

REGISTERED NUMBER: 02148607 (England and Wales)

INNOVATA LIMITED

02148607

**REPORT AND FINANCIAL STATEMENTS FOR THE
NINE MONTH PERIOD ENDED 31 DECEMBER 2016**

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INNOVATA LIMITED

COMPANY INFORMATION
FOR THE NINE MONTHS ENDED 31 DECEMBER 2016

DIRECTORS: J Ward-Lilley
A Derodra

COMPANY SECRETARY: J Murphy

REGISTERED OFFICE: One Prospect West
Chippenham
Wiltshire
SN14 6FH
United Kingdom

REGISTERED NUMBER: 02148607 (England and Wales)

AUDITOR: Deloitte LLP
Statutory Auditors
5 Callaghan Square
Cardiff
CF10 5BT

BANKERS: Barclays Bank Plc
28 Chesterton Road
Cambridge
CB4 3AZ
United Kingdom

INNOVATA LIMITED

STRATEGIC REPORT FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2016

Innovata Limited ("the Company") is a wholly-owned subsidiary of Vectura Group plc ("Vectura" or "the Group"). The Directors present their strategic report for the nine month period ended 31 December 2016.

PRINCIPAL ACTIVITY

The principal activity of the Company is that of research, development and commercialisation of pharmaceutical products and technologies and this is expected to continue for the foreseeable future.

VECTURA GROUP PLC MERGER AND CHANGE OF REFERENCE DATE

On 10 June 2016, an all-share Merger of Vectura Group plc and Skyepharma PLC was implemented by way of a court-sanctioned scheme of arrangement of Skyepharma PLC ("the Merger"). Skyepharma was delisted and Vectura Group plc remains the Company's immediate and ultimate parent entity.

Further details of this transaction are disclosed in the consolidated Vectura Group plc Report and Accounts, available on the Group's website www.vectura.com/investors/financial-reports. The transaction has not impacted the core operations of the Company.

Following the Merger, the Group changed its accounting reference date to 31 December; in accordance with the Companies Act 2006 this change was applied to subsidiaries across the Group, including the Company. Accordingly, the current financial period is for the nine months ended 31 December 2016, whilst the comparative period is for the twelve months ended 31 March 2016.

BUSINESS REVIEW

The Company's key financial performance indicators are presented within the table below:

	9 months ending 31 December 2016 (£'000)	12 months ending 31 March 2016 (£'000)	%
	274 days	365 days	(25%)
Operating Profit	8,669	12,757	(32%)
(Loss)/ Profit after tax	(40,525)	15,223	(366%)
Cash and cash equivalents	117	—	—
Net assets	122,213	162,738	25%

Revenue

Revenue comprises: royalty revenue and technology licensing.

Royalty revenue of £8,828,000 (2015/16: £13,476,000) in relation to ADVATE® reflects the run-off sales of inventory produced by Baxter prior to the patent expiry in January 2016. The Directors believe that the majority of stock has now been sold and do not expect a significant contribution in 2017.

Technology licensing (milestone) revenue of £131,000 (2015/16: £195,000) principally relates to license income in relation to products marketed by Baxter, the reduction is directly related to the 25% shorter reporting period.

Operating Profit

The Company reported an operating profit of £8,669,000 (2015/2016: £12,757,000). The decrease is consistent with the reduction in royalty revenues described above.

Loss after taxation

The Company reported a loss after taxation of £40,525,000 (2015/16: £15,223,000), the reduction is a result of the operating profit described above plus impairments as described in note 6.

INNOVATA LIMITED

STRATEGIC REPORT FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2016 - CONTINUED

Cash

Cash and cash equivalents at the balance sheet date were £117,000 (March 2016: £nil).

Net assets

Net assets of £122,213,000 (31 March 2016: £162,738,000) predominately relate to intercompany receivables.

Borrowings

The Company has no external borrowings (31 March 2016: Nil). In August 2016, Vectura arranged a £50.0m unsecured committed multi-currency revolving credit facility ("RCF") with Barclays Bank PLC. The Company is an obligor under this arrangement.

The cost of borrowing under the RCF is 1.0 - 2.0 per cent above the relevant LIBOR/EURIBOR reference rate. There are two financial covenants which will be tested at each reporting period if drawings have been made under the facility in the previous six months. At 31 December 2016, the facility remains undrawn.

PRINCIPAL RISKS AND UNCERTAINTIES

As a member of the Vectura Group the Company is directly exposed to the following risks which are either specific to the Company or are directly or indirectly applicable to the operations of the Company.

Strategic Risks

1. Failure to deliver the product pipeline
Description Failure to deliver the Group's late stage product development pipeline and the clinical, research and development risk associated with novel products could severely impact future profitability and prospects for the Group and Company.
Principal causes • Competition • Uncompetitive pricing • Failure to maintain good relationships with alliance partners • Incorrect study or trial design or execution • Loss of key resources
Mitigation The Group seeks to balance its investment in research and development between higher risk, high-value development products and lower risk, lower value opportunities. The guidelines of the relevant regulatory bodies are followed and trials conducted in accordance with prevailing practice and statutory/regulatory requirements. 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. 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. 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 Group continues to work with a network of experienced consultants and contractors who provide additional support and expertise as required. 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.
2. Partner failure
Description The Group and Company are dependent on partners for obtaining regulatory approval and marketing of products. Once partners have obtained approval and launched the products, the Group and Company may be entitled to revenue based on a proportion of net sales or share of revenue of these products. Failure by a strategic partner to deliver on their obligations could result in a low or negative return on investment.
Principal causes • Change in partner strategy or a partner is distracted from Vectura's business interests • Partner trading issues / insolvency • Failure by a partner to market the product successfully • Partner failure to obtain appropriate pricing and reimbursement
Mitigation Vectura has a broad range of disclosed and undisclosed partners. The Skyepharma merger has broadened this range further. All collaborations are performed under a suitable legal agreement which is assessed by Vectura and its legal advisors. Typically, for collaborations, a joint steering committee (JSC) will be established involving both Vectura and partner personnel. This provides Vectura with a mechanism to ensure that any joint project activity is managed appropriately. The Group also has a Commercial and Business Development Department whom maintain regular dialogue with existing and potential new partners.

STRATEGIC REPORT FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2016 - CONTINUED

3. Changes in the regulatory, operating or pricing environment
Description Changes to the highly regulated landscape for the pharmaceutical industry, operational restrictions and downward pricing pressure could impact whether a substance can be developed into a viable marketable product and the amount of time and expenses associated with such development. Even if products are approved, they may still face subsequent difficulties resulting in financial loss and reputational damage.
Principal causes • The vote by the UK to exit the EU ("Brexit") - potential regulatory changes for clinical trials, restrictions on the movement of capital and mobility of personnel • Competitor pricing strategies • Regulatory action on pricing
Mitigation Regulatory changes tend to be slow due to lengthy consultations and discussions between regulators and the pharmaceutical industry. We work closely with expert regulatory advisors and, when appropriate, seek advice from regulatory authorities on the design of key development plans for pre-clinical and clinical programmes. In respect of our partnerships, we work with a number of blue-chip pharmaceutical partners who have significant regulatory expertise. Our business model includes a mix of highly innovative projects to address unmet patient needs as well as generic programmes which support government initiatives to reduce cost. Other than exchange rate volatility, further significant consequences of the vote to leave the EU are yet to be seen. However, the following is being kept under review by the Group: (i) the situation for employees from EU countries in the UK; (ii) intellectual property matters currently proceeding with unitary patent (iii) potential import/export duties/levies as one element of decision making as to where to carry on/place infrastructure/business; (iv) potential change in tax rates similarly. Regulatory changes or any other matter arising from or relating to Brexit are likely to take a significant amount of time before any changes take effect. The Group will work internally and with external advisors to ensure that specific mitigating activities are put in place as they are identified.

4. Failure to protect intellectual property
Description Patent infringement by competitor pharmaceutical or biotechnology organisation or failure to obtain patents for Vectura or partner development
Principal causes • Competitor successful in challenging Vectura or partner patent • Critical information missing from filed patent
Mitigation Dedicated internal resource, supplemented with external expertise, files for and prosecutes patents and other forms of intellectual property and, in conjunction with our partners where relevant, take steps to enforce these rights. Third party rights that may be of interest to and/or have adverse effects on the Group's activities are also monitored so that action can be initiated where appropriate.

TRANSITION TO FRS 101

In preparing these financial statements, the Company applies the recognition, measurement, and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("IFRS"), but makes amendments where necessary in order to comply with the Companies Act 2006 and has excluded certain amendments as permitted by FRS 101 "Reduced Disclosure Framework".

This transition did not have any effect on the Company financial statements, the Group financial statements are available as disclosed in note 16.

FUTURE DEVELOPMENTS

The Directors expect the general level of activity of the entity to decrease in future years as a result of the run-off sales of ADVATE® inventory produced by Baxter prior to the patent expiry in January 2016. The Directors believe that the majority of stock has now been sold and do not expect a material contribution in 2017.

The Group continues to monitor progress on the UK negotiations to leave the European Union; albeit it is currently unclear what if any implications there will be for the Company, and indeed the phasing of any implications.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a number of financial risks as detailed below. The Company is funded principally through intercompany borrowings and invests surplus funds in short-term (typically three months) bank deposits. The Company has access to the majority of these deposits at a maximum of 24 hours' notice.

Liquidity risk management

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its obligations as they fall due. 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.

The Company's policy is to maintain continuity of funding through available cash and cash equivalents; the RCF facility is available and is currently undrawn.

Currency risk management

Exposure arises from foreign currency-denominated trading transactions undertaken in foreign currencies but which are not hedged. Such currency exposure is reduced by matching foreign currency revenues with expenditure in the same foreign currency.

Where there are no near-term forecast foreign currency-denominated transactions, the surplus foreign currency cash balances are exchanged for Sterling functional currency. Where it has not been possible to use natural hedges, currency options and forward currency contracts may be used. No options or forward contracts have been entered into in the period (2015/16: none).

Credit risk

The Company is exposed to credit risk through its operating activities, including trade receivables and from its investing activities, including bank deposits.

The creditworthiness of customers is assessed by reference to publicly-available information, or additional information provided by those customers. In view of the nature of the business, most customers are large, profitable, pharmaceutical companies and there is no history of significant bad debts or any bad debt provision (2015/16: nil).

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



Andrew Derodra
Director
14 June 2017

INNOVATA LIMITED

DIRECTORS' REPORT FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2016

The Directors present their report on the affairs of the Company, together with the audited financial statements for the nine months ended 31 December 2016.

GOING CONCERN

The Directors have reviewed the Group's detailed cash flow forecast for the foreseeable future, made relevant enquiries and considered reasonably plausible downsides in trading performance, 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. A letter of support has also 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 this report. Accordingly, they continue to adopt the going concern basis in preparing the report and financial statements.

DIVIDENDS

The Directors do not recommend the payment of a dividend (2015/16: nil).

DIRECTORS

The Directors shown below have held office since 1 April 2016 to the date of approval of this report, unless otherwise stated:

J Ward-Lilley
A Derodra (appointed 10 June 2016)
A J Oakley (resigned 10 June 2016)
T M Phillips (resigned 31 May 2017)

COMPANY SECRETARY

J Murphy was appointed Company Secretary on 13 September 2016.
P Burrell resigned as secretary on 1 January 2015.

DIRECTORS' INDEMNITIES

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

POLITICAL AND CHARITABLE DONATIONS

No political or charitable donations were made (2015/16: nil).

INFORMATION PROVIDED TO THE AUDITOR

Each Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- The Director have taken all the steps that they ought to have taken as a Director in order to make himself aware of any 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.

DIRECTORS' REPORT FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2016 - CONTINUED

APPOINTMENT OF AUDITOR

In April 2017, Vectura Group plc announced the conclusion of a competitive tender process for the provision of Group external audit services applicable to the financial year beginning 1 January 2017.

Deloitte LLP has been the external auditor since 2007 and following ten years of service, is expected to resign as the Company's external auditor shortly after these financial statements are approved.

The decision to appoint KPMG LLP was confirmed at the Group AGM on 25 May 2017. It is therefore anticipated that the Directors will appoint KPMG LLP as external auditor for the Company following completion of Deloitte LLP's statutory resignation procedures.

POST BALANCE SHEET EVENTS

As at the date of signing this report, no reportable post balance sheet events have been identified.

The Director's Report has been approved and signed on behalf of the Board by:



Andrew Derodra
Director
14 June 2017

INNOVATA LIMITED

DIRECTORS RESPONSIBILITY STATEMENT FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2016

The Directors are responsible for preparing the Report and 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework."

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

INNOVATA LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INNOVATA LIMITED

We have audited the financial statements of Innovata Limited for the nine month period ended 31 December 2016, which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework."

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 an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS101; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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 (Senior Statutory Auditor)
for and on behalf of Deloitte LLP Statutory Auditor
Cardiff, United Kingdom
21 June 2017

INNOVATA LIMITED

INCOME STATEMENT FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2016

	Note	9 months ended 31 December 2016 £'000	12 months ended 31 March 2016 £'000
Revenue	4	8,959	13,671
Cost of sales		—	—
GROSS PROFIT		8,959	13,761
Research and development expenses		(181)	(22)
Corporate costs and marketing expenses		—	(274)
Share-based compensation		(109)	(618)
OPERATING PROFIT		8,669	12,757
Impairment charges	6	(49,722)	—
Investment income	7	—	2,429
Finance income	7	528	37
(LOSS)/ PROFIT BEFORE TAXATION		(40,525)	15,223
Taxation	9	—	—
(LOSS)/ PROFIT FOR THE PERIOD		(40,525)	15,223

All results are derived from continuing operations and are attributable to the parent. As there is no difference between the results presented above and total comprehensive income, a separate statement of other comprehensive income is not presented.

INNOVATA LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2016

	Note	31 December 2016 £'000	31 March 2016 £'000
ASSETS			
NON-CURRENT ASSETS			
Goodwill	10	-	21,026
Investments	11	34,399	34,399
		<u>34,399</u>	<u>55,425</u>
CURRENT ASSETS			
Trade and other receivables	13	146,327	166,723
Cash and cash equivalents		117	-
		<u>146,444</u>	<u>166,723</u>
TOTAL ASSETS		<u>180,843</u>	<u>222,148</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	58,630	59,410
TOTAL LIABILITIES		<u>58,630</u>	<u>59,410</u>
NET ASSETS		<u>122,213</u>	<u>162,738</u>
EQUITY			
SHAREHOLDER'S EQUITY			
Called up share capital	15	5,032	5,032
Share premium		73,326	73,326
Special reserve		4,049	4,049
Merger reserve		15,958	36,984
Other reserve		1,884	1,884
Retained earnings		21,964	41,463
TOTAL EQUITY		<u>122,213</u>	<u>162,738</u>

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



Andrew Derodra
Director
14 June 2017

INNOVATA LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2016

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

	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 2016	36,984	1,884	41,463	162,738
Changes in equity				
Loss for the period	—	—	(40,525)	(40,525)
Merger relief	(21,026)		21,026	-
Balance at 31 December 2016	15,958	1,884	21,964	122,213

(1) See note 15 – Called up share capital for further detail

(2) Due to ADVATE patent expiry in January 2016 remaining Goodwill has been fully impaired. This impairment qualified for merger reserve relief in accordance with S611 of the Companies Act and accordingly the Merger reserve has been released to offset the realised loss experience on the Goodwill impairment.

INNOVATA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2016

1. General information

Innovata Limited (the "Company") is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales and is a wholly-owned subsidiary of Vectura Group plc. The address of the registered office is One Prospect West, Chippenham Wiltshire, SN14 6FH. The nature of the Company's operations and its principal activities are set out in the strategic report.

These financial statements are presented in pounds sterling rounded to thousands. The presentational and functional currency is Sterling being the primary currency of the UK economic environment in which the Company operates.

These financial statements are separate financial statements. The Company is exempt from the preparation and delivery of consolidated financial statements, because it is included in the group accounts of Vectura Group plc; the group accounts are available to the public and can be obtained as set out in note 16.

The Company previously prepared its financial statements to the accounting reference date of 31 March. Following the Merger with Skyepharma, the Group and all subsidiaries have changed accounting reference date to 31 December. Accordingly, the current financial period is for the nine months ended 31 December 2016, whilst the comparative period is for the twelve months ended 31 March 2016.

2. Basis of preparation

The Company is a qualifying entity for the purposes of FRS 101 which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

These are the first financial statements of the Company prepared in accordance with FRS 101. The Company's date of transition to FRS 101 is hence the beginning of the comparative period being 1 April 2015. FRS 101 sets out amendments to EU-adopted IFRS that are necessary to achieve compliance with the Act and related regulations.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 2, 'Share-based payments'
- IFRS 7, 'Financial Instruments: Disclosures'
- IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for measurement)
- IAS 1 'Presentation of financial statements' comparative information requirements in respect of:
 - IAS 16 Property, plant and equipment (reconciliations between the beginning and end of the period)
 - IAS 38 Intangible assets (reconciliations between the beginning and end of the period)
 - An additional opening balance sheet if applying an accounting policy retrospectively
- IAS 1, 'Presentation of financial statements':
 - statement of cash flows
 - statement of compliance with all IFRS
 - requirement for minimum of two primary statements, including cash flow statements
 - additional comparative information
 - cash flow statement information, and capital management disclosures
- IAS 7, 'Statement of cash flows'
- IAS 8, 'disclosures in respect of new standards and interpretations issued but not yet effective'
- IAS 24, 'Related party disclosures' (key management compensation)
- IAS 24, 'Related party disclosures' to disclose transactions entered into between group entities'
- IAS 36, 'Impairment of assets' disclosures'
- IFRS 3, 'Business Combinations'
- IFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations'
- IFRS 1, 'First-time adoption of International Financial Reporting Standards' to present a balance sheet at the date of transition.

Disclosure exemptions are taken where the relevant disclosure requirements are met in the consolidated financial statements of Vectura Group plc, even where the disclosures are made in aggregate or in an abbreviated form, or, in relation to intra-group balances, those intra-group balances have been eliminated on consolidation.

Transition to FRS 101

No transitional adjustments were required as the Company in any case complied with FRS 101 recognition and measurement requirements, having previously applied full EU-IFRS.

INNOVATA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2016 - CONTINUED

2. Basis of preparation (continued)

Going concern

The Company made a loss of £40,525,000 for the nine months ended 31 December 2016 (2015/16: profit of £15,223,000) and has net assets of £122,213,000 as at 31 December 2016 (31 March 2016: £162,738,000). 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 Directors have reviewed the Group's detailed cash flow forecast for the foreseeable future, made relevant enquiries and considered reasonably plausible downsides in trading performance, 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. A 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 this report. Accordingly, they continue to adopt the going concern basis in preparing the report and financial statements.

New Accounting Standards

The following amendments to IFRS became mandatory in this reporting period. The Group has applied the following standards and amendments for the first time for the reporting period commencing 1 April 2016:

- Disclosure initiative – amendments to IAS 1 "Presentation of Financial Statements";
- Clarification of acceptable methods of depreciation and amortisation – amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets";
- Accounting for acquisitions of interests in joint operations – amendments to IFRS 11; and
- Annual improvements to IFRS 2012 – 2014 cycle.

The adoption of these amendments did not have any impact on the current period or any prior period except for:

Disclosure initiative – amendments to IAS 1 "Presentation of Financial Statements"

The following amendments to IAS 1 "Presentation of Financial Statements" have been applied to these financial statements that material information should not be obscured with immaterial information or by aggregating material items that have different natures or functions; where a specific disclosure is required by IFRS, this need not be disclosed if the information is not material.

3. Accounting policies

Critical accounting judgements and key sources of estimation uncertainty

In preparing the financial statements, Directors are required to make judgements, estimates and assumptions 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 results could differ from those estimates.

The critical accounting judgements and key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities have been identified as:

- Revenue recognition
- Capitalisation of research and development expenditure.
- Recognition of deferred tax attributes
- Review for impairment of investments,

The recognition of milestone revenue and the capitalisation of research and development expenditure are areas that require significant judgement in applying IFRS for medium sized pharmaceutical entities involved in collaborative developments. This is primarily because the commercial arrangement spans several reporting periods and the activities are often novel or specialist in nature.

Milestone revenue is normally recognised upfront or spread over the collaboration depending upon the nature of the agreement and the remaining obligations associated. Research and development expenditure requires an assessment of the expenditure in order to determine whether or not it is appropriate to capitalise in accordance with IAS 38. The Company is expected to be profitable in the near future, where certain products to successfully launch as planned. Then this will trigger a review of the Company's unrecognised deferred tax assets, which will be recognised to the extent it is considered that deferred tax assets will be available for offset in the foreseeable future, initially not exceeding 24 months.

INNOVATA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2016 - CONTINUED

Significant accounting policies

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 partner product sales in accordance with the terms of each agreement, net of amounts payable to other licensees.

Product licensing (milestone)

Product licensing (milestone) revenue payments represent amounts earned for licenses provided under licensing agreements, including up-front payments, milestone payments and technology access fees.

Revenues are recognised where they are non-refundable, the Group'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.

Research and development ("R&D") expenditure

R&D expenditure comprises internal and third-party costs relating to feasibility studies, technical development, costs of chemistry, manufacturing and control development, clinical work, and the registration and maintenance of intellectual property. These are charged to the income Statement in the period in which they are incurred unless the criteria for recognising development expenditure as an asset are met, in which case, development expenditure is capitalised. Regulatory and other uncertainties generally mean that the criteria are not met.

Property, plant and equipment

Property, plant and equipment are stated at historical cost, net of depreciation and provision for impairment. Depreciation is charged 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:

Buildings – twenty years

Leasehold improvements to buildings – three to seven years

Laboratory equipment – three to seven years

Freehold land is not depreciated. Items of property, plant and equipment is derecognised upon disposal. Any gain or loss arising on the disposal or retirement is recognised in the income Statement.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2016 - CONTINUED

Impairment of assets

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.

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 and need to be reversed.

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.

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.

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.

INNOVATA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2016 - CONTINUED

Provisions

Provisions are liabilities where the timing or exact value of future settlement is uncertain. 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.

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.

Share-based payments

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. 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 intercompany creditors, over the period until the award vests. All awards are settled by Vectura Group plc.

INNOVATA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2016 - CONTINUED

4. Revenue

Revenue by category and customer location are presented below:

	9 months ended 31 December 2016 £'000	12 months ended 31 March 2016 £'000
Revenue by category		
Technology licensing	131	195
Royalties	8,828	13,476
Total revenues	8,959	13,671

	9 months ended 31 December 2016 £'000	12 months ended 31 March 2016 £'000
Revenue by customer location		
United States of America	8,830	13,388
United Kingdom	39	176
Rest of Europe (excl. UK)	90	107
Total revenues	8,959	13,671

5. Employees

In accordance with Schedule 5 (11.1) of CA2006, employee share plans are excluded from this disclosure as they do not solely relate to payments made for employment services in each period presented.

Aggregate Directors' emoluments for qualifying Group services of £3.5m (2015/16 £4.2m) were borne by Vectura Limited (another Group Company). Full details of Directors' remuneration are contained in the Group's consolidated accounts, refer to note 16.

6. Impairment

	9 months ended 31 December 2016 £'000	12 months ended 31 March 2016 £'000
Impairment of Goodwill	21,026	-
Provision for impairment of intercompany receivables	28,696	-
Total Impairment charges	49,722	-

Due to ADVATE patent expiry in January 2016 remaining Goodwill has been fully impaired. This impairment qualified for merger reserve relief in accordance with S611 of the Companies Act and accordingly the Merger reserve has been released to offset the realised loss experience on the Goodwill impairment.

Furthermore a provision for impairment was made against intercompany receivables due from the Company's subsidiary undertaking Innovata Biomed Limited as the recoverability of this balance appears doubtful.

7. Net Investment and finance income

	9 months ended 31 December 2016 £'000	12 months ended 31 March 2016 £'000
Finance income	528	37
Income on sale of investment	—	2,429
Net Investment and finance income	528	2,466

All finance income relates to foreign exchange gains. As 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.

INNOVATA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2016 - CONTINUED

8. Auditor's remuneration

Fees payable to the Company's auditor services pursuant to these accounts were £5,000 (2015/16 £5,000). No other services were performed in relation to Innovata Limited.

9. Taxation

The Company before disallowable impairment charges is profit-making, but owing to the UK patent box and Group relief the Effective Tax Rate is nil.

	9 months ended 31 December 2016 £'000	12 months ended 31 March 2016 £'000
(Loss) / Profit before taxation	(40,525)	15,523
Add back disallowable impairment charges	49,722	-
Profit before tax and disallowable impairment charges	9,197	15,223
Profit before tax multiplied by standard rate of UK corporation tax of 20% (2015/16: 20%)	1,839	3,045
Effects of:		
Group relief utilised	(1,086)	(2,184)
Other permanent differences – Patent Box Benefit	(771)	(978)
Other timing differences	18	117
Total tax for the period	—	—

The UK corporation tax rate will reduce to 19% with effect from 1 April 2017, and 17% from 1 April 2020, both reductions having been substantively enacted.

10. Goodwill

Carrying value:	£'000
At 1 April 2016	21,026
At 31 December 2016	-

Due to ADVATE® patent expiry in January 2016 remaining Goodwill has been fully impaired against the merger reserve in accordance with S611 of the Companies Act.

INNOVATA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2016 - CONTINUED

11. Investments in subsidiary undertakings

Cost and net book value	£'000
31 March 2016 and at 31 December 2016	34,399
At 31 March 2016	34,399

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

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

A - One Prospect West, Chippenham, Wiltshire, SN14 6FH

B - 2ND Floor North, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EN

C - Unit 1802, 18/F., Asia Trading Centre, 79 Lei Muk Road, Kwai Chung, N.T., Hong Kong

12. Property, plant and equipment

	Office and IT equipment £'000
Cost as at 1 April 2016 and 31 December 2016	117
Depreciation as at 1 April 2016 and 31 December 2016	(117)
Net Book value as at 1 April 2016 and 31 December 2016	—

INNOVATA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2016 - CONTINUED

13. Trade and other receivables

	31 December 2016 £'000	31 March 2016 £'000
Amounts due from group undertakings	143,003	162,827
Prepayments and accrued income	3,324	3,896
Trade and other receivables	146,327	166,723

As all external receivables will shortly be settled for cash, after the balance sheet date, then there is considered to be no difference between their carrying values and fair values. No receivables are past due but not provided for. All receivables from Group undertakings are repayable on demand and accordingly classified as short term. Refer to note 6 for details of a provision for impairment booked during the period.

14. Trade and other payables

	31 December 2016 £'000	31 March 2016 £'000
Accruals and deferred income	2,182	2,821
Amounts owed to parent undertaking	2,638	2,748
Amounts owed to group undertakings	53,808	53,808
Trade and other payables	58,630	13,593

As all external payables will shortly be settled for cash, after the balance sheet date, there is considered to be no difference between their carrying values and fair values.

15. 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

16. Ultimate parent company

The Company's immediate undertaking is Vectura Group Investments Limited, a company incorporated in England and Wales

The ultimate parent undertaking of the Company is Vectura Group plc, which is the ultimate controlling party of the Vectura Group. Vectura Group plc is incorporated in England and Wales and is the smallest and largest group into which the results of the Company are consolidated.

On 10 June 2016, an all-share Merger of Vectura Group plc and Skyepharma PLC was implemented by way of a court-sanctioned scheme of arrangement of Skyepharma PLC. The Merger has not altered the core operations of the Company in the current year; further commentary is disclosed in the consolidated accounts of Vectura Group plc.

The consolidated financial statements are available within the investors section of the Group's corporate website www.vectura.com/investors/financial-reports, and from Vectura Group plc, One Prospect West, Chippenham, Wiltshire, SN14 6FH.