

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016
FOR
INNOVATA LIMITED

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COMPANY SECRETARY:	J Murphy
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AUDITOR:	Deloitte LLP Chartered Accountants and Statutory Auditor 3 Rivergate Temple Quay Bristol BS1 6GD United Kingdom
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BANKERS:	Barclays Bank Plc 28 Chesterton Road Cambridge CB4 3AZ United Kingdom

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2016

Innovata Limited ("the Company") is a wholly-owned subsidiary of Vectura Group plc ("Vectura Group" or "the Group"). The Directors have concluded that the strategy adopted by Vectura Group as a whole is applicable to the Company. References to Vectura Group or 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. The Directors do not expect that there will be a change in the principal activity of the Company for the foreseeable future.

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\$35 billion worldwide; 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 that 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 £13,671,000 (2014/15: £12,678,000) comprises two revenue streams; royalty revenue and technology licensing revenue.

Total royalty revenue of £13,476,000 (2014/15: £12,531,000) has increased by 7.5% compared to the prior year. Technology licensing revenues have increased slightly to £195,000 when compared to the prior year (2014/15: £147,000).

Profit before taxation

Profit before taxation of £15,223,000 for the current year represents a £2,878,000 uplift compared to the prior year (2014/15: £12,345,000). This movement is due primarily to receipt of investment income as part of the deferred consideration arrangements related to the acquisition of ProFibrix BV by the Medicines Company in 2013 and a reduction in research and development costs as the majority of revenues relate to pre-existing product royalties.

Cash flow

Cash and cash equivalents at the year-end were nil (2015: nil). All banking activities are under the control of another Group company. As a result, the Directors expect the Company to maintain a nil cash and cash equivalents balance for the foreseeable future.

FUTURE DEVELOPMENTS

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

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2016 - CONTINUED

KEY PERFORMANCE INDICATORS

Revenue growth

Revenue increased by 8% to £13,671,000 driven by increases in royalty revenue. Growing and sustainable royalty revenues will provide stability and cash-resources to fund future growth and development.

EBITDA¹

EBITDA is a non-statutory measure of the Company's underlying operating performance and is calculated by adjusting the Company's operational result for non-cash and non-recurring items. EBITDA has increased to £13,375,000 (2014/15: £12,351,000). EBITDA shows the Company's ability to generate returns on investment over time.

Profit after taxation

Profit after taxation is a measure of the Company's ability to generate potential returns for shareholders, net of investment in our capabilities and strategy. Profit after tax of £15,223,000 for the current year represents a £3,193,000 uplift compared to the prior year (2014/15: £12,030,000). This movement is due primarily to receipt of investment income as part of the deferred consideration arrangements related to the acquisition of ProFibrix BV by the Medicines Company in 2013 and an increase in royalty revenue coupled with a reduction in research and development costs as the majority of revenues relate to pre-existing products.

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.

	2015/16	2014/15	2013/14
Project milestones completed	13	9	13
Clinical studies completed	0	1	2

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.

	2015/16	2014/15	2013/14
Total patent families	93	107	100

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

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks specific to the Group, including Innovata Limited, 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. Product exposure to generic competition before anticipated patent expiration date could erode value of on-market branded products or future value of development programmes

Generic drug manufacturers seeking marketing approval for products protected by Vectura or partner patents could be successful in attacking the validity or enforceability of Vectura or partner patents. This would result in the product being exposed to generic competition before the anticipated expiration date of the patent, materially affecting Vectura's revenues or the anticipated value of programmes currently in development. Other competitors routinely challenge Vectura patents, which could impact on current and future revenue streams if successful.

Mitigating activities

Vectura owns a portfolio of patents and patent applications and is the authorised licensee of other patents. Dedicated internal resource, supplemented with external expertise where required, continually reviews the intellectual property landscape relevant to our products, development programmes and manufacturing activities. Risks are communicated to the business and any challenges to Vectura patents are rigorously defended. The IP team ensures that changes in patent laws and regulations are incorporated into processes for obtaining, maintaining and enforcing global patent protection.

Processes are in place to ensure that patent applications are filed in a timely manner and are prosecuted diligently. Robust processes are in place to automate patent renewals. Internal controls are in place to avoid disclosure of patentable material prior to filing patent applications to protect know-how.

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

A third-party patent could be granted with broad claims that read on to a Vectura technology, device or product, which could result in Vectura or a partner potentially having to take licence, or even being unable to commercialise a product, materially affecting Vectura's future revenues.

Mitigating activities

The Group is very diligent in carrying out freedom to operate searches to identify potential third-party IP. In some cases this responsibility is with Vectura partners, with appropriate strategies and action plans agreed with Vectura partners where necessary.

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

The Group has not previously taken a product to market on its own; however, it is now focusing on a number of late-stage wholly owned development programmes which may ultimately provide the Group with the opportunity to self-commercialise. Failure to complete development activities to plan may impact the Group's ability to bring products to market on time, which may further erode the potential value of such programmes and would hinder the Group's ability to deliver its stated strategy.

Individuals with the necessary skills and experience have been recruited into the Group to lead and oversee the development of the Group's late-stage assets. The Group continues to work with a network of experienced consultants and contractors who provide additional support and expertise as required. The changing resource requirements of the Group are fully considered as part of the people strategy in place.

Mitigating activities

The Group has an established governance process to oversee the conduct and delivery of all development programmes and to ensure that any potential changes to the development plan or budget are identified and discussed in a timely manner such that mitigating activities or actions can be put in place as required.

PRINCIPAL RISKS AND UNCERTAINTIES – continued

Strategic Risks - continued

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

Corporate inexperience in large M&A could result in the suboptimal management of the merger with Skyepharma PLC, resulting in loss of key personnel, cost reduction synergies not being delivered and failure to achieve desired return on capital.

Loss of key personnel could have a material impact on the Group's operations.

Mitigating activities

Structured post-merger integration plans have been established to help ensure that the integration is executed successfully.

Vectura also has access to, and support from, external subject matter experts. The internal team has grown and the team has gained experience from the successful integration of Activaero.

A range of benefits, including long-term incentive plans, are utilised to encourage retention of key personnel.

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

Vectura currently has a number of strategically important partnerships, collaborations and licensing arrangements for the development, manufacture and commercialisation of certain pipeline and commercial assets. Loss of any one of our strategically important partnerships, collaborations or licensing arrangements could have a material impact on Vectura's future prospects.

Vectura has a number of products that are marketed by partners and we are dependent upon those partners for obtaining regulatory approval for, and the marketing and commercialisation of, those products. The marketing and commercialisation strategy taken by a partner could materially impact the level of royalties earned by Vectura.

Vectura is also reliant on suppliers for the development and manufacture of certain devices. Any poor performance of the third parties could delay or prevent devices from being successfully developed and delivered to plan. This could result in key development milestones being missed or associated payments being delayed and could also affect partners' confidence in Vectura's ability to deliver.

Mitigating activities

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

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

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

Vectura has a broad list of disclosed and undisclosed partners, thereby mitigating the loss of any one particular partnership due to strategic and/or operational reasons beyond the control of Vectura.

PRINCIPAL RISKS AND UNCERTAINTIES – continued

Operational risks

6. Operational disruption

Events such as fire or flood that lead to significant and prolonged disruption to a research and development or manufacturing operation upon which Vectura relies could result in loss of royalty revenues and contractual liabilities, as well as delays to development programmes.

Vectura identifies key suppliers in relation to its business and, where possible, alternative sources of supply are sought where this is economically feasible. Safety stock is also typically held at levels commensurate with the identified risk.

Mitigating activities

Vectura's asset management approach includes holding duplicate parts and equipment for business-critical machinery. We have established good working relationships with the manufacturers of such equipment and we monitor our supplier relationships to ensure effective and responsive service levels.

Risk contingency is built into product development plans, and Group-wide business continuity plans have been established.

In addition, Vectura purchases comprehensive property damage and business interruption insurance to provide cover in the event of physical disruption.

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

The need to continue business-as-usual activities and drive strategic growth at the same time as executing the merger and delivering integration synergies could impose unprecedented time pressure and capacity constraints on management bandwidth and challenge its ability to effectively deliver on all responsibilities and lead to failure to achieve corporate objectives.

Mitigating activities

As described above, structured post-merger integration plans have been established to help ensure that the integration is executed successfully. Vectura also has access to, and support from, external subject matter experts. The internal team has grown and the team has gained experience from the successful integration of Activaero.

Financial risks

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

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

Increasing royalty revenues and the outcome of the referendum on the UK's membership of the EU will further affect the magnitude of this risk.

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 2016, the Group had sufficient euro and US dollar reserves to cover its immediate and short-term liabilities in respect of these currencies.

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

PRINCIPAL RISKS AND UNCERTAINTIES – continued

Financial risks – continued

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

Adverse interpretations or rulings on the tax effect of specific transactions or changes in tax rulings which have been granted could give rise to substantial costs in dealing with the appropriate tax authorities and/or unfavourable tax treatments and tax liabilities not currently envisaged or accrued, resulting in negative effects on the financial condition or prospects of the Vectura Group.

Historically, the Group has been loss making and therefore this risk is increasing in profile as the Group moves towards a tax-paying position.

Mitigating activities

The Group uses external tax advisors in each of the jurisdictions within which it operates to ensure continued compliance with relevant legislation and to ensure that the impact of potential future changes is fully understood and incorporated within business plans.

Broader risks specific to the pharmaceutical industry

10. Changes to regulations and operational restrictions due to Brexit

A referendum was held on the UK on 23 June 2016, the result of which was that the UK will not remain a member of the European Union ("EU"). The Group faces a range of risks associated with the vote to exit the EU. For example, as a significant proportion of the regulatory regime applicable to the Vectura Group is derived from EU directives and regulations, the vote in favour of the UK exiting the EU may lead to material changes in the regulatory framework applicable to the Vectura Group's operations. In addition, the UK exit from the EU could result in restrictions on the movement of capital and the mobility of personnel, for instance. Any of these risks could result in higher operating costs and could have a material adverse effect on the Vectura Group's business operations and financial conditions.

Mitigating activities

Due to the nature of this risk, no mitigating activities are in place at the current time. The outcome of the referendum to leave the EU is yet to be seen and it will take a significant amount of time before any changes take effect, regarding the regulatory framework or any other matter. The Group continues to monitor developments in relation to Brexit and will work internally and with external advisors to ensure that specific mitigating activities are put in place as they are identified. The immediate impacts of Brexit primarily relate to financial risks arising due to volatility in global currency markets. The existing activities identified under the financial risk heading are already in place to mitigate against this risk.

11. 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 Vectura or a collaborator intends to test or market products they may develop.

These regulatory requirements are a major factor in determining whether a substance can be developed into a marketable product and the amount of time and expense associated with such development. There can be no assurance that Vectura's, or a collaborator's, products will receive and maintain regulatory approvals. Even if products are approved, they may still face subsequent regulatory difficulties. Such difficulties may result in financial loss and reputational damage.

Mitigating activities

We work closely with expert regulatory advisors and, when appropriate, seek advice from regulatory authorities on the design of key development plans for pre-clinical and clinical programmes.

In respect of our collaborations and partnerships, we work with a number of blue-chip pharmaceutical partners, such as Novartis, Sandoz, Baxter and GSK, who have significant regulatory expertise.

PRINCIPAL RISKS AND UNCERTAINTIES – continued

Broader risks specific to the pharmaceutical industry – continued

12. 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 Vectura's, or a collaborator's, products or product candidates. This is an inherent risk which may be identified at any time, even after a product has been approved and sold commercially.

Discovery of unforeseen side effects, other than those acceptable to the regulators, may result in a substantial loss of royalty revenues, other liabilities, a significant delay to a development programme or withdrawal or suspension of regulatory approval.

Mitigating activities

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

13. Pricing and reimbursement

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

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

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

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

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

Mitigating activities

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

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

PRINCIPAL RISKS AND UNCERTAINTIES – continued

Broader risks specific to the pharmaceutical industry – continued

14. Competition

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

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

Mitigating activities

Vectura performs detailed reviews of the development process and progress of projects through trials. For programmes managed in house, Vectura has an established project management framework. The potential commercial opportunities for each project are assessed at the end of each stage of the project.

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

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

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

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

15. Product liability

In carrying out its activities Vectura will potentially face contractual and statutory claims, or other types of claims from customers, suppliers and/or investors. Vectura is exposed to potential product liability risks that are inherent in the research, the pre-clinical and clinical evaluation, pre-clinical study, clinical trials, manufacturing, marketing and use of pharmaceutical products. Consumers, healthcare producers or persons selling products based on Vectura's and its collaborators' technology may be able to bring claims against Vectura based on the use of such products in clinical trials and the sale of products based on Vectura's technology.

Mitigating activities

Vectura maintains an appropriate level of product liability insurance and operates quality systems relating to the manufacture of products. Vectura has a pharmacovigilance system to monitor safety events arising with respect to products sold. Vectura's insurance portfolio also includes other third-party liability insurances which would provide cover in the event of certain other contractual or statutory claims.

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.

Our employment practices

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

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

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

Our employee communications

We value the opinions and experience of our people.

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

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

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

CORPORATE SOCIAL RESPONSIBILITY – continued

Our employee communications - continued

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

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

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

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

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

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

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

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

Developing and rewarding our people

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

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

Remuneration plays an important role in retaining and motivating our people. We seek to provide well constructed and fair reward systems designed to incentivise superior performance and align the interests of our employees with those of our shareholders.

Our remuneration packages are designed to be both fair and competitive and all remuneration packages include an element of variable remuneration in the form of an annual bonus. The annual bonus allows us to reward employees for achieving and exceeding challenging corporate and individual objectives. In addition to our remuneration packages, which include a pension entitlement, permanent health insurance and life assurance and private medical care, all employees are given the opportunity to participate in our all-employee share plans. For more details of our all-employee share plans, please refer to the Remuneration report.

CORPORATE SOCIAL RESPONSIBILITY – continued

Our commitment to health and safety

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

Specialist ongoing training is provided to those individuals who are responsible for health and safety across the organisation.

General health and safety training is delivered to all staff via in-house training sessions provided by our Health and Safety Manager and by e-learning courses.

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

Our local communities

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

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

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

Our environmental footprint

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

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

Green Action Team

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

Our environmental policies

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

CORPORATE SOCIAL RESPONSIBILITY – continued

Our environmental initiatives

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

Energy efficiency

52 solar panels are installed at our Chippenham site which have generated over 38,000kWh of electricity since installation in November 2012.

It is our policy that when an existing light unit requires replacement it is replaced with an LED light. The LED lights installed are up to four times more energy efficient than the traditional light units that they replace. The majority of the lighting at our Chippenham site is now LED.

Passive infrared light sensors are installed in many general work areas. This ensures that lighting is not left on in work areas that are not currently in use.

We continue our commitment to promoting “green IT”.

Where possible, we use virtual PCs that use c.20% of the electricity of a standard desktop PC and we employ virtual servers.

Waste management

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

We recycle all paper and cardboard waste, aluminium cans, plastics, printer toners/cartridges and redundant mobile telephone handsets. We use registered waste disposal contractors and comply with all relevant waste legislation.

We operate a managed print solution to help control paper usage.

The Carbon Disclosure Project

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

Our ethical and social policies

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

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

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

This Strategic Report has been approved and signed on behalf of the Board:

ON BEHALF OF THE BOARD:


.....

Andrew Derodra - Director

Date: 13/12/16

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 MARCH 2016

The Directors present their annual report with the audited financial statements of the Company for the year ended 31 March 2016.

The Company's proposed future developments, research and development activities, assessment of the key risks and uncertainties facing the business and information relating to the Company's use of Financial Instruments, are set out in the Strategic Report and notes to the financial statements where appropriate. The above-referenced disclosures are incorporated into this report by reference and should be read as part of this report.

GOING CONCERN

The Company made a profit after tax of £15,223,000 for the year ended 31 March 2016 (2014/15: £12,030,000). The current economic slowdown has had limited impact on the Company as the Company has sufficient resources, together with the support of its ultimate parent company, to allow it to meet its liabilities as they fall due.

The Company's Directors have reviewed the Group's detailed cash flow forecast for the 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. A legally binding letter of support has been obtained from Vectura Group plc. After making these enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the date of signing the Annual Report. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

POST BALANCE SHEET EVENTS

Events occurring after the Balance Sheet date are disclosed in note 21 of the financial statements. None of the identified events are considered by the Directors to be adjusting events.

DIVIDENDS

The Directors do not recommend the payment of a dividend (2014/15: £nil).

DIRECTORS

The Directors shown below have held office during the whole of the period from 1 April 2015 to the date of this report, unless otherwise stated:

A J Oakley (resigned 10 June 2016)
C P Blackwell (resigned 1 July 2015)
T M Phillips (appointed 1 July 2015)
J Ward-Lilley (appointed 1 October 2015)
M A Derodra (appointed 10 June 2016)

COMPANY SECRETARY

The appointment of J Murphy as Company Secretary was made on 13 September 2016.

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year, no political or charitable contributions were made (2014/15: £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 report of the Directors.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 MARCH 2016 - CONTINUED

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.

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:

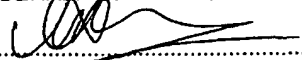
- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the strategic report includes a fair review of the development and performance 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 Report of 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:


.....

Andrew Derodra - Director

Date: 13 DECEMBER 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 2016 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 21. 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 2016 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: 13 December 2016

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2016

		2016 £'000	2015 £'000
CONTINUING OPERATIONS	Note		
Revenue	2	13,671	12,678
Cost of sales		<u>—</u>	<u>—</u>
GROSS PROFIT		13,671	12,678
Research and development expenses		(22)	(184)
Other administrative expenses		(274)	(143)
Share-based compensation		<u>(618)</u>	<u>(177)</u>
OPERATING PROFIT		12,757	12,174
Investment income	5	2,429	79
Finance gains	5	<u>37</u>	<u>92</u>
PROFIT BEFORE TAXATION	6	15,223	12,345
Taxation	7	<u>—</u>	<u>(315)</u>
PROFIT FOR THE YEAR BEING TOTAL COMPREHENSIVE INCOME		<u>15,223</u>	<u>12,030</u>

INNOVATA LIMITED

BALANCE SHEET AS AT 31 MARCH 2016

	Note	2016 £'000	2015 £'000
ASSETS			
NON-CURRENT ASSETS			
Goodwill	8	21,026	21,026
Property, plant and equipment	9	—	—
Investments	10	34,399	34,399
		<u>55,425</u>	<u>55,425</u>
CURRENT ASSETS			
Trade and other receivables	11	166,723	149,430
		<u>166,723</u>	<u>149,430</u>
TOTAL ASSETS		<u>222,148</u>	<u>204,855</u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	12	5,032	5,032
Share premium		73,326	73,326
Special reserve		4,049	4,049
Merger reserve		36,984	36,984
Other reserve		1,884	1,884
Retained earnings		41,463	26,240
TOTAL EQUITY		<u>162,738</u>	<u>147,515</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	13	59,410	57,340
		<u>59,410</u>	<u>57,340</u>
TOTAL LIABILITIES		<u>59,410</u>	<u>57,340</u>
TOTAL EQUITY AND LIABILITIES		<u>222,148</u>	<u>204,855</u>

The financial statements of Innovata Limited, registered number 02148607, were approved and authorised for issue by the Board of Directors on 13 DECEMBER 2016 and were signed on its behalf by:



Andrew Derodra - Director

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2016

	Called up share capital ¹ £'000	Share premium £'000	Special reserve £'000
Balance at 1 April 2014	5,032	73,326	4,049
Changes in equity			
Total comprehensive income	—	—	—
Balance at 31 March 2015	5,032	73,326	4,049
Changes in equity			
Total comprehensive income	—	—	—
Balance at 31 March 2016	5,032	73,326	4,049

	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 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
Changes in equity				
Total comprehensive income	—	—	15,223	15,223
Balance at 31 March 2016	36,984	1,884	41,463	162,738

(1) See note 13 – Called up share capital for further detail

CASHFLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016 £'000	2015 £'000
Cash flows from operating activities			
Cash utilised by operations	17	(2,466)	(171)
Exchange movements		37	92
Net cash used in operating activities		(2,429)	(79)
Cash flows from investing activities			
Receipt of deferred consideration	5	2,429	—
Receipt on disposal of investments		—	79
Net cash used in investing activities		2,429	79
Increase in cash and cash equivalents		—	—
Cash and cash equivalents at beginning of year		—	—
Cash and cash equivalents at end of year		—	—

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

The Company is domiciled in the United Kingdom and 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.

The principal accounting policies adopted are set out below.

Adoption of new and revised standards

The following amendments to International Financial Reporting Standards ("IFRSs") and a new interpretation issued by the International Accounting Standards Board ("IASB") have been applied by the Company in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements.

Annual improvements to IFRSs 2010 – 2012 Cycle and 2011-2013 Cycle

The Company has adopted the amendments to IFRSs included in the *Annual Improvements to IFRSs 2010-12 Cycle and 2011-13 Cycle* for the first time in the current year. The adoption of the amendments has had no impact on the disclosures or amounts recognised in the Company financial statements.

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the European Union ("EU")):

- IFRS 9 *Financial Instruments*
- IFRS 14 *Regulatory Deferral Accounts*
- IFRS 16 *Leases*
- IFRS 15 *Revenue from Contracts with Customers*
- IAS 1 (amendments) *Disclosure Initiative*
- IAS 12 (amendments) *Recognition of Deferred Tax Assets for Unrealised Losses*
- IAS 16 and IAS 38 (amendments) *Clarification of Acceptable Methods of Depreciation and Amortisation*
- IAS 27 (amendments) *Equity Method in Separate Financial Statements*
- Annual IFRS Improvements Process 2012-2014 cycle (Sep 14): Amendments to: IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7 *Financial Instruments: Disclosures*, IAS 19 *Employee Benefits* and IAS 34 *Interim Financial Reporting*

1. Significant accounting policies (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 as follows:

- IFRS 9 simplifies financial instrument classifications and hedge accounting rules as well as introducing impairment requirements for loans.
- IFRS 15 is effective for annual periods beginning on or after 1 January 2018 and replaces all existing revenue requirements in IFRS. The core principle is that revenue will be recognised at an amount reflecting the consideration to which the company expects to be entitled in exchange for transferring goods or services to a customer. It may have an impact on revenue recognition and related disclosures.
- IFRS 16 is effective for annual periods beginning on or after 1 January 2019 and it removes the current distinction between an operating and finance lease, introducing consistent requirements for all leases similar to the current finance lease accounting. The lease value for leased premises as well as other smaller trade related operating leases will be brought onto the balance sheet at the fair value of the future minimum lease payments.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

Going concern

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

The Company made a profit after taxation of £15,223,000 for the year ended 31 March 2016 (2014/15: £12,030,000). The current economic slowdown has had limited impact on the Company as the ultimate parent company has sufficient resources to meet its on-going liabilities as they fall due. The Company continues to receive the support of its ultimate parent company to allow it to meet its liabilities as they fall due.

The Company's Directors have reviewed the Group's detailed cash flow forecast for the 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 ultimate parent company is able to provide the necessary support to enable the Company to meet its liabilities as they fall due, despite the current uncertain economic outlook.

A legally binding letter of support has been obtained from Vectura Group plc. After making these enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the date of signing the Annual Report. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and 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:

Royalty income

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

Technology and product licensing

Technology and product licensing income represents amounts earned for licences provided under licensing agreements, including up-front payments, milestone payments and technology access fees. Revenues are recognised where they are non-refundable; the 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 the above criteria have been met. Milestone payments relating to scientific or technical achievements are recognised as income when the milestone is accomplished.

1. Significant accounting policies (continued)

Goodwill

Goodwill recognised under UK Generally Accepted Accounting Principles (GAAP) prior to 1 April 2004 is stated at net book value at that date. Goodwill arising on the acquisition of subsidiary or associate undertakings and businesses subsequent to 1 April 2004, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is capitalised.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the Statement of Comprehensive Income. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets

Intangible assets acquired separately from a business combination are carried initially at fair value. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably.

Development expenditure on internally developed intangible assets is taken to the Statement of Comprehensive Income in the year in which it is incurred except where expenditure relating to clearly defined and identifiable development projects meets the following criteria, in which case development expenditure will be recognised as an intangible asset: in accordance with IAS 38:

- the project's technical feasibility and commercial viability can be demonstrated;
- the availability of adequate technical and financial resources and an intention to complete the project have been confirmed;
- the correlation between development costs and future revenues has been established; and
- the economic benefit is expected to flow to the entity.

Following initial recognition, the historic cost model is applied, with intangible assets being carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with a finite life have no residual value and are amortised on a straight-line basis over their expected useful lives with charges included in administrative expenses as follows:

Patents, trademarks and licence agreements – between three and ten years.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and provision for impairment. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost of each asset, less its estimated residual value, on a straight-line basis over its expected useful life, as follows:

Office and IT equipment – three years

The carrying values of property, plant and equipment are reviewed for impairment when events or circumstances indicate the carrying values may not be recoverable. Useful life and residual value are reviewed annually.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant or equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

1. Significant accounting policies (continued)

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments for the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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 the statement of comprehensive income 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.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are recognised when the Company becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or as available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year end. When financial assets are recognised, initially they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

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.

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.

1. Significant accounting policies (continued)

Foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Provisions

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

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

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

Taxation

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

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

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

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

Deferred tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise, deferred tax is recognised in the Statement of Comprehensive Income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Research and development tax credits are recognised on an accruals basis.

Post-retirement benefits

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

1. Significant accounting policies (continued)

Share-based payments

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

The cost of equity-settled share transactions is recognised, together with a corresponding increase in equity, over the period until the award vests. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each reporting date, the cumulative expense recognised for equity-based transactions reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the Directors at that date, will ultimately vest. The parent company has taken advantage of the exemptions afforded by IFRS 1 in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 and not vested at 1 January 2005.

Critical accounting judgements and key sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions, in accordance with IFRS, that affect the amounts of assets, liabilities, revenues and expenses reported in the financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual amounts and results could differ from those estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The critical accounting judgements and key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the 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 Company'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 2016

2. Revenue

Revenue represents amounts invoiced to third parties, derived from the provision of licences and services that fall within the Company's sole principal activity, the research, development and commercialisation of novel therapeutic products and drug delivery systems for human use.

	2016 £'000	2015 £'000
Revenue by category		
Royalties	13,476	12,531
Technology licensing	195	147
	13,671	12,678
Investment income:		
Total investment income (note 5)	2,429	79
Total revenue per IAS 18	16,100	12,757

	2016 £'000	2015 £'000
Revenue by customer location		
United States of America	13,388	12,388
United Kingdom	176	176
Rest of Europe	107	107
	13,671	12,678

Information about major customers

Revenue earned from the Company's major customers was as follows: Customer A – £13,388,000 (2014/15: £12,384,000).

3. Segmental information

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

4. Employees

During the year the Company incurred a charge for share-based compensation of its Directors under IFRS 2 of £618,000 (2014/15: £177,000). Further details of this charge are detailed in note 18.

The Director's remuneration for the years ended 31 March 2015 and 2016 was borne by Vectura Limited, another group company. The remuneration of the Executive Directors is decided by the Remuneration Committee. Full details of Directors' remuneration and options are contained in the Report on remuneration contained within the published Annual Report of the parent company, Vectura Group plc.

5. Investment income and finance gains

	2016 £'000	2015 £'000
Investment income:		
Income on sale of investment ¹	2,429	79
Finance gains:		
Foreign exchange gains	37	92
Total finance gains/(costs)	2,466	171

¹As announced on 1 May 2015, the Medicines Company received US FDA approval for RAPLIXA™ AJD TUE RaplixaSpray device. This triggered a payment to the Company as part of the consideration payments related to the acquisition of ProFibrix BV by the Medicines Company in 2013.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED 31 MARCH 2016

6. Profit before taxation

Profit before taxation is stated after charging:

	2016 £'000	2015 £'000
Depreciation of property, plant and equipment	—	—
Deferred consideration (note 5)	(2,429)	(79)
Share-based compensation	618	177
Staff costs (note 4)	—	—

Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2016 £'000	2015 £'000
Fees payable to the Company's auditor and its associates for – the audit of the Company's Financial Statements	5,000	7,500

Auditor's remuneration for the audit of the Company's financial statements in both the year and the prior year were borne by Vectura Limited, another group company.

7. Taxation

Analysis of the major components of the income tax credit for the years ended 31 March 2016 and 31 March 2015 were as follows:

	2016 £'000	2015 £'000
Deferred tax	—	315
Total tax expense in the statement of comprehensive income	—	315

The expense for the year can be reconciled to the profit per the Statement of Comprehensive Income as follows:

	2016 £'000	2015 £'000
Profit before tax	15,223	12,345
Profit before tax multiplied by standard rate of UK corporation tax of 20% (2014/15: 21%)	3,045	2,592
Effects of:		
Group relief utilised	(2,184)	(2,389)
Depreciation less capital allowances	(6)	(37)
Permanent differences – Patent Box Benefit	(978)	—
Expenses not deductible for tax purposes	123	176
Unrecognised tax losses carried forward	—	(342)
Decrease in net deferred tax asset	—	315
Total tax charge for the year	—	315

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED 31 MARCH 2016

7. Taxation - continued

Factors that may affect future tax charges

In March 2015 the UK government announced the main rate of UK corporation tax would remain at 20% for the period to 1 April 2017 and that a further reduction to 18% from 1 April 2020 would apply. This announcement has been substantively enacted and therefore UK deferred tax assets and liabilities are recognised at a rate of 18% (2015: 20%). In March 2016, the UK government announced that the main rate of UK corporation tax would be further reduced to 17% with effect from 2020.

The Company has a total unrecognised deferred tax liabilities of £21,000 (2015: £71,000), as follows:

	2016 £'000	2015 £'000
On depreciation in excess of capital allowances - unrecognised	21	71

8 Goodwill

Carrying value:	£'000
At 1 April 2014, 31 March 2015 and at 31 March 2016	21,026
At 31 March 2016	21,026

Goodwill arose following the transfer of trade and assets of Quadrant Drug Delivery Limited in 2013 to Innovata Limited.

9. Property, plant and equipment

	Office and IT equipment
	£'000
Cost:	
At 1 April 2014	117
At 31 March 2015	117
At 31 March 2016	117
Depreciation:	
At 1 April 2014	(117)
At 31 March 2015	(117)
At 31 March 2016	(117)
Net book value:	
At 31 March 2015	—
At 31 March 2016	—

INNOVATA LIMITED

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED 31 MARCH 2016

10. Investments in subsidiary undertakings

Cost and net book value	£'000
At 1 April 2014, 31 March 2015 and at 31 March 2016	34,399
At 31 March 2016	34,399

Details of the Company's subsidiary undertakings are as follows:

Name of undertaking	Country of incorporation	Holding	Proportion held	Nature of Business
Quadrant Technologies Limited	England	Ordinary	100%	Pharmaceuticals
Quadrant Drug Delivery Limited ¹	England	Ordinary	100%	Pharmaceuticals
Innovata HK Limited ²	Hong Kong	Ordinary	82.4%	Holding Company
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	USA	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 Quadrant Technologies Limited.

²A subsidiary of Innovata Biomed 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.

11. Trade and other receivables

	2016 £'000	2015 £'000
Amounts owed by group undertakings	162,827	145,955
Prepayments and accrued income	3,896	3,475
	166,723	149,430

12. Called up share capital

Allotted, issued and fully paid:

Number	Class	Nominal value	2016 £'000	2015 £'000
503,242,193	Ordinary	£0.01	5,032	5,032

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED 31 MARCH 2016

13. Trade and other payables

	2016 £'000	2015 £'000
Current:		
Amounts owed to parent undertakings	2,748	1,857
Amounts owed to group undertakings	53,808	53,808
Other creditors	33	33
Accruals and deferred income	2,821	1,642
	59,410	57,340

14. Financial instruments

Categories of financial instruments

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

	2016 £'000	2015 £'000
Loans and receivables	166,723	149,430

All financial assets fall due within one year.

There were no provisions against impaired assets at 31 March 2016 (31 March 2015: £nil). There are no amounts past due but not impaired (2015: £nil).

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

	2016 £'000	2015 £'000
Trade and other payables	59,410	57,340

All other amounts within 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 will be able to continue as a going concern whilst maximising the return to stakeholders. The capital structure of the Company consists of cash and cash equivalents and equity, comprising issued share capital (note 12), and retained earnings as disclosed in the statement of changes in equity.

On 16 March 2016, the Company entered into a loan agreement with HSBC Bank plc in relation to a £50.0m RCF. Under the terms of this arrangement, Vectura and HSBC have the option to extend the facility to £75.0m. The funds are available to Vectura for the purposes of, amongst other things, financing the merger with Skyepharma PLC. As at 31 March 2016, and to the date that these financial statements were issued, no funds were drawn against the facility.

Externally imposed capital requirement

The Company is now subject to capital maintenance obligations under the RCF agreement and these are reviewed for compliance on a regular basis. The Directors consider that all requirements and covenants have been complied with during the period covered by the financial statements and to the date the financial statements were authorised for issue.

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.

14. Financial instruments - continued

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. Balance sheets at 31 March 2016 and 31 March 2015 are not necessarily representative of the positions throughout the year, as cash and short-term investments fluctuate considerably throughout the year depending on the timing of working capital receipts.

It is, and has been throughout the year, the 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.

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

Foreign currency risk management

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

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

Foreign currency sensitivity analysis

The following table details the Company's sensitivity to a 15% increase and decrease (2014/15: 10% increase or decrease) in sterling against the euro and US dollar; 15% (2014/15: 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 15% change (2014/15: 10% change) in foreign currency rates. A positive number below indicates an increase in profit and other equity where sterling weakens against the relevant currency and a negative number indicates a decrease in profit and other equity where sterling strengthens against the relevant currency.

	2016 £'000	2015 £'000
US dollar currency impact – gain	172	545
US dollar currency impact – loss	(146)	(445)

The Company have a legal right of offset between its foreign currency bank accounts and certain of its sterling bank accounts.

14. Financial instruments - continued

Interest rate risk management

As explained overleaf, the Company is party to an RCF with HSBC Bank plc. As at 31 March 2016 and as at the date of these financial statements, the facility has not been utilised and as such the Company has no external borrowings. Therefore it is not currently exposed to interest rate risk through borrowings.

Liquidity risk management

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

Credit risk management

The 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 operates an investment policy, under which the primary objective is to invest in a diverse portfolio of low-risk cash or cash equivalent investments to safeguard the principal.

The Company's credit risk on trade and other receivables is low as the amounts are owed by large, multinational, pharmaceutical companies. For the same reason, the Directors assess the quality of these assets as high.

Market risk management

The 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.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED 31 MARCH 2016

15. Capital and other commitments

At 31 March 2016 the Company had no capital commitments contracted, but not provided for (2015: nil).

16. Related party transactions

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

Related party	Recharge from related parties £'000	Recharge to related parties £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Vectura Group plc				
2015	320	—	—	1,857
2016	891	—	—	2,747
Vectura Limited				
2015	18	—	109,812	—
2016	—	—	126,684	—
Vectura Delivery Devices Limited				
2015	—	—	3,666	—
2016	—	—	3,666	—
Innovata Biomed Limited				
2015	—	—	28,690	—
2016	—	—	28,690	—
Quadrant Drug Delivery Limited				
2015	—	—	—	8,659
2016	—	—	—	8,659
Quadrant Technologies Limited				
2015	—	—	—	309
2016	—	—	—	309
Quadrant Healthcare Limited				
2015	—	—	—	16,639
2016	—	—	—	16,639
Quadrant Healthcare (UK) Limited				
2015	—	—	—	20,000
2016	—	—	—	20,000
Quadrant Holdings Cambridge Limited				
2015	—	—	—	8,200
2016	—	—	—	8,200
Andaris Group Limited				
2015	—	—	3,787	—
2016	—	—	3,787	—

Amounts outstanding are unsecured. No provisions have been made for doubtful debts owed by related parties.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED 31 MARCH 2016

17. Reconciliation of profit/(loss) before taxation to cash generated from operations

	2016 £'000	2015 £'000
Profit before taxation	15,223	12,345
Exchange movements	(37)	(92)
Investment income	(2,429)	(79)
	12,757	12,174
Decrease/(increase) in trade and other receivables	(17,293)	(12,786)
(Decrease)/increase in trade and other payables	2,070	441
Cash utilised by operations	(2,466)	(171)

18. Equity-settled share option schemes and Long-Term Incentive Plan

The following disclosures have been taken from the consolidated financial statements of Vectura Group plc for the year ended 31 March 2016. They have been included here on the basis that £618,000 (2014/15: £177,000) 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 2016, Executive Directors and eligible senior managers hold rights to ordinary shares awarded under the LTIP, as follows:

Date of vesting	Ordinary shares vesting
22 November 2009	42,554
2 March 2010	104,758
25 May 2010	81,628
23 May 2011	357,447
7 June 2014	729,737
18 September 2015	500,516
7 June 2016 ⁽¹⁾	1,963,022
1 July 2017 ⁽¹⁾	883,435
24 September 2018 ⁽¹⁾	1,361,983
24 September 2020 ⁽¹⁾	1,249,526

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

18. Equity-settled share option schemes and Long-Term Incentive Plan - continued

In addition to the arrangements overleaf, the Company made a one-off award of share options to James Ward-Lilley upon his appointment as Chief Executive Officer. This was an award under the provisions of LR 9.4.2(2) and the details are set out in the Remuneration report. There are no plans to make any further awards under this scheme.

Fair value calculations

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

Year of grant	2016	2015
The assumptions input into the Black-Scholes model were as follows:		
Weighted average share price of grants during the year	158.6p	136.3p
Weighted average exercise price of grants during the year	132.2p	114.4p
Expected volatility ⁽¹⁾	32% - 42%	39% - 41%
Expected life ⁽²⁾	3 years	3 years
Expected dividends	Nil	Nil
Risk-free interest rate ⁽³⁾	0.6% - 1.4%	0.6% - 1.4%
The assumptions input into the Monte Carlo model were as follows:		
Weighted average share price of grants during the year	178.5p	135.3p
Weighted average exercise price of grants during the year	0.025p	0.025p
Expected volatility ⁽¹⁾	28% - 31%	40%
Expected life ⁽²⁾	3 - 5 years	3 years
Expected dividends	Nil	Nil
Risk-free interest rate ⁽³⁾	0.6% - 1.5%	1.5%

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

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

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

INNOVATA LIMITED

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
FOR THE YEAR ENDED 31 MARCH 2016

18. Equity-settled share option schemes and Long-Term Incentive Plan - continued

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.

The share-based compensation charge for the year ended 31 March 2016, including the LTIP, was £2,470,000 (2014/15: £1,060,000).

The aggregate of the estimated fair value of options granted under the SAYE share option scheme and Share Incentive Plan during the year ended 31 March 2016 was £265,000 (2014/15: £373,000). The estimated fair value of LTIP awards during the year ended 31 March 2016 was £2,377,000 (2014/15: £768,000) and the estimated fair value of the executive award made during the year ended 31 March 2016 was £1,693,000 (2014/15: £nil).

	Share option schemes		SAYE Scheme		LTIP		Executive award	
	Number of options	WAEP (p) ⁽¹⁾	Number of options	WAEP (p) ⁽¹⁾	Number of options	WAEP (p) ⁽¹⁾	Number of options	WAEP (p) ⁽¹⁾
Options outstanding								
At 1 April 2014	7,521,655	61.67	1,466,323	59.41	8,343,020	0.025	—	—
Options granted	—	—	621,775	114.4	1,076,791	0.025	—	—
Options exercised	(3,062,229)	56.38	(180,691)	64.25	(561,253)	0.025	—	—
Options cancelled	(55,597)	62.63	(75,693)	85.12	(147,527)	0.025	—	—
At 31 March 2015	4,403,829	65.34	1,831,714	77.16	8,711,031	0.025	—	—
Options granted	—	—	464,783	132.32	2,611,509	0.025	1,131,617	Nil
Options exercised	(2,961,903)	64.72	(934,128)	47.40	(3,175,633)	0.025	—	—
Options cancelled	(79,451)	88.55	(33,019)	48.50	(872,301)	0.025	—	—
At 31 March 2016	1,362,475	65.34	1,329,350	118.0	7,274,606	0.025	1,131,617	Nil
Range of exercise prices	38.0p –104.0p		47.4p –130.4p		0.025p		Nil	
Weighted average remaining contractual life (years)	2.52 (2015: 1.77)		2.57 (2015: 1.71)		4.83 (2015: 5.65)		2.50 (2015: nil)	

Options vested

At 31 March 2015	4,276,365	65.30p	—	—	4,212,451	0.025p	—	—
At 31 March 2016	1,362,475	65.30p	—	—	1,816,640	0.025p	285,994	Nil
Weighted average remaining contractual life (years)	2.52 (2015: 1.60)		—		3.98 (2015: 1.53)		nil (2015: —)	

⁽¹⁾ Weighted average exercise price (p).

19. Pension commitments

The Company operates a number of defined contribution personal pension plans for all qualifying employees. The assets of the schemes are held separately from those of the Company and are independently administered. The total cost charged to the Statement of Comprehensive Income is detailed in note 4.

20. 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.

21. Post balance sheet events

Merger with Skyepharma PLC

On 10 June 2016 the all-share merger of Vectura Group plc and Skyepharma PLC (the "Merger") became effective.

Change in accounting reference date

Effective for subsequent accounting periods, the Company has changed its accounting reference date to the 31 December. This change brings the Company's accounting reference date in line with its partners and peer group.