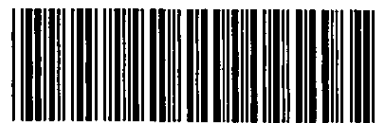


Company Registration Number 02148607

**REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012
FOR
INNOVATA LIMITED**

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INNOVATA LIMITED

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FOR THE YEAR ENDED 31 MARCH 2012**

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INNOVATA LIMITED

**COMPANY INFORMATION
FOR THE YEAR ENDED 31 MARCH 2012**

DIRECTORS:

Dr C P Blackwell
A P Hyland

SECRETARY:

P F Burrell

REGISTERED OFFICE:

One Prospect West
Chippenham
Wiltshire
SN14 6FH

REGISTERED NUMBER:

02148607 (England and Wales)

AUDITOR:

Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge
United Kingdom

SOLICITORS:

Bristows
100 Victoria Embankment
London
EC4Y 0DH

BANKERS:

Barclays Bank Plc
28 Chesterton Road
126 – 130 Hills Road
Cambridge
CB2 1RY

INNOVATA LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 MARCH 2012

The directors present their report with the financial statements of the company for the year ended 31 March 2012

PRINCIPAL ACTIVITY

The Company's principal activity is the research, development and commercialisation of pharmaceutical products and technologies. There have not been any significant changes in the Company's principal activity in the period under review. The Directors are not aware, at the date of this report, of any likely changes in the Company's activity in the forthcoming year.

REVIEW OF BUSINESS

Revenue includes fee income from technology licensing and pharmaceutical development fees. Revenue has decreased by 46% to £7,976,000 (2011 - £14,812,000).

Technology licensing revenue has decreased to £95,000 (2011 - £5,000,000). This significant movement is the result of an upfront payment in the prior year from GlaxoSmithKline ('GSK') under a non-exclusive agreement to license certain of the Company's dry powder formulation patents.

Pharmaceutical development services (PDS) revenues decreased by £1,610,000 to £nil (2011 - increase of £839,000). We expect these revenues to continue to remain £nil in the next financial year as we complete our work on some partnered programmes. Future PDS revenues will depend on the extent and nature of feasibility studies and new licensing deals as the development of inhalation products is a very specialist area, with partners frequently requiring Vectura's involvement in the continuing development of a product.

Research & development expenditure has decreased by 35% to £621,000 (2011 - £950,000), partly due to a reduction in legal costs of defending the Company's intellectual property and partly due to lower costs associated with clinical trials.

Profit before tax has decreased by 48% to £7,001,000 (2011 - profit of £13,366,000). The main reason for this decrease is the decrease in licensing revenues. The Directors do not recommend the payment of a dividend (2011 - £nil).

Cash and cash equivalents at the year-end were £nil (2011 - £nil). All banking activities are under the control of another Group company. As a result, the directors expect the company to maintain a £nil cash and cash equivalents balance for the foreseeable future.

With effect from 1 April 2012, the entire trade of Quadrant Drug Delivery Limited and its associated tax losses have been transferred to Innovata Limited.

DIRECTORS

The directors shown below have held office during the year and to the date of this report, unless otherwise stated.

Dr C P Blackwell

A P Hyland

C C Dalton (resigned 5 July 2011)

COMPANY'S POLICY ON PAYMENT OF CREDITORS

The Company's policy and practice in relation to the payment of its creditors is to make payments in accordance with relevant payment terms for each business transaction.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company's business involves exposure to a number of risks, many of which are inherent in pharmaceutical product development. Particular risks include the following:

Industry risk

The nature of pharmaceutical development is such that drug candidates may not be successful owing to an inability to demonstrate in a timely manner the necessary safety and efficacy in a clinical setting to the satisfaction of appropriate regulatory bodies, such as the European Medicines Agency (EMA) in Europe and the Food and Drug Administration (FDA) in the US. The Company may be unable to attract, by itself or from partners, the funding necessary to meet the high cost of developing its products through to successful commercialisation.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 MARCH 2012**

PRINCIPAL RISKS AND UNCERTAINTIES - continued

Clinical and regulatory risk

Drug substances may not be stable or economic to produce. Unacceptable toxicities or insufficient efficacy in the chosen indication may cause the medicine to fail or limit its applicability. Lack of performance by third-party clinical research organisations or an inability to recruit patients to clinical trials may cause undue delays in clinical trial results. Clinical and regulatory issues may arise or changes to the regulatory environment may occur that lead to delays, further costs, reduction in the commercial potential of a product in development, or the cessation of programmes. Ethical, regulatory or marketing approvals may be delayed or withheld or, if awarded, may carry unacceptable conditions to further development or commercial success. The Company's manufacturing facilities and those of its third-party manufacturers are subject to regulatory requirements and licensing and there can be no assurance that such facilities will continue to comply with such regulatory requirements. Given the cutting-edge nature of the technology, alternative manufacturing facilities may not be available. The Company manages its regulatory risk by working closely with its expert regulatory advisers and, where appropriate, by seeking advice from regulatory authorities on the design of key development plans for its pre-clinical and clinical programmes.

Counterparty risk

The Company relies on third party organisations to conduct its clinical trials and to manufacture certain of its products. If the relationship with or performance of any of these partners is adversely affected, the Company's operations may be adversely impacted. As part of the Company's routine vendor assessment, detailed due diligence is performed on all third party organisations to establish that such organisations have the required capability, expertise and financial stability to perform the relevant services for the Company. Where possible, alternative third party suppliers are identified to take over the performance of such services in the event difficulties are experienced with the original vendor.

Competition and intellectual property risk

Certain companies are developing medicines that may restrict the potential commercial success of the Company's products or render them obsolete. Third party companies may have intellectual property that restricts the Company's or the Company's partners' freedom to operate. Obtaining licences to intellectual property may not be possible or may be costly and may reduce net royalty income to the Company. The Company's intellectual property may become invalid or expire before its products are successfully commercialised. The Company works closely with its legal advisers and obtains where necessary opinions on the intellectual property landscape relevant to the Company's product development programmes and manufacturing activities and processes.

Economic risk

The successful development and commercialisation of medicines carries a high level of risk and the returns may be insufficient to cover the costs incurred. Restrictions on health budgets worldwide or on the prices that may be charged for new medicines through competitive or other pressures may limit a medicine's sales potential. The Company may not be able to attract partners on favourable terms or recruit the appropriate calibre of staff to develop or commercialise its products. Any partners may fail to perform or commit the resources necessary to commercialise the Company's products successfully.

Financial risk

The Company's activities expose it to a number of financial risks, including price risk, credit risk, cash flow risk and liquidity risk. In accordance with policies approved by the Directors, the Company does not use financial derivatives to manage these risks. In addition, the Company does not use financial instruments for speculative purposes.

Cash flow risk

Cash is managed by another Group company. The Company's activities expose it to the financial risks of changes in foreign currency exchange rates. Some of the Company's revenues are in either euros or US dollars. Where known liabilities arise in these currencies the revenues are retained on deposit in the appropriate currency in order to off-set the exchange risk on these liabilities. As at 31 March 2012, the Group had euro and US dollar reserves to cover its immediate and short-term liabilities in respect of these currencies.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 MARCH 2012**

PRINCIPAL RISKS AND UNCERTAINTIES - continued

Credit risk

The Company's credit risk is primarily attributed to its cash and cash equivalents, which are held on the Company's behalf by Vectura Limited. This risk is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. Deposits are made in accordance with the Vectura Group plc Treasury Policy approved by the Board which contains strict criteria on minimum credit ratings and maximum deposit size. However, the recent global credit problems could result in the failure of even high credit-rated banks where funds are deposited.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company closely monitors the cash available to the Company, which is invested in a mixture of current accounts and short-term deposit accounts.

Price risk

The Company is exposed to pricing risk in respect of its income and expenditure. The Company manages its exposure to price risk through commercial negotiations with customers and suppliers, working closely with its legal advisers on negotiations that are of significant importance to the Company.

Risk management

The process seeks to identify material risks and to determine how best to manage them. Specific risk managing actions the Company has in place are set out against certain of the risks identified in this section.

GOING CONCERN

The company made a profit of £10,307,000 for the year ended 31 March 2012 (2011 profit of £13,283,000). The current economic slowdown and global recession has had limited impact on the Company as the ultimate parent company has sufficient resources to meet its on-going liabilities as they fall due. The company continues to receive the support of its ultimate parent company to allow it to meet its liabilities as they fall due.

The Company's Directors have reviewed the group's detailed cash flow forecast for the period ending 31 August 2013, made relevant enquiries and considered reasonably possible changes in trading activities, to satisfy themselves that the ultimate parent company is able to provide the necessary support to enable the company to meet its liabilities as they fall due, despite the current uncertain economic outlook. A legally binding letter of support has been obtained from Vectura Group plc. After making these enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from signing the Annual Report. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

DIRECTORS' INDEMNITIES

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors

- properly select and apply accounting policies
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,

INNOVATA LIMITED

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 MARCH 2012**

STATEMENT OF DIRECTORS' RESPONSIBILITIES - continued

- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and,
- make an assessment of the Company's ability to continue as a going concern

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

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge

- the financial statements, prepared in accordance with International Financial Reporting 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 management report, which is incorporated in the Directors' report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

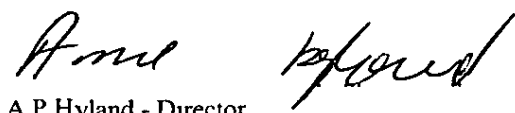
AUDITOR

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to re-appoint them will be put to the members at the forthcoming Annual General Meeting. The Directors that were members of the Board at the time of approving the Directors' report are listed on page 2. Having made enquiries of fellow Directors and of the Company's auditor, each of the Directors confirms that

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

ON BEHALF OF THE BOARD:



A P Hyland - Director

Date

17 August 2012

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF INNOVATA LIMITED

We have audited the financial statements of Innovata Limited for the year ended 31 March 2012 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in a Report of the Auditor 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.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Directors to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

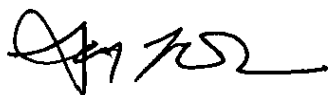
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements 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.



Stuart Henderson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom

Date 17 April 2012

INNOVATA LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2012**

	Notes	2012 £'000	2011 £'000
CONTINUING OPERATIONS			
Revenue	2	<u>7,976</u>	<u>14,812</u>
GROSS PROFIT		7,976	14,812
Research and development costs		(621)	(950)
Administrative expenses		(129)	(174)
Share based compensation		<u>(208)</u>	<u>(357)</u>
OPERATING PROFIT		7,018	13,331
Net finance costs	4	<u>(17)</u>	<u>35</u>
PROFIT BEFORE TAXATION	5	7,001	13,366
Taxation	6	<u>3,306</u>	<u>(83)</u>
PROFIT FOR THE YEAR BEING TOTAL COMPREHENSIVE INCOME		<u>10,307</u>	<u>13,283</u>

INNOVATA LIMITED

BALANCE SHEET
31 MARCH 2012

	Notes	2012 £'000	2011 £'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	7	-	-
Investments	8	<u>55,425</u>	<u>55,425</u>
		<u>55,425</u>	<u>55,425</u>
CURRENT ASSETS			
Deferred tax asset	6	3,390	-
Trade and other receivables	9	<u>54,064</u>	<u>47,826</u>
		<u>57,454</u>	<u>47,826</u>
TOTAL ASSETS		<u><u>112,879</u></u>	<u><u>103,251</u></u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	10	5,032	5,032
Share premium		73,326	73,326
Special reserve		4,049	4,049
Merger reserve		36,984	36,984
Other reserve		1,884	1,884
Retained earnings		<u>(9,498)</u>	<u>(19,805)</u>
TOTAL EQUITY		<u><u>111,777</u></u>	<u><u>101,470</u></u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	11	<u>1,102</u>	<u>1,781</u>
TOTAL LIABILITIES		<u><u>1,102</u></u>	<u><u>1,781</u></u>
TOTAL EQUITY AND LIABILITIES		<u><u>112,879</u></u>	<u><u>103,251</u></u>

The financial statements of Innovata Limited, registered number 02148607 were approved by the Board of Directors on *17 AUGUST 2012* and were signed on its behalf by

A P Hyland

A P Hyland - Director

INNOVATA LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2012**

	Called up share capital	Retained earnings	Share premium
	£'000	£'000	£'000
Balance at 1 April 2010	5,032	(33,088)	73,326
Changes in equity			
Total comprehensive income	-	13,283	-
Balance at 31 March 2011	<u>5,032</u>	<u>(19,805)</u>	<u>73,326</u>
Changes in equity			
Total comprehensive income	-	10,307	-
Balance at 31 March 2012	<u>5,032</u>	<u>(9,498)</u>	<u>73,326</u>

	Special reserve	Merger reserve	Other reserve	Total equity
	£'000	£'000	£'000	£'000
Balance at 1 April 2010	4,049	36,984	1,884	88,187
Changes in equity				
Total comprehensive income	-	-	-	13,283
Balance at 31 March 2011	<u>4,049</u>	<u>36,984</u>	<u>1,884</u>	<u>101,470</u>
Changes in equity				
Total comprehensive income	-	-	-	10,307
Balance at 31 March 2012	<u>4,049</u>	<u>36,984</u>	<u>1,884</u>	<u>111,777</u>

INNOVATA LIMITED

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2012**

	Notes	2012 £'000	2011 £'000
Cash flows from operating activities			
Cash generated from/ (used in) operations	16	92	(150)
Exchange movements		(17)	35
Withholding tax		(83)	(83)
R&D tax credit received		-	198
		<u> </u>	<u> </u>
Net cash from operating activities		<u>(8)</u>	<u>-</u>
 Cash flows from investing activities			
Contract settlement		<u>8</u>	<u>-</u>
Net cash from investing activities		<u>8</u>	<u>-</u>
Increase in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of year		<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year		<u><u>-</u></u>	<u><u>-</u></u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012**

1 ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 and International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee interpretations as adopted by the European Union

The financial statements have been prepared on the historical cost basis, revised for use of fair values where required by applicable IFRS. The financial statements are presented in sterling and all values are recorded to the nearest thousand (£'000), except where otherwise indicated. The principal accounting policies adopted are set out below

The Company is a wholly-owned subsidiary of another company incorporated in the EEC. In accordance with section 400 of the Companies Act 2006, the Company is not required to produce and has not published consolidated accounts

Revenue recognition

Revenue represents the amount receivable for goods and services provided and royalties earned, net of trade discounts, VAT and other sales-related taxes. Revenue is recognised as follows

Technology and product licensing

Technology and product licensing income represents amounts earned for licences provided under licensing agreements, including up-front payments, milestone payments and technology access fees. Revenues are recognised where they are non-refundable, the Company's obligations related to the revenues have been discharged and their collection is reasonably assured. Refundable licensing revenue is treated as deferred until such time that it is no longer refundable. In general, upfront payments for development services are deferred and amortised on a systematic basis in line with the period of development. Milestone payments relating to scientific or technical achievements are recognised as income when the milestone is accomplished

Royalty income

Royalty income is recognised on an accruals basis and represents income earned as a percentage of product sales in accordance with the substance of the relevant agreement net of amounts payable to other licensees

Pharmaceutical development services

Pharmaceutical development services revenues principally comprise contract product development and contract clinical trial manufacturing fees invoiced to third parties. Revenues are recognised upon the completion of agreed tasks or numbers of person days and in the period to which they relate

Device sales

Device sales are recognised when goods are delivered to customers

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and accumulated impairment losses

Depreciation is provided on a straight line basis over the anticipated useful economic lives of the assets. The following rates apply for the Company

Plant and machinery	20% to 33%
Computer and office equipment	33%

1 ACCOUNTING POLICIES - continued

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provision of the instrument

Trade and other receivables

Trade receivables do not carry interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. The carrying value of these assets approximates their fair value.

Trade and other payables

Trade payables are not interest bearing and are stated at their nominal value.

Other financial liabilities

Financial liabilities are initially measured at fair value and, if material, are subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments throughout the expected life of the financial liability.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using cash flows estimated to settle the present obligation, its carrying amount is the value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss,
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future, and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

1 ACCOUNTING POLICIES - continued

Taxation - continued

Otherwise income tax is recognised in the statement of comprehensive income

Research and development tax credits are recognised on an accruals basis

Research and development

Expenditure on internally developed intangible assets, including development costs, is taken to the statement of comprehensive income in the year in which it is incurred. Expenditure relating to clearly-defined and identifiable development projects is recognised as an intangible asset only after the following criteria are met

- The project's technical feasibility and commercial viability can be demonstrated,
- The availability of adequate technical and financial resources and an intention to complete the project have been confirmed, and
- The correlation between development costs and future revenues has been established

Foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rate of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on re-translation are included in the statement of comprehensive income for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

Post-retirement benefits

The Company contributes a set proportion of employees' gross salary to defined contribution personal pension plans. The amount charged to the statement of comprehensive income in respect of pension costs is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown either as prepayments or payables in the balance sheet.

Going concern

The accounts have been prepared under the going concern basis.

The company made a profit of £10,307,000 for the year ended 31 March 2012 (2011 profit of £13,283,000). The current economic slowdown and global recession has had limited impact on the Company as the ultimate parent company has sufficient resources to meet its on-going liabilities as they fall due. The company continues to receive the support of its ultimate parent company to allow it to meet its liabilities as they fall due.

The Company's Directors have reviewed the Company's detailed cash flow forecast for the period ending 31 August 2013, made relevant enquiries and considered reasonably possible changes in trading activities, to satisfy themselves that the ultimate parent company is able to provide the necessary support to enable the company to meet its liabilities as they fall due, despite the current uncertain economic outlook. A legally binding letter of support has been obtained from Vectura Group plc. After making these enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the date of signing the Annual Report. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

1 ACCOUNTING POLICIES - continued

Impairment of assets – continued

Impairment losses on continuing operations are recognised in the statement of comprehensive income in those categories consistent with the function of the impaired asset

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at the re-valued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Share-based payments

The ultimate parent company, Vectura Group plc, operates a number of executive and employee share option schemes, as well as a Long-Term Incentive Plan (LTIP) under which Executive Directors and certain senior staff members may be granted nil-cost options under certain conditions. The level of grant under the LTIP is dependent upon the total shareholder return of Vectura (a market condition) compared to a peer group of UK pharmaceutical and biotechnology companies. In accordance with IFRS 2, for all grants of share options and awards, the cost of equity-settled transactions is measured by reference to their fair value as at the date on which they are granted. The Black-Scholes model is used to determine fair value for options, and the Monte Carlo binomial model for LTIP awards.

The cost of equity-settled share transactions is recognised, together with a corresponding increase in equity, over the period until the award vests. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. At each reporting date, the cumulative expense recognised for equity-based transactions reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the Directors at that date, will ultimately vest. The parent company has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 and not vested at 1 January 2005.

Critical accounting judgements and key sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions, in accordance with IFRS, that affect the amounts of assets, liabilities, revenues and expenses reported in the financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual amounts and results could differ from those estimates.

The critical accounting judgements and key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the measurement of provisions, the estimation of share-based payment costs, revenue recognition and the treatment of research and development expenditure in line with the relevant accounting policy.

The estimation of share-based payment costs requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgements relating to the probability of meeting non-market conditions and the continuing participation of employees.

1 ACCOUNTING POLICIES - continued

Critical accounting judgements and key sources of estimation uncertainty – continued

The treatment of research and development expenditure requires an assessment of the expenditure in order to determine whether or not it is appropriate to capitalise onto the balance sheet in accordance with IAS 38

New accounting Standards and Interpretations

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements, but with the exception of the amendment to IFRS 1, may impact the accounting for future transactions and arrangements

Amendment to IFRS 1- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters The amendment provides a limited exemption for first-time adopters from providing comparative fair-value hierarchy disclosures under IFRS 7

IAS 24 (2009) - Related Party Disclosures The revised Standard has a new, clearer definition of a related party, with inconsistencies under the previous definition having been removed

Amendment to IAS 32 - Classification of Rights Issues Under the amendment, rights issues of instruments issued to acquire a fixed number of an entity's own non-derivative equity instruments for a fixed amount in any currency and which otherwise meet the definition of equity are classified as equity

Amendments to IFRIC 14 - Prepayments of a Minimum Funding Requirements The amendments now enable recognition of an asset in the form of prepaid minimum funding contributions

Improvements to IFRSs 2010 - Aside from those items already identified above, the amendments made to standards under the 2010 improvements to IFRSs have had no impact on the Group

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU)

IFRS 1 (amended) Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

IFRS 7 (amended) Disclosures - Transfers of Financial Assets

IFRS 9 Financial Instruments

IFRS 10 Consolidated Financial Statements

IFRS 11 Joint Arrangements

IFRS 12 Disclosure of Interests in other Entities

IFRS 13 Fair Value Measurement

IAS 1 (amended) Presentation of Items of Other Comprehensive Income

IAS 12 (amended) Deferred Tax - Recovery of Underlying Assets

IAS 19 (revised) Employee Benefits

IAS 27 (revised) Separate Financial Statements

IAS 28 (revised) Investments in Associates and Joint Ventures

IAS 32 (amended) Offsetting Financial Assets and Financial Liabilities

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

The adoption of IFRS 9 which the Group plans to adopt for the year beginning on 1 April 2013 will impact both the measurement and disclosures of Financial Instruments. The Directors do not expect that the adoption of the other standards listed above will have a material impact on the financial statements of the Group in future periods

INNOVATA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2012**

2 REVENUE

	2012 £'000	2011 £'000
<u>Revenue by category</u>		
Licensing and evaluation fees	95	5,000
Development fees	-	1,610
Royalties	7,881	8,202
	<u>7,976</u>	<u>14,812</u>
Total pharmaceutical income	<u>7,976</u>	<u>14,812</u>

	2012 £'000	2011 £'000
<u>Revenue by customer location</u>		
United Kingdom	5,284	6,610
North America	2,597	8,202
Rest of World	95	-
	<u>7,976</u>	<u>14,812</u>
Total	<u>7,976</u>	<u>14,812</u>

Segmental information

For management purposes the Company is currently organised into one business segment, which is the research, development and commercialisation of pharmaceutical products and technologies. Since this is the only primary reporting segment, no further information has been shown.

Information about major customers

Revenue earned from the Company's major customers is as follows, Customer A - £7,881,000 (2011 £8,202,000), Customer B - £nil (2010 5,000,000) and Customer C £nil (2010 £1,610,000)

3 EMPLOYEES AND DIRECTORS

	2012 £'000	2011 £'000
Wages and salaries	472	675
Social security	41	66
Other pension costs	15	28
	<u>528</u>	<u>769</u>

The average monthly number of employees during the year was as follows

	2012 No.	2011 No.
Research and development	<u>12</u>	<u>12</u>

Directors' remuneration is borne by Vectura Limited and no director received any remuneration from the Company for their services during the year, or the preceding year, or was accruing retirement benefits.

INNOVATA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2012**

4 NET FINANCE COSTS

	2012 £'000	2011 £'000
Finance costs		
Foreign exchange (loss)/gain	<u>(17)</u>	<u>35</u>

5 PROFIT BEFORE TAXATION

The profit before tax is stated after charging/(crediting)

	2012 £'000	2011 £'000
Depreciation of property, plant and equipment - owned assets	-	48
(Profit)/loss on disposal of fixed assets	<u>(8)</u>	<u>57</u>

Audit fees for the audit of the Company's annual accounts, amounting to £7,500 (2011 £7,500), were borne by another Group company

Auditors' remuneration

The analysis of the auditors' remuneration is as follows

	2012 £'000	2011 £'000
Fees payable to the company's auditors and their associates for the audit of the Company's annual accounts	<u>8</u>	<u>8</u>
Total audit fees	<u>8</u>	<u>8</u>

6 TAXATION

Analysis of tax credit

	2012 £'000	2011 £'000
Current tax		
Withholding tax	84	83
Deferred tax	<u>(3,390)</u>	<u>-</u>
Total tax credit in statement of comprehensive income	<u>(3,306)</u>	<u>83</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2012

6 TAXATION - continued

Factors affecting the tax expense

The tax assessed for the year differs from the standard rate of corporation tax in the UK. The difference is explained below

	2012 £'000	2011 £'000
Profit on ordinary activities before taxation	<u>7,001</u>	<u>13,366</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26% (2011 - 28%)	1,820	3,743
Effects of		
Permanent differences - expenses not deductible for tax purposes	55	111
Uplift for R&D expenditure	(137)	(162)
Utilisation of tax losses brought forward	(1,738)	(3,692)
Withholding tax on royalties	84	83
Recognition of deferred tax asset	<u>(3,390)</u>	<u>-</u>
Tax (credit) / expense	<u>(3,306)</u>	<u>83</u>

Current tax

The tax charge for the year ended 31 March 2012 of £84,000 (2011 £83,000) represents withholding taxes on royalty receipts

Deferred tax asset

The Company has cumulative tax losses of approximately £21,349,000 (subject to agreement by HMRC) are available to carry forward against future taxable profits, or surrender in return for research and development tax credits (2011 - £27,976,000)

There is a total deferred tax asset of £5,165,000 relating to cumulative tax losses and capital allowances (2011 £7,274,000), calculated at the standard rate of tax of 24%, as follows

	2012 £'000	2011 £'000
On cumulative tax losses – recognised	3,390	-
On cumulative tax losses – unrecognised	1,734	7,174
On depreciation in excess of capital allowances – unrecognised	<u>41</u>	<u>100</u>
	5,165	7,274

The Company has a recognised deferred tax asset of £3,390,000 (2011 £nil) relating to tax losses. The company has an unrecognised deferred tax asset of £1,734,000 (2011 £7,174,000) relating to tax losses and an unrecognised deferred tax asset of £41,000 (2011 £100,000) arising as a result of unclaimed capital allowances

In the year ended 31 March 2011, this deferred tax asset was unrecognised since it was uncertain that there would be suitable future taxable profits against which the deferred tax asset could be offset. For the year ended 31 March 2012, the Directors of the Company have reviewed the future profit forecast and consider that there is reasonable certainty that there will be suitable future taxable profits against which part of the deferred tax asset can be offset. As such, in the current year, a deferred tax asset has been recognised to the extent which it is probable that it can be utilised.

INNOVATA LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued **FOR THE YEAR ENDED 31 MARCH 2012**

6 TAXATION - continued

In March 2012, the UK Government announced a reduction in the standard rate of UK corporation tax to 24% effective from 1 April 2012 and to 23% effective 1 April 2013. These rate reductions became substantively enacted in March 2012 and July 2012, respectively.

The UK Government also proposed to further reduce the standard rate of UK corporation tax by 1% per annum to 22% effective 1 April 2014, but this change has not been substantively enacted.

The effect of these tax rate reductions on the deferred tax balance will be accounted for in the period in which the tax rate reductions are substantively enacted.

7 PROPERTY, PLANT AND EQUIPMENT

	Computer and office equipment £'000
COST	
As at 1 April 2010	166
Disposals	(143)
At 1 April 2011 and 31 March 2012	<u>23</u>
DEPRECIATION	
As at 1 April 2010	162
Charge for the year	(139)
At 1 April 2011 and 31 March 2012	<u>23</u>
NET BOOK VALUE	
At 31 March 2012	<u>-</u>
At 31 March 2011	<u>-</u>
At 31 March 2010	<u>4</u>

8 INVESTMENTS

	Investment £'000	Subsidiaries £'000	Total £'000
COST AND NET BOOK VALUE			
At 31 March 2010	250	55,425	55,675
Disposals	(250)	-	(250)
At 31 March 2011 and March 2012	<u>-</u>	<u>55,425</u>	<u>55,425</u>

The company's investments at the balance sheet date in the share capital of companies include the following:

Subsidiaries

Innovata Biomed Limited

Nature of business: Research, development of pharmaceutical products

	%
Class of shares	holding
Ordinary	100.00
Preference	100.00

INNOVATA LIMITED**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2012****8 INVESTMENTS - continued****Quadrant Technologies Limited**

Nature of business Research, development of pharmaceutical products

	%
Class of shares	holding
Ordinary	100 00

Quadrant Drug Delivery Limited

Nature of business Research, development of pharmaceutical products

	%
Class of shares	holding
Ordinary	100 00

The shares are held through Quadrant Technologies Limited

Quadrant Healthcare Limited

Nature of business Research, development of pharmaceutical products

	%
Class of shares	holding
Ordinary	100 00

The shares are held through Quadrant Technologies Limited

Joint Venture**QDose**

Nature of business Research, development of pharmaceutical products

	%
Class of shares	holding
Ordinary	50 00

The shares are held through Quadrant Technologies Limited

In addition, the Company has a number of subsidiaries that are dormant or whose residual activities are not material to the Group

9 TRADE AND OTHER RECEIVABLES

	2012 £'000	2011 £'000
Amounts owed by group undertakings	53,727	47,385
Other debtors	-	97
Prepayments and accrued income	<u>337</u>	<u>344</u>
	<u>54,064</u>	<u>47,826</u>

The Directors consider that the carrying amount of trade and other receivables approximates their fair value

10 CALLED UP SHARE CAPITAL

	2012 £'000	2011 £'000
Allotted, called up and fully paid		
503,158,305 ordinary shares of 1p each	<u>5,032</u>	<u>5,032</u>

INNOVATA LIMITED**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2012****11 TRADE AND OTHER PAYABLES**

	2012 £'000	2011 £'000
Amounts owed to parent undertakings	345	-
Other payables	31	999
Accruals and deferred income	<u>726</u>	<u>782</u>
	<u>1,102</u>	<u>1,781</u>

The Directors consider that the carrying amount of trade and other payables approximates their fair value

12 FINANCIAL INSTRUMENTS**Categories of financial instruments**

Under IFRS 7, and for the purposes of risk management, the following classes of financial assets and their carrying values have been identified

	2012 £'000	2011 £'000
Loans and receivables	<u>57,454</u>	<u>47,826</u>

All financial assets fall due within one year

There were no provisions against impaired assets at 31 March 2012 (2011 £nil) There are no amounts past due but not impaired (2011 £nil)

Under IFRS 7, and for the purposes of risk management, the following classes of financial liabilities and their carrying values (at amortised cost) have been identified

	2012 £'000	2011 £'000
Trade and other payables	<u>1,102</u>	<u>1,781</u>

All financial liabilities fall due within one year

Fair value of financial assets and liabilities

The Directors consider there to be no material difference between the book value and the fair value of the Company's financial assets and liabilities at the balance sheet date

Capital risk management

The Company manages its capital to ensure that it is able to continue as a going concern while maximising the return to stakeholders The capital structure of the Company consists of amounts due from, and to, other Vectura Group plc companies and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings as disclosed in the statement of changes in equity

Externally imposed capital requirement

The Company is not subject to externally imposed capital requirements

12 FINANCIAL INSTRUMENTS - continued

Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements

Financial risk management

The Company follows Vectura Group plc policies on interest rate risk, credit risk and the investment of excess liquidity. The Company's objective in using financial instruments is to maximise the returns on funds held on deposit and to minimise exchange rate risk where appropriate.

It is, and has been throughout the year, the Company's policy that no speculative trading in financial instruments is undertaken.

Foreign currency risk management

The Company's principal functional currency is sterling. However, the Company undertakes certain transactions denominated in foreign currencies. The Company's policy is to offset its currency exposure by matching foreign currency revenues with expenditure in the same foreign currency. Where there are no imminent foreign exchange transactions, the balances are exchanged for sterling at spot rate.

As the timing and amount of foreign currency denominated income is uncertain, it is not possible to estimate the impact of a change in the foreign exchange rates on the Company.

Interest rate risk management

The Company has no external borrowings and is not exposed to interest rate risk through borrowings.

Liquidity risk management

The Company manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Credit risk management

The Company's credit risk is primarily attributed to its cash and cash equivalents. Another Group company controls the banking activities of the company and the risk is limited because the Group primarily deposits its cash with banks that have strong credit ratings.

Market risk management

The Company's exposure to market risk primarily comprises interest rate exposure. Company funds are invested in cash deposits with the objective of maintaining a balance between accessibility of funds and competitive rates of return.

13 PENSION COMMITMENTS

The Company participates in a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company and are independently administered. The pension cost charge represents contributions payable by the Company under the scheme and amounted to £15,000 (2011 - £28,000). Contributions totalling £nil (2011 - £nil) were payable at the year-end.

14 RELATED PARTY DISCLOSURES

Details of trading with other Group companies during the year are disclosed in accordance with IAS 24

	Recharge from related parties for services £'000	Recharge to related parties for services £'000	Amounts due from related parties £'000	Amounts due to related parties £'000
Vectura Group plc				
2012	345	-	-	345
2011	474	-	3,456	-
Vectura Limited				
2012	528		4,225	-
2011	769	918	3,166	-
Vectura Delivery Devices Limited				
2012	-	-	3,666	-
2011	-	113	210	-
Innovata Biomed Limited				
2012	-	-	26,297	-
2011	-	467	25,706	-
Quadrant Drug Delivery Limited				
2012	-	-	17,652	-
2011	-	111	11,397	-
Quadrant Technologies Limited				
2012	-	-	1,887	-
2011	-	-	2,828	-
Quadrant Healthcare Limited				
2012	-	-	-	-
2011	-	-	622	-

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

15 ULTIMATE CONTROLLING PARTY

The Company's immediate and ultimate parent undertaking and ultimate controlling party is Vectura Group plc, a company incorporated in England and Wales. This represents the smallest and largest group into which the results of the Company are consolidated. The consolidated financial statements are available from Vectura Group plc, One Prospect West, Chippenham, Wiltshire, SN14.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2012

16 RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

	2012	2011
	£'000	£'000
Profit before taxation	7,001	13,366
Depreciation charges	-	48
Loss on disposal of property, plant and equipment	-	58
Profit on contract settlement	(8)	-
Exchange Movements	17	(35)
	<u>7,010</u>	<u>437</u>
Increase in trade and other receivables	(6,239)	(7,628)
Decrease in trade and other payables	(679)	(5,959)
Cash generated from / (used in) operations	<u>92</u>	<u>(150)</u>

17 EQUITY-SETTLED SHARE OPTION SCHEMES AND LONG-TERM INCENTIVE PLAN

The below disclosures have been taken from the Vectura Group plc accounts for the year ended 31 March 2012. They have been included here on the basis that part of the Group share-based compensation charge has been recharged to this company.

Innovata Limited's ("the Company") Directors, officers and employees hold options under the Vectura Unapproved Share Option Plan (the "Unapproved Plan"), under Enterprise Management Incentive arrangements (the "EMI Plan") and under the Vectura Approved Share Option Plan. Options are granted to acquire shares in Vectura Group plc at the opening market price ruling on the date of grant. In general, options vest after three years and are exercisable during a period ending ten years after the date of grant.

On 18 January 2007, upon the acquisition of Innovata plc and in accordance with a scheme of arrangement, options over Innovata shares issued and outstanding at that date under the ML Laboratories plc 1989 Executive Option Scheme and the ML Laboratories plc 1999 Executive Option Scheme were exchanged for options over Vectura shares in accordance with the rules of the relevant Innovata Option Scheme. The exchange was on the basis that the option holders received new options representing 0.2858 Vectura shares for every one Innovata share.

The parent company operates a Sharesave Scheme. All employees and Executive Directors are invited to subscribe for options to acquire shares in the parent company, which may be granted at a discount of up to 20% of the market value on the offer date. The options granted vest after three years and are exercisable during a period of six months following the vesting date.

The parent company also operates a Long-Term Incentive Plan (LTIP) under which Executive Directors and certain senior managers are granted conditional rights in the form of nil-cost options to receive a maximum number of shares at the beginning of a three-year period, a proportion of which they will be entitled to receive at the end of that period, depending on the extent to which the challenging performance conditions set by the Remuneration Committee at the time the allocation was made are satisfied. The nil-cost option entitlement is exercisable from the beginning of the fourth year to the end of the tenth year following the date of grant.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2012

17 EQUITY-SETTLED SHARE OPTION SCHEMES AND LONG-TERM INCENTIVE PLAN - continued

At 31 March 2012, Executive Directors and eligible senior managers hold rights to ordinary shares awarded under the LTIP, as follows

Date of vesting	Ordinary shares vesting
12 September 2008	584,615
22 November 2009	501,242
2 March 2010	314,274
25 May 2010	446,636
23 May 2011 (1)	1,630,705
21 May 2012 (1)	2,405,654
7 June 2013 (1)	2,511,192
7 June 2014 (1)	2,511,192
(1) Maximum number of shares, subject to performance conditions	

On 31 October 2008, the shareholders of Vectura Group plc approved a Value Realisation Plan (VRP). The VRP runs in parallel to the LTIP and provides participants with a share of a pre-determined percentage of the total consideration paid for the Company in the event of a change in control within five years of the date of approval of the Plan. In this event, under the VRP members of the Executive Committee of the parent company will be granted a one-off entitlement in the form of units, which convert into ordinary shares in the parent company, the actual number of shares that convert being linked to the offer price per share achieved. The VRP is triggered upon achievement of a minimum bid price of £1.27 per share, with a maximum number of shares available to participants if the bid price reaches £1.77 per share, or greater.

Fair value calculations

The Company has taken advantage of the exemption in IFRS 1 and has applied IFRS 2 only to options granted after 7 November 2002 and not vested at 1 January 2005. At 31 March 2012 there were 2,255,995 options outstanding that were granted before this date (2011: 2,255,995).

With the exception of the LTIP awards and the potential awards under the VRP, the fair value of the options was determined using the Black-Scholes pricing model. The fair value of the LTIP and VRP awards have been estimated using the Monte Carlo model, using the same basis for the assumptions for volatility, option life, expected dividend yield and risk-free rate of return as used for the Black-Scholes model. For the purposes of calculating the fair value of the LTIP, it was considered equally probable that the Company's performance would be such that it would perform in each of the quartiles established under the LTIP scheme.

The assumptions input into the Black-Scholes pricing model were as follows:

Year of grant	2012	2011
Weighted average share price of grants during the year	69.22p	59.53p
Weighted average exercise price of grants during the year	60.61p	56.88p
Expected volatility (1)	46% - 49%	46% - 48%
Expected life	3-5 years	3-5 years
Expected dividends	Nil	Nil
Risk-free interest rate (2)	0.5% - 1.0%	1.4% - 2.7%

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2012

17 EQUITY-SETTLED SHARE OPTION SCHEMES AND LONG-TERM INCENTIVE PLAN - continued

The assumptions input into the Monte Carlo model were as follows	2012	2011
Weighted average share price of grants during the year	N/A	38p
Weighted average exercise price of grants during the year	N/A	0.025p
Expected volatility (1)	N/A	46%
Expected life	N/A	3 years
Expected dividends	N/A	Nil
Risk-free interest rate (2)	N/A	1.4%

(1) Expected volatility has been calculated by reference to the Company's historic share price since the IPO in July 2004, considered alongside the volatility of similar companies. The expectation of the cancellation of options has been considered in determining the fair value expense charged in the statement of comprehensive income.

(2) The risk-free interest rate is the UK Gilt Rate at the date of grant, commensurate with the expected term.

The charge is spread over the expected vesting period, utilising the fair value calculated by using the two models above, and after adjusting for the likelihood of cancellation of options when employees leave.

The Group share-based compensation charge for the year ended 31 March 2012, including the LTIP, was £1,040,000 (2011: £1,785,000), of which £208,000 (2011: £357,000) has been charged to the company.

The aggregate of the estimated fair value of options granted under share option schemes and Share Incentive Plan during the year ended 31 March 2012 was £426,000 (2011: £492,000) and under the SAYE Scheme £232,000 (2011: £143,000). There were no awards under the LTIP during the year ended 31 March 2012 (the estimated fair value of LTIP awards during the year ended 31 March 2011 was £444,000).

Options	Share Option Schemes		SAYE Scheme		LTIP	
	Number of Options	WAEP*	Number of Options	WAEP*	Number of Options	WAEP*
Outstanding						
At 1 April 2010	19,028,332	60.50	2,115,313	41.20	6,560,356	0.025
Options granted	314,696	43.60	490,430	65.40	5,681,638	0.025
Options exercised	(777,323)	31.45	(11,852)	48.40	(421,153)	0.025
Options cancelled	(311,305)	112.41	(227,298)	55.21	-	-
At 31 March 2011	18,254,400	62.37	2,366,593	44.83	11,820,841	0.025
Options granted	414,375	95.75	1,101,966	47.40	-	-
Options exercised	(3,474,463)	57.04	(1,465,608)	36.14	(86,209)	0.025
Options cancelled	(1,458,839)	100.48	(346,433)	62.75	(829,122)	0.025
At 31 March 2012	13,735,473	79.97	1,656,518	50.43	10,905,510	0.025
Range of exercise prices	36.00p – 104.00p		47.40p – 65.40p		0.025p	
Weighted average remaining contractual life (years)	3.42 (2011: 3.76)		2.82 (2011: 1.37)		7.02 (2011: 7.57)	
Options Vested						
At 31 March 2011	16,628,383	63.64	-	-	1,932,967	0.025
At 31 March 2012	12,950,364	59.87	-	-	3,477,472	0.025
Weighted average remaining contractual life (years)	3.11 (2011: 3.37)		-		5.24 (2011: 5.47)	

*Weighted average exercise price (p)

18 POST BALANCE SHEET EVENTS

With effect from 1 April 2012, the entire trade of Quadrant Drug Delivery Limited and its associated tax losses of £21,349,000 (subject to agreement by HMRC) have been transferred to Innovata Limited