1,027,009 shares were purchased by the EBTs during the year to meet the award requirements of the Employee Share Incentive Plan, options granted under the Long-Term Incentive Plan and as a result of the Dividend Re-Investment Plan introduced in October 2019.

## Political donations

The Company made no political donations during the period. The Group has a policy of not making donations to any UK or EU political party and will continue to adhere to this policy.

## Human rights

While Vectura does not have a specific human rights policy, a copy of the Company's Modern Slavery Statement, which has been adopted by the Board is available on the Company's website ([www.vectura.com](http://www.vectura.com)) and sets out the steps we have taken to ensure that slavery and human trafficking are not present in our supply chains or business. The Company also has a number of other internal policies including the Code of Conduct and the Anti-Slavery and Human Trafficking Policy which support human rights principles.

## Directors' report continued

### Directors' indemnities and Directors' and Officers' liability insurance

A qualifying third-party indemnity provision (but not a qualifying pension scheme indemnity provision) for the benefit of the Directors was in force during the period. The Company and the Group maintain insurance policies for their Directors and Officers in respect of liabilities which could arise in the discharge of their duties.

### Post balance sheet events

There were no disclosable post balance sheet events, other than the continuation of the Share buyback programme, as per note 35 of the consolidated financial statements.

### Change of control

The Company, and its various subsidiaries, are party to a number of agreements, which have change of control clauses. If triggered, these could lead to delays in product development programmes and/or product commercialisation. In the event of a takeover bid, there are no specific

agreements between the Company and its Directors providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise).

### Disclosure of audit information

The Directors who held office at the date of approval of this Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Independent auditor

A resolution to reappoint KPMG LLP as auditor will be proposed at the forthcoming Annual General Meeting (AGM). Details are provided in the Notice of AGM.

### Additional information

Disclosure	Page(s)	Location in Annual Report
Financial instruments and financial risk management	121-122	Note 27, financial statements
Appointment, removal and powers of Directors	53	Corporate governance statement
Future developments of the Group's business	8 to 47	Strategic report <sup>1</sup>
Employee culture and engagement (includes employee investment and reward)	41-42	Strategic report: Doing business responsibly <sup>1</sup>
Employee share schemes (includes Long-Term Incentive Plans)	70-71 and 123-124	Directors' remuneration report and note 29, financial statements
Health and safety and employee-related policies including diversity and disability	41-42	Strategic report: Doing business responsibly <sup>1</sup>
Movements in share capital	122-123	Note 28, financial statements
Greenhouse gas emissions	45	Strategic report: Doing business responsibly <sup>1</sup>
Fair, balanced and understandable	61 and 89	Audit Committee report and Directors' statement of responsibilities
Share capital (voting restrictions and special rights)	55	Corporate governance statement
Substantial shareholdings	55	Corporate governance statement
Research and development	29	Strategic report: financial review
Directors' responsibility statement	89	Directors' statement of responsibilities
Directors' interests	82	Directors' remuneration report
Stakeholder consideration and engagement	46-47	s172 statement, Strategic report: doing business responsibly <sup>1</sup>

<sup>1</sup> The Board has taken advantage of section 414C(11) of the Act to include disclosures in the Strategic report on these items.

### Going concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis in preparing the financial statements.

### Annual General Meeting

The 2020 AGM of the Company will take place at the offices of Vectura Group plc, 46-48 Grosvenor Gardens, London, SW1W 0EB at 10.30 a.m. on Wednesday 27 May 2020. Please refer to the Notice of AGM for details of the business to be transacted at the meeting.

The Directors' report was approved by the Board on 16 March 2020.

By order of the Board

**John Murphy**  
General Counsel and Company Secretary

16 March 2020

**Vectura Group plc**  
One Prospect West  
Chippenham  
Wiltshire SN14 6FH  
United Kingdom

Registered No: 3418970



# Statement of Directors' responsibilities

In respect of the Annual Report and the financial statements

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

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report, Directors' report, Directors' remuneration report and Corporate governance statement that complies with that law and those regulations.

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

## Responsibility statement of the Directors in respect of the Annual Report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, 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; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Signed on behalf of the Board on 16 March 2020.

**Will Downie**  
Chief Executive Officer  
16 March 2020

**Paul Fry**  
Chief Financial Officer  
16 March 2020

# Financial statements

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# Independent auditor's report

To the members of Vectura Group plc

## 1. Our opinion is unmodified

We have audited the financial statements of Vectura Group plc ("the Company" or "the Group") for the year ended 31 December 2019 which comprise the Consolidated income statement, Consolidated statement of other comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated cash flow statement, Company balance sheet, Company statement of changes in equity, and the related notes, including the accounting policies in note 1.

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 December 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; 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.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 25 May 2017. The period of total uninterrupted engagement is for the three financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

### Overview

**Materiality:** £1.5m (2018:£1.5m)  
group financial statements as a whole 0.8% (2018: 1%) of revenue

**Coverage** 99% (2018: 88%) of revenue

### Key audit matters vs 2018

Key audit matters		vs 2018
<b>Recurring risks</b>	Brexit	◀▶
	Recoverability of parent Company's investment in subsidiaries	▼
<b>Event driven</b>	<b>New:</b> Recoverability of goodwill allocated to the Swiss CGU	▲

# Independent auditor's report continued

to the members of Vectura Group plc

## 2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and our findings from those procedures in order that the Company's members as a body may better understand the process by which we arrived at our audit opinion. These matters were addressed, and our findings are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
<p><b>The impact of uncertainties due to Britain exiting the European Union on our audit</b></p> <p><i>Refer to page 33 (principal risks), page 39 (Viability statement), pages 59-62 (Audit Committee report), page 106 (accounting policy) and page 113 (financial disclosures).</i></p>	<p><b>Unprecedented levels of uncertainty:</b></p> <p>All audits assess and challenge the reasonableness of estimates, in particular those described in the recoverability of goodwill allocated to the Swiss CGU (below) and related disclosures; and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.</p> <p>In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the Viability statement and to consider the directors' statement that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.</p> <p>Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.</p>	<p>We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:</p> <ul style="list-style-type: none"> <li>— <b>Our Brexit knowledge:</b> We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks;</li> <li>— <b>Sensitivity analysis:</b> When addressing the recoverability of goodwill allocated to the Swiss CGU, and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty;</li> <li>— <b>Assessing transparency:</b> As well as assessing individual disclosures as part of our procedures on the recoverability of goodwill allocated to the Swiss CGU, we considered all of the Brexit related disclosures together, including those in the Strategic report, comparing the overall picture against our understanding of the risks.</li> </ul> <p><b>Our findings</b></p> <ul style="list-style-type: none"> <li>— As reported under the relevant key audit matters below, we found the resulting estimates to be balanced (2018: balanced) and related disclosures of the recoverability of goodwill allocated to the Swiss CGU, and disclosures in relation to going concern to be proportionate (2018: proportionate). However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.</li> </ul>



	The risk	Our response
<p><b>Recoverability of goodwill allocated to the Swiss CGU</b></p> <p>£62.4 million; 2018: £63.3 million</p> <p><i>Refer to pages 59-62 (Audit Committee report), page 128 (accounting policy) and page 113 (financial disclosures).</i></p>	<p><b>Subjective valuation:</b></p> <p>Historic acquisitions have led to the recognition of goodwill with a significant value. There is a risk that the carrying amount of the Swiss CGU may become impaired if financial performance or other events, such as regulatory approvals, are not in line with initial expectations. We have assessed the recoverability of goodwill allocated to the Swiss CGU as one of the most significant risks in our current year audit. Following the business decision in 2019 to move towards a contract development and manufacturing organisation model, products in the maturity stage are not expected to be replaced by the launch of new products of a similar nature. Consequentially, there have been changes to key assumptions used to estimate the recoverable amount of the Swiss CGU resulting in increased measurement uncertainty which could lead to a material error in the carrying amount.</p> <p>The estimated recoverable amount is subjective due to the inherent uncertainty in forecasting and discounting future cash flows.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 15) disclose the sensitivity estimated by the Group.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>— <b>Our sector experience:</b> Assessing whether key assumptions used, in particular those relating to gross profit margins on product supply, net sales forecasts and related royalty inflows, time to develop and launch pipeline products, discount rates, the terminal growth rate, and potential impacts of Brexit on the supply chain, reflect our knowledge of the business and industry, including known or probable changes in the business environment. The key inputs used in the Group's calculation of the discount rates were challenged by our own valuations specialists by comparing them to externally derived data, including available sources for comparable companies;</li> <li>— <b>Historical comparisons:</b> Assessing the reasonableness of the cash flow forecasts by comparing the historical accuracy of previous forecasts to actual results;</li> <li>— <b>Sensitivity analysis:</b> Performing breakeven analysis on the key assumptions noted above;</li> <li>— <b>Assessing transparency:</b> Assessing whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflect the risks inherent in the valuation of the Swiss CGU goodwill.</li> </ul> <p><b>Our findings</b></p> <ul style="list-style-type: none"> <li>— We found the estimated recoverable amount for the Goodwill allocated to the Swiss CGU to be slightly optimistic (2018: slightly optimistic), resulting in greater headroom than might otherwise have been the case, with proportionate (2018: proportionate) disclosure of related assumptions and sensitivities.</li> </ul>

# Independent auditor's report continued

to the members of Vectura Group plc

	The risk	Our response
<p><b>Recoverability of parent Company's investment in subsidiary</b></p> <p>£393.9 million; 2018: £541.5 million</p> <p><i>Refer to pages 59-62 (Audit Committee report), page 135 (accounting policy) and page 135 (financial disclosures).</i></p>	<p><b>Low risk, high value</b></p> <p>The carrying amount of the parent Company's investment in subsidiary represents 78% (2018: 98%) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall audit.</p> <p>Due to the reorganisation of the Group in 2019, Vectura Group plc only has a single investment within Vectura Group Services Limited with a lower carrying amount. This has resulted in a lower risk of irrecoverability of the parent Company's investment in subsidiary.</p>	<p>Our procedures included:</p> <p>— <b>Tests of detail:</b> Comparing the carrying amount of the investment to identify whether the Group's market capitalisation, being an approximation of the recoverable amount, was in excess of the carrying amount;</p> <p>— <b>Assessing transparency:</b> Assessing the adequacy of the parent Company's disclosures in respect of the parent Company's investment in subsidiary.</p> <p><b>Our findings</b></p> <p>— We found the Group's assessment of the recoverability of the parent Company's investment in subsidiary to be balanced (2018: balanced). We found the resulting disclosures to be proportionate (2018: proportionate).</p>

We continue to perform procedures over development revenue recognition. In the prior year, the key audit matter related to specific judgments and estimates the Group made when applying IFRS 15 ("Revenue from Contracts with Customers") to the agreement the Group reached with Hikma Pharmaceuticals plc to develop a generic version of GSK's Ellipta portfolio. The Group did not take any similar significant judgments or estimates in the current year. As a result, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

Additionally, we continue to perform procedures over the recoverability of inhaled in-market assets, non-inhaled in-market assets and smart nebuliser technology assets. In the prior year, the key audit matter related to the assessment of cash flow forecasts, which were used to estimate the recoverable amount of these intangible assets. These forecasts relied on a number of critical assumptions and estimates including volume forecasts, cost of sales, discount rates, and associated pricing. However, no indicators of impairment were identified in relation to the inhaled in-market assets, non-inhaled in-market assets and smart nebuliser technology assets held at 31 December 2019. Consequentially, we did not have to perform procedures assessing the estimation of future cash flow forecasts. As a result, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.





### 3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £1.5m, determined with reference to a benchmark of Group revenue of £178.3m of which it represents 0.8%. We consider total revenue to be the most appropriate benchmark as it provides a more stable measure year on year than Group loss before tax.

Materiality for the parent Company financial statements as a whole was set at £1.1m (2018: £1.45m) determined with reference to a benchmark of Company total assets of which it represents 0.2%.

We reported to the Audit Committee any corrected or uncorrected misstatements exceeding £75k (2018: £75k) and any other identified misstatements that warranted reporting on qualitative grounds.

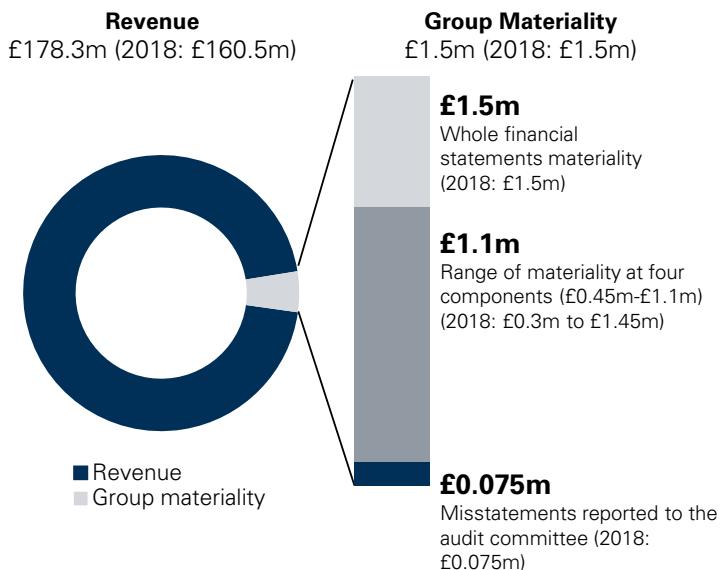
Four of the Group's eight reporting components were subject to full scope audits for Group purposes.

For the remaining four components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within this component.

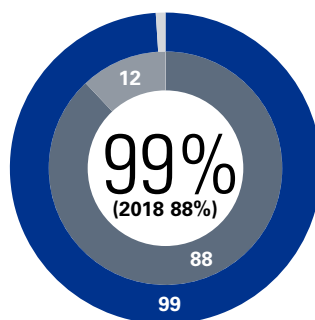
The components within the scope of our work accounted for the percentages illustrated opposite.

The work on one of the four components (2018: one of four) was performed by a component auditor and the rest, including the audit of the parent Company, was performed by the Group team. The Group audit team instructed the component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved component materiality of £1.1m for the component audit team, having regard to the mix of size and risk profile of the Group across the components.

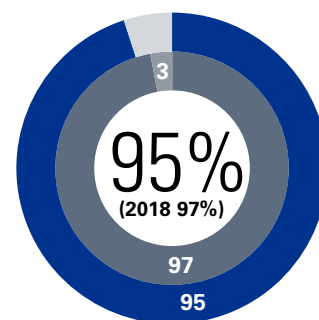
The Group team visited three component locations in the UK and Switzerland, including the location of the component auditor, to assess the audit risk, strategy and findings. Video and telephone conference meetings were also held with the component auditor throughout the course of the audit. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.



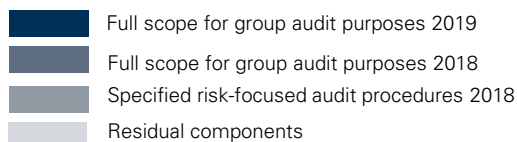
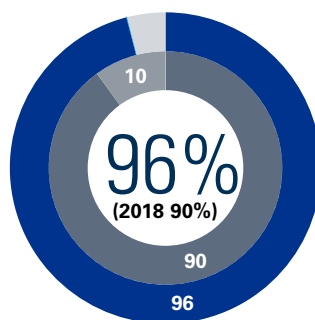
**Group revenue**



**Group loss before tax**



**Group total assets**



# Independent auditor's report continued

to the members of Vectura Group plc

## 4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- Supply chain disruption, including disruption caused by Brexit;
- The impact of a significant business continuity issue affecting the Group's manufacturing facilities or those of its suppliers or partners;
- Failure to advance key pipeline development programmes.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or

- the related statement under the Listing Rules set out on page 104 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

## 5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

### *Strategic report and directors' report*

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### *Directors' remuneration report*

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

### *Disclosures of emerging and principal risks and longer-term viability*

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Viability statement page 39 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered 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.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

#### *Corporate governance disclosures*

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate governance statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

## **6. We have nothing to report on the other matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- 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 and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

## **7. Respective responsibilities**

### *Directors' responsibilities*

As explained more fully in their statement set out on page 89, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

### *Auditor's responsibilities*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

# Independent auditor's report continued

to the members of Vectura Group plc

## *Irregularities – ability to detect*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and pension legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of Group's licence to operate. We identified the following areas as those most likely to have such an effect: regulations relating to the manufacture and research of pharmaceuticals, intellectual property, health and safety, anti-bribery, employment law, and certain aspects of company legislation recognising the nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the

further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

## **8. The purpose of our audit work and to whom we owe our responsibilities**

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 and the terms of our engagement by the company. 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 the further matters we are required to state to them in accordance with the terms agreed with the Company, 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.

### **Adrian Wilcox (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square

Canary Wharf

London

E14 5GL

16 March 2020



# Consolidated income statement

For the year ended 31 December 2019

	Note	2019 £m	2018 £m
<b>Revenue</b>	3	<b>178.3</b>	160.5
Cost of sales		<b>(83.0)</b>	(61.6)
<b>Gross profit</b>		<b>95.3</b>	98.9
Selling and marketing expenses		<b>(3.0)</b>	(3.4)
Research and development expenses	5	<b>(50.2)</b>	(55.5)
Corporate and administrative expenses		<b>(13.7)</b>	(12.0)
Other operating income	7	<b>1.7</b>	2.6
<b>Operating profit before exceptional items, amortisation and impairment</b>		<b>30.1</b>	30.6
Amortisation and impairment	9	<b>(53.6)</b>	(127.0)
Exceptional items	10	<b>(3.5)</b>	(9.0)
<b>Operating loss</b>		<b>(27.0)</b>	(105.4)
Loss from associates		<b>—</b>	(0.2)
Finance income	11	<b>1.5</b>	1.3
Finance expenses	11	<b>(0.6)</b>	(0.5)
<b>Loss before tax</b>		<b>(26.1)</b>	(104.8)
Net tax credit	12	<b>4.0</b>	16.6
<b>Loss for the financial year</b>		<b>(22.1)</b>	(88.2)
<b>Adjusted EBITDA*</b>	9	<b>43.4</b>	39.0
Loss per share (basic and diluted)	13	<b>(3.4p)</b>	(13.2p)

All results are attributable to shareholders of Vectura Group plc and are derived from continuing operations.

\* Adjusted EBITDA is a non-IFRS measure comprising operating loss, adding back amortisation and impairment, depreciation, share-based payments and exceptional items. Refer to note 9 'Adjusted EBITDA'.

The accompanying notes form an integral part of these consolidated financial statements.

# Consolidated statement of other comprehensive income

For the year ended 31 December 2019

	2019 £m	2018 £m
<b>Loss for the financial year</b>	<b>(22.1)</b>	(88.2)
<i>Items that may be subsequently reclassified to the income statement:</i>		
Net exchange difference on translation of foreign operations	<b>(7.9)</b>	14.2
Tax on items recognised directly in equity that may be reclassified	<b>0.4</b>	(0.5)
Increase in deferred tax rate on overseas permanent funding	<b>(2.5)</b>	—
<i>Items that will not be reclassified to the income statement:</i>		
Remeasurement of net retirement benefit obligations	<b>(1.4)</b>	0.2
Other comprehensive (loss)/income	<b>(11.4)</b>	13.9
<b>Total comprehensive loss for the year</b>	<b>(33.5)</b>	(74.3)

All results are attributable to shareholders of Vectura Group plc and are derived from continuing operations.

The accompanying notes form an integral part of these consolidated financial statements.



# Consolidated balance sheet

At 31 December 2019

	Note	2019 £m	2018 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	15	162.2	163.4
Intangible assets	16	164.1	219.9
Property, plant and equipment	17	55.1	57.8
Other non-current assets	18	3.2	10.1
<b>Total non-current assets</b>		<b>384.6</b>	451.2
<b>Current assets</b>			
Inventories	19	27.7	26.7
Trade and other receivables	20	44.3	35.3
Cash and cash equivalents	21	74.1	108.2
<b>Total current assets</b>		<b>146.1</b>	170.2
<b>Total assets</b>		<b>530.7</b>	621.4
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	22	(48.8)	(60.9)
Corporation tax payable		(12.5)	(10.1)
Borrowings	23	(1.2)	(0.2)
Provisions	24	(1.6)	(1.1)
<b>Total current liabilities</b>		<b>(64.1)</b>	(72.3)
<b>Non-current liabilities</b>			
Borrowings	23	(6.4)	(3.8)
Other non-current payables	22	—	(2.4)
Provisions	24	(7.9)	(9.8)
Retirement benefit obligations	25	(4.5)	(3.1)
Deferred tax liabilities	26	(28.4)	(35.7)
<b>Total non-current liabilities</b>		<b>(47.2)</b>	(54.8)
<b>Total liabilities</b>		<b>(111.3)</b>	(127.1)
<b>Net assets</b>		<b>419.4</b>	494.3
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	28	0.2	0.2
Share premium		61.6	61.6
Translation reserve		30.0	40.0
Other reserves		320.2	447.3
Retained earnings/(losses)		7.4	(54.8)
<b>Total shareholders' equity</b>		<b>419.4</b>	494.3

FINANCIAL STATEMENTS

The accompanying notes form an integral part of these consolidated financial statements. The consolidated financial statements of Vectura Group plc were approved by the Board of Directors on 16 March 2020 and were signed on its behalf by:

**W Downie**  
Chief Executive Officer

**P Fry**  
Chief Financial Officer



# Consolidated statement of changes in equity

For the year ended 31 December 2019

	Note	Share capital £m	Share premium £m	Other reserves			Translation reserve £m	Retained (losses)/ earnings £m	Total equity £m
				Merger reserve £m	Own shares reserve £m	Share-based payment reserve £m			
<b>At 1 January 2018</b>		0.2	61.5	593.2	(2.5)	8.4	26.3	(108.3)	578.8
Loss for the financial year		—	—	—	—	—	—	(88.2)	(88.2)
Other comprehensive income		—	—	—	—	—	13.7	0.2	13.9
Total comprehensive income/(loss) for the year		—	—	—	—	—	13.7	(88.0)	(74.3)
Share buyback programme		—	—	—	—	—	—	(13.8)	(13.8)
Share-based payments		—	—	—	—	3.7	—	—	3.7
Employee share schemes		—	0.1	—	0.3	(3.8)	—	3.3	(0.1)
Release of special reserves		—	—	(8.2)	—	—	—	8.2	—
Merger reserve release		—	—	(143.8)	—	—	—	143.8	—
<b>At 31 December 2018</b>		0.2	61.6	441.2	(2.2)	8.3	40.0	(54.8)	494.3
Adoption of IFRS 16	3	—	—	—	—	—	—	(0.4)	(0.4)
<b>At 1 January 2019 as adjusted</b>		0.2	61.6	441.2	(2.2)	8.3	40.0	(55.2)	493.9
Loss for the financial year		—	—	—	—	—	—	(22.1)	(22.1)
Other comprehensive loss		—	—	—	—	—	(10.0)	(1.4)	(11.4)
Total comprehensive loss for the year		—	—	—	—	—	(10.0)	(23.5)	(33.5)
Share buyback programmes	28	—	—	—	—	—	—	(3.6)	(3.6)
Dividends paid	14	—	—	—	—	—	—	(40.1)	(40.1)
Share-based payments	29	—	—	—	—	3.2	—	—	3.2
Employee share schemes	29	—	—	—	(0.1)	(5.1)	—	4.7	(0.5)
Merger reserve release	34	—	—	(125.1)	—	—	—	125.1	—
<b>At 31 December 2019</b>		<b>0.2</b>	<b>61.6</b>	<b>316.1</b>	<b>(2.3)</b>	<b>6.4</b>	<b>30.0</b>	<b>7.4</b>	<b>419.4</b>

The accompanying notes form an integral part of these consolidated financial statements.





# Consolidated cash flow statement

For the year ended 31 December 2019

	Note	2019 £m	2018 £m
<b>Cash flows from operating activities</b>			
Loss for the financial year		<b>(22.1)</b>	(88.2)
Adjustments reconciling loss after tax to operating cash flows	30	<b>41.4</b>	123.3
<b>Cash generated from operating activities</b>		<b>19.3</b>	35.1
Research and development tax credits received		<b>2.4</b>	1.0
Corporation tax paid		<b>(1.3)</b>	(6.0)
<b>Net cash inflow from operating activities</b>		<b>20.4</b>	30.1
<b>Cash flows from investing activities</b>			
Purchase of intangible assets		<b>(1.4)</b>	(0.8)
Purchase of property, plant and equipment		<b>(5.8)</b>	(11.5)
Interest received		<b>0.4</b>	0.2
<b>Net cash outflow from investing activities</b>		<b>(6.8)</b>	(12.1)
<b>Cash flows from financing activities</b>			
Share buyback programme	28	<b>(3.6)</b>	(13.8)
Special dividend paid	14	<b>(40.1)</b>	—
Funding relating to the issue of shares and share options		<b>(0.5)</b>	(0.2)
Repayment of lease liabilities		<b>(1.1)</b>	—
Repayment of property mortgages		<b>(0.1)</b>	(0.3)
Other finance charges		<b>(0.4)</b>	(0.5)
<b>Net cash outflow from financing activities</b>		<b>(45.8)</b>	(14.8)
Effects of foreign exchange fluctuations on cash held		<b>(1.9)</b>	1.3
(Decrease)/increase in cash and cash equivalents		<b>(34.1)</b>	4.5
Cash and cash equivalents at the beginning of the year		<b>108.2</b>	103.7
<b>Cash and cash equivalents at the end of the year</b>		<b>74.1</b>	108.2

The accompanying notes form an integral part of these consolidated financial statements.

# Notes to the consolidated financial statements

For the year ended 31 December 2019

## 1. Presentation of the consolidated financial statements

### Corporate information

Vectura Group plc (the "Company") is a public limited company incorporated and domiciled in the United Kingdom. The registered office is One Prospect West, Chippenham, Wiltshire SN14 6FH. The "Group" is defined as the Company, its subsidiaries and equity-accounted associates. The Group's operations and principal activities are described in the Strategic report. Previously issued financial information and other relevant resources are made available on our website: [www.vectura.com](http://www.vectura.com).

### Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretation Committee (IFRIC) interpretations issued by the International Accounting Standards Board and as adopted for use by the European Union (EU-IFRS).

The financial statements have been prepared on an historical cost basis modified to include revaluation to fair value of certain financial instruments and the recognition of net assets acquired including contingent liabilities assumed through business combinations at their fair value on the acquisition date modified by the revaluation of certain items, as stated in the accounting policies. All financial information is presented in sterling, and is rounded to the nearest £0.1m unless otherwise stated.

### Going concern

The Group has made a loss for the year; however, it continues to be cash generative before distributions to shareholders. A summary of the Group's financial position, cash generated in the year and accounting loss made after non-cash amortisation charges is included within the Financial review. The Group has considerable financial resources together with long-term contracts with a number of customers across different geographic areas and jurisdictions. The Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook due, primarily, to the UK exit from the EU and the COVID-19 outbreak. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and as such they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### Changes in accounting policies and disclosures

The accounting policies applied are consistent with those adopted and disclosed in the consolidated financial statements for the year ended 31 December 2018 except for changes arising from the adoption of the following new accounting pronouncements which became effective in the current reporting period:

- IFRS 16 – Leases. The details and the impact of the transition is explained in note 33.
- IFRIC 23 – Uncertainty over Income Tax Treatment. The details and the impact of the transition is explained in note 12.

A number of other new amendments are also effective from 1 January 2019 in relation to IAS 28 – Investments in Associates, IAS 19 – Employee Benefits, IFRS 3 – Business Combinations, IAS 1 – Presentation of Financial Statements, IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors and IFRS 9 – Financial Instruments but these do not have any material effect on the Group's financial statements.

### 1.1 Alternative performance measures (APMs)

When assessing and discussing the Group's reported financial performance, management makes reference to alternative performance measures. These measures are also used in discussions with the investment community. APMs are not displayed with more prominence, emphasis or authority than IFRS measures.

**Adjusted EBITDA** is defined as operating loss adding back amortisation and impairment, depreciation, share-based payments and exceptional items. Refer to note 9 "Adjusted EBITDA".

**Exceptional items** are presented whenever significant expenses are incurred or income is received as a result of events considered to be outside the normal course of business, where the unusual nature and expected infrequency merits separate presentation to assist comparisons with previous years. Items which are included within the exceptional category include:

- costs associated with major corporate transactions;
- Board-approved spend on the integration of major corporate transactions; and
- other major transformation programmes.

Furthermore, significant and unusual items of litigation (e.g. GSK litigation) and significant and unusual items which individually distort the underlying performance of the business and therefore warrant highlighting separately to the users of the accounts are also included within exceptional items. Refer to note 10 "Exceptional items".

## 2. Critical accounting areas of judgement and estimation

In preparing these consolidated financial statements, critical judgements in the application of accounting policies can have a significant effect on the financial results. Moreover, any changes in critical estimates and assumptions made could materially impact the amounts of assets, liabilities, revenue and expenses reported next year as actual amounts and results could differ from those estimates or those estimates could change in future.

### Critical judgements

The following critical judgements are those which have the most significant effect on the amounts recognised in the financial statements:

#### Applying IFRS 15 – Revenue from Contracts with Customers to long-term collaborative agreements

Collaborative development and marketing agreements which license the Group's technology and intellectual property (IP) can and do have unique terms spanning multiple reporting periods. Consequently, the accounting judgements required to apply IFRS 15 to each such agreement can differ significantly.



## 2. Critical accounting areas of judgement and estimation continued

### Critical judgements continued

#### Applying IFRS 15 – Revenue from Contracts with Customers to long-term collaborative agreements continued

The critical accounting judgements relate to all collaborative development agreements with performance obligations outstanding at the transition date and all future similar agreements signed. At present, the agreements relevant to the following IFRS 15 judgements outlined below are with Sandoz (VR2081) entered into in June 2017 and Hikma (generic of GSK Ellipta® products) entered in November 2018. These judgements were made at contract inception.

##### (a) Assessment of contract existence criteria

A contract with a customer is in the scope of the standard when it is legally enforceable, the contract is approved and both parties are committed to their obligations.

An agreement often provides a customer with an option to acquire additional services on the basis of success-based fees. Judgement is required to determine the extent to which the Group or the customer is committed to these services throughout the service period, before a successful outcome is assured.

This has been applied to the agreement with Hikma to develop generic versions of GSK's Ellipta® portfolio. It has been judged that the licence to use Vectura's intellectual property and the provision of services for development of Vectura's Open-Inhale-Close (OIC) device are considered committed as the initial \$15.0m milestone received on signing the agreement in 2018 is non-refundable.

Hikma also has the option to acquire future formulation and process development services for up to five products on success-based terms specified in the agreement. These are not considered revenue contracts but treated as partnered R&D costs until such time the receipt of revenue is considered highly probable.

##### (b) Whether a licence to the Group's intellectual property is a separate distinct performance obligation

A licence granted by the Group usually provides the partner with a right to use, but not to own, the IP related to a development. A licence is capable of being distinct from development services if, regardless of contractual terms, it could be sold separately in which case revenue is recognised at the grant date (point in time) as applicable to the OIC device licence for the generic GSK Ellipta® portfolio with Hikma.

If the licence provided was not capable of being separately sold at the grant date then the revenue for the licence is recognised over time as required development services accrue. This treatment applies to the development of VR2081 with Sandoz.

##### (c) Allocation of the transaction price based on standalone selling prices at contract inception

For collaborative agreements containing multiple performance obligations, the Group must determine the standalone selling price identified on inception of the contract. Once these have been determined, these are not subsequently amended. The key assumptions used to determine the standalone selling price include forecast revenues, the cost of satisfying the obligation, development timelines and probabilities of technical, regulatory and commercial success.

### Uncertain tax positions

A provision for an uncertain tax position is recognised within current tax liabilities relating to recent utilisation of historical losses claimed in an overseas jurisdiction. The provision is recognised on the basis of the Group's interpretation of inherently complex tax legislation. The judgement of whether and how much to provide is formed after taking external professional advice, applying IFRIC 23, and is based on management's judgement of the potential tax that could be assessed as due. The tax provision is recognised at £4.1m (2018: £4.9m). This provision is partially released to the Consolidated income statement as each annual Statute of Limitation (the period during which the tax authority can enquire into each return) is closed, with the uncertainty expected to be fully resolved in 2021.

### Legal and other matters

The Group is involved in various legal proceedings which arise in the ordinary course of business. The Group obtains relevant legal advice and makes a judgement as to whether there is sufficient information to be able to make a reliable estimate of the likely outcome of any proceedings. Legal matters are inherently judgemental areas which could change substantially over time as each legal matter progresses and new facts emerge. Appropriate accounting treatment and disclosures are made based on the information available to the Group at the time.

### Critical estimates

The following critical estimates, if changed in 2020, would materially impact reported performance:

#### Revenue – variable consideration included in revenue contracts

Variable consideration includes the estimate of payments in the form of contingent development-related and regulatory approval milestones.

These milestones are included in the transaction price when the most likely outcome is that they will be received. Once this is established, the entire transaction price is constrained to the extent that it is highly probable that a significant reversal of revenue will not occur in future periods. The estimate is reassessed for each reporting period.

The initial transaction price for the development of the generic GSK Ellipta® portfolio with Hikma has been assessed as \$20.0m, which includes a second \$5.0m milestone due on completion of the device development services. The second milestone is being constrained (i.e. not recognised) until completion is considered highly probable. If this \$5.0m milestone had not been constrained, additional revenue of £3.1m (2018: £2.2m) would have been recognised in 2019.

#### Impairment of goodwill acquired through business combinations

Goodwill arising on a business combination is not amortised, but is tested annually for impairment. This testing requires judgement as to the fair value less costs of disposal of the cash-generating units (CGUs) to which goodwill has been allocated. The actual performance of CGUs may differ from the valuations derived through this exercise. Refer to note 15 "Goodwill".



# Notes to the consolidated financial statements continued

For the year ended 31 December 2019

## 2. Critical accounting areas of judgement and estimation continued

### Critical estimates continued

#### Useful economic lives of intangible assets acquired through business combinations

Intangible assets relating to in-market products are amortised with reference to average patent lives in the most applicable territories. The key estimate is which patent or midpoint of the patents to use, due to the varying strength of the patents and different time periods for different territories. Given the quantum of the intangible assets, any change in assumptions would have a significant impact on the amortisation charge.

On 9 August 2019, certain Japanese patent extensions were granted. As a result, the useful economic life of the *flutiform*<sup>®</sup> inhaled in-market asset was extended by an additional four and a half years. Refer to note 16 "Intangible assets".

#### Actuarial assumptions applied to the Swiss pension benefits in the application of accounting policies

The Group operates a pension scheme in respect of its employees in Switzerland. As some of the risks of the scheme match the criteria under IAS 19 – Employee Benefits for a defined benefit plan, the scheme is accounted for as such. Application of IAS 19 involves estimates about uncertain future events based on independent actuarial valuation reports. The defined benefit obligation is sensitive to the actuarial assumptions outlined in note 25 "Retirement benefit obligations".

#### UK exiting the EU

On 31 January 2020 the UK left the European Union under the Withdrawal Agreement Act 2020. The implementation period completes on 31 December 2020 and therefore the main risk to Vectura of a disorderly implementation which was disclosed in the 2018 Annual Report could still arise, should this implementation period not be extended or the UK not establish a beneficial trading relationship with the EU. Management continues to monitor developments and has assessed the key business risks of a disorderly Brexit and mitigated these through ensuring ongoing EU regulatory requirements for medicinal products and devices will be maintained and implementing supply chain contingency planning to mitigate the impact of a disorderly Brexit. The mitigations include appointing third-party logistics experts, identifying alternative routings or methods of transportation and making provision for *flutiform*<sup>®</sup> release testing in the EU. In addition, the stock levels have been increased where appropriate and raw materials sourcing has been secured by building up stock.

Management has assessed the impact of this mitigated uncertainty on the carrying amounts of assets and liabilities in the Group financial statements and no impairment triggers relating to Brexit have been identified.

## 3. Revenue

	2019 £m	2018 £m
Product supply revenues	<b>115.0</b>	85.6
Royalty and other marketed revenues	<b>51.9</b>	58.4
Development revenues	<b>11.4</b>	16.5
<b>Total revenues</b>	<b>178.3</b>	160.5

Detailed analysis and commentary on revenue is provided in the Financial review.

### (a) Product supply revenues

The Group generates significant revenues from the supply of finished or semi-finished products, largely manufactured by third-party suppliers, to commercial distribution partners.

### (b) Royalty and other marketed revenues

The Group also generates revenues from products marketed by partners which incorporate Vectura's intellectual property. These revenues typically comprise royalties, share of sales arrangements, sales-based milestones, and product approval and launch milestones. These revenues reflect financial returns from historical R&D investments in partnered programmes and are earned without further material costs being incurred by the Group.

### (c) Development revenues

The Group also earns revenue from agreements with partners which draw on Vectura's device, formulation and development capabilities to deliver commercially attractive inhalation products. Under these agreements, during the development phase Vectura typically receives a series of cash flows in consideration for a variety of activities, which may comprise an upfront fee as consideration for the license to access intellectual property, milestone payments for specific clinical or other development-based outcomes, or fees billed directly for work performed.

### Disaggregation of revenues

In the following table revenue from contracts with customers is disaggregated by major product and service line and timing of revenue recognition.

	Product supply		Royalties and other marketed		Development services	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Revenue recognition						
Point in time	<b>115.0</b>	85.6	<b>51.9</b>	58.4	<b>7.1</b>	12.8
Over time	<b>—</b>	—	<b>—</b>	—	<b>4.3</b>	3.7
Revenues by performance obligation	<b>115.0</b>	85.6	<b>51.9</b>	58.4	<b>11.4</b>	16.5



### 3. Revenue continued

#### Disaggregation of revenues continued

Point in time development services revenue includes £1.9m (2018: £4.2m) in relation to performance obligations met in prior years. The outstanding transaction price on unsatisfied performance obligations as at 31 December 2019 is £6.8m (2018: £11.1m), which is currently expected to be recognised in full in 2020.

In the following table revenue from contracts with customers is disaggregated by primary geographical market.

#### Revenue by geographical location

	2019 £m	2018 £m
United Kingdom	<b>64.3</b>	55.2
Japan	<b>54.1</b>	35.1
Switzerland	<b>31.9</b>	31.0
Rest of Europe	<b>18.1</b>	13.3
United States of America	<b>5.7</b>	15.8
Rest of World	<b>4.2</b>	10.1
<b>Total revenues</b>	<b>178.3</b>	160.5

Geographical location is derived from customer invoicing points as opposed to the location of patients receiving treatment from the Group's licensed products.

#### Revenue from major customers

Three major customers contributed individually in excess of 10% of total Group revenues: Customer A – £55.1m (2018: £43.9m), Customer B – £54.1m (2018: £35.1m) and Customer C – £21.7m (2018: £22.4m).

#### Customer contract balances

The following table details trade receivables, unbilled trade receivables and contract liabilities with customers:

	Note	2019 £m	2018 £m
Trade receivables	20	<b>17.2</b>	15.1
Unbilled trade receivables	20	<b>12.0</b>	10.2
Contract liabilities	22	<b>(2.3)</b>	(6.5)

Trade receivables are recognised when there is an enforceable right to invoice the customer for work performed to date under contractually agreed credit terms. The Group's unbilled trade receivables relate to accrued royalty income and are transferred to trade receivables when the right to payment becomes unconditional upon receipt of royalty statements. The royalty statements and subsequent payments are typically received in the following quarter. Unbilled trade receivables as at 31 December 2018 of £10.2m relate to Q4 2018 royalty statements, which were subsequently received in full. Unbilled trade receivables as at 31 December 2019 of £12.0m relate to Q4 2019 royalty statements and are expected to be received in full in the first half of 2020.

Contract liabilities consists of advance payments from customers for early-stage development services, with revenues being recognised over time.

In respect of VR2081 and the collaborative arrangement with Hikma, £1.5m (2018: £1.3m) and £2.8m (2018: £2.4m) respectively of contract liabilities were released and recognised as revenues for the services performed.

	2019 £m	2018 £m
Contract liabilities at 1 January	<b>6.5</b>	4.5
Advance payments received from customers	—	12.2
Foreign exchange	<b>0.1</b>	(0.3)
Released royalties and other marketed revenues	—	(2.0)
Recognised as licence revenue	—	(4.2)
Recognised as development services revenue	<b>(4.3)</b>	(3.7)
<b>Contract liabilities</b>	<b>2.3</b>	6.5

# Notes to the consolidated financial statements continued

For the year ended 31 December 2019

## 4. Segmental information

The Group is managed on the basis of a single operating reportable segment, being the development and supply of pharmaceutical products and as such no separate segmental information is provided as it would not be different from the Consolidated income statement. The Chief Operating Decision Maker, represented by the Board, allocates resources on the basis of integrated management information, which focuses on adjusted EBITDA as detailed in note 9.

Non-current assets at 31 December by geographical location are as follows:

	2019 £m	2018 £m
Switzerland	241.4	286.8
United Kingdom	126.9	125.5
France	16.2	19.3
Germany	0.1	19.6
<b>Total non-current assets</b>	<b>384.6</b>	451.2

## 5. Research and development expenses

	2019 £m	2018 £m
Partnered R&D	24.5	20.6
Pre-partnered R&D	25.7	34.9
<b>Total research and development expenses</b>	<b>50.2</b>	55.5

Partnered research and development expenditure represents expenditure to progress partnered programmes. Pre-partnered research and development expenditure reflects investments funded by the Group on programmes yet to be partnered, as well as investments in the Group's own innovative proprietary technology platforms.

## 6. Employees

The average number of full-time equivalent employees and aggregate remuneration of employees was as follows:

	2019 Number	2018 Number
Research and development and related support services	296	291
Business development and corporate administration	15	15
Manufacturing and supply chain	169	159
<b>Total average number of employees</b>	<b>480</b>	465

	2019 £m	2018 £m
Aggregate remuneration		
Wages and salaries	35.7	34.7
Social security costs	5.4	4.9
Payments to defined benefit pension plans	0.5	0.2
Payments to defined contribution pension plans	1.3	1.3
<b>Total aggregate remuneration</b>	<b>42.9</b>	41.1

In addition, costs of £3.7m (2018: £2.5m) were incurred for individuals not directly employed by the Group.

Directors' remuneration is detailed in the Remuneration report. In accordance with Schedule 5 (11.1) of the Companies Act 2006, employee benefits accruing under the Vectura Long-Term Incentive Share Plan are excluded from this disclosure as they do not solely relate to payments made for 2019 employment services.

## 7. Other operating income

The Group will claim R&D expenditure credits (RDEC) of £1.7m (2018: £1.5m) in the year ended 31 December 2019 alongside the tax return filing process. As these credits are subject to corporation tax, they are presented as other income. Other than the tax authorities' acceptance of the tax return, there are no other unfulfilled conditions or contingencies attaching to this income.

In 2018, the Group also recognised £0.6m of other income in relation to a 70% contribution from a customer for additional serialisation supply chain equipment required to comply with the new guidelines issued by the European Medicines Agency. A further £0.5m was also recognised in 2018 in relation to the novation of the Group's Manufacturing and Supply Agreement from Sanofi to Recipharm.



## 8. Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2019 £m	2018 £m
Audit of the Group's annual accounts	0.5	0.6
Audit of the Group's subsidiaries	0.1	0.1
<b>Total audit fees</b>	<b>0.6</b>	0.7
Other services	0.1	0.1
<b>Total non-audit fees</b>	<b>0.1</b>	0.1
<b>Total fees payable to the Group's auditor</b>	<b>0.7</b>	0.8

Included in the audit fees for the Group's annual accounts is £35,000 (2018: £35,000) payable for the audit of the parent company.

## 9. Adjusted EBITDA

Adjusted EBITDA is a non-statutory alternative performance measure used by management and the Board to monitor the Group's performance. See note 1.1.

	Note	2019 £m	2018 £m
Operating loss		<b>(27.0)</b>	(105.4)
Exceptional items	10	<b>3.5</b>	9.0
Amortisation and impairment of intangible assets	16	<b>53.6</b>	127.0
Depreciation and impairment of property, plant and equipment	17	<b>10.6</b>	5.8
Share-based payments	29	<b>2.7</b>	2.6
<b>Adjusted EBITDA</b>		<b>43.4</b>	39.0

The Group has adopted IFRS 16 from 1 January 2019. In applying IFRS 16, in place of operating lease expenses for the Group's UK properties, the Group recognises depreciation and interest costs. In relation to these leases, the Group recognised £0.9m of depreciation charges and £0.1m of interest costs.

## 10. Exceptional items

Exceptional items are presented whenever significant expenses are incurred or income is received as a result of events considered to be outside the normal course of business, where the unusual nature and expected infrequency merits separate presentation to assist comparisons with previous years.

	2019 £m	2018 £m
Legal fees <sup>(1)</sup>	<b>3.0</b>	7.1
Site closure costs <sup>(2)</sup>	<b>0.3</b>	1.3
Other exceptional items <sup>(3)</sup>	<b>0.2</b>	0.6
<b>Total exceptional items</b>	<b>3.5</b>	9.0

If the exceptional items were not presented as exceptional, the classification would be as follows: (1) classified as research and development expenditure; (2) classified separately as restructuring costs; and (3) classified as corporate and administration expenses in 2019.

Legal fees of £3.0m (2018: £7.1m) relate to ongoing legal proceedings against GSK from enforcement of Vectura's patents in respect of the Ellipta<sup>®</sup> products. Site closure costs arise from the decision to close the Group's operating site in Gauting, Germany, by December 2020 and consists of share-based payment charges related to the retention of staff of £0.3m (2018: £0.2m), with 2018 also including provision for redundancy costs of £1.1m. Other exceptional items of £0.2m relate to final IFRS 2 charges for retention shares that were issued post the 2016 merger and vested on 22 September 2019.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2019

## 11. Finance income and expense

	2019 £m	2018 £m
Bank interest income	0.4	0.2
Unwinding of financial assets	0.3	0.3
Foreign exchange gains	0.8	0.8
<b>Finance income</b>	<b>1.5</b>	1.3
Bank interest expense	(0.1)	(0.3)
RCF commitment fees	(0.2)	(0.2)
Interest on lease liabilities	(0.1)	—
Other financing items	(0.2)	—
<b>Finance expense</b>	<b>(0.6)</b>	(0.5)

Foreign exchange relates to foreign currency cash on deposits in Switzerland and the UK, and the revaluation of royalty and milestone receivables in foreign currency in Switzerland and the UK.

## 12. Tax

	2019 £m	2018 £m
Current income tax	(4.4)	(4.6)
Prior year adjustments	0.3	(0.1)
<b>Total current income tax charge</b>	<b>(4.1)</b>	(4.7)
Deferred tax	8.1	21.3
<b>Net tax credit reported in the income statement</b>	<b>4.0</b>	16.6

Deferred tax charges of £2.1m (2018: £0.5m) were recognised in other comprehensive income.

Current tax arises from trading profits generated in Switzerland (2018: Switzerland and the US). Deferred tax relates predominantly to credits arising on the unwinding of tax liabilities on the intangible assets acquired as a result of the acquisition of Activaero in 2014 and the Skyepharma merger in 2016.

The Group's effective tax rate (ETR) before other comprehensive income (OCI) is a 15.3% credit (2018: 15.8% credit). This equates to the applicable UK tax rate of 19%, adjusted for a number of factors discussed below.

### UK tax

The UK sub-group is loss-making and benefits from the R&D expenditure credit (RDEC). The RDEC is subject to UK corporation tax and therefore is included within the Consolidated income statement and presented as other operating income (refer to note 7). In addition, certain UK companies are able to participate in the UK Patent Box regime, the benefit of which is expected to increase as new products are approved. The UK corporation tax rate will reduce to 17% from 1 April 2020, which has been substantively enacted. The impact on the Group accounts is expected to be immaterial.

### US tax

Taxable income arose in the prior period in respect of the percentage of net sales received from EXPAREL®. This ceased from September 2018.

### Swiss tax

The Group continues to be tax paying in Switzerland. Over the course of 2019, the Swiss tax reform was substantively enacted with an effective date of 1 January 2020. This will increase the ETR for the Swiss group to approximately 13.45% in 2025 (2018: 9.7%) after the transitional period has concluded. During this time the Group will mitigate this increase through applying for temporary transitional reliefs which are anticipated to reduce the Swiss group ETR to approximately 10.4%.





## 12. Tax continued

### Effective tax rate (ETR)

In Switzerland (2018: Switzerland and the US), the Group is profitable and subject to tax at the local rates (Swiss ETR 9.5% charge (2018: 9.7%)). In 2019, the US corporate rate applied was 21% (2018: 21%). The uncertain tax position disclosed has decreased by £0.7m in the year. These charges, along with a significant credit in respect of deferred tax liabilities relating to intangible assets acquired on the Skyepharma and Activaero acquisitions (refer to note 26 "Deferred tax liabilities"), together drive the Group's ETR credit of 15.3% (2018: 15.8%).

	2019 £m	2018 £m
Loss before tax	<b>(26.1)</b>	(104.8)
Loss before tax calculated at the UK corporation tax of 19% (2018: 19%)	<b>5.0</b>	19.9
Tax effects of:		
Expenses not deductible for tax purposes	<b>(0.1)</b>	(0.1)
Unrecognised deferred tax*	<b>(5.6)</b>	(8.9)
Prior year deferred tax	<b>0.1</b>	0.4
Recognition of deferred tax on prior year losses	<b>0.2</b>	2.0
Differences arising from prior period computations	<b>0.3</b>	(0.1)
Differences in effective overseas tax rates	<b>3.0</b>	3.4
Impact of deferred tax rate change	<b>1.1</b>	—
<b>Total tax credit for the year</b>	<b>4.0</b>	16.6

\* Unrecognised deferred tax mainly relates to losses incurred for which no deferred tax assets have been recognised as future recovery, or timing of recovery, cannot be supported.

The ETR (excluding the future release of the uncertain tax position) is expected to remain in the range of 10–15% credit for 2020 as a result of both the taxable Swiss profits and the significant credit in respect of deferred tax liabilities on intangibles acquired, which is expected to continue for the remainder of their useful lives. If VR315 (US) progresses to market as expected, the Group's profit before tax would increase, and the ETR (before the release of the uncertain tax position) is expected to increase to a 20% charge.

### IFRIC 23 – Uncertainty over Income Tax Treatments

On 1 January 2019, the IFRIC 23 interpretation, which addresses the accounting for uncertain tax positions, became mandatory for use in accordance with EU-IFRS and was adopted by the Group at this time. The interpretation outlines the method required for measurement of the uncertainty and the Group's only uncertain tax position was calculated through a method consistent with the interpretation and therefore no transitional adjustment or disclosure is required following adoption.

## 13. Loss per share

Basic loss per share of 3.4p per share (2018: 13.2p per share) equals diluted loss per share of 3.4p per share (2018: 13.2p per share). Loss per share, basic and dilutive, has been calculated by dividing the loss attributable to shareholders by the weighted average number of shares in issue during the period. Options granted under employee share plans are anti-dilutive for the year ended 31 December 2019. The following table provides details of the impact as if shares had been considered dilutive.

	2019	2018
Loss after tax (£m)	<b>(22.1)</b>	(88.2)
Weighted average number of ordinary shares (m)	<b>651.9</b>	666.1
Effect of dilutive potential ordinary shares (m)	<b>10.6</b>	6.3
Indicative diluted weighted average number of ordinary shares (m)	<b>662.5</b>	672.4

## 14. Special dividend paid to shareholders

On 9 September 2019, the Group announced a distribution to shareholders in the form of a special dividend of approximately £40.0m (2018: nil). This was approved at a general meeting on 10 October 2019 and, subsequently, a distribution of 6p per ordinary share was paid to shareholders, totalling £39.9m (2018: nil). Directly attributable costs of £0.2m have been expensed to equity.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2019

## 15. Goodwill

	2019 £m	2018 £m
<b>At beginning of the year</b>	<b>163.4</b>	161.4
Foreign exchange	<b>(1.2)</b>	2.0
<b>At end of the year</b>	<b>162.2</b>	163.4
<b>Allocation to cash-generating units (CGUs)</b>		
UK and Germany	<b>99.8</b>	100.1
Switzerland	<b>62.4</b>	63.3
<b>At end of the year</b>	<b>162.2</b>	163.4

Goodwill has been allocated to cash-generating units (CGUs), being the Group's geographic locations for operations and intellectual property. The recoverable amounts of each CGU is assessed using a fair value less costs of disposal model. This is calculated using a discounted cash flow approach, with a post-tax discount rate applied to the projected risk-adjusted post-tax cash flows and terminal value.

The Group's weighted average cost of capital (WACC) of 10.25% (2018: 10%) is used in the calculation to discount the cash flows to reflect the impact of risks relevant to the Group and the time value of money. The Group rate is then adjusted for risks specific to each CGU.

Cash flows relating to the Swiss CGU are discounted at 8% (2018: 9%). The primary reason for the decline in the discount rate comparing to 2018 is the reduction in interest rates in Switzerland, the Eurozone and Japan, which are the major markets the Swiss CGU operates in, which are close to zero or negative. The discount rate used for UK and Germany CGU cash flows is 12% (2018: 11%). Whilst no specific Brexit adjustment is made to the discount rates, market volatility caused by Brexit is incorporated into risk-free rates, equity market returns and economic expectations.

Cash flows are based on the most recent budget approved by the Board covering 2020 and the Ten Year Plan to 2029. Details relating to the discounted cash flow models used in the impairment tests of the cash-generating units are as follows:

Valuation basis	Fair value less cost of disposal
Key assumptions	<ul style="list-style-type: none"> <li>Time to develop and launch pipeline products</li> <li>Net sales forecasts and related royalty inflows</li> <li>Timing of partnering pipeline products and milestone achievement</li> <li>Brexit proceeds in an orderly manner with minimal disruption to the <i>flutiform</i><sup>®</sup> supply chain</li> <li>Gross profit margins on product supply</li> <li>R&amp;D expenditure</li> <li>Terminal growth rate</li> <li>Discount rate</li> </ul>
Determination of assumptions	<ul style="list-style-type: none"> <li>Forecast development plans</li> <li>Net sales forecasts are determined from partner forecasts and external market data</li> <li>Milestone amounts and royalty rates reflect past experience and forecast sales from market data</li> <li>Margins reflect past experience, adjusted for expected future changes</li> <li>Discount rates based on Group WACC, adjusted for country specific risks</li> <li>Taxation rates based on appropriate rates for each region</li> </ul>
Specific projected cash flow year	Ten years (reflecting a longer-term planning cycle)
Terminal growth rate	<ul style="list-style-type: none"> <li>UK and Germany: nil</li> <li>Switzerland: decline of 10%</li> </ul>
Discount rate	<ul style="list-style-type: none"> <li>UK and Germany: 12%</li> <li>Switzerland: 8%</li> </ul>

The Group conducted a sensitivity analysis on the impairment test of each CGU's carrying value. The UK and Germany CGU valuation indicates significant headroom such that a plausible change in any key assumption is unlikely to result in an impairment of the related goodwill. The forecast cash flows would need to reduce in excess of 50% (2018: 65%) before impairment arises. This is primarily because this CGU comprises a significant number of internally generated intangibles.



## 15. Goodwill continued

The Swiss CGU has low headroom (£22.7m), primarily due to *flutiform*® moving towards its maturity stage and not being fully replaced by the launch of new products. This is incorporated in the forecast cash flows used in the impairment test. The sensitivity analysis indicates that either a decline of annual cash flows in excess of 8% or an increase in the discount rate by 1.35% would, all other assumptions being equal, cause impairment.

The sensitivity of the Swiss CGU of the UK exiting the EU has been considered. The final position at the end of the implementation period could have a range of potential outcomes, of which the most severe is the UK not establishing a beneficial trading relationship with the EU before the end of the implementation period, 31 December 2020. In this scenario, the Group believes that there is a possibility that the Group's supply chain could be disrupted. *flutiform*® is manufactured in the UK with raw materials imported mainly from the EU into the UK and the Group's partners export finished product from the UK into the EU and Japan.

If any of the risks associated with the implementation period materialise it will likely result in an impairment in the Swiss CGU. There remains a high level of uncertainty as at the date of approval of these financial statements as to how and whether specific risks will materialise. The full implications of the UK leaving the EU will not be understood until future tariffs, trade, regulatory, tax, and other free trade agreements to be entered into by the UK are established. Furthermore, Vectura could experience changes to laws and regulations post implementation period, in areas such as intellectual property rights, employment, environment, supply chain logistics, data protection and health and safety, which may be relevant in assessing the Group's assets.

## 16. Intangible assets

	Inhaled in-market assets £m	Smart nebuliser technology £m	Non-inhaled in-market assets £m	Other £m	Total £m
<b>Cost</b>					
At 1 January 2018	309.1	138.3	76.8	16.1	540.3
Additions	—	—	—	0.9	0.9
Foreign exchange	15.8	1.6	4.2	0.8	22.4
<b>At 31 December 2018</b>	<b>324.9</b>	<b>139.9</b>	<b>81.0</b>	<b>17.8</b>	<b>563.6</b>
Additions	—	—	—	1.3	1.3
Foreign exchange	(5.8)	(7.5)	(2.1)	(0.3)	(15.7)
<b>At 31 December 2019</b>	<b>319.1</b>	<b>132.4</b>	<b>78.9</b>	<b>18.8</b>	<b>549.2</b>
<b>Amortisation</b>					
At 1 January 2018	(74.1)	(71.7)	(43.4)	(15.7)	(204.9)
Amortisation	(48.0)	(14.5)	(22.8)	(0.2)	(85.5)
Impairment	—	(41.5)	—	—	(41.5)
Foreign exchange	(5.7)	(1.7)	(3.6)	(0.8)	(11.8)
<b>At 31 December 2018</b>	<b>(127.8)</b>	<b>(129.4)</b>	<b>(69.8)</b>	<b>(16.7)</b>	<b>(343.7)</b>
Amortisation	(40.1)	(2.2)	(2.7)	(0.4)	(45.4)
Impairment	—	(8.2)	—	—	(8.2)
Foreign exchange	2.5	7.4	1.8	0.5	12.2
<b>At 31 December 2019</b>	<b>(165.4)</b>	<b>(132.4)</b>	<b>(70.7)</b>	<b>(16.6)</b>	<b>(385.1)</b>
<b>Net book value</b>					
<b>At 31 December 2019</b>	<b>153.7</b>	<b>—</b>	<b>8.2</b>	<b>2.2</b>	<b>164.1</b>
At 31 December 2018	197.1	10.5	11.2	1.1	219.9

During the period, the GSK Ellipta® technology licence included within inhaled in-market assets was fully amortised.

As at 31 December 2019 the carrying value of the smart nebuliser technology assets, acquired through the Activaero transaction on 13 March 2014, has been fully impaired. Whilst partnering engagement for VR647 is ongoing, given developments in the status and timing of these discussions and in consideration of the Group's R&D investment priorities, the Board considers that there is a low probability that the value of the VR647 intangible asset will be realised. Accordingly, a full impairment charge of £8.2m, offset by the release of deferred tax liabilities of £2.2m, was recognised.

Non-inhaled in-market assets include several near end of life licences, patents, know-how agreements and marketing rights recognised on the Skyepharma merger, which are in use and from which the Group continues to receive royalties.

Impairment tests on intangible assets are undertaken if events occur which call into question the carrying values of the assets. There was no indication of impairment for the remaining intangible assets as at 31 December 2019.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2019

## 16. Intangible assets continued

The Group's intangibles are amortised on a straight-line basis using the following useful economic lives (UELs):

	Acquisition date	Useful economic life from acquisition date
Inhaled in-market assets	June 2016	11.5 years
Non-inhaled in-market assets	June 2016	6.5 years

The Group's sensitivity analysis shows that, had UELs been extended for 2019 by one year, then the impairment and amortisation charge would be £4.4m lower. Had UELs been reduced for 2019 by one year, then the impairment and amortisation charge would be £6.0m higher.

On 9 August 2019, certain Japanese patent extensions were granted. As a result, the UEL of the *flutiform*<sup>®</sup> inhaled in-market asset was extended by an additional four and a half years. Consequently, the amortisation charge for the period has reduced.

Following a contract renegotiation, effective from 1 January 2019, the UEL for the remaining non-inhaled in-market asset was extended to reflect minimum guaranteed royalties until December 2022.

## 17. Property, plant and equipment

	Land and buildings £m	Laboratory and equipment £m	Assets under construction £m	Total £m
<b>Cost</b>				
At 1 January 2018	18.1	48.9	6.3	73.3
Additions	0.2	3.1	5.2	8.5
Reclassification	0.7	4.9	(5.6)	—
Disposals	—	(2.2)	—	(2.2)
Foreign exchange	0.6	1.6	0.2	2.4
<b>At 1 January 2019</b>	<b>19.6</b>	<b>56.3</b>	<b>6.1</b>	<b>82.0</b>
Recognition of right-of-use assets upon initial application of IFRS 16	3.6	—	—	3.6
<b>Adjusted balance at 1 January 2019</b>	<b>23.2</b>	<b>56.3</b>	<b>6.1</b>	<b>85.6</b>
Additions	0.8	3.1	2.2	6.1
Reclassification*	—	2.6	(3.0)	(0.4)
Impairment	—	(0.3)	(1.6)	(1.9)
Disposals	—	(1.3)	—	(1.3)
Foreign exchange	(0.6)	(1.0)	(0.1)	(1.7)
<b>At 31 December 2019</b>	<b>23.4</b>	<b>59.4</b>	<b>3.6</b>	<b>86.4</b>
<b>Depreciation</b>				
At 1 January 2018	(1.0)	(19.2)	—	(20.2)
Charge for the period	(0.7)	(5.1)	—	(5.8)
Disposals	—	2.2	—	2.2
Foreign exchange	(0.1)	(0.3)	—	(0.4)
<b>At 1 January 2019</b>	<b>(1.8)</b>	<b>(22.4)</b>	<b>—</b>	<b>(24.2)</b>
Charge for the period	(1.7)	(7.0)	—	(8.7)
Disposals	—	1.2	—	1.2
Foreign exchange	0.1	0.3	—	0.4
<b>At 31 December 2019</b>	<b>(3.4)</b>	<b>(27.9)</b>	<b>—</b>	<b>(31.3)</b>
<b>Net book value</b>				
<b>At 31 December 2019</b>	<b>20.0</b>	<b>31.5</b>	<b>3.6</b>	<b>55.1</b>
At 31 December 2018	17.8	33.9	6.1	57.8

\* Includes £0.4m of reclassification from assets under construction to inventories.



## 17. Property, plant and equipment continued

Land valued at £5.0m (2018: £5.1m) is not depreciated. The Group has invested £6.1m in capital expenditure in 2019 (2018: £8.5m) mainly in manufacturing equipment to support the production of *flutiform*<sup>®</sup>, the development of oral tablet production in Lyon and further development of Group's FOX<sup>®</sup> nebuliser platform.

Following the decision to fully impair the intangible asset related to the VR647 programme (refer to note 16 "Intangible assets"), provision for impairment of associated tangible assets of £1.2m has also been made; the majority of these assets were under construction. A further £0.7m of assets under construction, not related to VR647, were also impaired.

## 18. Other non-current assets

Other non-current assets comprise the following items:

	2019 £m	2018 £m
Non-current financial assets	0.5	6.8
Deferred tax assets on tax basis differences	2.7	3.3
<b>Total other non-current assets</b>	<b>3.2</b>	<b>10.1</b>

In 2018, non-current financial assets principally comprised £6.4m of amounts receivable from development partners for manufacturing equipment which the Group has funded. £6.1m of this related to one asset and, as reimbursement is anticipated within one year, this balance has been transferred to current assets and the discounting of £0.4m has been unwound.

Deferred tax assets are recognised on differences between the tax base in the IFRS accounts for IAS 19 – pension liabilities and commercial provisions. Additionally, £1.2m (2018: £2.0m) is recognised in relation to the probable future utilisation of tax losses. All applicable deferred tax assets have been recognised.

The Group did not recognise deferred tax assets on tax losses amounting to £292.5m (2018: £254.9m). The majority of the losses are unlikely to offset taxable profits as they mostly relate to non-trading losses in investment holding companies. There are no current plans to recover these losses in the foreseeable future. As at 31 December 2019, the deductible temporary differences and unused tax credits for which no deferred tax asset is recognised in the statement of financial position are £16.8m (2018: £7.4m).

## 19. Inventories

	2019 £m	2018 £m
Raw materials	8.8	8.9
Work in progress	13.1	14.6
Finished goods	7.6	4.2
Less provision for impairment	(1.8)	(1.0)
<b>Total inventories</b>	<b>27.7</b>	<b>26.7</b>

Inventories of £80.5m were recognised as an expense during the year and included in cost of sales (2018: £58.0m).

## 20. Trade and other receivables

	2019 £m	2018 £m
Trade receivables	17.2	15.1
Unbilled trade receivables	12.0	10.2
Less provision for impairment	—	(0.1)
<b>Net trade receivables</b>	<b>29.2</b>	<b>25.2</b>
Prepayments and other receivables	4.9	6.3
Customer reimbursement of equipment	7.6	—
Research and development tax credits	2.6	3.8
<b>Total trade and other receivables</b>	<b>44.3</b>	<b>35.3</b>

The carrying values of trade receivables approximate their fair values because these balances are expected to be cash settled in the near future unless a provision is made. Unbilled trade receivables contain accrued royalties and licence and development milestones as well as contributions to fixed asset investments pursuant to the *flutiform*<sup>®</sup> supply chain. Customer reimbursement of equipment relates to amounts receivable from partners for manufacturing equipment which the Group has funded. £6.1m of this balance was previously classified within other non-current assets. Refer to note 18.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2019

## 20. Trade and other receivables continued

### Expected credit losses

The Group applies the IFRS 9 simplified approach to providing for expected credit losses in accordance with applicable guidance for non-banking entities. Under the simplified approach the Group is required to measure lifetime expected credit losses for all trade receivables.

The expected credit loss allowance provision is determined below as follows, and incorporates forward-looking information:

		Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total £m
	Expected loss rate	—	—	100%	100%	
2019	Gross carrying amount	27.3	1.7	—	0.2	<b>29.2</b>
	Loss allowance provision	—	—	—	—	<b>—</b>
2018	Gross carrying amount	24.7	0.4	0.1	0.1	<b>25.3</b>
	Loss allowance provision	—	—	—	(0.1)	<b>(0.1)</b>

The Group's expected credit loss policy is to reassess all trade receivables over 60 days past due, and provide in full if the balance is deemed to be at risk. No such balances were considered at risk as at 31 December 2019.

## 21. Cash and cash equivalents

Cash and cash equivalents at 31 December are denominated in the following currencies:

	31 December 2019 £m	31 December 2018 £m
Sterling	<b>14.8</b>	45.2
Euro	<b>23.4</b>	25.6
US dollars	<b>21.8</b>	21.1
Swiss francs	<b>14.1</b>	16.3
<b>Cash and cash equivalents</b>	<b>74.1</b>	108.2

The Group invests its funds in short-term overnight bank deposits, with access at a maximum of 24 hours' notice. The Group has access to a £50m unsecured committed multi-currency revolving credit facility (RCF) with Barclays Bank PLC and HSBC UK Bank PLC. The facility expires in August 2021 and remains undrawn.

## 22. Trade and other payables

	2019 £m	2018 £m
Trade payables	<b>23.2</b>	25.6
Accruals	<b>20.9</b>	28.8
Contract liabilities	<b>2.3</b>	4.1
Other payables	<b>2.4</b>	2.4
<b>Trade and other current liabilities</b>	<b>48.8</b>	60.9
Contract liabilities	<b>—</b>	2.4
<b>Other non-current payables</b>	<b>—</b>	2.4
<b>Trade and other payables</b>	<b>48.8</b>	63.3

Trade and other payables are unsecured unless otherwise indicated; due to the short-term nature of current payables, their carrying values approximates their fair value.

Accruals principally relate to manufacturing fees payable for *flutiform*<sup>®</sup> semi-finished products, external R&D project costs, employee benefits and related taxes, legal fees and other costs accrued but not invoiced. Contract liabilities consist of advance payments from customers for early-stage development services, with revenues being recognised over time. See note 3 "Revenue" for more details.



## 23. Borrowings

	2019 £m	2018 £m
<b>Current</b>		
Finance lease liabilities	1.0	—
Property mortgage	0.2	0.2
<b>Total current borrowings</b>	<b>1.2</b>	0.2
<b>Non-current</b>		
Finance lease liabilities	2.6	—
Property mortgage	3.8	3.8
<b>Total non-current borrowings</b>	<b>6.4</b>	3.8
<b>Total borrowings</b>	<b>7.6</b>	4.0

Finance lease liabilities of £4.7m were initially recognised upon adoption of IFRS 16 on 1 January 2019. As at 31 December 2019, these liabilities are £3.6m, of which £2.6m is denominated in sterling and relates to the expected terms remaining on UK property site leases discounted at between 2% and 3%. The remaining finance lease liability of £1.0m is denominated in Swiss francs and was previously recognised as an onerous lease provision, on transition to IFRS 16 Leases on 1 January 2019 this was de-recognised and a finance lease liability was recognised. The corresponding right-of-use asset is fully impaired.

The property mortgage is denominated in Swiss francs and are secured on the Group's Swiss buildings with a fixed rate of interest of 1.3% per annum until 31 March 2020. Owing to the nature of Swiss rollover mortgages, most of the principal of the loan balance is presented as long term given the Group's intention to continue to rollover the principal balance until the related property is sold, which is expected to be in more than one year. All expected interest payments and a partial principal repayment in 2020 are presented as current.

## 24. Provisions

	Employee £m	Property £m	Commercial £m	Total £m
At 1 January 2019	3.2	2.4	5.3	10.9
Transfer to finance lease liabilities upon adoption of IFRS 16	—	(1.0)	—	(1.0)
Charged during the period	2.0	0.3	—	2.3
Utilised during the year	(1.9)	—	(0.3)	(2.2)
Foreign exchange	(0.2)	—	(0.3)	(0.5)
<b>At 31 December 2019</b>	<b>3.1</b>	<b>1.7</b>	<b>4.7</b>	<b>9.5</b>
Current	1.5	0.1	—	1.6
Non-current	1.6	1.6	4.7	7.9

Employee provisions include £1.0m in respect of the closure of the Group's site in Gauting, Germany, and £1.6m for French statutory lump sum payments, payable upon the retirement of the employees at the Lyon facility, with payments not expected in the medium term.

Property provisions are recognised in respect of the commitment to restore the Group's leased R&D facilities in Chippenham to their original condition in 2023. On transition to IFRS 16 – Leases, on 1 January 2019, the Group's onerous lease provision in Switzerland was de-recognised and a finance lease liability was recognised. The corresponding right-of-use asset is fully impaired.

Commercial provisions relate to constructive obligations arising from historic costs incurred by customers for which the Group expects, in time, to reimburse them for.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2019

## 25. Retirement benefit obligations

### Swiss defined benefit pension plan

The amounts recognised in the balance sheet for the Swiss scheme are as follows:

	2019 £m	2018 £m
Present value of defined benefit obligation	<b>(18.7)</b>	(16.2)
Fair value of plan assets	<b>14.2</b>	13.1
<b>Balance sheet liability</b>	<b>(4.5)</b>	(3.1)

The Swiss sub-group has affiliated itself with PKG Pensionskasse for the provision of its occupational pension provision for its employees and pension recipients. The pension scheme provides benefits in the case of disability, death, old age and termination. The risk benefits are defined in relation to the pensionable salary. The retirement pension is calculated based on the projected savings capital with interest and a conversion rate.

The highest corporate body of the foundation is the Board of Trustees. It handles the general management of the pension scheme, ensures compliance with the statutory requirements, defines the strategic objectives and policies of the pension scheme and identifies the resources for their implementation. It determines the objectives and principles of the asset management and the implementation and monitoring of the investment process.

The Board of Trustees of the PKG pension fund announced in 2017, the reduction in the relevant pension conversion (into an annuity) rates to 5.4% until 2020, from 6.0% in 2016. Furthermore, the active policy holders' retirement assets will earn 2.4% interest as of 31 December 2019 (2018: 1.0%).

Vectura, as employer, matches employees' contributions to the scheme on a monthly basis. The amount of contributions to be paid by the employer and employee are determined by the Board of Trustees or the pension fund commission such that on retirement participants can choose to receive a cash lump sum or convert their savings capital into an annuity to be paid monthly over the course of their retirement.

The law (Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans and its associated ordinances) provides for minimum pension benefits and also a minimum amount for the savings contributions. The amount of the contributions to be paid by the employer and the employee is determined by the highest corporate body and/or the pension fund commission. These can exceed the statutory minimum. The employer contribution must be at least as high as the employee contributions.

The movement in the present value of the defined benefit obligation is as follows:

	2019 £m	2018 £m
Opening present value of the defined benefit obligation	<b>(16.2)</b>	(17.7)
Current service cost	<b>(0.7)</b>	(0.8)
Non-exceptional gain on curtailment	<b>0.2</b>	—
Exceptional gain on curtailment	<b>—</b>	0.7
Recognised in the income statement	<b>(0.5)</b>	(0.1)
Benefits paid and withdrawals	<b>(0.1)</b>	2.8
Employee contributions	<b>(0.4)</b>	(0.5)
Balance sheet cash movements	<b>(0.5)</b>	2.3
Foreign exchange translation	<b>0.1</b>	(0.8)
Actuarial (loss)/gain	<b>(1.6)</b>	0.1
Recognised through OCI	<b>(1.5)</b>	(0.7)
<b>Present value of the defined benefit obligation</b>	<b>(18.7)</b>	(16.2)





## 25. Retirement benefit obligations continued

### Swiss defined benefit pension plan continued

The movement in the fair value of the plan assets was follows:

	2019 £m	2018 £m
Fair value of the plan assets at the beginning of the year	13.1	14.1
Foreign exchange	(0.1)	0.6
Benefits paid and withdrawals	0.1	(2.8)
Actuarial gains recognised on plan assets through OCI	0.2	0.1
Employer contributions	0.5	0.6
Employee contributions	0.4	0.5
<b>Fair value of the plan assets</b>	<b>14.2</b>	<b>13.1</b>

Plan assets comprise:

	2019 £m	2019 %	2018 £m	2018 %
Equity	4.4	31.0	3.7	28.2
Bonds	5.9	41.6	6.1	46.6
Property	2.7	19.0	2.5	19.1
Cash	0.2	1.4	0.1	0.8
Other	1.0	7.0	0.7	5.3
<b>Total plan assets</b>	<b>14.2</b>	<b>100.0</b>	<b>13.1</b>	<b>100.0</b>

"Other" plan assets includes higher risk investments such as commodities or emerging market investments. Despite the IAS 19 requirement to recognise these assets, they are not controlled by the Group, but by the Swiss pension fund. The pension fund manages these in accordance with Swiss pension regulations to generate a higher return on the fund, but does not provide any further details as to the composition of the assets or, for example, the quoted prices of equity held in the fund (as such Vectura is unable to disclose quoted equity prices as required by IAS 19.142).

The latest asset coverage ratio of 113.1% (2018: 106.4%) published by the fund, to which the asset prices relate, is not currently recognised by Vectura, which caps Vectura's share of assets in the fund at the level of participant savings contribution. Under IAS 19 accounting for Swiss pensions, an accounting policy choice exists as to whether the investment returns are recognised and it is the intention of management to review this assumption in the context of future negative rates. Expected employer contributions to post-employment benefit plans for the year ending 31 December 2020 are £0.5m (2019: £0.6m). At present, there have been no additional funding requirements imposed by the pension regulator.

The cumulative actuarial gain recognised in other comprehensive income is as follows:

	31 December 2019 £m	31 December 2018 £m
Actuarial (loss)/gain recognised in OCI	(1.4)	0.2
Cumulative actuarial gains recognised within retained losses	1.2	2.6

The principal actuarial assumptions made by the actuaries were:

Salary growth	1.25%	1.25%
Pension increase	Nil	Nil
Discount rate	0.20%	0.80%
Male life expectancy from retirement age (years)	22.72	22.50
Female life expectancy from retirement age (years)	22.75	25.50

The average service period to retirement for scheme participants is approximately ten years (2018: ten years).

# Notes to the consolidated financial statements continued

For the year ended 31 December 2019

## 25. Retirement benefit obligations continued

### Swiss defined benefit pension plan continued

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Change in assumption	Monetary effect of increase in assumption £m	Monetary effect of decrease in assumption £m
Discount rate	+/-1%	(1.9)	3.2
Pension increases	+1%	1.9	Not applicable
Salary growth	+/-1%	0.3	(0.3)
Life expectancy	+1 year	0.6	Not applicable

The above sensitivity analyses are based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sole exception is the variation of the discount rate with simultaneous variation of the interest rate for projection of savings capital.

### Defined contribution plans – UK and Germany

In addition, the Group operates various defined contribution plans for its employees outside of Switzerland. The Group's contributions to these plans are charged to the Consolidated income statement in the year to which they relate, and the assets are held in separate trustee-administered funds. The charge to the Consolidated income statement in relation to defined contribution plans is £1.3m as disclosed in note 6 "Employees".

## 26. Deferred tax liabilities

The principal deferred tax liabilities relate to differences between the tax and accounting base of intangible assets and buildings uplifted as a consequence of fair value accounting requirements. Deferred tax liabilities are as follows:

	Intangible assets £m	Foreign exchange gains £m	Tangible assets £m	Total £m
At 31 December 2017	45.6	6.0	1.9	53.5
Credited to income statement	(19.1)	—	(0.6)	(19.7)
Charged to OCI	—	0.5	—	0.5
Foreign exchange	1.2	0.2	—	1.4
At 31 December 2018	27.7	6.7	1.3	35.7
Credited to income statement	(8.5)	—	(0.4)	(8.9)
Charged to OCI	—	2.1	—	2.1
Foreign exchange	(0.5)	—	—	(0.5)
<b>At 31 December 2019</b>	<b>18.7</b>	<b>8.8</b>	<b>0.9</b>	<b>28.4</b>

Deferred tax liabilities associated with intangible assets unwind to offset the tax distortion that would otherwise occur as the assets are amortised. As a result of the impairment of the carrying value of the intangible asset attributed to VR647 (refer to note 16), the deferred tax liability of £2.2m has been credited in the period to the Consolidated income statement.

The Group recognises deferred tax on unrealised foreign exchange gains on permanent funding of the Group's Swiss subsidiaries. Following approval through public referendum, the Federal Act on Tax Reform and AHV Financing (TRAF) removed certain tax beneficial statuses from 1 January 2019. Consequently, the tax rate at which the unrealised foreign exchange gains had been expected to reverse can no longer be achieved. To reflect this, the deferred tax liability has been calculated at the canton of Zug's future tax rate of 11.91% (2018: 7.83%) resulting in a £2.4m deferred tax charge recognised in other comprehensive income.

Furthermore, the deferred tax liability recognised in respect of intangibles and tangible assets in the canton of Basel-Landschaft have been recalculated at the future expected tax rate which will be around 10.4% during the transitional period and 13.45% from 2025 once the transitional period has concluded (2018: 12%). The majority of the deferred tax liabilities are expected to be realised through the transitional period and, therefore, this results in a £1.1m tax credit in the Consolidated income statement.



## 27. Financial instruments

The Group has exposure to credit, liquidity and currency risks from its use of financial instruments. This note sets out the Group's key policies and processes for managing these risks.

	Fair value through profit and loss		Amortised cost		Total	
	2019 £m	2018 Re-presented £m	2019 £m	2018 Re-presented £m	2019 £m	2018 Re-presented £m
Cash and cash equivalents	—	—	74.1	108.2	74.1	108.2
Trade receivables and unbilled trade receivables	—	—	29.2	25.2	29.2	25.2
Other current assets	—	—	7.6	—	7.6	—
Other non-current assets	0.5	0.4	—	6.4	0.5	6.8
Non-derivative financial assets	0.5	0.4	110.9	139.8	111.4	140.2
Trade and other payables	—	—	(46.5)	(56.8)	(46.5)	(56.8)
Mortgage borrowings	—	—	(4.0)	(4.0)	(4.0)	(4.0)
Finance lease liabilities*	—	—	(3.6)	—	(3.6)	—
Non-derivative financial liabilities	—	—	(54.1)	(60.8)	(54.1)	(60.8)
Financial instruments	0.5	0.4	56.8	79.0	57.3	79.4

\* The Group has applied IFRS 16 using the modified retrospective approach under which the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

The Group's financial instruments are measured at amortised cost unless consideration is contingent. Contingent assets and liabilities are held at fair value through profit and loss (FVTPL) on the basis of their expected discounted cash flows, being the present value of expected payments discounted using a risk-free discount rate adjusted as appropriate. Therefore no separate fair value analysis is presented.

The Group has no external debt, except for a Swiss mortgage at a fixed rate of interest, and therefore does not consider the impact of interest rate risk to be material to its results or operations and accordingly no sensitivity analysis is shown.

### (a) Credit risk

The impairment provisions for financial assets disclosed in note 20 "Trade and other receivables" are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Group's past history and existing market conditions as well as forward-looking estimates at the end of each reporting period. There were no impairment losses recognised in profit and loss in the year and the expected credit losses are immaterial.

### (b) Capital management

The Group manages its capital to ensure that all entities in the Group will be able to continue as a going concern while maximising the return to stakeholders. The capital structure of the Group consists of:

	2019 £m	2018 £m
Cash and cash equivalents	74.1	108.2
Swiss property mortgage	(4.0)	(4.0)
Finance lease liabilities	(3.6)	—
Net cash	66.5	104.2
Equity	419.4	494.3
<b>Net cash to equity ratio</b>	<b>16%</b>	21%

The Group has applied IFRS 16 using the modified retrospective approach under which the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

In addition, the Group has access to a £50m RCF and no funds were drawn against this as at 31 December 2019. The facility expires in August 2021. Refer to note 21 "Cash and cash equivalents".

### (c) Financial risk management

The primary risks that the Group is exposed to through its use of financial instruments are liquidity risk, foreign currency risk and credit risk. Board authorisation is required for all significant agreements that may affect the Group risk structure. It is, and has been throughout the year, the Group's policy that no speculative trading in financial instruments is undertaken.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2019

## 27. Financial instruments continued

### (d) Liquidity risk management

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due. 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. The Group's policy is to maintain continuity of funding through available cash and cash equivalents, the RCF and the issue of shares where appropriate.

The following are the remaining contractual maturities of the financial liabilities at the reporting date.

The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting arrangements.

31 December 2019	Carrying amount £m	Total £m	2 months or less £m	2-12 months £m	1-2 years £m	More than 2 years £m
<b>Non-derivative financial liabilities</b>						
Trade and other payables	46.5	46.5	27.0	19.5	—	—
Mortgage borrowings	4.0	4.0	0.2	—	0.3	3.5
Finance lease liabilities	3.6	3.8	—	1.1	1.3	1.4
	<b>54.1</b>	<b>54.4</b>	<b>27.2</b>	<b>20.6</b>	<b>1.6</b>	<b>4.9</b>
31 December 2018	Carrying amount £m	Total £m	2 months or less £m	2-12 months £m	1-2 years £m	More than 2 years £m
<b>Non-derivative financial liabilities</b>						
Trade and other payables	56.8	56.8	31.9	24.9	—	—
Mortgage borrowings	4.0	4.0	—	0.2	0.3	3.5
	60.8	60.8	31.9	25.1	0.3	3.5

### (e) Currency risk management

The Group's presentation currency is sterling. The Group is subject to exposure on the translation of the assets and liabilities of foreign subsidiaries whose functional currencies differ from that of the Group. The Group's primary balance sheet translation exposures are to the Swiss franc, euro and US dollar. The Group aims to minimise balance sheet translation exposures, where it is practical to do so, by funding subsidiaries with long-term loans, on which exchange differences are taken to reserves.

The Group faces currency exposures arising from the translation of profits and losses earned in foreign currencies. These exposures are not hedged. Exposures also arise from foreign currency-denominated trading transactions undertaken by subsidiaries. The Group's policy is to offset such currency exposure by matching foreign currency revenues with expenditure in the same foreign currency. Where there are no imminent foreign currency-denominated transactions, the surplus foreign currency cash balances are exchanged for the functional currency of the subsidiary. Where it has not been possible to use natural hedges, currency options and forward currency contracts may be used.

A 10% strengthening of the euro, sterling, US dollar and Swiss franc functional currencies within the Group against non-functional currencies of its subsidiaries would result in the loss before tax being £8.1m lower (2018: £4.0m lower) and items recognised directly in other comprehensive loss being £1.2m higher (2018: £10.8m higher). A 10% weakening would have an equal but opposite effect on loss before tax and other comprehensive income. The Group considers a 10% strengthening or weakening of the functional currency against the non-functional currency of its subsidiaries as a reasonably possible change in foreign exchange rates.

## 28. Ordinary share capital

Allotted, called up and fully paid	£m	Number of shares
Ordinary shares of 0.025p, each at 1 January 2019	0.2	665,387,145
Issued to satisfy Vectura employee share plans	—	1,512,754
Share consolidation	—	(51,275,466)
Share buyback programme – cancellations	—	(4,127,660)
<b>Ordinary shares of 0.0271p, each at 31 December 2019</b>	<b>0.2</b>	<b>611,496,773</b>



## 28. Ordinary share capital continued

On 10 October 2019, the Group announced that the Board had approved a share buyback programme to return up to £10m to shareholders. As at 31 December 2019 £3.5m of capital was returned to shareholders at a weighted average price of 85.7p per share. The share buyback programme is expected to be completed in the first quarter of 2020. Directly attributable costs of £0.1m have been expensed to equity.

At the general meeting on 10 October 2019, shareholders approved the proposed distribution of a 6p per share dividend totalling £39.9m. Refer to note 14 "Special dividend paid to shareholders".

Following the special dividend payment, a share consolidation took place. The weighted average number of shares calculation is adjusted prospectively in 2019 (12 shares for every 13 held; nominal value now 0.0271p).

During the year, the Group allotted 1,512,754 (2018: 1,561,183) ordinary shares related to employee share option awards.

## 29. Share-based payments

The Group operates various share-based compensation plans as described within the Remuneration report. All share-based payments are for the purposes of employee share incentivisation and are equity settled for shares within Vectura Group plc in accordance with the vesting conditions.

	2019 £m	2018 £m
Equity-settled LTIP and RSA plans	2.7	2.6
Exceptional share-based payments – merger and site closure	0.5	1.1
<b>Total share-based payments</b>	<b>3.2</b>	<b>3.7</b>

The employee share award plans are designed to support a strong culture of long-term shareholder value creation. Details of the Long-Term Incentive Plan (LTIP), the Group's main plan, are set out below. The Group also operates a Share Incentive Plan (SIP) and a Save-As-You-Earn (SAYE) plan. The disclosures relevant for these plans are made in the Remuneration report as they are not considered material.

Exceptional share-based payments include £0.2m (2018: £0.9m) related to 36-month (vested in September 2019) retention awards granted following the Skyepharma merger on 10 June 2016. The remaining £0.3m (2018: £0.2m) relates to share-based payment charges specifically for the retention of staff following the decision to close the Group's operational site in Gauting.

During the year £5.1m (2018: £3.8m) of share based payments were exercised, forfeited or vested and were recycled to retained earnings.

### Equity-settled Long-Term Incentive Plan (LTIP) including restricted stock awards (RSA)

Under the approved Group's Remuneration Policy, equity awards are a key component of the overall remuneration package for senior management and executives.

Transactions on the LTIP share plan for executives, senior management and key professionals during the year were as follows:

	2019 Number of awards	2018 Number of awards
Beginning of the year	16,282,705	14,376,319
Granted	5,943,754	7,243,746
Exercised	(1,226,782)	(1,558,596)
Forfeited	(2,510,815)	(3,778,764)
<b>End of the year</b>	<b>18,488,862</b>	<b>16,282,705</b>

In 2019, LTIPs granted to Executive Directors were 185% of salary (2018: 185%) subject to performance over three years. The performance condition is subject to two measures being:

- performance is measured subject to a relative TSR metric against the FTSE 250 (excluding real estate and financial services companies) (2018: against the FTSE 250 (excluding real estate and financial services companies)); and
- a relevant three-year cumulative adjusted EBITDA target as set by the Remuneration Committee.

Employees at the Executive Leadership Team (ELT) level were granted LTIPs at 105% of salary (2018: 95%). 70% (2018: 50%) of these awards are subject to the same TSR and adjusted EBITDA as the Executive Directors, with the remaining 35% (2018: 45%) classified as restricted stock awards.

Restricted stock awards are subject to service conditions, i.e. the requirement for recipients of awards to remain in employment with Vectura over a three-year vesting period and subject to a personal performance underpin. Any vested shares granted to the Executive Directors and Executive Leadership Team must be held for two years after vesting.

Other key management personnel below ELT level receive awards entirely of restricted stock options.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2019

## 29. Share-based payments continued

### Valuation of share awards

The treatment of vesting and non-vesting conditions attached to awards in the valuation process varies in accordance with the requirements of IFRS 2.

#### LTIPs for Executive Directors and ELT

For the year ended 31 December 2019, the calculation of the grant date fair value for those awards with a total shareholder return condition was as follows:

	2019	2018
Number of TSR awards granted	<b>1,875,672</b>	1,691,099
Service condition	<b>3 years</b>	3 years
Holding condition	<b>2 years</b>	2 years
Nominal share value	<b>0.0271p</b>	0.025p
Share price on grant date	<b>72.5p</b>	74.2p

The TSR condition is a market-based performance condition; this has been incorporated into the fair value calculation and no subsequent adjustments may be made.

For awards subject to a TSR condition, volatility is calculated over the period of time commensurate with the remainder of the performance period immediately prior to the date of grant being 9.68% (2018: 14.41%). The risk-free interest rate obtainable from government securities (i.e. gilts in the UK) over a period commensurate with the expected term was 0.825% (2018: 1.2%) and there was no dividend yield expected (2018: nil).

The adjusted EBITDA condition is a non-market condition and the vesting outcome assumption is adjusted at each reporting period for the likelihood of the number of shares that will ultimately vest. For the LTIP and RS awards that will be subject to a holding period, the Chaffe model (an at-market put option variant of the Black-Scholes model) has been used to determine a discount for the lack of marketability.

#### LTIPs for key management personnel below ELT

For the below ELT restricted stock awards, the probability of the non-market-based (holding) condition being achieved does not need to be incorporated into the fair value at date of grant, but is evaluated periodically to true up the estimate for the number of awards expected to vest.

#### Exceptional share-based awards

Share-based payments within exceptional items were £0.5m (2018: £1.1m).

Upon completion of the merger, 1,618,215 exceptional nil-cost awards were granted to key members of management, excluding Executive Directors, considered critical to the integration process. These awards had a grant date fair value of £1.41 and were subject to an 18-month or 36-month service condition with a personal performance underpin from their grant date on 22 September 2016. Those with an 18-month service condition vested in March 2018, and therefore no charge is included this year. The 36-month holding condition vested on 21 September 2019; therefore a partial charge is included in the 2019 accounts.

A total of 1,026,568 retention awards with a two-year vesting period were issued to German employees critical to the knowledge transfer of the Vectura enhanced therapy programmes associated with the German site closure. These awards had an IFRS 2 grant date fair value of £0.7m which is being spread evenly over the associated 24-month vesting period from their grant date on 27 June 2018 until 28 June 2020.

#### Share trusts

The Group consolidates two share trusts. The Group's own share reserve represents the weighted average cost of shares in the Estera Employee Benefit Trust and the Vectura Employee Benefit Trust, which are held for the purposes of fulfilling obligations in respect of the Group's share awards.



### 30. Cash flow information

#### Cash generated from operating activities

	2019 £m	2018 £m
<b>Cash flows from operating activities</b>		
Loss after taxation	(22.1)	(88.2)
<b>Adjustments</b>		
Net tax credit	(4.0)	(16.6)
Amortisation and intangible asset impairment	53.6	127.0
Depreciation and fixed asset impairment	10.6	5.8
Net finance income	(0.9)	(0.8)
Share-based payments (including those in exceptional items)	3.2	3.7
Increase in inventories	(1.3)	(2.0)
Increase in trade and other receivables	(6.0)	(1.9)
(Decrease)/increase in trade and other payables	(13.9)	7.2
Loss from associates	—	0.2
Other non-cash items	0.1	0.7
<b>Total adjustments</b>	<b>41.4</b>	<b>123.3</b>
<b>Cash generated from operating activities</b>	<b>19.3</b>	<b>35.1</b>

#### Analysis of movement in financial liabilities

	2019 £m	2018 £m
At the beginning of the period	4.0	4.1
Adoption of IFRS 16	4.7	—
Repayments of property mortgage	(0.1)	(0.3)
Net repayment of obligations under finance leases	(1.1)	—
Total changes from financing cash flows	(1.2)	(0.3)
Interest expense	0.2	0.1
Foreign exchange movements	(0.1)	0.1
<b>At the end of the period</b>	<b>7.6</b>	<b>4.0</b>

Financial liabilities relate to a Swiss property mortgage secured on the Swiss R&D facility and finance lease liabilities recognised under IFRS 16.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2019

## 31. Contingent assets

In accordance with the requirements of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, is disclosed, as a contingent asset.

### GSK patent enforcement

As at 31 December 2019, potential assets estimated to be \$129.4m (2018: nil) are not recognised in the financial statements, but are disclosed as contingent as the existence of these assets is dependent on the outcome of legal proceeding in the US.

In the May 2019 jury trial in the US, the Group's US patent was found not invalid and infringed by GlaxoSmithKline's US sales of three Ellipta® products. The jury awarded Vectura \$89.7m in damages for the period from August 2016 through to December 2018, based on 3% of US sales of these products. The jury also found that GSK's infringement was wilful, following post-trial motions, the 3% royalty rate was in effect confirmed as applicable until patent expiry in mid-2021. This is calculated to be an additional \$33m from January 2019 to December 2019. A further \$6.7m of interest was also awarded.

GSK has appealed the decision and the outcome of this appeal is expected by Q1 2021. Whilst the outcome of the trial was favourable, until the outcome of the appeal is known, all potential assets related to this (including a potential deferred tax asset on future income against brought forward trading losses) remain unrecognised.

### Supplier rebate

As at 31 December 2019, the Group was due a rebate of £3.6m (2018: nil) from one supplier. The methodology used to calculate the rebate has been disputed by the supplier, which results in uncertainty over the receipt of the rebate. Until this dispute is resolved, the rebate will not be recognised as an asset.

## 32. Significant accounting policies

### 32.1 Basis of consolidation

The financial statements comprise the consolidated financial statements of Vectura Group plc and its subsidiaries as at 31 December 2019.

Subsidiaries are all entities over which the Group has direct or indirect control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are consolidated from the date on which control is obtained by the Group and are deconsolidated from the date that control ceases. All of the Group's material trading entities are wholly owned subsidiaries, where the Group holds 100% of the share capital.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Group accounting policies are consistently applied to all entities and transactions.

### 32.2 Foreign currency translation and transactions

Results of the Group's overseas entities are translated into the UK sterling presentational currency of the Group using monthly average exchange rates. On consolidation, exchange differences arising from the translation of overseas net assets are recognised in the translation reserve and recycled to the Consolidated income statement upon any full disposal.

Goodwill is denominated in the currency of the original cash-generating unit (CGU) to which it was allocated on acquisition. Fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities denominated in the currency of the overseas operation. Any exchange differences on intercompany funding loans are deferred to equity, to the extent that these are considered permanent in accordance with IAS 21 – Foreign Exchange.

Trading entities have a functional currency consistent with the denomination of cash inflows and outflows being also consistent with the primary currency of their location. Local market transactions in a different currency to each local functional currency are translated using average exchange rates provided these are materially similar to the spot rate on the transaction date. These foreign exchange differences are recognised in the same category in the Consolidated income statement as the underlying transaction, except for milestone and royalty customer contract assets (trade receivables and accrued royalty revenues) denominated in a foreign currency where foreign exchange is presented within net finance (expense)/income.

### 32.3 Revenue from contracts with customers

The Group sells products and services directly to pharmaceutical customers and commercial distribution partners. The revenue is derived from product supply, royalties, and other development services.

Revenue is measured at the fair value of the consideration which is expected to be received in exchange for the goods and services provided, net of applicable taxes.

#### Product supply revenues

Product supply revenue is generated from the supply of finished or semi-finished products to commercial distribution partners. Whilst these products are primarily manufactured by third-party suppliers contracted by the Group, the Group is contractually obliged to supply these products and, therefore, the Group acts as the principal in these transactions. Control is transferred and revenue is recognised at the point in time when the product is invoiced to the commercial distribution partner and is made available for collection at a designated area specified in the framework agreement.

The Group has applied the practical expedient to not disclose the transaction price allocated to supply performance obligations unsatisfied (or partially unsatisfied) at the reporting date as all purchase orders for finished or semi-finished products have an expected duration of less than twelve months.

Other than for out of specification products the Group does not provide customers with a general right of product return but typically permits returns if the product is damaged, defective or otherwise cannot be used when received by the customers. Estimates for expected returns are based primarily on an analysis of historical returns.





## 32. Significant accounting policies continued

### 32.3 Revenue from contracts with customers continued

#### Royalties and other marketed revenues

Royalties and other marketed revenues are generated from partners licensing the Group's products in return for a share of the partner net product sales. Where a licence of intellectual property is the predominant item to which a royalty relates, revenues are recognised at the point in time the partner makes a sale. Other marketed revenues primarily include sales or usage-based milestones for which revenue is recognised consistently with royalties as stated above.

Whilst the performance obligation to provide the licences was completed several periods ago, such revenue is only recognised as the underlying partner net sales occur, thereby reflecting returns on historical research and development investment programmes.

#### Development revenues

Development services revenues are derived from the licensing of intellectual property and/or the provision of services through a collaborative agreement over a period of time which can involve milestone payments typically linked to specific obligations.

Determination of the performance obligations, transaction price and allocation of the transaction price to the performance obligations requires judgement. Where revenue is recognised over a period of time, it is recognised in line with the number of hours worked. Development hours are typically the service provided under these type of agreements.

##### *(a) Assessment of contract existence criteria*

A contract with a customer is in the scope of the standard when it is legally enforceable, the contract is approved and both parties are committed to their obligations.

An agreement often provides a customer with an option to acquire additional services on the basis of success-based fees. Judgement is required to determine the extent to which the Group or the customer is committed to these services throughout the service period, before a successful outcome is assured.

##### *(b) Licence to the Group's intellectual property*

If a licence granted by the Group is capable of being sold separately from development services, it is considered to be a right to use licence and the revenue for the licence is recognised at the grant date.

If the licence provided was not capable of being sold separately from development services at the grant date, it is considered to be a right to access licence and the revenue for the licence is recognised over time as the services accrue.

##### *(c) Determining transaction price*

The transaction price is the amount of consideration expected to be received in exchange for providing goods and services to a customer. This price will often contain both fixed and variable amounts and is determined as the ultimate most likely amount expected to be received upon contract inception (ignoring any future customer options).

##### *(d) Allocating the transaction price*

The transaction price is allocated to performance obligations on the basis of relative standalone selling prices. For collaborative agreements containing multiple performance obligations, the Group must determine the standalone selling price identified on the inception of the contract and allocate this transaction price to each performance obligation based on their individual and relative standalone prices (i.e. so any discounts to one performance obligation are spread evenly across all obligations). Once these have been determined, these are not subsequently amended. The key assumptions used to determine the standalone selling price include forecast revenues, the cost of satisfying the obligation, development timelines and probabilities of technical, regulatory and commercial success.

##### *(e) Determining variable consideration*

Variable consideration includes the estimate of payments in the form of contingent development-related and regulatory approval milestones. Variable consideration, dependent on the achievement of a milestone, is included in the transaction price when it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The estimate is reassessed for each reporting period.

### 32.4 Segmental reporting

The Group is managed on the basis of a single reportable segment, being the development and supply of pharmaceutical products. This is consistent with the internal reporting provided to, and regularly reviewed by, the Chief Operating Decision Maker (CODM). The CODM is responsible for allocating resources and assessing performance of the operating segment and has been identified as the Board.

### 32.5 Research and development (R&D) expenses

R&D expenses comprise internal employee costs and third-party service costs relating to feasibility studies, technical development, costs of chemistry, manufacturing of trial batches, clinical work and the registration and maintenance of intellectual property.

As the nature of our R&D projects is associated with obtaining regulatory approval, these costs are normally charged to the Consolidated income statement as the expenses are incurred.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2019

## 32. Significant accounting policies continued

### 32.6 Other operating income

Other operating income relates to government grants for qualifying R&D and customer contributions for contributions to property, plant and equipment required for the supply chain process.

Government grants recognised in other operating income relate to qualifying UK R&D under the research and development expenditure credit (RDEC) scheme for large companies and the French R&D tax credit regime. Such grants are taxable and are presented as other operating income in the Consolidated income statement.

### 32.7 Current taxation

The net tax credit on the loss for the year includes current and deferred tax. Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received using tax rates enacted at the reporting date.

### 32.8 Deferred taxation

Deferred taxation is recognised on all temporary differences arising between the local tax bases of assets and liabilities and their carrying amounts in the Group's consolidated financial statements. 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 is not discounted and is measured at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on legislation enacted or substantively enacted at the balance sheet date.

### 32.9 Earnings per share

Basic loss per share amounts are calculated by dividing the loss after taxation of the Group by the weighted average number of shares outstanding during the year.

### 32.10 Goodwill

On acquisition of a subsidiary or associate, the fair value of the consideration in excess of the identifiable net assets and liabilities is recognised as goodwill. Goodwill is not amortised, but is reviewed for impairment at least annually, or more frequently where there is an indication of possible impairment.

### 32.11 Intangible assets

Intangible assets predominantly relate to on-market licences, patents and marketing rights separately acquired as part of the Skyepharma merger on 10 June 2016. The fair values of patents and licences relating to on-market products acquired were aggregated by product and initially measured at fair value. This fair value is subsequently amortised over estimated useful economic lives (UEL). Intangible assets relating to on-market products are amortised with reference to average patent lives in the most applicable territories.

Amortisation is applied on a straight-line basis. Intangible assets are reviewed at each reporting period for indicators of impairment and, where such indicators exist, a full impairment test is performed to ensure the recoverable amount is higher than the carrying value.

### 32.12 Property, plant and equipment (PP&E)

PP&E is initially recognised at cost with depreciation subsequently applied evenly over its estimated life less any residual value. PP&E is depreciated on a straight-line basis over the estimated useful lives, as follows:

Land and buildings	–	20 to 50 years
Laboratory and supply chain equipment	–	3 to 10 years

PP&E for the *flutiform*<sup>®</sup> supply chain is depreciated using the units-of-production method. No depreciation is provided on freehold land or assets under construction. On disposal of PP&E, the carrying value, less any proceeds, is recognised in the Consolidated income statement.

### 32.13 Impairment of non-current assets

Impairment of goodwill is assessed by measuring the future cash flows of the CGU to which the goodwill relates versus the carrying value of the CGU. An impairment loss is recognised for goodwill in the Consolidated income statement when the carrying value of the CGU is less than its future cash flows. Impairments of goodwill are not reversed in subsequent years.

The carrying values of all other non-current assets are reviewed for impairment, either on a standalone basis or as part of a larger cash-generating unit, when there is an indication that the assets might be impaired.

### 32.14 Inventory

Inventories are stated at the lower of cost and net realisable value. Costs include the direct costs and, where applicable, an allocation of overheads incurred in bringing inventories to their current location and condition. Net realisable value is based on estimated selling price, less any further costs expected to complete the sale of goods.

### 32.15 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand, if used, form an integral part of the Group's cash management and are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.



## 32. Significant accounting policies continued

### 32.16 Financial instruments

For the purposes of recognition and measurement, financial assets are classified into one of the following categories:

**Trading activities:** assets that are held for collection of contractual trading cash flows are measured at amortised cost. A gain or loss is recognised in the Consolidated income statement only when the asset is derecognised or impaired. Interest income is included in finance income using the effective interest rate method if applicable.

**Financial assets held for future sale:** assets that are held for collection of contractual cash flows and for selling the financial assets are measured at fair value through other comprehensive income (FVOCI).

In instances where the financial assets meet neither category, they are measured at fair value through profit and loss (FVTPL). Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their invoice amount as interest is not applicable to the contract.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Financial liabilities are initially measured at fair value and subsequently measured at amortised cost.

### 32.17 Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether: an identified physically distinct asset can be identified; and the Group has the right to obtain substantially all of the economic benefits from the asset throughout the period of use and has the ability to direct the use of the asset over the lease term being able to restrict the usage of third parties as applicable.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. These are calculated as follows:

#### Lease liabilities

Lease liabilities are measured at the present value of the remaining lease payments, discounted at an applicable incremental borrowing rate, which are obtained from a financial institution privy to the facts, circumstances, location, security and term of each lease liability.

Non-lease service charges are combined into property leases, which are treated as a single lease component. The effective interest method will be used for calculating the amortised cost of a finance lease and allocating interest income over the relevant period on a lease by lease basis.

Under IFRS 16, liabilities for future periods that can be cancelled by exercising a break clause are not to be included in the lease liability unless it is reasonably certain at the reporting date that the Group will extend the committed lease term and not exercise the break clause.

#### Right-of-use assets

Right-of-use assets will be measured at an amount equal to the lease liability, except where there is considered to be a significant difference between the lease liability and the asset value calculated as though IFRS 16 had always been applied.

### 32.18 Provisions

Provisions are liabilities where the exact timing and amount of the obligation is uncertain. Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, when an outflow of resources is probable to settle the obligation and when an amount can be reliably estimated.

Where the time value of money is material, provisions are discounted to current values using appropriate rates of interest. The unwinding of the discounts is recorded in net finance income or expense.

### 32.19 Retirement benefit obligations

The Group's obligations for its Swiss pension scheme are to pay defined contributions. However, in accordance with the Swiss law "LPP/BVG", the pension scheme incorporates certain guarantees, and has therefore been reported as a defined benefit pension plan in accordance with IFRS.

Pension obligations are measured as the present value of estimated future cash flows discounted at rates reflecting the yields of high-quality corporate bonds. Pension scheme assets are measured at fair value at the balance sheet date. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, and the return on plan assets (excluding interest) are recognised immediately in OCI. When the benefits of a plan are changed or when a participant is curtailed, the resulting gain or loss on curtailment is recognised immediately in the Consolidated income statement.

### 32.20 Share-based payments

The Group operates a number of employee equity-settled share-based compensation plans as part of its reward strategy. Equity-settled share-based payments are measured at fair value at the date of grant. In the case of awards with a non-market performance, their fair value is adjusted each reporting period for the likelihood of the number shares that will ultimately vest.

The fair value determined at the grant date of the awards are expensed over the vesting period based on the Group's estimate of awards that will eventually vest. The cost of equity-settled share transactions is recognised, together with a corresponding increase in equity, over the vesting period.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2019

## 32. Significant accounting policies continued

### 32.21 Employee share trusts

The Group provides finance to Employee Share Ownership Plan (ESOP) Trusts to either purchase Company shares on the open market, or to subscribe for newly issued share capital, to meet the Group's obligation to provide shares when employees exercise their options or awards. Costs of running the ESOP Trusts are charged to the Consolidated income statement. Shares held by the ESOP Trusts are deducted from reserves and presented in equity as own shares until such time that an employee exercises their award.

### 32.22 Share buyback and cancellation programme

As repurchased shares are cancelled immediately after being bought back, the amount of the consideration paid and directly attributable costs are booked to retained earnings.

### 32.23 Special dividend

Dividends payable to shareholders are recognised as a reduction from distributable retained earnings when appropriately authorised and payment is no longer at the discretion of the Group as follows:

- special and final dividends become binding upon shareholders' approval at a general meeting and cannot be cancelled; and
- interim dividends become binding once authorised and if not then cancelled by shareholders before payment.

Share buyback programmes within the rolling Annual General Meeting 10% share repurchase authority limited can be approved by the Board, but only represent a liability contingent upon an investor deciding to sell which is effective once trades are made. Associated costs directly attributable and incremental to distributions are recorded within equity.

### 32.24 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- IFRS 17 – Insurance Contracts

## 33. New accounting standards – IFRS 16 – Leases

The Group has initially adopted IFRS 16 – Leases from 1 January 2019. Historically, the Group has only entered into material leases relating to commercial properties at its operating sites in the UK.

Previously, under IAS 17, leases were classified as operating leases with annual rental and service charges recognised in the Consolidated income statement on an accruals basis over the lease terms and no assets were recognised on the balance sheet. However, IFRS 16 introduced a single, on-balance sheet model for lessees and, as a result, the Group has recognised right-of-use assets representing its right to use these assets and lease liabilities representing its obligations to make lease payments.

### Identification of leases

The definition of a lease under IFRS 16 has only been applied to contracts entered into or changed on or after 1 January 2019. On transition, the practical expedient to grandfather the assessment of which transactions are leases has been taken such that IFRS 16 has only been applied to contracts previously identified as leases. Contracts not considered as leases under IAS 17 have not been reassessed.

As a lessee the Group has identified leases for the Group's premises located at Chippenham, Cambridge Science Park and Grosvenor Gardens, London, which were previously considered operating leases. Additionally, the Group's onerous contract provision for a lease in Switzerland was de-recognised and a finance lease liability recognised in its place. The corresponding right-of-use asset is fully impaired.

### The modified retrospective approach to transition

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019 and accordingly comparative information for 2018 is not restated. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information, including alternative performance management information.

Lease liabilities are initially measured at the present value of the remaining lease payments, discounted at an applicable incremental borrowing rate. The interest rate implicit in the lease cannot be readily determined and as a result the incremental borrowing rate has been used which has been obtained from a financial institution privy to the facts, circumstances, location, security and term of each lease liability. This incremental borrowing rate, individually tailored to each lease, is in the range of 2–3%.

Right-of-use assets are measured at an amount equal to the lease liability, except where there is considered to be a significant difference between the lease liability and the asset value calculated, as though IFRS 16 had always been applied.

The right-of-use assets are subsequently depreciated using the straight-line method from the commencement day to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.



### 33. New accounting standards – IFRS 16 – Leases continued

#### Practical expedients on transition

The Group has used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- used the transitional discount rate as if it had always applied in the past;
- used hindsight when determining the lease term which previously contained renewal options;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- adjusted the right-of-use assets by the amount of IAS 37 onerous contract provisions immediately before the date of initial application, as an alternative to an impairment review.

In respect of the six-month rolling lease arrangement in Germany, the Group has utilised the exemption not to recognise right-of-use assets and liabilities for leases with less than twelve months of lease term on the transition date. Therefore, the cost of this lease will continue to be charged to the Consolidated income statement as rent on an accruals basis.

#### Impact on the financial statements

On transition to IFRS 16, the Group recognised right-of-use assets for its three UK property leases and the associated additional lease liabilities, recognising the difference in retained earnings. Additionally, the Group's onerous contract provision for a lease in Switzerland was de-recognised and a finance lease liability recognised in its place. The corresponding right-of-use asset is fully impaired. The impact on transition is summarised in the table below:

	As reported 31 December 2018 £m	Transitional adjustments £m	Opening balance 1 January 2019 £m	Closing balance 31 December 2019 £m
Property, plant and equipment	57.8	3.6	61.4	<b>55.1</b>
Prepayments and other receivables	6.3	(0.3)	6.0	<b>4.9</b>
Provisions	(10.9)	1.0	(9.9)	<b>(9.5)</b>
Finance lease liabilities	—	(4.7)	(4.7)	<b>(3.6)</b>
Net assets and retained earnings	494.3	(0.4)	493.9	<b>419.4</b>
			1 January 2019 £m	
Operating lease commitments at 31 December 2018				6.7
Effect of discounting using incremental borrowing rate at 1 January 2019				(0.2)
Break clause reasonably certain to be exercised				(1.8)
<b>Lease liabilities recognised at 1 January 2019</b>				<b>4.7</b>
				Land and buildings £m
At 1 January 2019				3.6
Depreciation charge for the year				(0.9)
<b>At 31 December 2019</b>				<b>2.7</b>

#### Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment.

At 1 January 2019	3.6
Depreciation charge for the year	(0.9)
<b>At 31 December 2019</b>	<b>2.7</b>

#### Extension options

At the reporting date, the Group is exposed to future cash outflows that are not reflected in the measurement of lease liabilities. This includes exposure arising from extension options. The Group has included extension options in the Chippenham lease to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses whether it is reasonably certain to exercise the extension options if there is a significant event or significant changes in circumstances within its control. It is currently assumed that the extension option is not exercised.

The Group has estimated that the potential future lease payments, should it exercise the extension option, would result in an increase in lease liability of £1.8m.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2019

## 34. Related party transactions

On 21 June 2019, Vectura Group plc, the parent entity, sold its investment in a subsidiary, Vectura Group Investments Limited, to a fellow subsidiary Vectura Group Services Limited. The transaction was performed at £147.6m book value in accordance with s845 of the Companies Act 2006 and settled one-third for cash and two-thirds for a loan receivable. On disposal of the investment in Vectura Group Investments Limited, associated Group merger reserves of £125.1m were released to retained earnings, one-third being considered realised and two-thirds considered unrealised until such time in the future that the debtor is repaid.

On 30 June 2019, Vectura's CEO James Ward-Lilley stepped down and left the Group. Remuneration related to his services and departure is provided in the Remuneration report.

### Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, was £3.0m and is set out below:

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Short-term employee benefits	1.4	0.8
Annual incentive plan	0.7	0.7
Non-Executive Directors' fees	0.6	0.5
Post-employment benefits	0.1	0.1
Other	0.2	0.3
<b>Total remuneration of key management personnel</b>	<b>3.0</b>	<b>2.4</b>

Please refer to the Remuneration report for the remuneration of each Director. The Remuneration Report only includes Directors who held office in 2019.

## 35. Post balance sheet events

Since 31 December 2019, a further 6,859,255 shares have been repurchased as part of the £10.0m share buyback at a weighted average price of 90.64p per share. As at the date of these financial statements a total of £9.8m of the £10.0m have been repurchased, with associated costs of £0.1m, at a weighted average price of 88.79p. A second £10.0m share buyback programme is planned to commence in Q2 2020.



# Company balance sheet

As at 31 December 2019

	Note	2019 £m	2018 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiary undertakings	4	<b>393.9</b>	541.5
Intercompany long term loan	5	<b>98.4</b>	—
<b>Total non-current assets</b>		<b>492.3</b>	541.5
<b>Current assets</b>			
Amounts due from subsidiary undertakings		<b>5.2</b>	11.5
Cash and cash equivalents		<b>6.7</b>	0.1
<b>Total current assets</b>		<b>11.9</b>	11.6
<b>Total assets and net assets</b>		<b>504.2</b>	553.1
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	6	<b>0.2</b>	0.2
Share premium		<b>61.6</b>	61.6
Share-based payment reserve		<b>6.4</b>	8.3
Merger reserve	7	<b>316.1</b>	441.0
Retained earnings		<b>119.9</b>	42.0
<b>Total shareholders' equity</b>		<b>504.2</b>	553.1

Company registered number: 03418970

The accompanying notes form an integral part of these individual financial statements.

The Company financial statements of Vectura Group plc were approved and authorised for issue by the Board of Directors on 16 March 2020 and were signed on its behalf by:

**W Downie**  
Director

**P Fry**  
Director

## Company statement of changes in equity

For the year ended 31 December 2019

	Share capital £m	Share premium £m	Merger reserve £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
<b>At 1 January 2018</b>	0.2	61.5	593.0	8.4	67.5	730.6
Loss for the year	—	—	—	—	(167.1)	(167.1)
Share-based payments	—	—	—	3.7	—	3.7
Employee share schemes	—	0.1	—	(3.8)	3.4	(0.3)
Share buyback programme	—	—	—	—	(13.8)	(13.8)
Release of special reserves	—	—	(8.2)	—	8.2	—
Merger reserve release	—	—	(143.8)	—	143.8	—
<b>At 31 December 2018</b>	0.2	61.6	441.0	8.3	42.0	553.1
Loss for the year	—	—	—	—	(8.4)	(8.4)
Share buyback programme	—	—	—	—	(3.6)	(3.6)
Dividends paid	—	—	—	—	(40.1)	(40.1)
Share-based payments	—	—	—	3.2	—	3.2
Employee share schemes	—	—	—	(5.1)	5.1	—
Merger reserve release	—	—	(124.9)	—	124.9	—
<b>At 31 December 2019</b>	<b>0.2</b>	<b>61.6</b>	<b>316.1</b>	<b>6.4</b>	<b>119.9</b>	<b>504.2</b>

The loss for the year ended 31 December 2019 was £8.4m inclusive of £3.5m of dividend income (2018: loss of £167.1m including of £31.2m of dividend income).

The accompanying notes form an integral part of these Company financial statements prepared under the FRS 101 – Reduced Disclosure Framework.





# Notes to the Company financial statements

For the year ended 31 December 2019

## 1. Presentation of the financial statements

### 1.1 Critical accounting areas of judgement and estimation

In preparing these financial statements, critical judgements in the application of accounting policies can have a significant effect on the financial results; moreover any changes in critical estimates and assumptions made could materially impact the amounts of assets, liabilities, revenue and expenses reported next year as actual amounts and results could differ from those estimates or those estimates could in future change.

Following assessment from management, it was concluded that there are no critical accounting areas of judgement and estimation.

## 2. Basis of preparation – accounting policies for the Company financial statements

In preparing these financial statements, the Company applies the recognition, measurement, and disclosure requirements of International Financial Reporting Standards (IFRS) as adopted by the EU-IFRS, but makes amendments where necessary in order to comply with the Companies Act 2006 and has excluded certain information as permitted by IFRS 101 "Reduced Disclosure Framework". Details of Directors' remuneration, share options and retirement benefits are given in the Remuneration report.

These financial statements, which are prepared using the historical cost convention and on a going concern basis, are prepared in accordance with FRS 101 "Reduced Disclosure Framework" and with UK accounting presentation under the Companies Act 2006 as at 31 December 2019, with comparative figures as at 31 December 2018.

As permitted by s408 of the Companies Act 2006, the Company's income statement and related notes have not been presented in these financial statements. The loss for the year ended 31 December 2019 was £8.4m inclusive of £3.5m of dividend income (2018: loss of £167.1m inclusive of £31.2m of dividend income).

The Company also takes exemptions in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement and certain related party transactions, on the basis that equivalent disclosures are given in the Group's consolidated financial statements.

Key accounting policies and judgements relate to investments in subsidiary undertakings. Investments in subsidiaries are stated at historical cost less any provision for impairment. The carrying amounts of the Company's investments are reviewed at each reporting date to determine whether there is an indication of impairment. If such an indication exists, then the recoverable amount of the asset is estimated to ensure that the carrying value remains supportable.

Any impairment charges are recognised in the income statement and are reflected in an allowance against the carrying value. The distributable reserves of Vectura Group plc are protected from the impact of any decrease in the valuations of investments to the extent of the available merger reserves. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Company income statement.

## 3. Dividend income

The Company received dividend income from subsidiary undertakings totalling £3.5m (2018: £31.2m). The dividend was settled for cash and no amounts remain outstanding. £3.5m (2018: £30.0m) was immediately reinvested into German (2018: UK and German) subsidiaries.

## 4. Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at historical cost less provision for impairment.

	£m
<b>At 31 December 2018</b>	<b>541.5</b>
Transfer at net book value of Vectura Group Investments Limited	(147.6)
<b>At 31 December 2019</b>	<b>393.9</b>

On 21 June 2019, the Company sold its investment in one of its UK subsidiaries, Vectura Group Investments Limited (VGIL), to another UK subsidiary, Vectura Group Services Limited (VGSL). The transaction was at £147.6m book value following s845 of the Companies Act 2006 and was settled one-third for cash and two-thirds for a loan receivable. On disposal of the investment in VGIL, associated merger reserves of £124.9m were released to retained earnings, one-third being considered realised and two-thirds unrealised.

# Notes to the Company financial statements continued

For the year ended 31 December 2019

## 4. Investments in subsidiary undertakings continued

Furthermore, on 21 June 2019, the shares held by the Company in its German subsidiary, Vectura GmbH, were transferred to VGSL at book value of £19.9m, which accordingly increased the value of the Company's investment in VGSL to £393.9m and reduced the value of the Company's investment in Vectura GmbH to nil (2018: £19.9m). Prior to the share transfer, the Group provided support funding of £3.5m to the German subsidiary, which was fully impaired.

A reconciliation of the movements in investments since the 2018 Annual Report is provided below:

Subsidiary undertakings	VGIL £m	Vectura GmbH £m	VGSL £m	Total £m
At 31 December 2018	147.6	19.9	374.0	541.5
Capital contribution	—	3.5	—	3.5
Provision for impairment	—	(3.5)	—	(3.5)
Disposal to VGSL	(147.6)	—	—	(147.6)
Share transfer to VGSL	—	(19.9)	19.9	—
<b>At 31 December 2019</b>	<b>—</b>	<b>—</b>	<b>393.9</b>	<b>393.9</b>

The investment of £393.9m held in VGSL reflects historical cost less any provision for impairment. The investments are reviewed for impairment annually. Vectura Inc is a non-trading entity and therefore has a carrying value of nil.

Following the transactions on 21 June 2019, the Company now has a single investment in VGSL. The Company's direct investments at 31 December 2019 are as follows:

Name of undertaking	Country of incorporation	Holding	Proportion	Nature
Vectura Group Services Limited	United Kingdom	Ordinary	100%	Holding
Vectura Inc	United States	Ordinary	100%	Non-trading

## 5. Intercompany term loan

On 21 June 2019, the Company sold its investment in a subsidiary, Vectura Group Investments Limited, to a fellow subsidiary, Vectura Group Services Limited. As detailed in note 4, the transaction was performed at £147.6m book value following s845 of the Companies Act 2006 and settled one-third for cash and two-thirds for a loan receivable to a value of £98.4m. The loan is considered to be non-current because the Company does not have the right to call repayment on demand until the loan expiry date of 30 June 2029.

	£m
Transfer at net book value of Vectura Group Investments Limited	98.4
<b>At 31 December 2019</b>	<b>98.4</b>

## 6. Ordinary share capital

Allotted, called up and fully paid	£m	Number of shares
Ordinary shares of 0.025p, each at 1 January 2019	0.2	665,387,145
Issued to satisfy Vectura employee share plans	—	1,512,754
Share consolidation	—	(51,275,466)
Share buyback programme – cancellations	—	(4,127,660)
<b>Ordinary shares of 0.0271p, each at 31 December 2019</b>	<b>0.2</b>	<b>611,496,773</b>

Redeemable preference shares of 34,000 at £1 par value have no associated voting, dividend or coupon rights but are eligible to be repaid before any distribution to shareholders; the shares can be repaid by the Company at any time.

On 10 October 2019, the Group announced that the Board had approved a share buyback programme to return up to £10m to shareholders. As at 31 December 2019 £3.5m of capital was returned to shareholders at a weighted average price of 85.7p per share. The share buyback programme is expected to be completed in the first quarter of 2020. Directly attributable costs of £0.1m have been expensed to equity.

At the general meeting on 10 October 2019, shareholders approved the proposed distribution of a 6p per share dividend totalling £39.9m. Refer to note 8 "Distributions capacity".

During the year, the Group allotted 1,512,754 (2018: 1,561,183) ordinary shares related to employee share option awards. Refer to note 29 "Share-based payments".



## 7. Merger reserves

On the acquisition of a business, fair values reflecting conditions at the date of acquisition are attributed to the net assets acquired. Where merger relief is applicable under the UK Companies Act, the difference between the fair value of the business acquired and the nominal value of shares issued as purchase consideration is treated as a merger reserve.

The merger reserves are non-distributable reserves but become distributable to offset any future diminution in the investment value, or where that investment is disposed of for qualifying consideration.

On disposal of the investment in Vectura Group Investments Limited, associated merger reserves of £124.9m were released to retained earnings, one-third being considered realised as settled for cash (qualifying consideration) and two-thirds considered unrealised until such time in the future that the debtor is repaid.

## 8. Distribution capacity

The capacity of the Company to make dividend or distribution payments is primarily determined by the availability of distributable reserves (realised retained earnings) and cash resources. As at 31 December 2019, the Company had distributable reserves of £22.3m (31 December 2018: £20.0m) and sufficient cash to support further distributions of £6.7m (31 December 2018: nil).

Allotted, called up and fully paid	Realised £m	Unrealised £m	Total £m
At 31 December 2018	20.0	22.0	42.0
Loss for the year	(8.4)	—	(8.4)
Special dividend	(40.1)	—	(40.1)
Share buyback programme	(3.6)	—	(3.6)
Employee share transactions	5.1	—	5.1
Merger reserve release (note 7)	49.3	75.6	124.9
<b>At 31 December 2019</b>	<b>22.3</b>	<b>97.6</b>	<b>119.9</b>

On 17 July 2019, the Directors announced proposals for a further share buyback of £10m, planned to commence in the first half of 2020. As at the approval date of these financial statements, these proposals remain subject to Board approval. The Company has not entered into any significant commitments or contingent liabilities after the balance sheet date, including those related to distributions.

## 9. Distributions to shareholders

### Share buyback programme

On 10 October 2019, the Group announced that the Board had approved a share buyback programme to return up to £10m to shareholders. As at 31 December 2019 £3.5m of capital was returned to shareholders at a weighted average price of 85.7p per share. The share buyback programme is expected to be completed in the first quarter of 2020. Directly attributable costs of £0.1m have been expensed to equity.

### Special dividend paid to shareholders

On 9 September 2019, the Group announced a distribution to shareholders in the form of a special dividend of approximately £40.0m (2018: nil). This was approved at a general meeting on 10 October 2019 and, subsequently, a distribution of 6p per ordinary share was paid to shareholders, totalling £39.9m (2018: nil). Directly attributable costs of £0.2m have been expensed to equity.

## 10. Post balance sheet events

Since 31 December 2019, a further 6,859,255 shares have been repurchased as part of the £10.0m share buyback at a weighted average price of 90.64p per share. As at the date of these financial statements a total of £9.8m of the £10.0m have been repurchased, with associated costs of £0.1m, at a weighted average price of 88.79p. A second £10.0m share buyback programme is planned to commence in Q2 2020.

# Notes to the Company financial statements continued

For the year ended 31 December 2019

## 11. Other statutory information

In accordance with s408 of the Companies Act 2006 a full list of subsidiaries and associates, the country of incorporation and the effective percentage of equity owned at 31 December 2019 are disclosed below. Unless otherwise stated the share capital disclosed comprises ordinary shares which are indirectly held by Vectura Group plc.

All subsidiary companies are resident for tax purposes in their country of incorporation unless otherwise stated.

	Country/region of incorporation	Ordinary shareholding	
Vectura Limited	United Kingdom	100%	One Prospect West, Chippenham, Wiltshire SN14 6FH
Innovata Limited	United Kingdom	100%	One Prospect West, Chippenham, Wiltshire SN14 6FH
Vectura Delivery Devices Limited	United Kingdom	100%	One Prospect West, Chippenham, Wiltshire SN14 6FH
Innovata Biomed Limited	United Kingdom	100%	2nd Floor North, Saltire Court 20 Castle Terrace, Edinburgh EH1 2EN
Quadrant Drug Delivery Limited	United Kingdom	100%	One Prospect West, Chippenham, Wiltshire SN14 6FH
Vectura Group Services Limited*	United Kingdom	100%	46-48 Grosvenor Gardens, London SW1W 0EB
Vectura Group Investments Limited	United Kingdom	100%	One Prospect West, Chippenham, Wiltshire SN14 6FH
Jagotec AG	Switzerland	100%	Eptingerstrasse 61, 4132 Muttenz, Switzerland
Skyepharma AG	Switzerland	100%	Eptingerstrasse 61, 4132 Muttenz, Switzerland
Skyepharma Holding AG	Switzerland	100%	Treuhand AG, Chollerstrasse 3, 6300 Zug, Switzerland
Skyepharma Production SAS	France	100%	38291 Saint-Quentin-Fallavier, France
Vectura Inc*	United States	100%	20 William Street, Suite 130, Wellesley, MA 02481
Vectura Ireland Limited	Republic of Ireland	100%	The Brickhouse, Clanwilliam Court, Block 1, Lower Mount Street, Dublin 2 D02 CF97
Skyepharma Holding Inc	United States	100%	1209 Orange Street, Wilmington, New Castle, Delaware 19801, USA
Skyepharma US Inc	United States	100%	2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, USA
Vectura GmbH	Germany	100%	Robert-Koch-Allee 29, 82131 Gauting, Germany
Ventaleon GmbH	Germany	30.66%	Wohraer Str. 37, 35285, Gemünden/Wohra, Germany
Innovata HK Limited	Hong Kong	82.35%	Unit 1802, 79 Lei Muk Road, Kwai Chung, N.T., Hong Kong
Tianjin Kinnovata Pharmaceutical Co. Ltd	China	45.95%	Eleventh Street, Tianjin Economic-Technological Development PRC
Quadrant Healthcare Limited	United Kingdom	100%	One Prospect West, Chippenham, Wiltshire SN14 6FH
Quadrant Technologies Limited	United Kingdom	100%	One Prospect West, Chippenham, Wiltshire SN14 6FH
QDose Limited	United Kingdom	50%	One Prospect West, Chippenham, Wiltshire SN14 6FH
Krypton Limited	Gibraltar	100%	19 Town Range, Gibraltar
Skyepharma Management AG	Switzerland	100%	Eptingerstrasse 61, 4132 Muttenz, Switzerland
Genta Jago Technologies B.V.	The Netherlands	50%	Herikerbergweg 238, 1101 CM Amsterdam, NL

\* Directly held by the Company.



# Glossary

The following abbreviations are used throughout these financial statements:

<b>CGU</b>	Cash-generating unit	<b>IAS 21</b>	The Effects of Changes in Foreign Exchange Rates
<b>EBITDA</b>	Earnings before interest, tax, depreciation and amortisation	<b>IAS 28</b>	Investments in Associates and Joint Ventures
<b>EPS</b>	Earnings per share	<b>IAS 33</b>	Earnings per Share
<b>FVOCI</b>	Fair value through other comprehensive income	<b>IAS 36</b>	Impairment of Non-current Assets
<b>FVTPL</b>	Fair value through profit or loss	<b>IAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets
<b>Notes</b>	Notes to the consolidated financial statements	<b>IAS 38</b>	Intangible Assets
<b>OCI</b>	Other comprehensive income	<b>IFRIC 23</b>	Uncertainty over Income Tax Treatments
<b>IAS 1</b>	Presentation of Financial Statements	<b>IFRS 2</b>	Share-based Payments
<b>IAS 7</b>	Statement of Cash Flows	<b>IFRS 3</b>	Business Combinations
<b>IAS 16</b>	Property, Plant and Equipment	<b>IFRS 9</b>	Financial Instruments
<b>IAS 17</b>	Leases (superseded in 2019)	<b>IFRS 15</b>	Revenue from Contracts with Customers
<b>IAS 18</b>	Revenue (Superseded in 2018)	<b>IFRS 16</b>	Leases
<b>IAS 19</b>	Employee Benefits		

## Shareholder information

### Directors

#### Bruno Angelici

Non-Executive Chairman

#### Will Downie

Chief Executive Officer

#### Paul Fry

Chief Financial Officer

#### Thomas Werner

Non-Executive Director and Senior Independent Director

#### Neil Warner

Non-Executive Director

#### Per-Olof Andersson

Non-Executive Director

#### Juliet Thompson

Non-Executive Director

#### Anne Whitaker

Non-Executive Director

#### Kevin Matthews

Non-Executive Director

### Company Secretary

#### John Murphy

### Corporate broker

#### J.P. Morgan Cazenove

25 Bank Street  
Canary Wharf  
London  
E14 5JP, UK

### Corporate broker

#### Numis Securities Limited

The London Stock Exchange Building  
10 Paternoster Square  
London  
EC4M 7LT, UK

### Public relations

#### Consilium Strategic Consulting

41 Lothbury  
London  
EC2R 7HG, UK

### Registrars

#### Computershare Investor Services plc

The Pavilions  
Bridgwater Road  
Bristol  
BS99 7NH, UK

### Auditor

#### KPMG LLP

15 Canada Square  
London  
E14 5GL, UK

### Bankers

#### Barclays Bank plc

1 Churchill Place  
Canary Wharf  
London  
E14 5HP, UK

### Legal advisors

#### Clifford Chance

10 Upper Bank Street  
Canary Wharf  
London  
E14 5JJ, UK

### Vectura Group plc

#### (Registered office)

One Prospect West  
Chippenham  
Wiltshire  
SN14 6FH, UK

### Vectura trademarks

Adept® is a registered trade mark of Innovata Limited.

FOX®, AKITA® and FAVOLIR® are registered trade marks of Vectura GmbH.

Clickhaler® and Duohaler® are registered trade marks of Innovata Biomed Limited. These trade marks are in the process of being transferred to Tianjin Kinnovata Pharmaceutical Company Limited, in certain territories.

flutiform® is a registered trade mark of Jagotec AG (some territories are owned by Mundipharma AG).

GyroHaler® and Omnihaler® are registered trade marks of Vectura Delivery Devices Limited.

PowderHale® and Vectura® are registered trade marks of Vectura Limited.

### Third-party trademarks

Advair®, Diskus®, Requip®, Seretide®, Anoro® Ellipta®, Relvar® Ellipta®/Breo® Ellipta® Incruse® Ellipta®, Arnuity® Ellipta® and Trelegy® Ellipta are registered trade marks of Glaxo Group Ltd.

ADVATE® and Extraneal® are registered trade marks of Baxter International Inc.

Breelib™ is a registered trade mark of Bayer Intellectual Property GmbH.

Breezhaler®, Onbrez®, Seebri® Breezhaler®, Ultibro® Breezhaler® and AirFluSal® Forspiro® are registered trade marks of Novartis.

AG Bluetooth® is a registered trade mark of Bluetooth SIG.

EXPAREL® is a registered trade mark of Pacira Pharmaceuticals Inc.

k-haler® is a registered trade mark of Mundipharma AG.

Pulmicort® and Symbicort® are registered trade marks of AstraZeneca AB.

RAYOS® is a registered trade mark of Horizon Pharma.

LODOTRA® is a registered trade mark of Mundipharma AG.

Solaraze® is a registered trade mark of Almirall SA and Fourgera Pharmaceuticals Inc.

### Forward-looking statement

This Annual Report and Accounts contains forward-looking statements, including statements about the discovery, development and commercialisation of products. There can be no assurance that such forward-looking statements will prove to be accurate, as future events could differ significantly from those anticipated in such statements. 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 products 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. Nothing in this Annual Report and Accounts should be construed as a profit forecast.





Vectura Group plc's commitment to environmental issues is reflected in this annual report which has been printed on Arcoprint, made from an FSC® certified material. Printed in the UK by CPI colour using their environmental printing technology. Both manufacturing mill and the printer are registered to the Environmental Management System ISO14001 and are Forest Stewardship Council® (FSC) chain-of-custody certified.

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**designportfolio**



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