

REGISTERED NUMBER: 02148607 (England and Wales)

**REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014
FOR
INNOVATA LIMITED**

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INNOVATA LIMITED

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FOR THE YEAR ENDED 31 MARCH 2014**

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INNOVATA LIMITED

**COMPANY INFORMATION
FOR THE YEAR ENDED 31 MARCH 2014**

DIRECTORS:	C P Blackwell P S Oliver
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 Bristol United Kingdom
SOLICITORS:	Olswang 90 High Holborn London WC1V 6XX
BANKERS:	Barclays Bank Plc 28 Chesterton Road Cambridge CB4 3AZ

INNOVATA LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2014

The Company is a wholly-owned subsidiary of Vectura Group plc.

Vectura's vision is to address the unmet needs of people whose lives are impacted by airways disease

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.

Our focus

Our therapeutic focus is to develop products for airways-related diseases. This market covers a wide range of indications including; cough, severe inflammation, cystic fibrosis, allergic rhinitis, and fibrotic diseases of the lung; and includes major diseases, such as asthma and chronic obstructive pulmonary disease (COPD). This market estimated to be worth in excess of US\$46 billion worldwide.

How we work

We develop products in-house and in collaboration with pharmaceutical partners, leveraging investment in our intellectual property and, where possible, mitigating the risk of our business. The Vectura Group has eight products marketed by partners and a portfolio of drugs in clinical development, a number of which have been licensed to major pharmaceutical companies. The Group's array of enabling devices and formulation technologies vastly amplifies the commercial potential of the Group's products. These formulation and inhalation technologies are available to other pharmaceutical companies on an out-licensing basis where this complements the Group's product development strategy.

REVIEW OF BUSINESS

Revenue includes fee income from technology licensing, royalties and pharmaceutical development fees. Revenue has increased by 17% to £15,704,000 (2013: £13,413,000). This increase is due to a one-off milestone receipt of £2.0m from ProFibrix.

Profit before tax has increased by 31% in the year to £16,279,000 (2013: £12,411,000), this increase in profit is the result of increased revenues recognised during the period and a one-off receipt of £1,267,000 relating to income received from the sale of an investment. The staff costs in the prior year were recharged from a fellow subsidiary, no staff costs have been recharged this year.

Cash and cash equivalents at the year-end were £nil (2013: £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.

FUTURE DEVELOPMENTS

Our aim is to build a profitable cash generative business through a specialist therapeutic focus and progression of our development portfolio within airways diseases. It is the Company's strategy to continue its existing partnering model to access those markets that require large general sales forces, such as COPD and asthma. For other markets which can be addressed through a small specialist sales force, Vectura will consider a number of commercialisation alternatives: partnering to earn milestones and royalties, co-development whereby Vectura would undertake development to achieve a greater share of the economics and self-commercialisation for speciality therapeutic targets that require a small, cost-effective and focussed sales and marketing infrastructure. This means of commercialisation will be determined by an assessment of the product and market specific balance of risk and reward.

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

PRINCIPAL RISKS AND UNCERTAINTIES – continued

Industry risk – continued

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. The Company's response to industry risk is detailed in our responses to the specific risks identified below.

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 that 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. The Company performs detailed reviews of the development process and progress of projects through trials.

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 2014, the Group had euro and US dollar reserves to cover its immediate and short-term liabilities in respect of these currencies.

PRINCIPAL RISKS AND UNCERTAINTIES - continued

Credit risk

The Group's credit risk is primarily attributed to its cash and cash equivalents. 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.

CORPORATE SOCIAL RESPONSIBILITY

The Directors recognise the importance of corporate social responsibility and endeavour to take into account the interests of the Company's stakeholders, including its employees, customers, suppliers and business partners when operating the business. The Vectura Group believes that having empowered and responsible employees who display sound judgement and awareness of the consequences of their decisions and actions, and who act in an ethical and responsible way, is key to the success of the business. The Vectura Group also endeavours to be honest and fair in its relationships with customers and suppliers and to be a good corporate citizen, respecting the laws of countries in which it operates.

Our people

Our success continues to be driven by our diverse employee talent within the Company. Innovata Limited is an equal opportunity employer and we are committed to continuing to offer career opportunities without discrimination. Our employment policies pay policies conform to statutory requirements and they cover all permanent and temporary employees, all job applicants, agency staff, associates, consultants and contractors. Employees are valued highly and their rights and dignity are respected. Vectura does not tolerate any harassment or discrimination.

Health and safety

The Group considers health and safety to be a priority in its workplaces. The Vectura Group has a Health and Safety Committee to review health and safety standards across all Group companies. The Group provides specialist on-going training to individuals who are responsible for health and safety, and general health and safety training is delivered to all staff via e-learning courses. The Group continuously monitors its health and safety practices to ensure that safety management procedures are robust and in line with industry best practice.

The Group has an excellent safety record and there have been no major incidents or accidents reported to the Health and Safety Committee during the year (2012/13: none).

Community investment

As the Group is currently loss-making it is not considered appropriate to make financial donations to charitable or community activities. However, it is the ethos of the Group to promote an environment of employee support and participation in initiatives that provide in-kind benefits where we believe we have a meaningful contribution to make. Where possible we aim to facilitate and support employee fund raising events, such as:

- We support the STEM (Science, Technology, Engineering and Mathematics) Initiative which is a major UK Government initiative. Within this initiative our staff actively help local schoolchildren, being tomorrow's workforce, to gain the capabilities and skills to flourish in a scientific environment such as ours.

Community investment - continued

- An annual award of additional holiday is allocated to a small number of employees as a part of a staff initiative to volunteer for unpaid community or charitable services.
- Staff are encouraged to participate in nationwide charity campaigns, examples of which include Macmillan Coffee Mornings, Comic Relief and Movember. Where appropriate, group facilities are made available to staff members organising such events.

Waste management

Initiatives to effectively manage and reduce waste have been implemented throughout the Group, including recycling of all paper waste, aluminium cans, printer toners/cartridges and redundant mobile telephone handsets. Induction procedures for all newly recruited staff include sufficient information to ensure a high level of compliance with our standards. We aim to comply with all legislation in this area, including using registered waste disposal contractors.

The Strategic Report which comprises pages 2 to 5 has been approved and signed on behalf of the Board:

ON BEHALF OF THE BOARD:



.....
P S Ollver - Director

Date: 4 November 2014

INNOVATA LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 MARCH 2014

The Directors present their report with the financial statements of the company for the year ended 31 March 2014.

DIRECTORS

The Directors shown below have held office during the whole of the period from 1 April 2013 to the date of this report, unless otherwise stated:

C P Blackwell

A P Hyland (resigned 1 July 2013)

P S Oliver (appointed 1 July 2013)

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.

GOING CONCERN

The company made a profit of £12,739,000 for the year ended 31 March 2014 (2013: £10,969,000).

The Company's Directors have reviewed the Company's detailed cash flow forecast for the foreseeable future, being at least 12 months from the date of the accounts, made relevant enquiries and considered reasonably possible changes in trading activities, to satisfy themselves that the company is able to meet its liabilities as they fall due, despite the current uncertain economic outlook. 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.

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.

DIRECTORS' RESPONSIBILITIES STATEMENT

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

**REPORT OF THE DIRECTORS - continued
FOR THE YEAR ENDED 31 MARCH 2014**

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 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, 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 1. 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:



.....
P S Oliver - Director

Date: 4 November 2014

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 2014 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 19. 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 Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). 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 annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2014 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 Strategic Report and 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;
- we have not received all the information and explanations we require for our audit.

David Hedditch

David Hedditch (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Bristol
United Kingdom

Date:4.....November 2014

INNOVATA LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2014**

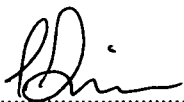
	Notes	2014 £'000	2013 £'000
CONTINUING OPERATIONS			
Revenue	2	<u>15,704</u>	<u>13,413</u>
GROSS PROFIT		15,704	13,413
Research and development costs		(164)	(495)
Administrative expenses		(204)	(192)
Share-based compensation		<u>(222)</u>	<u>(230)</u>
OPERATING PROFIT		15,114	12,496
Finance costs	4	(102)	(85)
Investment income	4	<u>1,267</u>	<u>-</u>
PROFIT BEFORE TAXATION	5	16,279	12,411
Taxation	6	<u>(3,540)</u>	<u>(1,442)</u>
PROFIT FOR THE YEAR, BEING TOTAL COMPREHENSIVE INCOME		<u>12,739</u>	<u>10,969</u>

INNOVATA LIMITED

BALANCE SHEET
31 MARCH 2014

	Notes	2014 £'000	2013 £'000
ASSETS			
NON-CURRENT ASSETS			
Goodwill	7	21,026	21,026
Property, plant and equipment	8	-	-
Investments	9	34,399	34,399
		<u>55,425</u>	<u>55,425</u>
CURRENT ASSETS			
Deferred tax asset	10	315	3,855
Trade and other receivables	11	136,643	122,833
		<u>136,958</u>	<u>126,688</u>
TOTAL ASSETS		<u>192,383</u>	<u>182,113</u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	12	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		14,210	1,471
TOTAL EQUITY		<u>135,485</u>	<u>122,746</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	13	56,898	59,367
TOTAL LIABILITIES		<u>56,898</u>	<u>59,367</u>
TOTAL EQUITY AND LIABILITIES		<u>192,383</u>	<u>182,113</u>

The financial statements of Innovata Limited, registered number 02148607, were approved by the Board of Directors and authorised for issue on 4 November 2014 and were signed on its behalf by:


.....
P S Oliver - Director

INNOVATA LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2014**

	Called up share capital £'000	Retained earnings £'000	Share premium £'000
Balance at 1 April 2012	5,032	(9,498)	73,326
Changes in equity			
Total comprehensive income	-	10,969	-
Balance at 31 March 2013	5,032	1,471	73,326
Changes in equity			
Total comprehensive income	-	12,739	-
Balance at 31 March 2014	<u>5,032</u>	<u>14,210</u>	<u>73,326</u>

	Special reserve £'000	Merger reserve £'000	Other reserve £'000	Total £'000
Balance at 1 April 2012	4,049	36,984	1,884	111,777
Changes in equity				
Total comprehensive income	-	-	-	10,969
Balance at 31 March 2013	4,049	36,984	1,884	122,746
Changes in equity				
Total comprehensive income	-	-	-	12,739
Balance at 31 March 2014	<u>4,049</u>	<u>36,984</u>	<u>1,884</u>	<u>135,485</u>

INNOVATA LIMITED**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2014**

		2014	2013
	Notes	£'000	£'000
Cash flows from operating activities			
Cash (utilised by)/generated from operations	18	(1,165)	85
Exchange movements		(102)	(85)
Tax paid		<u>-</u>	<u>-</u>
Net cash from operating activities		<u>(1,267)</u>	<u>-</u>
Cash flows from investing activities			
Receipt on disposal of investments		<u>1,267</u>	<u>-</u>
Net cash from investing activities		<u>1,267</u>	<u>-</u>
Movement in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		<u>-</u>	<u>-</u>
Cash and cash equivalents at the end of the year		<u><u>-</u></u>	<u><u>-</u></u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 and International Financial Reporting Standards (IFRSs) 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 IFRSs. 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, up-front payments 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. **SIGNIFICANT 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. The carrying value of these liabilities approximates their fair value

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. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

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

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2014

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

- 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.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. 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 net profit or loss 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 £12,739,000 for the year ended 31 March 2014 (2013: £10,969,000).

The Company's Directors have reviewed the Company's detailed cash flow forecast for the foreseeable future, being at least 12 months from the date of the accounts, made relevant enquiries and considered reasonably possible changes in trading activities, to satisfy themselves that the company is able to meet its liabilities as they fall due, despite the current uncertain economic outlook. 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.

1. **SIGNIFICANT ACCOUNTING POLICIES - continued**

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.

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 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.

Goodwill

Goodwill is recognised at carrying value and it is reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired. Where the recoverable amount of the cash-generating unit is less than its carrying amount an impairment loss is recognised in the statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2014

1. SIGNIFICANT ACCOUNTING POLICIES - continued

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 IFRSs, 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 review for impairment of investments, 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 measurement of provisions involves estimation of future cash flows and the associated level of liabilities expected to arise as a result of these cash flows.

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.

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 on to the balance sheet in accordance with IAS 38.

The recognition of milestone revenue income requires an assessment of the Group's future obligations under a given contract, which determines the period over which the revenue is recognised.

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
Presentation of items of Other
comprehensive income

The amendment requires separate presentation of items that may be reclassified to profit or loss in the future from those that would never be reclassified.

Amendments to IFRS 1
Government loans

The amendment adds an exception to the retrospective application of IFRSs to require that first time adopters apply the requirements of IFRS 9 Financial Instruments and IFRS 20 Accounting for Government Grants and disclosure of Government Assistance prospectively to government loans existing at the date of transition to IFRS.

Amendments to IFRS 7
Financial instruments: Disclosure on
offsetting financial assets and financial
liabilities

The amendment enhances current disclosures on offsetting financial assets and financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2014

1. SIGNIFICANT ACCOUNTING POLICIES - continued

New accounting Standards and Interpretations – continued

IFRS 10 Consolidated financial statements	This standard replaces all of the guidance on control and consolidation in IAS 27 and SIC 12. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single entity remains unchanged, as do the mechanics of consolidation.
IFRS 11 Joint arrangements and IAS 28 (revised 2011) Investments in associates and joint ventures.	The amendments eliminate the existing accounting policy choice of proportionate consolidation for jointly controlled entities and makes equity accounting mandatory for participants in joint ventures. Changes in definitions also mean that types of joint arrangements have been reduced from three to two, joint operations and joint ventures. IFRS 11 also made a number of consequential amendments to IAS 28 Investments in associates and joint ventures
IFRS 12 Disclosure of interest in other entities	This standard sets out the required disclosures for entities reporting under IFRS 10 and IFRS 11. IFRS 12 requires entities to disclose information about the nature, risks and financial effects associated with the entities interest in subsidiaries, associates and joint arrangements and unconsolidated structured entities
IFRS 13 Fair value measurement	This standard explains how to measure fair value and enhances fair value disclosures. IFRS 13 established a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instruments and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes.) IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under the current market conditions. Fair value under IFRS 13 is an exit price, regardless of whether that price is directly observable or estimated using another valuation technique. IFRS 13 also includes extensive disclosure requirements.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2014

1. SIGNIFICANT ACCOUNTING POLICIES - continued

New accounting Standards and Interpretations – continued

IAS 19 Employee benefits	This standard makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and significantly increases the volume of disclosures. The Group does not operate any defined benefit pension schemes..
IAS 27 (revised 2011) Separate financial statements	This standard deals solely with separate financial statements.
IAS 28 Investments in associates and joint ventures	This standard outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. The standard also defines an associate by reference to the concept of “significant influence”, which requires power to participate in financial and operating policy decisions of an investee (but not joint control or control of those policies).
Amendments to IAS 36 Recoverable amount disclosures for non-financial assets	The amendment reduces the circumstances in which the recoverable amount of assets or cash generating units is required to be disclosed, clarifies the disclosures required and introduces an explicit requirement to disclose the discount rate used in determining impairment where recoverable amount is determined using a present value technique. The Company has early adopted the amendments of IAS 36 (effective from 1 January 2014) and therefore the recoverable amounts of the Company’s CGU’s have not been disclosed.

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 10, IFRS 12 and IAS 27 (amended) Investment Entities
- IAS 32 (amended) Offsetting Financial Assets and Financial Liabilities
- IAS 39 (amended) Novation of Derivatives and Continuation of Hedge Accounting
- IFRIC 21 Levies

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Company in future periods.

INNOVATA LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 MARCH 2014

2. REVENUE

	2014 £'000	2013 £'000
<u>Revenue by category</u>		
Development fees	419	445
Technology licencing	2,165	191
Royalties	13,120	12,777
Total pharmaceutical income	15,704	13,413
	2014 £'000	2013 £'000
<u>Revenue by customer location</u>		
United Kingdom	596	615
North America	12,996	12,688
Rest of World	2,112	110
Total	15,704	13,413

Segmental reporting

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 - £12,996,000 (2013: £12,688,000).

3. EMPLOYEES AND DIRECTORS

	2014 £'000	2013 £'000
Wages and salaries	-	267
Social security	-	32
Other pension costs	-	14
	-	313

The average monthly number of employees during the year was:

	2014 No.	2013 No.
Research and development	-	17

In addition to the wages and salaries analysis above are the effects of the charge for share-based compensation under IFRS 2 during the year of £222,000 (2013: £230,000).

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 2014**

4. NET FINANCE COSTS AND INVESTMENT INCOME

	2014 £'000	2013 £'000
Finance costs and investment income:		
Foreign exchange loss	(102)	(85)
Income from the sale of investment	<u>1,267</u>	<u>-</u>

5. PROFIT BEFORE TAXATION

Audit fees for the audit of the Company's annual accounts, amounting to £7,500 (2013: £7,500), were borne by another group company.

The audit fees are payable to the company's auditors and their associates for the audit of the Company's annual accounts.

6. TAXATION**Analysis of tax charge/(credit):**

	2014 £'000s	2013 £'000s
Deferred tax	<u>3,540</u>	<u>1,442</u>
Total tax in the statement of comprehensive income	<u>3,540</u>	<u>1,442</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2014

6. TAXATION - continued

Factors affecting the tax charge/(credit)

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

	2014 £'000	2013 £'000
Profit on ordinary activities	<u>16,279</u>	<u>12,411</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23% (2013: 24%)	3,744	2,979
Effects of:		
Capital allowances in excess of depreciation	(11)	-
Permanent differences – expenses not deductible for tax purposes	51	55
Utilisation of tax losses brought forward	(3,493)	(3,034)
Group relief utilised	(291)	-
Movement of deferred tax asset	<u>3,540</u>	<u>1,442</u>
Tax charge/(credit)	<u>3,540</u>	<u>1,442</u>

The Company has cumulative tax losses of approximately £1,576,000 (subject to agreement by HMRC), which are available to carry forward against future taxable profits, or surrender in return for research and development tax credits (2013: £16,763,000).

Current tax

In March 2013 the UK Government announced the main rate of UK corporation tax would reduce to 21% with effect from 1 April 2014 and reduce to 20% with effect from 1 April 2015. These changes have 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.

INNOVATA LIMITED**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2014****7. GOODWILL****£'000****COST**At 1 April 2012, 1 April 2013,
and 31 March 2014

21,026

DEPRECIATIONAt 1 April 2012, 1 April 2013,
and 31 March 2014

-

NET BOOK VALUE

At 31 March 2014

21,026

At 31 March 2013

21,026

Goodwill arose following the transfer of trade and assets from Quadrant Drug Delivery Limited.

8. PROPERTY, PLANT AND EQUIPMENT**Computer
and office
equipment
£'000****COST**At 1 April 2012, 1 April 2013
and 31 March 2014

117

DEPRECIATIONAt 1 April 2012, 1 April 2013
and 31 March 2014

117

NET BOOK VALUE

At 31 March 2014

-

At 31 March 2013

-

INNOVATA LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 MARCH 2014

9. INVESTMENTS

Shares in
group
undertakings
£'000

COST AND NET BOOK VALUE

At 31 March 2013 and 31 March 2014

34,399

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

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 Limited

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.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2014

10. DEFERRED TAX ASSET

The Company has cumulative tax losses of approximately £1,576,000 (subject to agreement by HMRC), which are available to carry forward against future taxable profits, or surrender in return for research and development tax credits (2013: £16,763,000).

There is a total deferred tax asset of £351,000 relating to cumulative tax losses and capital allowances (2013 - £3,906,000), calculated at the standard rate of tax of 20%, as follows:

	2014 £'000	2013 £'000
On cumulative tax losses - recognised	315	3,855
On depreciation in excess of capital allowances - unrecognised	<u>36</u>	<u>51</u>
	<u>351</u>	<u>3,906</u>

The Company has a recognised deferred tax asset of £315,000 (2013: £3,855,000) relating to tax losses. The company has an unrecognised deferred tax asset of £36,000 (2013: £51,000) arising as a result of unclaimed capital allowances.

In March 2013 the UK Government announced the main rate of UK corporation tax would reduce to 21% with effect from 1 April 2014 and reduce to 20% with effect from 1 April 2015. These changes have been substantively enacted.

11. TRADE AND OTHER RECEIVABLES

	2014 £'000	2013 £'000
Current:		
Amounts owed by group undertakings	133,006	119,224
Prepayments and accrued income	<u>3,637</u>	<u>3,609</u>
	<u>136,643</u>	<u>122,833</u>

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

12. CALLED UP SHARE CAPITAL

	2014 £'000	2013 £'000
Allotted, called up and fully paid:		
503,242,193 ordinary shares of 1p each	<u>5,032</u>	<u>5,032</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2014

13. TRADE AND OTHER PAYABLES

	2014 £'000	2013 £'000
Current:		
Amounts owed to group undertakings	55,344	56,807
Other payables	-	33
Accruals and deferred income	<u>1,554</u>	<u>2,527</u>
	<u><u>56,898</u></u>	<u><u>59,367</u></u>

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

14. 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:

	2014 £'000	2013 £'000
Loans and receivables	<u>136,643</u>	<u>122,833</u>

All financial assets fall due within one year.

There were no provisions against impaired assets at 31 March 2014 (2013: £nil). There are no amounts past due but not impaired (2013: £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:

	2014 £'000	2013 £'000
Other	<u>56,898</u>	<u>59,367</u>

All financial liabilities fall due within one year.

14. FINANCIAL INSTRUMENTS - continued

Categories of financial instruments - continued

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.

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.

15. 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 £nil (2013: £14,000). No contributions were payable at the year-end (2013: £nil).

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2014

16. 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				
2014	434	-	-	1,537
2013	422	-	-	1,112
Vectura Limited				
2014	-	419	96,849	-
2013	182	455	81,042	-
Vectura Delivery Devices Limited				
2014	-	-	3,666	-
2013	-	-	3,666	-
Innovata Biomed Limited				
2014	136	-	28,704	-
2013	130	-	28,841	-
Quadrant Drug Delivery Limited				
2014	-	-	-	8,659
2013	-	-	-	10,857
Quadrant Technologies Limited				
2014	-	-	-	309
2013	-	-	1,887	-
Quadrant Healthcare Limited				
2014	-	-	-	16,639
2013	-	-	-	16,639
Quadrant Healthcare (UK) Limited				
2014	-	-	-	20,000
2013	-	-	-	20,000
Quadrant Holdings Cambridge Limited				
2014	-	-	-	8,200
2013	-	-	-	8,200
Andaris Group Limited				
2014	-	-	3,787	-
2013	-	-	3,787	-

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.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2014

17. 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 6FH.

18. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS

	2014 £'000	2013 £'000
Profit before taxation	16,279	12,411
Exchange movements	102	85
Investment income	<u>(1,267)</u>	<u>-</u>
	15,114	12,496
Decrease/(increase) in trade and other receivables	(13,810)	4,364
Increase/(decrease) in trade and other payables	<u>(2,469)</u>	<u>(16,775)</u>
Cash (utilised by)/generated from operations	<u><u>(1,165)</u></u>	<u><u>85</u></u>

19. 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 2014. They have been included here on the basis that part of the Group share-based compensation charge has been recharged to this company.

The Company's Directors, officers and employees hold options under the Vectura Unapproved Share Option Plan ('Unapproved Plan'), under Enterprise Management Incentive arrangements ('EMI Plan') and under the Vectura Approved Share Option Plan ('Approved Plan'). Options are granted to acquire shares at the opening market price ruling on the date of grant. In general, options vest after three years and are exercisable during a period ending ten years 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. Further information on the performance conditions of the LTIP are detailed in the Report on remuneration. At 31 March 2014, 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	482,035
22 November 2009	409,864
2 March 2010	104,758
25 May 2010	446,636
23 May 2011	1,348,100
7 June 2014 ⁽¹⁾	1,982,311
18 September 2015 ⁽¹⁾	1,564,438
7 June 2016 ⁽¹⁾	2,004,878

⁽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 Parent 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.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2014

19. EQUITY-SETTLED SHARE OPTION SCHEMES AND LONG-TERM INCENTIVE PLAN – continued

Fair value calculations

The Parent 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 2014 there were no options outstanding that were granted before this date (2013: 318,324).

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 in to the Black-Scholes pricing model were as follows:

Year of grant	2014	2013
Weighted average share price of grants during the year	163.0p	72.03p
Weighted average exercise price of grants during the year	130.40p	80.41p
Expected volatility ⁽¹⁾	41% - 45%	45% - 49%
Expected life ⁽²⁾	3-5 years	3-5 years
Expected dividends	Nil	Nil
Risk-free interest rate ⁽³⁾	0.3- 1.2%	0.3% - 0.5%

The assumptions input into the Monte Carlo model were as follows:

Weighted average share price of grants during the year	81.00p	81.50p
Weighted average exercise price of grants during the year	0.025p	0.025p
Expected volatility ⁽¹⁾	43%	49%
Expected life ⁽²⁾	3 years	3 years
Expected dividends	Nil	Nil
Risk-free interest rate ⁽³⁾	0.6%	0.4%

⁽¹⁾ Expected volatility has been calculated by reference to the Vectura Group plc'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 expected life used in the models is based on management's best estimate of behavioural consideration based on historic exercise patterns.

⁽³⁾ The risk-free interest rate is the UK Gilt Rate at the date of grant, commensurate with the expected term.

The charge is spread over the expected vesting period, utilising the fair value calculated by using the two models 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 2014, including the LTIP, was £890,000 (2013: £918,000), of which £222,000 (2013: £230, 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 2014 was £493,000 (2013: £336,000) and under the SAYE Scheme £59,000 (2013: £53,000). The estimated fair value of LTIP awards during the year ended 31 March 2014 was £780,000 (2013: £790,000).

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2014

19. EQUITY-SETTLED SHARE OPTION SCHEMES AND LONG-TERM INCENTIVE PLAN – continued

Options Outstanding	Share Option Schemes		SAYE Scheme		LTIP	
	Number of Options	WAEP*	Number of Options	WAEP*	Number of Options	WAEP*
At 1 April 2012	13,735,473	79.77	1,656,518	50.43	10,905,510	0.025
Options granted	153,833	66.75	170,367	76.80	1,710,423	0.025
Options exercised	(1,061,980)	48.52	(225,634)	51.32	(482,121)	0.025
Options cancelled	(137,887)	80.81	(41,583)	58.32	(2,134,079)	0.025
At 31 March 2013	12,689,439	60.64	1,559,668	53.50	9,999,733	0.025
Options granted	-	-	115,930	130.40	2,004,878	-
Options exercised	(5,167,784)	61.19	(171,736)	55.50	(646,484)	0.025
Options cancelled	-	-	(37,539)	47.95	(3,015,107)	-
At 31 March 2014	7,521,655	61.67	1,466,323	59.41	8,343,020	0.025
Range of exercise prices	0.025p – 104.00p		47.40p -130.4p		0.025p	
Weighted average remaining contractual life (years)	2.19 (2013: 2.43)		1.67 (2013: 2.30)		6.05 (2013: 6.37)	
Options Vested						
At 31 March 2013	11,915,629	60.64	-	-	3,266,926	0.025
At 31 March 2014	6,989,739	59.75	-	-	2,791,393	0.025
Weighted average remaining contractual life (years)	1.08 (2013: 2.08)		-		2.82 (2013: 3.81)	

* Weighted average exercise price (p)