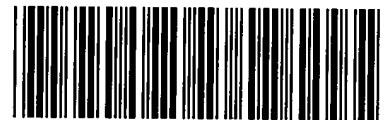


REGISTERED NUMBER: 02148607 (England and Wales)

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2015
FOR
INNOVATA LIMITED**

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INNOVATA LIMITED

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FOR THE YEAR ENDED 31 MARCH 2015**

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INNOVATA LIMITED

**COMPANY INFORMATION
FOR THE YEAR ENDED 31 MARCH 2015**

DIRECTORS:	A J Oakley T M Phillips J Ward-Lilley
REGISTERED OFFICE:	One Prospect West Chippenham Wiltshire SN14 6FH, UK
REGISTERED NUMBER:	02148607 (England and Wales)
AUDITOR:	Deloitte LLP 3 Rivergate Temple Quay Bristol BS1 6GD, UK
SOLICITORS:	Olswang 90 High Holborn London WC1V 6XX, UK
BANKERS:	Barclays Bank plc. 28 Chesterton Road Cambridge CB4 3AZ, UK

INNOVATA LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2015

Innovata Limited ("the Company") is a wholly-owned subsidiary of Vectura Group plc ("Vectura Group"). The Directors have concluded that the strategy adopted by Vectura Group as a whole is applicable to the Company. References to Vectura Group/the Group within this strategic report are directly or indirectly substitutable for the Company.

The portfolio of the Vectura Group has emerged from that of product development, formulation and drug delivery expertise and is currently centred on developing inhaled products to address unmet needs in airways diseases.

The Group continues to focus on balancing the unmet needs of all stakeholders (patients, physicians, payors) with commercial attractiveness and exploiting valuable niches in our therapeutic space.

PRINCIPAL ACTIVITY

The principal activity of the Company in the year under review was that of 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

The therapeutic focus of the Vectura Group is to develop products for airways diseases. These include major diseases, such as asthma and chronic obstructive pulmonary disease (COPD). This market is estimated to be worth in excess of US\$44 billion worldwide¹; the market segment covers a wide range of other indications including cough, severe inflammation, cystic fibrosis, allergic rhinitis, and fibrotic diseases of the lung.

How we work

The Vectura Group develops 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 a number of products marketed by partners and a portfolio of drugs in clinical development, a number of which have been licensed to major pharmaceutical companies. The Vectura Group has an array of enabling devices and formulation technologies vastly amplifies the commercial potential of our products. These formulation and inhalation technologies are available to other pharmaceutical companies on an out-licensing basis where this complements the product development strategy of the Vectura Group.

REVIEW OF BUSINESS

Revenue

Revenue of £12,678,000 (2013/14: £15,704,000) comprises three revenue streams: royalty revenue, technology licensing and development services revenue. Technology licensing revenues in 2013/14 were inclusive of a £2.0m non-recurring milestone receipt relating to an agreement with ProFibrix and royalty revenue has decreased by £0.5m as a result of the expiry of patents relating to Extranal[®]. Development services revenue has reduced to nil in 2014/15 (2013/14: £419,000)

Profit before tax

Profit before tax has fallen by 24% in the year to £12,345,000 (2013/2014: £16,279,000). This decrease in profit is the result of falling revenues during the period and a decrease in investment income recognised during the year. In 2014, the Company received a non-recurring receipt of £1,267,000 which related to the sale of an investment.

Cash flow

Cash and cash equivalents at the year-end were £nil (2014: £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.

¹ Decision Resources 2014

INNOVATA LIMITED

STRATEGIC REPORT – continued FOR THE YEAR ENDED 31 MARCH 2015

FUTURE DEVELOPMENTS

During the year, the Vectura Group completed a review of its portfolio, which has been prioritised and aligned to the strategy and which we believe will deliver maximum value capture in the period to 2021. Vectura Group's journey to becoming a specialty pharmaceutical company was launched from a base of income generated from partnered products with a growing range of royalties contributing to an increased quality revenue mix; we have described this as our hybrid business model. This model builds on the partnering model we have pursued historically and foresees Vectura Group pursuing higher returns on investment, where possible, through co-development deals and self-commercialisation of focused, specialty pharmaceutical assets. The strategy aims to balance investment in growth opportunities with the delivery of higher returns.

KEY PERFORMANCE INDICATORS

Revenue growth

Revenue decreased by 19% to £12,678,000 mainly driven by the expiry of certain patents.

EBITDA progression

EBITDA is a measure of the Company's underlying operating performance and is calculated by adjusting the Company's operational result for non-cash including share-based compensation and non-recurring items. EBITDA has decreased to £12,351,000 (2013/14: £15,336,000). EBITDA shows the Company's ability to generate returns on investment over time.

Progressing and commercialising our product pipeline

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

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

	2014/15	2013/14	2012/13
Project milestones completed	9	13	4
Clinical studies completed	1	2	1

Maintaining and strengthening our intellectual property portfolio

Innovation is the foundation of our business and the Vectura Group continues to invest in its people and its technologies. This investment is important to enable us to deliver our strategy and maintain our position as a key enabler of inhaled product delivery within the field of airways-related diseases.

	2014/15	2013/14	2012/13
Total patent families	107	100	107

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks specific to the business have been outlined below together with an explanation of how we manage and mitigate them. By virtue of being a member of the Vectura Group the Company is directly exposed to these risks which are either specific to the Vectura Group or are more generally applicable to the pharmaceutical industry or specific markets within which the Vectura Group operates.

Strategic risks

1. Implementation of strategy

In order to become a specialty pharmaceutical company, the Vectura Group needs to transition to a hybrid business model focused on driving R&D to its earliest inflection point for value realisation whilst actively evaluating the landscape for attractive M&A opportunities.

Delivering this strategy requires significant decisions to be made, including decisions on M&A activity, investment capex and balance of product development versus partnerships.

Failure to make these strategic decisions in a timely manner may mean that strategic or commercial opportunities are missed or are not maximised.

2. Identification and execution of merger and acquisition activity and integration of acquired business and assets

The Vectura Group is at a pivotal point in its maturity and strategic direction, and in order to deliver our Board-approved strategy of becoming a specialty pharmaceutical company we must undertake further M&A activity. Realising anticipated benefits from such acquisitions depends upon how well we identify M&A targets, how well we conduct due diligence and how well we integrate acquired businesses and assets into our business operations. A shortage of skills, experience and transactional capability in certain aspects of M&A due diligence and post-acquisition integration could result in the sub-optimal management of acquisitions, eroding enterprise value and delaying our transition to a specialty pharmaceutical company.

Mitigating activities

We have established processes in place to manage acquisitions and the associated due diligence prior to acquisition. Our internal due diligence teams are supported by external subject matter experts to ensure that the wider due diligence team has the appropriate breadth and depth of knowledge and experience.

Structured post-acquisition integration plans are established to ensure that integration is executed successfully.

3. Recruitment and retention of key employees

The Vectura Group operates in a specialised industry and in order to deliver against our strategic objectives we require highly skilled and experienced employees. Challenges in attracting, retaining and motivating such employees may impact our ability to maintain performance levels and to deliver against the Group's strategic growth objectives.

Mitigating activities

A comprehensive review of total remuneration packages is underway to ensure that our pay and benefits are market competitive.

The Vectura Group is positive about developing all employees for current and future roles and our career development and talent management programmes remain a key area of focus for our management team. We continue to invest in ongoing training and development.

Succession plans for key roles are being developed to ensure that a talent pool is identified, developed and ready for succession.

PRINCIPAL RISKS AND UNCERTAINTIES – continued

Operational risks

4. Operational disruption

A significant and prolonged disruption to a research and development or manufacturing operation upon which the Vectura Group relies could result in a substantial loss of royalty revenues, other liabilities or a significant delay to a development programme.

Mitigating activities

The Vectura Group identifies key suppliers in relation to its business and, where possible, alternative sources of supply are sought, although this is not always economically feasible.

Where appropriate, the Vectura Group holds duplicates for business-critical equipment. We have established good working relationships with the manufacturers of business-critical equipment and we monitor our supplier relationships to ensure effective and responsive service levels.

Contingency is built into product development plans, and Group-wide business continuity plans have been established. Our operational team is currently reviewing our business continuity procedures and intends to undertake crisis simulations to test the robustness of our arrangements.

The Vectura Group has insurance, subject to certain exclusions and deductibles, against the usual insurable perils, such as property damage and other business interrupting events.

5. Foreign exchange risk

A substantial proportion of Vectura Group's income from collaborative agreements is received in US dollars and euros and expenditure is predominantly incurred in pounds sterling. To the extent that Vectura's foreign currency assets and liabilities are not matched, fluctuations in exchange rates between pounds sterling, the US dollar and the euro may result in realised or unrealised exchange gains and losses on translation of the underlying currency into our presentational and functional currency of pounds sterling. Such gains or losses may increase or decrease the operating result of a Vectura Group entity and may adversely affect the financial condition of the Vectura Group, each as stated in pounds sterling. In addition, if the currencies in which the Vectura Group earns its revenues and/or holds its cash balances weaken against the currencies in which it incurs its expenses, this could adversely affect profitability and liquidity.

Mitigating activities

Where known foreign currency liabilities arise, foreign currency revenue receipts are retained on deposit in the appropriate currency in order to offset the exchange risk on these liabilities. As at 31 March 2015, the Vectura Group had sufficient euro and US dollar reserves to cover its immediate and short-term liabilities in respect of these currencies.

Where a substantial net foreign currency liability exists, the Vectura Group will consider hedging against it to minimise foreign currency expense. However, such hedging is based on estimates of liabilities and future revenues and will not fully eliminate future foreign currency exchange fluctuations.

PRINCIPAL RISKS AND UNCERTAINTIES – continued

Broader risks specific to the pharmaceutical industry

6. Regulatory approvals

The international pharmaceutical industry is highly regulated by governmental authorities in the UK, the US and Europe and by regulatory agencies in other countries where the Vectura Group or a collaborator intends to test or market products they may develop. These regulatory requirements are a major factor in determining whether a substance can be developed into a marketable product and the amount of time and expense associated with such development. There can be no assurance that a Vectura Group product, or the product of a collaborator will receive and maintain regulatory approval. Even if products are approved, they may still face subsequent regulatory difficulties. Such difficulties may result in financial loss and reputational damage.

Mitigating activities

The Vectura Group works closely with expert regulatory advisors and, when appropriate, seeks advice from regulatory authorities on the design of key development plans for pre-clinical and clinical programmes.

In respect of collaborations and partnerships, the Vectura Group works with a number of blue-chip pharmaceutical partners such as Novartis, Sandoz, Baxter and GSK, who have significant regulatory expertise.

7. Unforeseen side effects

All drugs have a risk of adverse reactions and side effects and therefore unforeseen side effects may result from the use of a Vectura Group product or product candidate, or the product or product candidate of a collaborator. This is an inherent risk which may be identified at any time, even after a product has been approved and sold commercially. Discovery of unforeseen side effects, other than those acceptable to the regulators, may result in a substantial loss of royalty revenues, other liabilities, a significant delay to a development programme or withdrawal or suspension of regulatory approval.

Mitigating activities

The Vectura Group and its collaborators conduct extensive pre-clinical and clinical trials, designed to test for and identify any adverse side effects. In addition, there is a significant amount of safety data available regarding existing marketed products to which Vectura Group's generic products relate.

8. Partnerships

The Vectura Group currently has a number of strategically important partnerships, collaborations and licensing arrangements for development, manufacture and commercialisation of certain of its pipeline assets. Loss of any one of these strategically important partnerships, collaborations or licensing arrangements could have a material impact on the future prospects of the Vectura Group. The Vectura Group is also reliant on suppliers for the development and manufacture of certain devices. Any poor performance of the third parties could delay or prevent devices from being successfully developed and delivered to plan. This could result in key development milestones being missed or associated payments being delayed and could also affect partners' confidence in the ability of the Vectura Group to deliver.

Mitigating activities

The Vectura Group has an agreed process for managing entering agreements and this includes appropriate oversight and approval at Board level. All collaborations are performed under a suitable legal agreement which is assessed by Vectura and its external legal advisors.

Typically, for collaborations a Joint Steering Committee (JSC) will be established, which provides a mechanism by which the Vectura Group can ensure that any joint project team activity is managed appropriately within our standard project management processes.

An alliance manager is identified for all licensing partnerships or contract research organisation engagements.

PRINCIPAL RISKS AND UNCERTAINTIES – continued

Broader risks specific to the pharmaceutical industry – continued

9. Pricing and reimbursement

The Vectura Group or our collaborators may not be able to sell its products profitably if reimbursement from third-party payors, including government and private health insurers, is unavailable or limited.

A significant portion of the Vectura Group's future revenue is likely to depend on payments by third-party payors, including government health administration authorities and private health insurers. As such, the Vectura Group may be adversely affected by third-party reimbursement and healthcare cost containment initiatives.

The Vectura Group may not be able to sell its products profitably if reimbursement from these sources is unavailable or limited. Third-party payors are increasingly attempting to contain healthcare costs through measures that are likely to impact the products that the Vectura Group is developing, including:

- challenging the prices charged for healthcare products, limiting both coverage and the amount of reimbursement for new therapeutic products, and denying or limiting coverage for new products that are approved by the regulatory agencies; and
- refusing to provide coverage when an approved drug is used in a way that has not received regulatory marketing approval.

In addition, in many European countries, there has been an increasing trend towards reference pricing, where the amount of reimbursement is determined in light of reimbursement levels for comparable drugs in other European countries. This is likely to severely restrict the potential per unit price for many new drugs unless such drugs can be significantly differentiated from existing products. If products developed by the Vectura Group or its partners are not covered by government or other third-party reimbursement schemes, are reimbursed at prices lower than those expected by the Vectura Group, or become subject to legislation controlling treatments or pricing, the Vectura Group and/or its partners may not be able to generate significant revenue or attain profitability for any product candidates which are approved for marketing.

Mitigating activities

Where appropriate, products may be out-licensed to partners who have the expertise to commercialise products and negotiate pricing structures with third-party payors, especially in disease indications that require large sales forces. Should the Vectura Group self-commercialise, this would be targeted commercialisation for niche products with significant unmet need, which requires a small sales force to target specialist physicians.

The Vectura Group business model includes bringing highly innovative products to address unmet needs and we are also involved in a number of generics programmes which support government initiatives to reduce costs. This adds balance to our business model in an era of increasing cost containment.

PRINCIPAL RISKS AND UNCERTAINTIES – continued

Broader risks specific to the pharmaceutical industry – continued

10. Competition

Vectura Group's business faces intense competition from a range of pharmaceutical and biotechnology companies. Technological changes could overtake the products being developed by the Vectura Group or by its collaborators.

Vectura Group's competitors in the biotechnology and pharmaceutical industries may have superior research and development capabilities, products, manufacturing capability or sales and marketing expertise. Many of Vectura Group's competitors have significantly greater financial and human resources and may have more experience in research, development and commercialisation. As a result, Vectura Group's competitors may develop safer or more effective products, implement more effective sales and marketing programmes or be able to establish superior proprietary positions. In addition, we anticipate that Vectura Group will face increased competition in the future as new companies enter Vectura Group's markets and alternative products and technologies become available.

Mitigating activities

The Vectura Group performs detailed reviews of the development process and progress of projects through trials.

For programmes managed in-house, the Vectura Group has an established project management framework. The potential commercial opportunities for each project are assessed at the end of each stage of the project. Projects are assessed using widely accepted valuation metrics based upon discounted cash flows. These cash flows are discounted using a hurdle rate that is in line with industry standards and the expected return of each project is further risk adjusted by its phase of development. The Vectura Group has experienced development and commercial teams who all contribute to this assessment. This in-house review is supplemented by well-regarded disease area reports and, where appropriate, bespoke market research.

Under this framework, research and development programmes will only be approved by the Board if it can be shown that the expected benefits outweigh the expected costs. All programmes are subject to a stage-gate approval process and in the event that it was no longer considered that future revenues would be higher than future costs, the Board would consider terminating or redefining the programme.

Where appropriate, the Vectura Group looks to mitigate the development and commercial risk of its product pipeline by partnering drug candidates at an appropriate stage. The partnering event crystallises part of the programme's value, with the goal of retaining an attractive proportion of the commercial upside through future milestones and an ongoing royalty interest from commercial sales. The Vectura Group's current royalty generating products are expected to continue to provide royalties until patent expiry or until the Vectura Group is no longer entitled to receive royalties in accordance with a licence agreement.

The Vectura Group works closely with its advisors and obtains, where necessary, opinions on the intellectual property landscape relevant to the Vectura Group's product development programmes and manufacturing activities and processes. In addition, the Vectura Group works with a number of key licensing partners who have significant expertise in the research, development and commercialisation of pharmaceuticals. These licensing partners have access to significant financial and human resources.

11. Product liability

In carrying out its activities the Vectura Group will potentially face contractual and statutory claims, or other types of claim from customers, suppliers and/or investors.

The Vectura Group is exposed to potential product liability risks that are inherent in the research, the pre-clinical and clinical evaluation, pre-clinical study, clinical trials, manufacturing, marketing and use of pharmaceutical products. Consumers, healthcare producers or persons selling products based on Vectura Group technology or technology of our collaborators' may be able to bring claims against the Vectura Group based on the use of such products in clinical trials and the sale of products.

PRINCIPAL RISKS AND UNCERTAINTIES – continued

11. Product liability – continued

Mitigating activities

The Vectura Group maintains an appropriate level of product liability insurance and operates quality systems relating to the manufacture of products. The Vectura Group has a pharmacovigilance system to monitor safety events arising with respects to products sold.

The Vectura Group's insurance portfolio also includes other third-party liability insurances which would provide cover in the event of certain other contractual or statutory claims.

12. Intellectual Property

The Vectura Group's success depends in part on its ability to obtain and maintain protection for its inventions and proprietary information, so that the Vectura Group or our partners can exclude others from making, using or selling its patented products. A failure to establish, maintain or enforce intellectual property which is significant to the Vectura Group's competitive position may have a material impact on our future prospects.

Mitigating activities

The Vectura Group owns a portfolio of patents and patent applications and is the authorised licensee of other patents. Processes are in place to ensure that patent applications are filed in a timely manner and that applications are prosecuted to grant and defended as appropriate.

The Vectura Group has a dedicated IP team, who work closely with legal advisors and obtains, where necessary, freedom to operate and patentability opinions on the intellectual property landscape relevant to our product development programmes, manufacturing activities and processes.

Reasonable security measures are adopted to protect other intellectual property, including appropriate confidentiality provisions and agreements with collaborators, consultants and employees.

All our licensing and collaboration agreements contain provisions that underpin the strength and value of our patent estate and all staff are trained to help the Vectura Group maximise patent value and identify opportunities for new patent protection.

CORPORATE SOCIAL RESPONSIBILITY

The Vectura Group remains committed to ensuring that our business activities are conducted in a responsible manner for the benefit of our stakeholders. In achieving this objective, the Vectura Group focuses its activities in four key areas which we believe are most relevant to our business: our people, our local communities, our environmental footprint and our governance.

The Vectura Group believes that having empowered people, who understand their responsibilities, who display sound judgement and who act in an ethical way, is key to the on-going success and development of the business.

Our people

Our values

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

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

CORPORATE SOCIAL RESPONSIBILITY – continued

Our employment practices

The Vectura Group encourages diversity, throughout all levels of the organisation. We believe that individual success depends on ability, behaviour, performance and evidenced potential and we remain committed to offering career opportunities without discrimination. Our commitment to equal opportunities, diversity and non-discrimination is enshrined in our working practices and policies; we operate on the basis of mutual respect and we do not tolerate discrimination or harassment on any basis. Our diversity and equal opportunities policy covers all permanent and temporary employees, including Executive and Non-Executive Directors, job applicants, agency staff, associates, consultants and contractors. We give full and fair consideration to every job application we receive. The Company has not set formal diversity quotas or targets and all appointments, both internal and external, are ultimately made on the basis of merit. Where possible, we support part-time and flexible working with around 16% of our employees benefiting from some kind of flexible working practice.

Dr Trevor Phillips is the Board member responsible for overseeing human resources and non-discrimination issues.

Employee involvement

We value the opinions and experience of our people. Effective and engaging communication is at the heart of our internal communication strategy. In an industry based on innovation and research and development, our employees are our biggest asset and it is therefore critical that we forge strong connections through timely and meaningful communication. We have established Staff and Managers' Forums. These forums provide a mechanism by which all employees can raise issues that matter to them for discussion, to enable employee feedback and to facilitate the communication and dissemination of key information throughout the organisation.

We recognise that effective communication is a two-way, open exchange of ideas and opinions. Our employees host regular "Lunchtime Seminars", during which individuals can present on a topic that is relevant to their work or to the work of the Company. These sessions can be accessed remotely by all staff, using video conferencing facilities, and they are designed to promote and enable peer learning. In addition, we promote the use of employee-led and facilitated "creative thinking" workshops; these sessions encourage shared problem solving, which we believe fosters an inclusive and innovative working environment. The circulation of press announcements and internal newsletters, monthly all-staff Chief Executive video link updates as well as quarterly individual site Chief Executive Q&A sessions keep employees informed of business developments and performance.

In the forthcoming year, we plan to implement biennial employee engagement surveys. The results of these surveys will be openly communicated and will form the basis for action plans which address any areas for improvement and build on our strengths.

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

Developing and rewarding our people

Attracting and retaining skilled people with values aligned to our company ethos is critical for our business and we aim to develop and maintain a motivated and professional workforce. As such, we recognise the importance of investing in our people, ensuring that they are equipped to deliver in their current and future roles within the business.

In addition to investment in general training and development, Vectura offers all employees the opportunity to apply for scholarship funding. The Meakin Scholarship provides substantial financial assistance to those who wish to pursue further self-development, largely in their own time. Any course that would significantly enhance an employee's skills whilst benefiting the Company is considered.

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

CORPORATE SOCIAL RESPONSIBILITY – continued

Our local communities

Community investment

We consider that one of the most significant impacts we can have within our local communities is to continue to provide high-quality employment opportunities and to develop therapies to help patients with airways-related diseases. In addition, we support the STEM (Science, Technology, Engineering and Mathematics) initiative, which is a major government programme whereby our employees actively help local schoolchildren to gain the understanding, capabilities and skills to flourish in a scientific environment such as ours.

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

Health and safety

The Vectura Group considers health and safety to be a priority in its workplaces. We have an established Health and Safety Committee that reviews health and safety standards within the organisation. The Committee continually monitors and reviews health and safety practices to ensure that health and safety management procedures are robust and in line with industry best practice. Annual updates are provided to the Board for review and additional update reports are provided as required. Trevor Phillips is the Board member to whom responsibility for health and safety issues has been delegated. Specialist on-going training is provided to those individuals who are responsible for health and safety across the organisation. General health and safety training is delivered to all staff via in-house training sessions provided by our Health and Safety Manager and by e-learning courses. The Group has an excellent safety record and there have been no major incidents or accidents reported to the Health and Safety Committee during the year (2013/14: none).

Our environmental footprint

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

The internal operational goals of Vectura Group include objectives to reduce our environmental footprint by controlling the use of energy and materials. To help us achieve these objectives, a Green Action Team meets regularly and has responsibility to pursue initiatives for environmental sustainability and carbon reduction.

Green Action Team

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

Our environmental policies

Our company environmental policy is modelled on ISO14001 standards, and all staff are required to read and comply with Company’s green working policy. Induction procedures for new staff include sufficient information to ensure a high level of compliance with our environmental standards.

INNOVATA LIMITED

**STRATEGIC REPORT – continued
FOR THE YEAR ENDED 31 MARCH 2015**

CORPORATE SOCIAL RESPONSIBILITY – continued

Waste management

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

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

The Carbon Disclosure Project

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

Our Governance

Our ethical and social policies

The Company's principal activities are undertaken within the pharmaceutical industry, which is subject to a highly regulated ethical framework with which the Vectura Group complies. In addition, the Company seeks to conduct its activities generally in accordance with good business ethics. We have adopted a clear anti-bribery policy, which has been communicated to all employees so they can recognise and avoid the use of bribery and report any suspicion for rigorous investigation. Political donations are prohibited and advance approval from management is required before management and staff may accept or solicit a gift of any kind. We do not believe that human rights issues present a significant issue for the Company, but we are committed to protecting the human rights of our employees and the people who come into contact with our business.

The Strategic Report which comprises pages 2 to 12 has been approved and signed on behalf of the Board:

ON BEHALF OF THE BOARD:


A J Oakley - Director

Date: 3 MARCH 2016

INNOVATA LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 MARCH 2015

The Directors present their annual report with the audited financial statements of the Company for the year ended 31 March 2015.

GOING CONCERN

The Company made a profit after tax of £12,030,000 for the year ended 31 March 2015 (2013/2014: £12,739,000).

The Company's Directors have reviewed the Group's detailed cash flow forecast for the foreseeable future, 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. 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 financial statements.

DIVIDENDS

The Directors do not recommend the payment of a dividend (2013/14: £nil).

DIRECTORS

The Directors shown below have held office during the whole of the period from 1 April 2014 to the date of this report, unless otherwise stated:

C P Blackwell (resigned 1 July 2015)
A J Oakley (appointed 1 January 2015)
P S Oliver (resigned 1 January 2015)
T M Phillips (appointed 1 July 2015)
J Ward-Lilley (appointed 1 October 2015)

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year, no political or charitable contributions were made (2013/14: nil).

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;
- 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.

INNOVATA LIMITED

**REPORT OF THE DIRECTORS – continued
FOR THE YEAR ENDED 31 MARCH 2015**

STATEMENT OF DIRECTORS' RESPONSIBILITIES – continued

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 as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the strategic 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 which they face; and,
- the annual report and financial statements, taken as whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

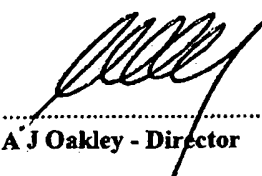
AUDITOR

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:


.....
A J Oakley - Director

Date: 3 MARCH 2016

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 2015 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 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 2015 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; or
- 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: 3 March 2016

INNOVATA LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2015**

	Note	2015 £'000	2014 £'000
CONTINUING OPERATIONS			
Revenue	2	12,678	15,704
Cost of sales		<u>-</u>	<u>-</u>
GROSS PROFIT		12,678	15,704
Research and development expenses		(184)	(164)
Other administrative expenses		(143)	(204)
Share-based compensation		<u>(177)</u>	<u>(222)</u>
OPERATING PROFIT		12,174	15,114
Investment income	4	79	1,267
Finance gains/(costs)	4	<u>92</u>	<u>(102)</u>
PROFIT BEFORE TAXATION	5	12,345	16,279
Taxation	6	<u>(315)</u>	<u>(3,540)</u>
PROFIT FOR THE YEAR, BEING TOTAL COMPREHENSIVE INCOME		<u>12,030</u>	<u>12,739</u>

INNOVATA LIMITED

BALANCE SHEET
31 MARCH 2015

	Note	2015 £'000	2014 £'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	6	-	315
Trade and other receivables	10	149,430	136,643
		<u>149,430</u>	<u>136,958</u>
TOTAL ASSETS		<u>204,855</u>	<u>192,383</u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	11	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		26,240	14,210
TOTAL EQUITY		<u>147,515</u>	<u>135,485</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	12	57,340	56,898
TOTAL LIABILITIES		<u>57,340</u>	<u>56,898</u>
TOTAL EQUITY AND LIABILITIES		<u>204,855</u>	<u>192,383</u>

The financial statements of Innovata Limited, registered number 02148607, were approved and authorised for issue by the Board of Directors on 3 MARCH 2016 and were signed on its behalf by:


.....
A J Oakley - Director

INNOVATA LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2015**

	Called up share capital £'000	Share premium £'000	Special reserve £'000
Balance at 1 April 2013	5,032	73,326	4,049
Changes in equity			
Total comprehensive income	-	-	-
Balance at 31 March 2014	5,032	73,326	4,049
Changes in equity			
Total comprehensive income	-	-	-
Balance at 31 March 2015	5,032	73,326	4,049

	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2013	36,984	1,884	1,471	122,746
Changes in equity				
Total comprehensive income	-	-	12,739	12,739
Balance at 31 March 2014	36,984	1,884	14,210	135,485
Changes in equity				
Total comprehensive income	-	-	12,030	12,030
Balance at 31 March 2015	36,984	1,884	26,240	147,515

INNOVATA LIMITED

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2015**

		2015	2014
	Note	£'000	£'000
Cash flows utilised by operations			
Cash utilised by operations	17	(171)	(1,165)
Exchange movements		92	(102)
R&D tax credits received		-	-
Net cash utilised by operating activities		<u>(79)</u>	<u>(1,267)</u>
Cash flows from investing activities			
Purchase of tangible fixed assets		-	-
Sale of tangible fixed assets		-	-
Receipt on disposal of investments		<u>79</u>	<u>1,267</u>
Net cash from investing activities		<u>79</u>	<u>1,267</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>

INNOVATA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 and IFRSs and related interpretations as adopted by the European Union.

The financial statements have been prepared on the historical cost basis, revised for use of fair values where required by applicable IFRS. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if a market participant would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value measurement and/or disclosure purposes in these financial statements is determined on such basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

The 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 financial statements.

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 licensing

Technology 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. Milestone payments relating to scientific or technical achievements are recognised as income when the milestone is accomplished. Certain development milestones are deferred and amortised on a systematic basis, in line with contractual obligations for the period of development.

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.

Development services

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

Device sales

Device sales are recognised when goods are delivered to customers.

Interest income

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

NOTES TO THE FINANCIAL STATEMENTS – continued
FOR THE YEAR ENDED 31 MARCH 2015

1. SIGNIFICANT ACCOUNTING POLICIES – continued

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%

Inventories

Inventories comprise goods held for resale and are stated at the lower of cost and net realisable value. Costs include the direct costs and, where applicable, an attributable portion of distribution overheads incurred in bringing inventories to their current location and condition. Cost is determined on a first-in, first-out basis. Net realisable value is based upon estimated selling price, less any further costs expected to be incurred in completion and disposal.

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.

**NOTES TO THE FINANCIAL STATEMENTS – continued
FOR THE YEAR ENDED 31 MARCH 2015**

1. SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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.

Leasing

Operating leases and the annual rentals are charged to the statement of comprehensive income on a straight-line basis over the period of the lease in accordance with the terms of the lease agreements.

**NOTES TO THE FINANCIAL STATEMENTS – continued
FOR THE YEAR ENDED 31 MARCH 2015**

1. SIGNIFICANT ACCOUNTING POLICIES – continued

Post-retirement benefits

Payments to defined-contribution retirement benefit schemes are charged as an expense as they fall due.

Going concern

The financial statements have been prepared under the going concern basis.

The Company made a profit of £12,030,000 for the year ended 31 March 2015 (2013/14: £12,739,000).

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 financial statements, 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 financial statements.

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.

1. SIGNIFICANT ACCOUNTING POLICIES – continued

Share-based payments – continued

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.

Investments

Investments are carried at historic costs, less any provisions for impairment.

Trade and other receivables

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision is made when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

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.

**NOTES TO THE FINANCIAL STATEMENTS – continued
FOR THE YEAR ENDED 31 MARCH 2015**

1. SIGNIFICANT ACCOUNTING POLICIES – continued

Adoption of new accounting Standards and Interpretations

Amendments to IFRSs and the new Interpretation that are mandatorily effective for the current year

In the current year, the Company has applied a number of amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2014. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The Company has adopted the amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets for the first time in the current year. The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The Company has adopted the amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting for the first time in the current year. The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The Company does not have any derivatives that are subject to novation.

IFRIC 21 Levies

The Company has adopted IFRIC 21 Levies for the first time in the current year. IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

Amendments to IAS 32 Offsetting financial assets and financial liabilities

The Company has adopted the amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off', and simultaneous realisation and settlement.

The Company does not have any financial assets and financial liabilities that qualify for offset.

INNOVATA LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 MARCH 2015

1. SIGNIFICANT ACCOUNTING POLICIES – continued

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

IFRS 9	<i>Financial Instruments</i>
IFRS 15	<i>Revenue from Contracts with Customers</i>
IAS 16 and IAS 38 (amendments)	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
IAS 16 and IAS 41 (amendments)	<i>Agriculture: Bearer Plants</i>
IAS 19 (amendments)	<i>Defined Benefit Plans: Employee Contributions</i>
IAS 27 (amendments)	<i>Equity Method in Separate Financial Statements</i>
IFRS 10 and IAS 28 (amendments)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Annual Improvements to IFRSs:	<i>2010-2012 Amendments to: IFRS2: Share-based Payments, IFRS 3 Business Combinations, IFRS 8 Operating Segments, IFRS 13 Fair Value Measurement, IAS 16 Property, Plant and Equipment, IAS 24 Related Party Disclosures and IAS 38 Intangible Assets.</i>
Annual Improvements to IFRSs:	<i>2011-2013 Amendments to: IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 3 Business Combinations, IFRS 13 Fair Value Measurement and IAS 40 Investment Property.</i>
Annual Improvements to IFRSs:	<i>2012-2014 Cycle Amendments to: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting.</i>

Adoption of new accounting Standards and Interpretations – continued

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, except that IFRS 9 will impact both the measurement and disclosures of financial instruments and IFRS 15 may have an impact on revenue recognition and related disclosures. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 and IFRS 15 until a detailed review has been completed.

INNOVATA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2015**

2. REVENUE

	2015	2014
<u>Revenue by category</u>	£'000	£'000
Royalties	12,531	13,120
Development income	-	419
Technology licensing	147	2,165
	<u>12,678</u>	<u>15,704</u>
	2015	2014
<u>Revenue by customer location</u>	£'000	£'000
United Kingdom	178	596
Rest of Europe	105	-
United States of America	12,384	12,996
Rest of World	11	2,112
Total	<u>12,678</u>	<u>15,704</u>

Information about major customers

Revenue earned from the Company's major customers was as follows: Customer A – £12,384,000 (2013/14: £12,996,000).

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.

INNOVATA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2015**

3. EMPLOYEES AND DIRECTORS

	2015 £'000	2014 £'000
Wages and salaries	-	-
Social security	-	-
Other pension costs	-	-
	<u>-</u>	<u>-</u>

The average monthly number of employees during the year was:	2015 No.	2014 No.
--	---------------------	---------------------

Research and development	<u>-</u>	<u>-</u>
---------------------------------	----------	----------

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 £177,000 (2013/14: £222,000).

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.

4. INVESTMENT INCOME AND FINANCE GAINS/(COSTS)

	2015 £'000	2014 £'000
Investment income:		
Income from sale of investment	<u>79</u>	<u>1,267</u>
Finance gains/(costs):		
Foreign exchange gains/(losses)	<u>92</u>	<u>(102)</u>
Net finance income	<u>171</u>	<u>1,165</u>

INNOVATA LIMITED**NOTES TO THE FINANCIAL STATEMENTS – continued
FOR THE YEAR ENDED 31 MARCH 2015****5. PROFIT BEFORE TAXATION**

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

	2015 £'000	2014 £'000
Depreciation of property, plant and equipment	-	-
Profit on disposal of investments	(79)	(1,267)
Share-based compensation	177	222
Staff costs (see note 3)	-	-

Audit fees amounting to £7,500 (2013/14: £7,500) were borne by another group company. Audit fees, which are payable to the Company's auditor and their associates, relate to the annual audit of the Company's financial statements.

6. TAXATION**Analysis of tax charge:**

	2015 £'000	2014 £'000
Deferred tax	315	3,540
Total tax expense in statement of comprehensive income	315	3,540

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:

	2015 £'000	2014 £'000
Profit before tax	12,345	16,279
Profit before tax multiplied by the standard rate of corporation tax in the UK of 21% (2013/14: 23%)	2,592	3,744
Effects of:		
Capital allowances in excess of depreciation	(37)	(11)
Expenses not deductible for tax purposes	176	51
Utilisation of tax losses brought forward	(342)	(3,493)
Group relief utilised	(2,389)	(291)
Decrease in net deferred tax asset	315	3,540
Tax charge	315	3,540

INNOVATA LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 MARCH 2015

6. TAXATION – continued

In March 2014, the UK government announced the main rate of UK corporation tax would reduce to 20% with effect from 1 April 2015. This change has been substantively enacted and therefore UK deferred tax assets and liabilities are recognised at a rate of 20% (2014: 20%).

There is a total unrecognised deferred tax asset of £71,000 relating to capital allowances (2014: £351,000), calculated at the main rate of tax of 20%, as follows:

	2015 £'000	2014 £'000
On cumulative tax losses – recognised	-	315
On depreciation in excess of capital allowances – unrecognised	71	36
	<u>71</u>	<u>351</u>

7. GOODWILL

CARRYING VALUE

At 1 April 2013 and at 1 April 2014

£'000

21,026

At 31 March 2015

21,026

8. PROPERTY, PLANT AND EQUIPMENT

COST

At 1 April 2013 and at 1 April 2014

117

At 31 March 2015

117

DEPRECIATION

At 1 April 2013 and at 1 April 2014

117

At 31 March 2015

117

NET BOOK VALUE

At 31 March 2015

-

At 31 March 2014

-

At 31 March 2013

-

INNOVATA LIMITED

NOTES TO THE FINANCIAL STATEMENTS – continued
FOR THE YEAR ENDED 31 MARCH 2015

9. INVESTMENTS IN SUBSIDIARIES

**Shares in
group
undertakings
£'000**

COST AND NET BOOK VALUE

At 1 April 2014 and 31 March 2015

34,399

Name of undertaking	Country of incorporation	Holding	Proportion held	Nature of Business
Innovata Biomed Limited	Scotland	Ordinary	100%	Pharmaceuticals
Innovata HK Limited ¹	Hong Kong	Ordinary	82.4%	Holding Company
Quadrant Technologies Limited	England	Ordinary	100%	Pharmaceuticals
Quadrant Drug Delivery Limited ²	England	Ordinary	100%	Pharmaceuticals
Quadrant Healthcare Limited ³	England	Ordinary	100%	Pharmaceuticals
QDose Limited ⁴	England	Ordinary	50%	Pharmaceuticals
Quadrant Healthcare (UK) Limited ⁴	England	Ordinary	100%	Dormant
Quadrant Bioresources Limited ⁵	England	Ordinary	100%	Dormant
Quadrant (USA), Inc. ⁵	United States of America	Ordinary	100%	Dormant
Quadrant Trustee Limited ⁵	England	Ordinary	100%	Dormant
Andaris Group Limited ⁵	England	Ordinary	100%	Dormant
Quadrant Holdings Cambridge Limited ⁶	England	Ordinary	100%	Dormant
Andaris (DDS) Limited ⁷	England	Ordinary	100%	Dormant
Microshot Limited ⁷	England	Ordinary	100%	Dormant
Protosome Limited ⁷	England	Ordinary	100%	Dormant

¹A subsidiary of Innovata Biomed Limited

²A subsidiary of Quadrant Technologies Limited

³A subsidiary of Quadrant Drug Delivery Limited

⁴A subsidiary of Quadrant Healthcare Limited

⁵A subsidiary of Quadrant Healthcare (UK) Limited

⁶A subsidiary of Andaris Group Limited

⁷A subsidiary of Quadrant Holdings Cambridge Limited

INNOVATA LIMITED**NOTES TO THE FINANCIAL STATEMENTS – continued
FOR THE YEAR ENDED 31 MARCH 2015****10. TRADE AND OTHER RECEIVABLES**

	2015	2014
	£'000	£'000
Current:		
Amounts owed by group undertakings	145,955	133,006
Prepayments and accrued income	<u>3,475</u>	<u>3,637</u>
	<u>149,430</u>	<u>136,643</u>

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

11. CALLED UP SHARE CAPITAL

	2015	2014
	£'000	£'000
Allotted, called up and fully paid:		
503,242,193 ordinary shares of 1p each	<u>5,032</u>	<u>5,032</u>

12. TRADE AND OTHER PAYABLES

	2015	2014
	£'000	£'000
Current:		
Amounts owed to parent undertaking	1,857	1,537
Amounts owed to group undertakings	53,808	53,807
Other creditors	33	-
Accruals and deferred income	<u>1,642</u>	<u>1,554</u>
	<u>57,340</u>	<u>56,898</u>

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

**NOTES TO THE FINANCIAL STATEMENTS – continued
FOR THE YEAR ENDED 31 MARCH 2015**

13. 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:

	2015 £'000	2014 £'000
Loans and receivables	<u>149,430</u>	<u>136,643</u>

All financial assets fall due within one year.

There were no provisions against impaired assets at 31 March 2015 (2014: £nil). There are no amounts past due but not impaired (2014: £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:

	2015 £'000	2014 £'000
Other	<u>57,340</u>	<u>56,898</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.

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's objective in using financial instruments is to maximise the returns on funds held on deposit, to minimise exchange rate risk where appropriate, and to generate additional cash resources through the issue of shares when appropriate. Balance sheets at 31 March 2015 and 31 March 2014 are not necessarily representative of the positions throughout the year, as cash and short-term investments fluctuate considerably depending on when share issues have occurred.

It is, and has been throughout the year, the Company's policy that no speculative trading in financial instruments is undertaken. The Company is funded principally with a loan from its parent company and invests its funds in short-term bank deposits. The Company has access to the majority of these deposits at a maximum of 24 hours' notice. The Company's policy throughout the period has been to minimise the risk by placing funds in low-risk cash deposits, but also to maximise the return on funds placed on deposit.

**NOTES TO THE FINANCIAL STATEMENTS – continued
FOR THE YEAR ENDED 31 MARCH 2015**

13. FINANCIAL INSTRUMENTS – continued

Foreign currency risk management – continued

Interest on overnight cash deposits is calculated on the basis of a floating rate set at between 5 and 10 basis points below seven-day sterling London Inter-Bank Offer Rate (LIBOR).

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.

Foreign currency sensitivity analysis

The following table details the Company's sensitivity to a 10% increase and decrease in sterling against the US dollar; 10% represents management's assessment of a reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where sterling weakens against the relevant currency and a negative number indicates a decrease in profit and other equity where sterling strengthens against the relevant currency.

	2015 £'000
US Dollar currency impact - gain	545
US Dollar currency impact - loss	<u>(445)</u>

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.

14. 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 (2014: £nil). No contributions were payable at the year-end (2014: £nil).

INNOVATA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS – continued
FOR THE YEAR ENDED 31 MARCH 2015**

15. 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				
2015	320	-	-	1,857
2014	434	-	-	1,537
Vectura Limited				
2015	18	-	109,812	-
2014	-	419	96,849	-
Vectura Delivery Devices Limited				
2015	-	-	3,666	-
2014	-	-	3,666	-
Innovata Biomed Limited				
2015	-	-	28,690	-
2014	136	-	28,704	-
Quadrant Drug Delivery Limited				
2015	-	-	-	8,659
2014	-	-	-	8,659
Quadrant Technologies Limited				
2015	-	-	-	309
2014	-	-	-	309
Quadrant Healthcare Limited				
2015	-	-	-	16,639
2014	-	-	-	16,639
Quadrant Healthcare (UK) Limited				
2015	-	-	-	20,000
2014	-	-	-	20,000
Quadrant Holdings Cambridge Limited				
2015	-	-	-	8,200
2014	-	-	-	8,200
Andaris Group Limited				
2015	-	-	3,787	-
2014	-	-	3,787	-

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

INNOVATA LIMITED**NOTES TO THE FINANCIAL STATEMENTS – continued
FOR THE YEAR ENDED 31 MARCH 2015****16. ULTIMATE PARENT COMPANY**

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.

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

	2015	2014
	£'000	£'000
Profit before taxation	12,345	16,279
Exchange movements	(92)	102
Depreciation charges	-	-
Investment income	<u>(79)</u>	<u>(1,267)</u>
	12,174	15,114
(Increase) in trade and other receivables	(12,786)	(13,810)
Increase/(decrease) in trade and other payables	<u>441</u>	<u>(2,469)</u>
Cash utilised by operations	<u><u>(171)</u></u>	<u><u>(1,165)</u></u>

INNOVATA LIMITED

NOTES TO THE FINANCIAL STATEMENTS – continued FOR THE YEAR ENDED 31 MARCH 2015

18. EQUITY-SETTLED SHARE OPTION SCHEMES AND LONG-TERM INCENTIVE PLAN

The below disclosures have been taken from the consolidated financial statements of Vectura Group plc for the year ended 31 March 2015. They have been included here on the basis that £177,000 (2013/14: £222,000) of the Group share-based compensation charge has been recharged to the Company.

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

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

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

The Company also operates a Long-Term Incentive Plan (LTIP) under which Executive Directors and certain senior managers are granted conditional rights in the form of nil-cost options to receive a maximum number of shares at the beginning of a three-year period, a proportion of which they will be entitled to receive at the end of that period, depending on the extent to which the challenging performance conditions set by the Remuneration Committee at the time the allocation was made are satisfied. The nil-cost option entitlement is exercisable from the beginning of the fourth year to the end of the tenth year following the date of grant. Further information on the performance conditions of the LTIP is detailed in the Remuneration report. At 31 March 2015, 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	315,745
22 November 2009	257,565
2 March 2010	104,758
25 May 2010	446,636
23 May 2011	1,348,100
7 June 2014	1,739,647
18 September 2015 ⁽¹⁾	1,551,964
7 June 2016 ⁽¹⁾	1,963,022
1 July 2017 ⁽¹⁾	983,594

⁽¹⁾ Maximum number of shares, subject to performance conditions.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2015

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

Fair value calculations

With the exception of the LTIP awards, the fair value of the options was determined using the Black-Scholes pricing model. The fair value of the LTIP awards 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, as described in the Remuneration report.

Year of grant	2015	2014
The assumptions input into the Black-Scholes model were as follows:		
Weighted average share price of grants during the year	136.3p	163.0p
Weighted average exercise price of grants during the year	114.4p	130.4p
Expected volatility ⁽¹⁾	39%–41%	41%–45%
Expected life ⁽²⁾	3 years	3–5 years
Expected dividends	Nil	Nil
Risk-free interest rate ⁽³⁾	0.6%–1.4%	0.3%–1.2%
The assumptions input into the Monte Carlo model were as follows:		
Weighted average share price of grants during the year	135.3p	81.0p
Weighted average exercise price of grants during the year	0.025p	0.025p
Expected volatility ⁽¹⁾	40%	43%
Expected life ⁽²⁾	3 years	3 years
Expected dividends	Nil	Nil
Risk-free interest rate ⁽³⁾	1.5%	0.6%

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

⁽²⁾ The expected life used in the models is based on management's best estimate of behavioural consideration based on historic exercise patterns.

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

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

INNOVATA LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 MARCH 2015

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

The aggregate of the estimated fair value of options granted under share option schemes and Share Incentive Plan during the year ended 31 March 2015 was £373,000 (2013/14: £493,000) and under the SAYE Scheme £241,000 (2013/14: £59,000). The estimated fair value of LTIP awards during the year ended 31 March 2015 was £768,000 (2013/14: £780,000).

Options outstanding	Share option schemes		SAYE Scheme		LTIP	
	Number of options	WAEP*	Number of options	WAEP*	Number of options	WAEP*
At 1 April 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	0.025
Options exercised	(5,167,784)	61.19	(171,736)	55.50	(646,484)	0.025
Options cancelled	-	-	(37,539)	47.95	(3,015,107)	0.025
At 31 March 2014	7,521,655	61.67	1,466,323	59.41	8,343,020	0.025
Options granted	-	-	621,775	114.4	1,076,791	0.025
Options exercised	(3,062,229)	56.38	(180,691)	64.25	(561,253)	0.025
Options cancelled	(55,597)	62.63	(75,693)	85.12	(147,527)	0.025
At 31 March 2015	4,403,829	65.34	1,831,714	77.16	8,711,031	0.025
Range of exercise prices	36.0p–104.0p		47.4p–130.4p		0.025p	
Weighted average remaining contractual life (years)	1.77 (2014: 2.19)		1.71 (2014: 1.67)		5.65 (2014: 6.05)	
Options vested						
At 31 March 2014	6,989,739	59.75	-	-	2,791,393	0.025
At 31 March 2015	4,276,365	65.30	-	-	4,212,451	0.025
Weighted average remaining contractual life (years)	1.60 (2014: 1.80)		-		1.53 (2014: 2.82)	

* = Weighted average exercise price (p).