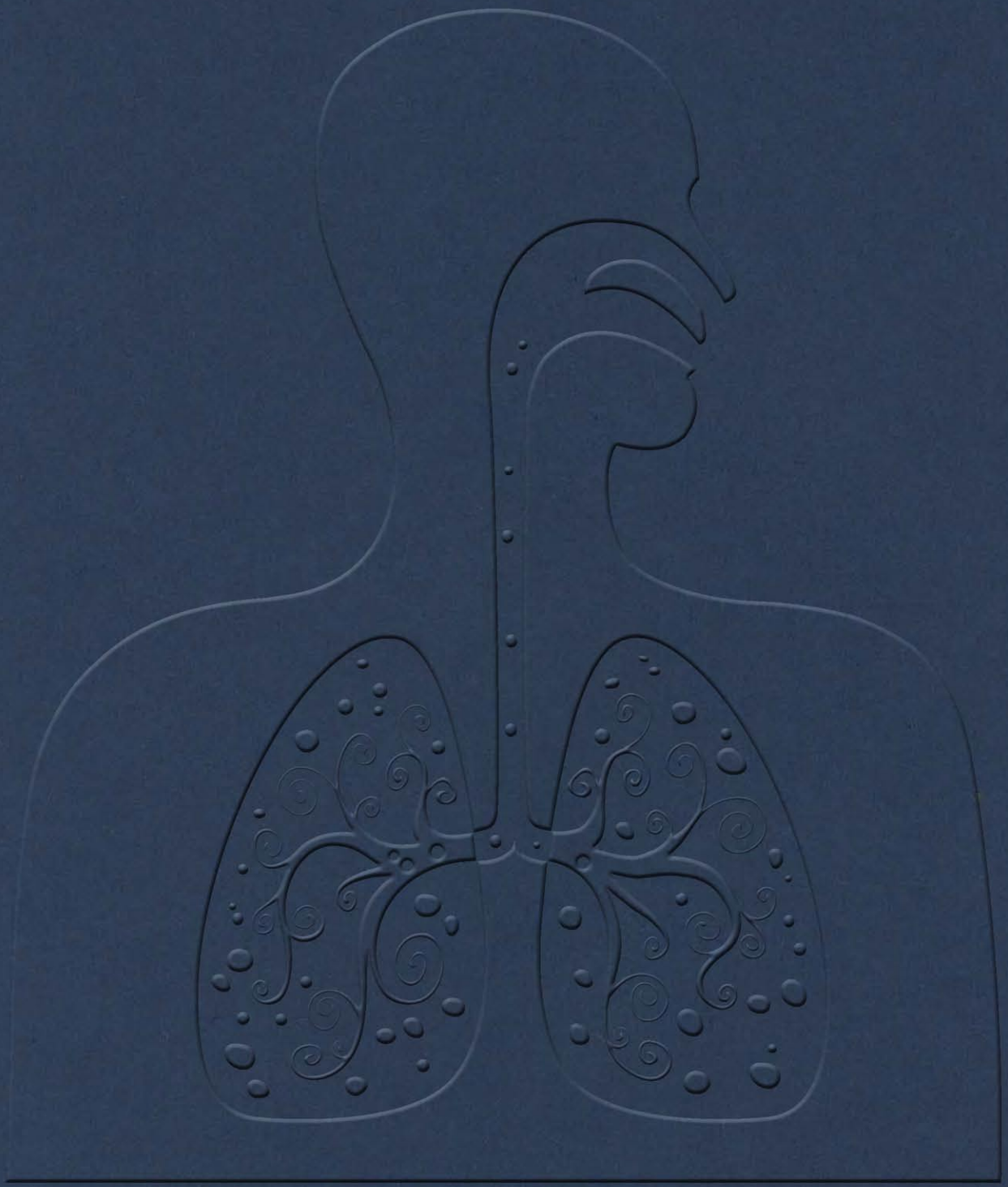
Vectura Group plc
Annual Report and Accounts
2009/10

vectura

A leader in inhaled pharmaceuticals



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Financial statements

Vectura is a leader in the development of inhaled pharmaceuticals, creating products to treat respiratory and lung-related diseases using innovative technologies and expertise.

Highlights 2009/10

Pipeline update

- **NVA237 (COPD)** Novartis initiated Phase III studies in June 2009 triggering a $7.5m (£4.5m) milestone receipt. An extensive package of data is being compiled and Novartis expects to file for regulatory approval in 2011
- **VR315 (asthma/COPD)**
  – EU Sandoz continues to make good progress
  – US Vectura continues development whilst further assessing FDA requirements
- **VR632 (asthma/COPD)** Good progress continues with Sandoz on development for the European market
- **VR040 (Parkinson's disease)** Phase II "at home" study on-going; results expected in 2010
- **VR496 (cystic fibrosis)** Phase II proof-of-concept study on-going; results expected in early 2011
- **Expansion of pipeline** Three new products under development: **VR506** a generic inhaled corticosteroid for asthma expected to be ready for clinical studies later this year, and two specialty products **VR461** and **VR909** in pre-clinical development
- **Boehringer Ingelheim GmbH ("Boehringer Ingelheim")** collaboration agreement concluded in November 2009

Post-year end

- **QVA149 (COPD)** Novartis initiated Phase III studies in April 2010 triggering a $7.5m (£5.1m) milestone payment. Novartis expects to file for approval in 2012
- **VR315 US** Receipt of $9.5m (£6.2m) from Sandoz in May 2010 in respect of the revised US agreement

Financial highlights

Revenue
+29%

2008/09 £31.2m
2009/10 **£40.1m**

Gross profit
+34%

2008/09 £27.3m
2009/10 **£36.6m**

Loss after tax
39% Improvement

2008/09 £16.7m
2009/10 **£10.2m**

Loss per share
38% Improvement

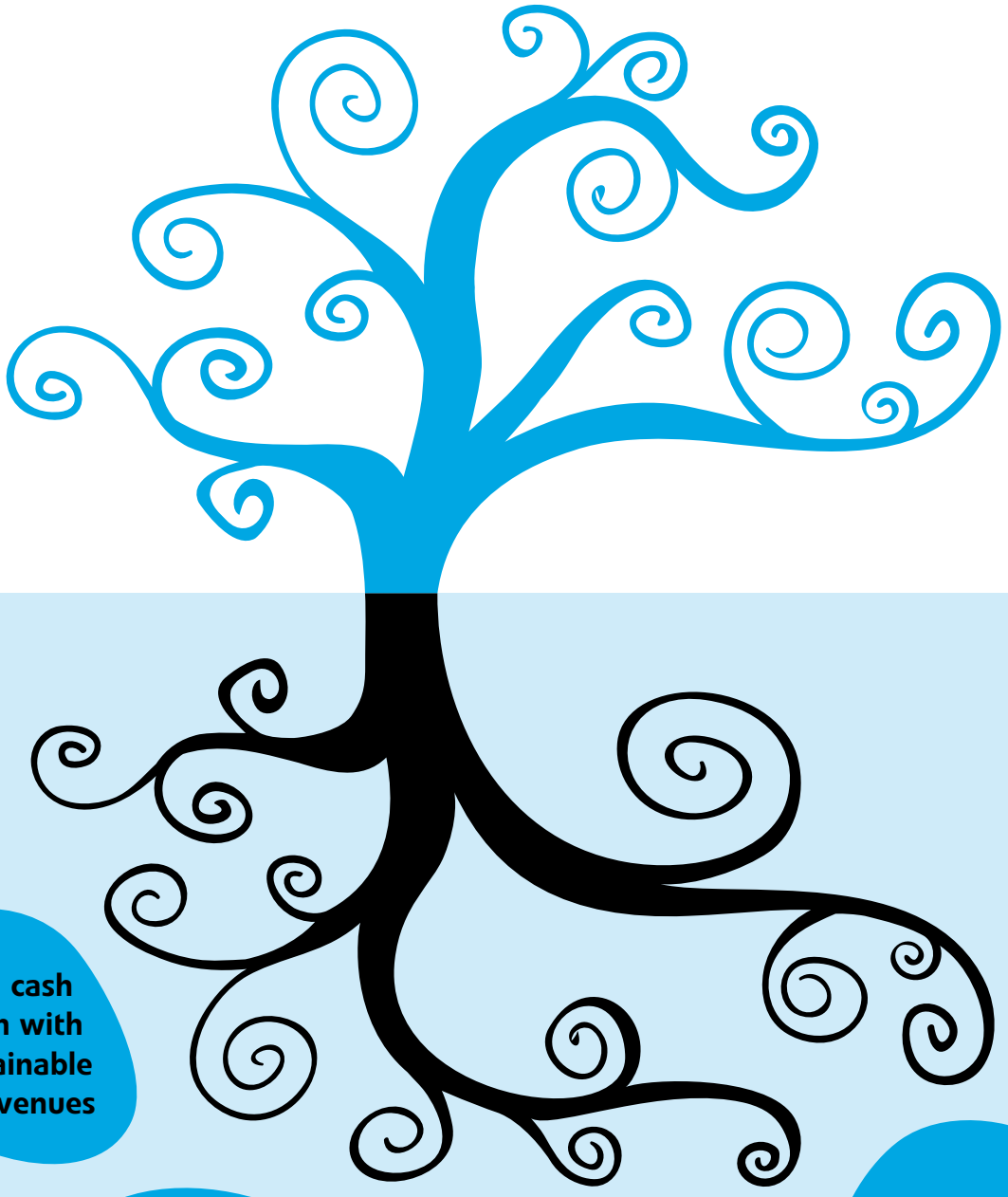
2008/09 5.2p
2009/10 **3.2p**

Cash and equivalents
£64.1m

at 31 March 2009 £74m
at 31 March 2010 **£64.1m**

Investment in R&D
+13%

2008/09 £32.3m
2009/10 **£36.4m**



Our strength is in our foundation

"It has been a year that has provided good pipeline progress and opportunities for Vectura with both NVA237 and QVA149 in Phase III clinical development.

We re-acquired US rights from Sandoz for development of VR315 in March and will continue to move the development programme forward in a cost-effective manner whilst monitoring the regulatory framework and assessing third-party interest. Vectura retains the rights to the product outside the US and Europe which represents an important licensing opportunity.

The expansion and progression of our product pipeline has been undertaken while focusing on our financial goal of becoming a sustainably cash-generative business following receipt of substantial milestone and royalty revenues from our partnered late-stage respiratory programmes. In the short term, we will continue to manage cash carefully as we fund investment in our development activities from both current revenue streams and cash resources. "

Dr Chris Blackwell Chief Executive of Vectura

↗ Automatic blister filling line in Vectura's 'cleanroom', which opened in 2009

Chairman and Chief Executive's report

Overview

Vectura's business has made significant progress during the last year, with NVA237 and QVA149 advancing into Phase III development, triggering a total of $15m in milestones from Novartis; VR315 is progressing well, and three new products are in development.

We continue to explore additional partnering opportunities in all areas, including the asthma/COPD space. VR496, our inhaled heparin treatment, initially targeted at cystic fibrosis, may also be efficacious as an anti-inflammatory for asthma and COPD. We will get an early indication of this when the results of our current Phase II study are released in early 2011.

Our new products include VR506, a steroid monotherapy treatment for asthma; VR461 for lung disease with fungal sensitisation, and VR909, a product for the prevention of chronic rejection following lung transplant.

Vectura's commitment is to build to profitability with careful financial management; minimising both financial and development risk through partnering. We remain focused on the lucrative respiratory market, where annual sales are in excess of $25 billion and are expected to grow by 30% over the next 10 years. With the benefit of our product and development expertise and our range of enabling technologies, including both inhalation devices and formulation technologies, we are in a position to capture value from this large market in a number of ways. The expansion of our product pipeline means that we are now focusing our development activities into three main areas: partnered patented products and technologies; generic/branded generic ("505(b)(2)") opportunities, and specialty products.

↗ Vectura's GyroHaler® in use

↗ Careful design of powders is critical to product performance

Precise laboratory checks confirm product quality

Partnered patented products and technologies

For our asthma/COPD development programmes, where a large financial commitment may be required to bring the products to market, we lower the risk of exposure for our shareholders by entering into partnership agreements with larger pharmaceutical companies.

For example, with NVA237, Vectura and our co-development partner, Sosei Group Corporation, licensed rights to Novartis to develop NVA237 as a once-daily monotherapy for COPD. In addition, Novartis is developing a combination of NVA237 with its own once-daily, long-acting beta-agonist (LABA), indacaterol, as the co-formulated product QVA149. Both NVA237 and QVA149 have entered Phase III development and Vectura has now received a total of $30m in upfront and milestone receipts from Novartis. Novartis is now working to produce data for NVA237 and QVA149 which they intend to file with the regulatory authorities in 2011 and 2012 respectively. With royalties on product sales in addition to the potential to earn $157.5m in milestone payments for achievement of regulatory and commercialisation targets, we continue to believe that these programmes will be major contributors to our future growth.

In addition to developing products to out-license, our technologies are also available to third parties to enable the effective delivery of their own development products. For example, our formulation licence to Baxter that allows them to use a Vectura technology in their product ADVATE® has earned Vectura royalties in excess of $15m in the year to 31 March 2010.

Our device deal with Boehringer Ingelheim, which generated €37.5m in the three years to its conclusion in November 2009, was another example of how value can be derived from Vectura's technologies, know-how and intellectual property. We continue actively to pursue other opportunities where our products, technologies and intellectual property can be partnered to create value for Vectura.

NVA237 and QVA149 enter Phase III, triggering $15m in milestones from Novartis

Generic/505(b)(2) opportunities

Having taken control of the US development of VR315 for the US market which provides us with a licensing opportunity, and with a new generic/505(b)(2) product entering our pipeline, we believe that this will be an area from which major value will be created for Vectura. The development of respiratory drug-device combinations carries high barriers to competition owing to the sophisticated engineering and formulation expertise required. The development and manufacture of the drug powder and device must be closely integrated in order to produce a low-cost, efficient product that administers the dose to the lung in the same way as the reference product. The regulatory pathway in Europe for these types of product has been clarified since guidelines were published in 2009. In the US, no formal guidelines have yet been issued, a situation that calls for constant dialogue with the regulator and for expertise, know-how and experience of developing DPI products. In this highly specialised area, we believe Vectura is very well placed to take advantage of a large, rapidly growing market.

Specialty products

Our proprietary specialty pipeline is progressing well, and we expect Phase IIb "at-home" data from our Parkinson's disease product, VR040, towards the end of 2010, as well as Phase II proof-of-concept data from our cystic fibrosis product, VR496, early in 2011. The latter is a product opportunity which we will seek partners in Europe, whilst maintaining the option to retain rights in the US or partner for this territory. We also continue our pursuit of licensing interest for VR040. The addition of two new products, VR461 and VR909, demonstrates the inventiveness of our scientists in testing known molecules in our laboratories and accessing their potential to treat other diseases. This re-purposing of molecules continues to provide low-risk development and partnering opportunities for Vectura.

Outlook

We look forward to additional data and regulatory activity on our partnered programmes, continued progress with VR315 and clinical trial results for both VR496 and VR040. Our licensing activities continue in all areas; products, technologies and intellectual property, from which we expect to provide additional positive news. Overall, we believe that Vectura has the financial resources, the product portfolio, and the technological know-how to become a leading specialty pharmaceutical company that will deliver major value to our shareholders.

Chairman and Chief Executive's report continued

Our facilities

Vectura's headquarters and development operations are in Chippenham, Wiltshire, with further laboratories in Nottingham and a device development facility in Cambridge, as well as a recently opened office in Boston, Massachusetts, which has formed the Company's nascent US operations. In April 2009 we opened a new 13,000 sq ft, state-of-the-art facility at our Chippenham site; this is one of only a handful of facilities globally that has been specifically designed to manufacture inhaled products, and it has enabled us to accelerate our development projects. The facility has also provided Vectura with additional space and the ability to produce later-stage clinical trial supplies, resulting in a more efficient business. At all times we ensure that we comply with best practice for pharmaceutical companies and the Company continues to be certificated to ISO 13485, a requirement for design and manufacture of medical devices, as well as adhering to the Medicines and Healthcare products Regulatory Agency's (MHRA's) Guidelines on Good Manufacturing Practice (GMP).

↑ Vectura's employees remain crucial to the success of the Company and it is their skill and expertise that have enabled us to achieve our progress to date

Our people

Our employees remain crucial to the success of Vectura and it is their skill and expertise that have enabled us to achieve our progress to date. This has been recognised at industry conferences where, over the past twelve months, Vectura has presented posters and made presentations at Respiratory Drug Delivery (RDD), Drug Delivery to the Lungs (DDL), Academy of Pharmaceutical Sciences (APS) and Quality by Design (QbD) Management Forum.

We are committed to the development of a motivated and professional workforce in order to build a business that is constantly looking to innovate and evolve. On behalf of the Board, we thank all our staff for their hard work and continued support and commitment.

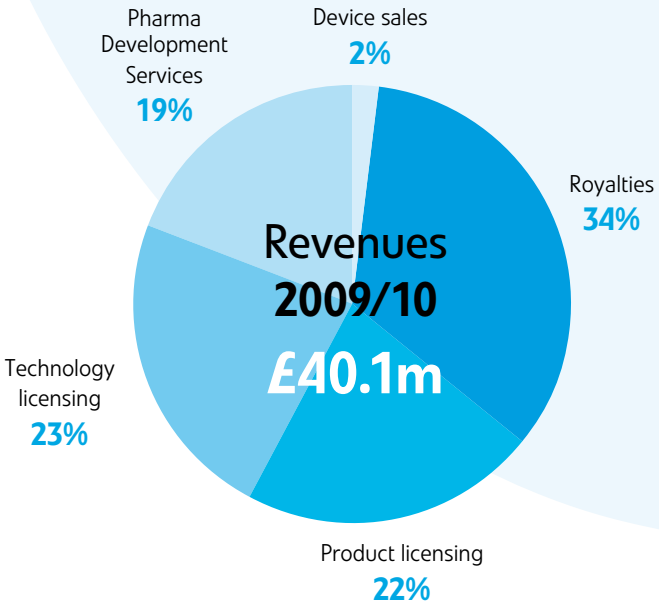
Jack Cashman
Chairman

Chris Blackwell
Chief Executive

6 June 2010

Despite challenging market conditions Vectura has seen consistent revenue growth in excess of 20% for the sixth year running

Financial review
It all adds up



Summary
The Group ended the year with £64.1m of cash following the final repayment of £6.6m ($10m) to Royalty Securitization Trust (Paul Capital). Revenues of £40.1m (2008/09: £31.2m) were 29% higher than the previous year and the operating loss of £15.3m (2008/09: £20.9m), after deduction of £12.1m (2008/09: £12.1m) of non-cash amortisation and share option costs, has reduced by 27%. Loss after tax reduced by 39% to £10.2m (2008/09: £16.7m).

Revenue
Revenue includes fee income from royalties, product licensing, technology licensing, development fees and device sales.

Royalties increased by 9% to £13.6m (2008/09: £12.5m). ADVATE® royalties increased by 21% in the period to £9.8m (2008/09: £8.1m) and contributed 72% of the royalties generated in the year; 13% of this increase was due to increased product sales and 8% due to favourable exchange rate movements. ADVATE® sales are continuing to grow, with sales in 2009 increasing to $1.7bn, compared with sales of $1.5bn in 2008. Vectura receives a net royalty of under 1% at these high levels of cumulative annual sales. Extraneal® royalties were £2.9m, a 15% decrease from the previous year (2008/09: £3.4m). Extraneal® royalties are expected to continue to decline. The majority of the remaining royalties were generated from Adept® (£0.8m; 2008/09: £0.8m).

Product licensing revenues in the period were £8.8m (2008/09: £4.2m), of which £1m was released from deferred income and £7.8m related to milestones received during the year. Milestones were received from Sandoz for VR315 EU (£2.2m) and for VR315 US (£3.6m) in relation to progression of these programmes. A milestone of £4.5m ($7.5m) was received from Novartis in June 2009, following the start of a Phase III clinical trial and this is being recognised over a 21-month period, which is the expected duration of the clinical trial; £1.9m was recognised in 2009/10. The remaining £2.7m will be recognised in 2010/11. A further £5.1m ($7.5m) milestone was achieved in May 2010, triggered by the start of a Phase III clinical trial for QVA149. This milestone will also be recognised over a 21-month period.

Technology licensing revenues of £9.4m (2008/09: £6.1m) were high due to the early release of deferred income triggered by the conclusion of a licence agreement between Vectura and Boehringer Ingelheim for which cash had already been received in 2008/09. Deferred income recognised in the year relating to Boehringer Ingelheim was £7.3m. There is no deferred income relating to technology licensing to be released in future financial periods.

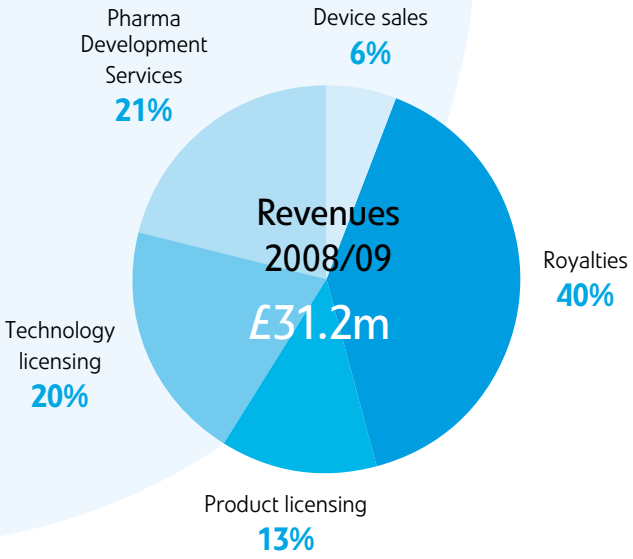
Pharmaceutical development services (PDS) revenues exceeded our expectations, generating £7.6m (2009: £6.6m) through higher demand for these services from both our current licensing partners and potential new partners for whom we are undertaking feasibility work. We expect these revenues to decline in the next financial year as we complete our work on some partnered programmes. Future PDS revenues will depend on the extent and nature of feasibility studies and new licensing deals as the development of inhalation products is a very specialist area, with partners frequently requiring Vectura's involvement in the continuing development of a product.

Device sales of £0.7m (2008/09: £1.8m) were low due to the high levels of stock held by customers at the start of the year and low levels of third-party product sales. Device sales are mainly generated on our Clickhaler® proprietary reservoir DPI device. Products approved for sale in this device include salbutamol (Asmasal®), beclometasone (Asmabec®), budesonide, formoterol and procaterol. We are actively exploring new territories for marketing these and other Clickhaler® products. Territories under consideration include China, where it is estimated that over 5% of the population suffers from asthma/COPD.

Gross profit
The gross profit in the year to 31 March 2010 was £36.6m, a £9.3m improvement on the prior year (£27.3m). Gross profit represents 91% of revenue (2008/09: 88%) with the improvement arising from the increased proportion of royalties and milestones earned during the year.

Research and development
Total investment in research and development was £36.4m, a 13% increase on the prior year (£32.3m). Research and development costs primarily include clinical trial costs, salary costs for scientists and scientific support staff, intellectual property costs, laboratory running costs and depreciation. We expect our investment in this area to increase as some of our key products and devices move to late-stage development, with 2010/11 investment likely to be 10% in excess of the current year.

Other administrative expenses
Other administrative expenses for the period were £3.4m, a 6% increase on the previous year in line with the increase in Group activities.



Investment income

Investment income fell to £0.6m (2008/09: £3.6m) for the year as the Bank of England base interest rate reduced from a high of 5% in 2008/09 to remain at 0.5% throughout 2009/10. The Board 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. These investments do not offer above-market rates of interest.

Loss after taxation and loss per share

The loss for the period after taxation reduced 39% to £10.2m (2008/09: £16.7m), giving a reduced loss per ordinary share of 3.2p (2008/09: 5.2p).

Non-current assets

Non-current assets were £95m, compared with £106.1m on 31 March 2009 and included goodwill (£49.6m), intangible assets (£41.6m) and property, plant and equipment (£3m). The decrease in the non-current assets is mainly due to amortisation of the intangible assets.

Financial liability

The financial liability to Royalty Securitization Trust in respect of a loan secured against US dollar denominated royalty streams had been fully paid at 31 March 2010, with the final payment of £6.6m ($10m) paid during the year. The exchange gain of £0.3m recorded in the year on this liability is due to the strengthening of sterling against the US dollar.

Deferred income

Deferred income relates to milestones received in cash but not yet recognised as revenue. The £2.7m of deferred income in the balance sheet at 31 March 2010 will be recognised as revenue in 2010/11. This relates to the balance of the £4.5m milestone received from Novartis for the start of the Phase III clinical trial of NVA237.

Cash flow

The net cash outflow from operating activities in the year was £3.8m (2008/09: £0.7m). After investing and financing activities, the net cash outflow was £9.9m (2008/09: £4.8m), which included the £6.6m ($10m) payment to Royalty Securitization Trust. At 31 March 2010, Vectura had cash and cash equivalents of £64.1m (31 March 2009: £74m).

Foreign exchange rates

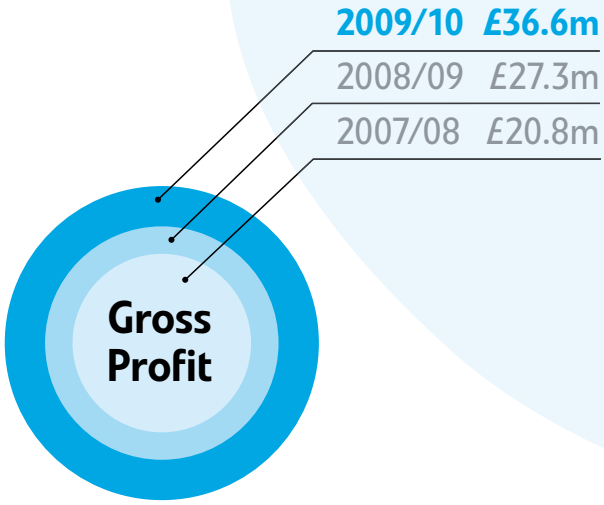
The following foreign exchange rates were used during the year:

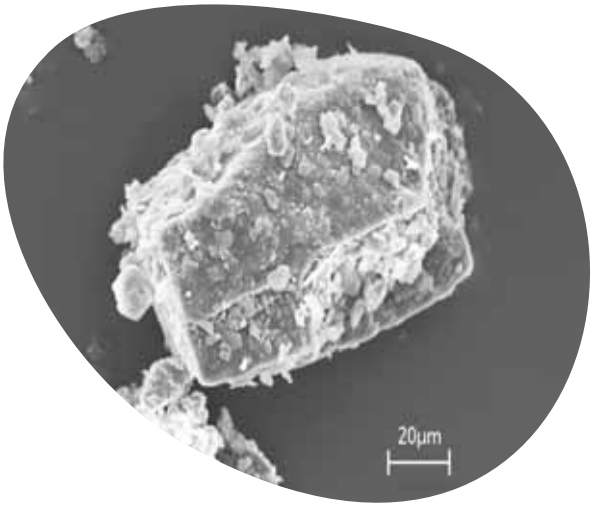
Average rates:	2010	2009
£/$	1.60	1.72
£/€	1.13	1.20

Period end rates:		
£/$	1.52	1.43
£/€	1.12	1.08

Anne Hyland
Chief Financial Officer

6 June 2010





↑ Surface coating of lactose and API particles with magnesium stearate

Business review
Delivering drugs that transform lives

Overview

Vectura Group plc and its subsidiaries ("Vectura" or the "Group") is a product-focused Group that develops inhaled therapies principally for the treatment of respiratory diseases. Vectura's main products target diseases such as asthma and chronic obstructive pulmonary disease (COPD), a growing market that is currently estimated to be worth in excess of $25bn. Vectura also develops products for other lung pathologies and non-respiratory diseases.

Vectura has eight products marketed by its partners and a portfolio of drugs in clinical and pre-clinical development, some of which have been licensed to major pharmaceutical companies. Vectura seeks to develop certain programmes itself where this will optimise value. Vectura's formulation and inhalation technologies are available to other pharmaceutical companies on an out-licensing basis where this complements Vectura's business strategy.

Vectura has development collaborations with several pharmaceutical companies, including Novartis, Sandoz (the generics arm of Novartis), Baxter, GlaxoSmithKline (GSK), and Otsuka.

Business review
Core purpose, values and strategy

Vectura's core purpose

To establish a world-class specialty pharmaceuticals company that improves the quality of patients' lives and is driven by the enthusiasm and commitment of our staff.

We will create value for ourselves and our shareholders centred on the innovative development of products targeting the lungs.

Vectura's main values

Achievement
Our success depends on satisfying the needs of our customers. We set ourselves challenging goals and we are proud of delivering on our commitments.

Enthusiasm
We welcome enthusiastic people who give their best and encourage others to do the same. We take our work seriously and value what we do, but we also want to enjoy what we are doing.

Participation
We can be successful only by working together. We want everyone to share in that success, so we support and encourage our colleagues. We are also keen to protect the flexibility and informality of the Group as we grow.

Innovation
We want people to think freely and creatively about what we are trying to achieve.

Trust and respect
We want to work in an atmosphere of mutual trust and respect where people and ideas are valued on their merits, and where we recognise the contribution and achievements of everyone in the business.

Vectura's strategy is to target the treatment of diseases associated with the lungs

The Group has a broad clinical portfolio that combines valuable mid and late-stage programmes with high-potential, earlier-stage opportunities and has a wide range of device and formulation technologies addressing large and fast-growing market sectors. The respiratory development pipeline comprises inhaled formulations of both branded and generic products for the treatment of asthma, chronic obstructive pulmonary disease and cystic fibrosis.

Vectura seeks value from its other pipeline products through out-licensing
Vectura has developed therapies for indications such as Parkinson's disease, which it is actively seeking to out-license.

Vectura's goal is to be a cash-generative business that creates value for its shareholders through:

- its intellectual property and expertise in inhaled product development, which allows Vectura to:
  - out-license products to major pharmaceutical companies in return for revenues from milestones and royalties
  - develop or co-develop specialty products to regulatory approval or beyond, to capture maximum value from licensing at a later stage of development or from sales revenues
- entering into technology collaborations with pharmaceutical company partners to exploit both the generic and branded markets for the joint development of high-value inhaled product opportunities, and
- continuing to build its franchise through internal innovation as well as exploring opportunities for the acquisition of products, technologies or businesses that support these goals.

Business review
Markets

Inhalation market – why deliver drugs to the lungs?

Delivering drugs directly to their site of action in the lungs often results in fewer systemic side-effects and generally requires lower doses than other drug delivery methods.

Respiratory market

The majority of treatments for asthma and COPD are delivered by inhalation, with many sufferers taking more than one type of therapy. Most drugs that are used to treat respiratory disease are designed to work in the lung, with relatively little active drug passing into the bloodstream.

The asthma and COPD markets comprise the third-fastest growing therapeutic targets (with 22 million people suffering from asthma in the US alone) and are forecast to continue to grow rapidly, achieving sales in excess of $29bn by 2018. This growth is being driven by two main trends: the use of fixed-dose combinations, and more targeted and effective therapies.

Inhaled fixed-dose combination therapy requires the combination (usually) of two drugs at fixed doses with the aim of providing optimal clinical benefits for the patient. An example is Seretide®/Advair® (salmeterol/fluticasone), marketed by GlaxoSmithKline (GSK), which is now the fourth-biggest selling pharmaceutical product worldwide with sales of $7.8bn in 2009. Fixed-dose combination therapy is likely to remain fundamental to the treatment of both asthma and COPD, and sales of such products are seen as a major driver for growth in the respiratory market.

The COPD market is less well developed than that for asthma. It is estimated that up to 50% of Americans and 75% of Europeans with COPD are undiagnosed. Treatments for COPD, such as Spiriva® (tiotropium), have made an important therapeutic contribution and are driving growth forecasts. Spiriva® sales for 2009 were in excess of $3bn.

Business review
Products

Product pipeline

Respiratory

Product	Indication	Pre-clinical	Phase I	Phase II	Phase III	Partner
NVA237	COPD					Novartis
QVA149	COPD					Novartis

Generic/505(b)(2)

Product	Indication	Pre-clinical	Registration studies	Partner
VR315 EU	Asthma/COPD			Sandoz
VR315 US & ROW	Asthma/COPD			
VR632 EU	Asthma/COPD			Sandoz
VR632 US	Asthma/COPD			
VR506	Asthma			

Specialty

Product	Indication	Pre-clinical	Phase I	Phase II	Phase III	Partner
VR496	Cystic fibrosis					
VR040	Parkinson's disease					
VR909	Lung transplant rejection					
VR461	Anti-fungal					

↑ Vectura has the complete range of device and formulation expertise to take an active pharmaceutical ingredient and deliver a finished inhaled pharmaceutical product

Business review
Products continued

Product pipeline

Licensed branded products

NVA237 and QVA149 for chronic obstructive pulmonary disease (COPD)

NVA237 is a dry powder formulation for inhalation of glycopyrronium bromide, a long-acting muscarinic antagonist (LAMA) with a rapid onset of activity.

NVA237 was licensed to Novartis in April 2005 by Vectura and its co-development partner, Sosei Group Corporation (Sosei). Novartis intends to launch NVA237 as a once-daily monotherapy for COPD and as a combination with its once-daily, long-acting beta-agonist (LABA), indacaterol, known as QVA149.

COPD is a chronic obstruction of the airways that affects 210 million people worldwide and is projected to be the third leading cause of death by 2030. It is a progressive lung disease with symptoms including chronic bronchitis and/or emphysema, which slowly progress and eventually lead to an irreversible loss of lung function. Although there is no cure, bronchodilators make breathing easier by enlarging the patient's airways and are recognised in international guidelines as an integral part of the treatment for COPD.

Vectura believes that QVA149 could be the first once-daily LAMA/LABA combination to come to market for COPD. The dual activity of a muscarinic antagonist and a beta-adrenergic agonist promises to be a potent bronchodilator and, with convenient once-daily dosing as a co-formulation, has the potential to improve compliance and address a large and unmet need for COPD sufferers.

Novartis continues to make good progress in the clinical development of NVA237 and QVA149, with NVA237 entering Phase III trials in June 2009 followed by QVA149 in April 2010, triggering a total of $15m in milestone receipts to Vectura. Novartis has initiated a number of trials over the period and plans to submit for regulatory approvals in 2011 and 2012 respectively.

To date, Vectura has received $30m from Novartis and, under the terms of the licence, could receive up to an additional $157.5m for achievement of regulatory and commercialisation targets for both the monotherapy and the combination product. In addition, royalties on product sales will be received in the event of successful product launches.

There is a growing consensus among key opinion leaders that a LAMA/LABA combination is likely to be the future "gold standard" for COPD patients and Novartis presented promising Phase II safety and efficacy data on QVA149 at the European Respiratory Society meeting in Vienna in September 2009. The data showed that at a dose of 50µg/300µg QVA149 was well tolerated, with overall adverse event rates similar to placebo. QVA149 produced clinically relevant mean improvements in trough FEV_1 (forced expiratory volume in one second) of 226mL when compared with placebo after 7 days of once-daily dosing, and 123mL and 117mL when compared with indacaterol alone at doses of 300µg and 600µg respectively. These substantial improvements were maintained throughout a 24-hour period on Day 1 and Day 7.

Data presented at the ERS meeting in October 2008 demonstrated that NVA237 provides sustained 24-hour bronchodilation in patients with moderate-to-severe COPD and, in an open study arm, showed similar efficacy and duration of action to the market leader tiotropium (Spiriva®), with the potential for a more rapid onset of action. In addition, studies lasting up to 28 days showed a good overall safety and tolerability profile. This was corroborated by additional post-hoc analysis presented at the recent American Thoracic Society (ATS) international conference in May 2010.

The LABA component of the combination, Novartis' indacaterol, received European regulatory approval in November 2009 (Onbrez® Breezhaler® – indacaterol maleate). Novartis launched the product in Germany in December 2009 and in Ireland and Denmark in March 2010. Novartis has confirmed it is on track to file additional data to FDA in the US during the second half of 2010.

Generic/505(b)(2) products

Branded, combination dry powder inhaler (DPI) therapy is the biggest sector of the respiratory market, with annual sales in excess of $10bn, and these products have the potential to provide a large value opportunity as generics or branded generics (505(b)(2)). There is increasing pressure to provide medicines that are effective and affordable to more patients. Developing DPI products requires the integrated development of both formulation and device, which is Vectura's area of expertise. In addition to the named programmes below, Vectura has other generic opportunities (including an anti-muscarinic therapy for COPD), which are in the formulation development stage.

↖ Vectura's GyroHaler® device undergoing rigorous laboratory testing

VR315 for asthma/COPD

VR315 is an inhaled combination therapy for asthma and COPD in development with Sandoz (the generic division of Novartis) in Europe using Vectura's GyroHaler® DPI device. Vectura licensed the European rights for VR315 to Sandoz in March 2006, in a deal worth up to €22.5m in milestones and development funding together with royalties on all products sold. The product is in late-stage development for the European market.

In December 2006, a cost/profit-sharing agreement was signed with Sandoz for development of VR315 in the US. In March 2010, Vectura received full development and commercialisation rights back from Sandoz for VR315 in the US. Under the revised agreement, Vectura received $9.5m from Sandoz in May 2010. This follows a $6m milestone received in August 2009 and $2m received in 2006. Additionally, Sandoz has put in place a loan facility of up to $25m to facilitate Vectura's development of VR315 in the US. Vectura is continuing development of VR315 for the US market, but does so cautiously, while continuing dialogue with FDA and assessing third-party interest in licensing rights to VR315.

Vectura also retains the rights to the product in territories outside the US and Europe. These territories account for over 15% of the branded product's sales and therefore provide an important licensing opportunity.

VR632 for asthma/COPD

VR632 is the second inhaled combination therapy for asthma and COPD being jointly developed with Sandoz in Europe, also using the GyroHaler® technology. Vectura licensed the European rights for VR632 to Sandoz in December 2007 in a deal worth up to €15.5m in milestones and development funding, together with royalties on all products sold. Vectura will also earn a margin on the commercial manufacture and supply of GyroHaler® devices and retains rights for the US and other territories.

Sandoz has made a significant investment in manufacturing facilities for both VR315 and VR632.

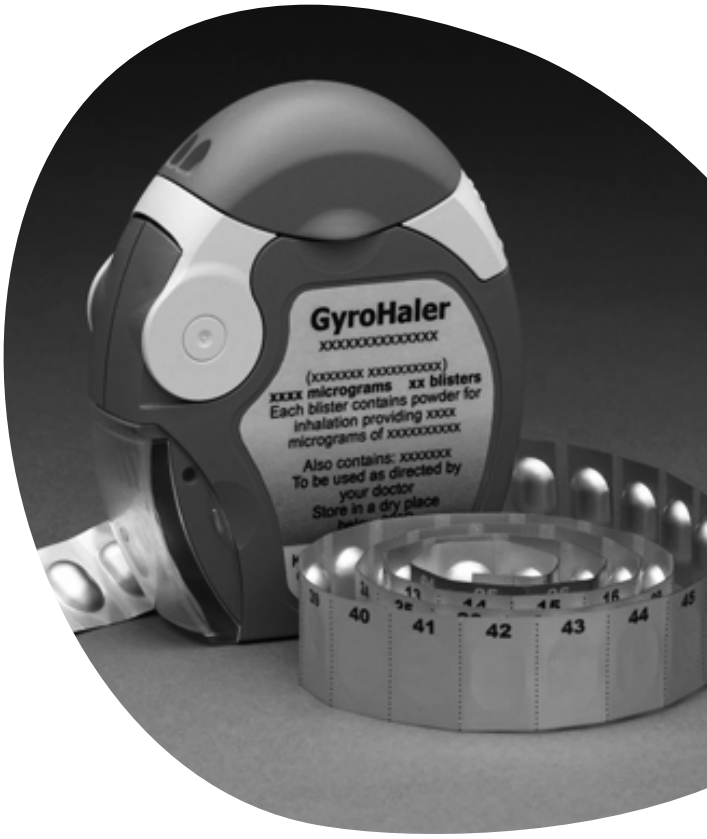
VR506 for asthma

VR506 is an inhaled corticosteroid (ICS) treatment for asthma that Vectura has been developing since early 2009. Steroids are the mainstay of prophylactic therapy for asthma, the recommended "preventer" drugs for adults and children, and are often prescribed alongside beta-agonist bronchodilators. VR506 is expected to enter the clinic in 2010.

Duohaler®

The Duohaler® device provides advantages over a number of multi-dose DPIs. It has two separate drug reservoirs that feed two individual drug formulations to two separate metering chambers from which the drugs are delivered to the user in the same inhalation, avoiding potential co-formulation issues. Vectura is currently in discussions with potential licensing partners for the Duohaler® lead product in development.

↓ GyroHaler® multi-dose "passive" DPI with sealed foil blisters



Business review
Products continued

↗ Vectura's strength lies in its specialism: the knowledge, experience and technical capabilities to develop inhaled pharmaceutical products

Specialty products

VR496 for cystic fibrosis (CF)

VR496 is in development as an inhaled locally acting treatment for CF. The active component of VR496 is heparin, a drug that has been approved worldwide as an injected or infused treatment for other indications. Vectura is conducting a Phase II clinical study with VR496 in CF patients, with data expected in early 2011.

A significant literature database describes the multi-modal and complementary pharmacological properties of inhaled heparin that are also relevant to the treatment of asthma and COPD, with mucolytic, anti-inflammatory, bronchodilatory and anti-infective activity being particularly relevant. Vectura will seek a partner for all indications following a positive outcome of the proof-of-concept study.

The European Medicines Agency (EMA) and US Food and Drug Administration (FDA) designated VR496 an orphan drug.

VR040 for Parkinson's disease (PD)

VR040 is an inhaled, systemically acting treatment for "off" episodes associated with advanced PD. The active ingredient in VR040, apomorphine hydrochloride, is marketed as an injectable product in Europe and the US. VR040 is Vectura's formulation of apomorphine, delivered by inhalation using Vectura's proprietary DPI technology.

The EMA designated VR040 an orphan drug. Vectura is using the EMA scientific advice procedure to progress the development of the product. Recruitment into the ongoing Phase II "at-home" study is complete and results are expected later in 2010. Vectura intends to out-license VR040 before the start of Phase III and continues dialogue with interested third parties.

VR461 for fungal-related lung disease

VR461 is an inhaled anti-fungal in development for the treatment of lung diseases in patients with fungal sensitisation. Fungal spores are commonly found in ambient air and are generally of little or no consequence. However, in certain conditions, fungi can be associated with increased morbidity in a number of disease states. The anti-fungal agents currently administered by mouth or by injection are associated with a number of unpleasant side effects and can have variable efficacy. Based on discussions with key opinion leaders, Vectura believes that an inhaled anti-fungal with proven efficacy would be of clinical and commercial value. Vectura is developing VR461 as a well-characterised drug, which could compete well against the current oral and injectable anti-fungal treatments. VR461 is in pre-clinical development.

VR909 for the prevention of chronic rejection following lung transplant

VR909 is in development as an adjunctive, chronic immunosuppression therapy for delivery post-lung transplant, to delay onset of chronic rejection and increase survival.

Lung transplantation is the final therapeutic option for a variety of end-stage pulmonary diseases including emphysema, cystic fibrosis and idiopathic pulmonary fibrosis. Despite aggressive care, only 45% to 55% of lung transplant recipients will survive 5 years following the transplant procedure. In contrast, 70% to 90% of heart, kidney, and liver transplant patients will be alive after 5 years, and over 50% of recipients will survive 10 or more years following the transplant procedure. Approximately 2,500 lung transplants are conducted worldwide each year. VR909 is in pre-clinical development.

Other products

VR147 for migraine, VR004 for erectile dysfunction and VR776 for premature ejaculation.

There was no expenditure in relation to these products in the year to 31 March 2010 (2008/09: nil) and no further expenditure will be incurred. These products are available for licensing.

2009/10
Investment in R&D
£36.4m
(2008/09 £32.3m)

Vectura's continuing success depends on an innovative and productive R&D programme that is focused on meeting the unmet needs of patients.

Marketed products

ADVATE® for Haemophilia A

In 2000, Baxter was granted worldwide rights to use Vectura's stabilisation patents and has utilised Vectura's technology in its serum-free recombinant Factor VIII, ADVATE®. ADVATE® is indicated for the treatment of haemophilia A and is marketed worldwide by Baxter. Vectura receives royalties on sales of ADVATE®. Baxter sales of ADVATE® have increased to over US$1.7bn in 2009, compared to US$1.5bn in 2008.

There is strong demand for ADVATE® and Baxter has confirmed that the outlook for its recombinant franchise remains strong; they are guiding to mid-single digit growth for the next two years. Baxter continues to differentiate the product with various dosage forms, making it easier for patients to administer higher doses from fewer vials and to reduce the total infusion time. Growth of ADVATE® sales has continued to exceed our expectations as patients switch from plasma-based and other competing products in Europe and the US. We expect to see further growth from increased compliance, establishing prophylaxis as the standard of care and the global penetration of the therapy, as well as new launches in Brazil, Russia and China.

Extraneal® for peritoneal dialysis

Extraneal® is a peritoneal dialysis solution containing icodextrin, licensed to Baxter in 1996 and marketed by Baxter worldwide. The product has been launched in over 45 countries including, in 2003, the US and Japanese markets. Vectura receives royalties on the sales of Extraneal® in the US, Japan and the rest of the world.

Adept® for prevention of surgical adhesions

Adept® is a 4% icodextrin solution used during surgery to reduce post-surgical adhesions, a frequent and major complication following gynaecological and other abdominal surgery. It has been used for this purpose in Europe since 2000 and in the US since October 2006. Vectura signed a global licence deal with Baxter in December 2005 for the manufacture and distribution of Adept®.

Asmasal® and Asmabec® for asthma

Asmasal® and Asmabec® are Clickhaler®-based products. Asmasal® contains salbutamol, a short-acting beta-2 agonist for the quick relief of asthma symptoms. Asmabec® contains beclometasone, an inhaled steroid used as standard preventative therapy for asthma. Asmasal® and Asmabec® are marketed by Recipharm in the UK, France and Ireland. Clickhaler® is Vectura's proprietary reservoir DPI device.

Meptin Clickhaler® for asthma

Otsuka Pharmaceutical, in Japan, has licensed the Clickhaler® technology from Vectura. The device is used to deliver its short-acting beta-2 agonist Meptin (procaterol) for the quick relief of mild, intermittent asthma symptoms.

Other Clickhaler® opportunities

Vectura continues to explore licensing opportunities for Clickhaler® products in other countries. The products available include budesonide and formoterol. Regulatory approvals for Clickhaler® budesonide have been received in Germany, the Netherlands and New Zealand; whilst regulatory approvals for Clickhaler® formoterol were received in Denmark, the Netherlands, South Africa and New Zealand. These products are currently not marketed. Vectura supplies the Clickhaler® devices to licensees and earns a margin on these device sales.

↑ Careful powder mixing ensures the patient receives consistent doses

Business review
Enabling technologies

Vectura has several important, patent-protected, drug delivery technology platforms. In addition to using these technologies to support its own product development programmes, Vectura's strategy is to out-license rights to the technologies to other pharmaceutical companies where the resulting licence will generate significant value. Such agreements have already generated significant revenues.

The development of drugs for inhalation is more complex than for oral delivery and different approaches are required depending on the characteristics of the drug being delivered. Vectura's expertise and technology is in demand for a range of inhalation programmes with various companies, and Vectura expects that some of these collaborations will lead to future licensing deals.

Formulation technologies

Vectura's formulation technologies include PowderHale®, micronisation, blending and spray drying. PowderHale® is a patented DPI formulation technology, designed to allow aerosolised drug particles to achieve high lung deposition with low-dose variability. This is achieved by the incorporation of an additional pharmacologically inactive excipient, known as a Force Control Agent (FCA), to the drug formulation. Vectura's formulation technologies and expertise are used to enable our own products and other third-party products.

GyroHaler® and OmniHaler® – multi-unit dose DPI devices

GyroHaler® and OmniHaler® are cost-effective, multi-unit dose DPI devices designed to deliver locally acting drugs to the lung. They are compact and easy to use with a small number of moulded parts, facilitating short device development times and competitive manufacturing costs. The devices may contain up to 60 doses and are disposable after use. They have competitive aerosolisation characteristics and provide excellent drug protection from moisture and light using sealed foil blisters. The GyroHaler® device is used to deliver our generic/505(b)(2) products including VR315 and VR632 and is scaled up for commercial launch. OmniHaler® is in late stage development and will be used to deliver both our own and third parties' branded products.

Clickhaler® – multi-dose reservoir DPI

The Clickhaler® is a multi-dose, reservoir DPI. It is approved for use to deliver a number of drugs used to treat patients with asthma and COPD (salbutamol, beclometasone, formoterol, budesonide and procaterol) in Europe and in Japan.

Clickhaler® is inexpensive to produce and fill, and production is fully automated.

Duohaler® – fixed dual-therapy multi-dose reservoir DPI

The Duohaler® is a fixed dose dual-therapy, passive, multi-dose DPI. It has two separate drug reservoirs that feed two individual drug formulations to two separate metering chambers from which the drugs are delivered to the user in the same breath, avoiding co-formulation issues.

Aspirair® – "Active" DPI device technology

Aspirair® is a high-performance device, designed to deliver dry powdered drugs with high lung penetration and low dose variability. The device is conveniently sized, simple to use, and economical compared to other "active" inhalers. It is a multiple-use device using individual foil blisters.

Aspirair® alone or in conjunction with appropriate formulation technologies, can be used to deliver to the deep lung efficiently and effectively. Aspirair® has the potential to deliver proteins and macromolecules.

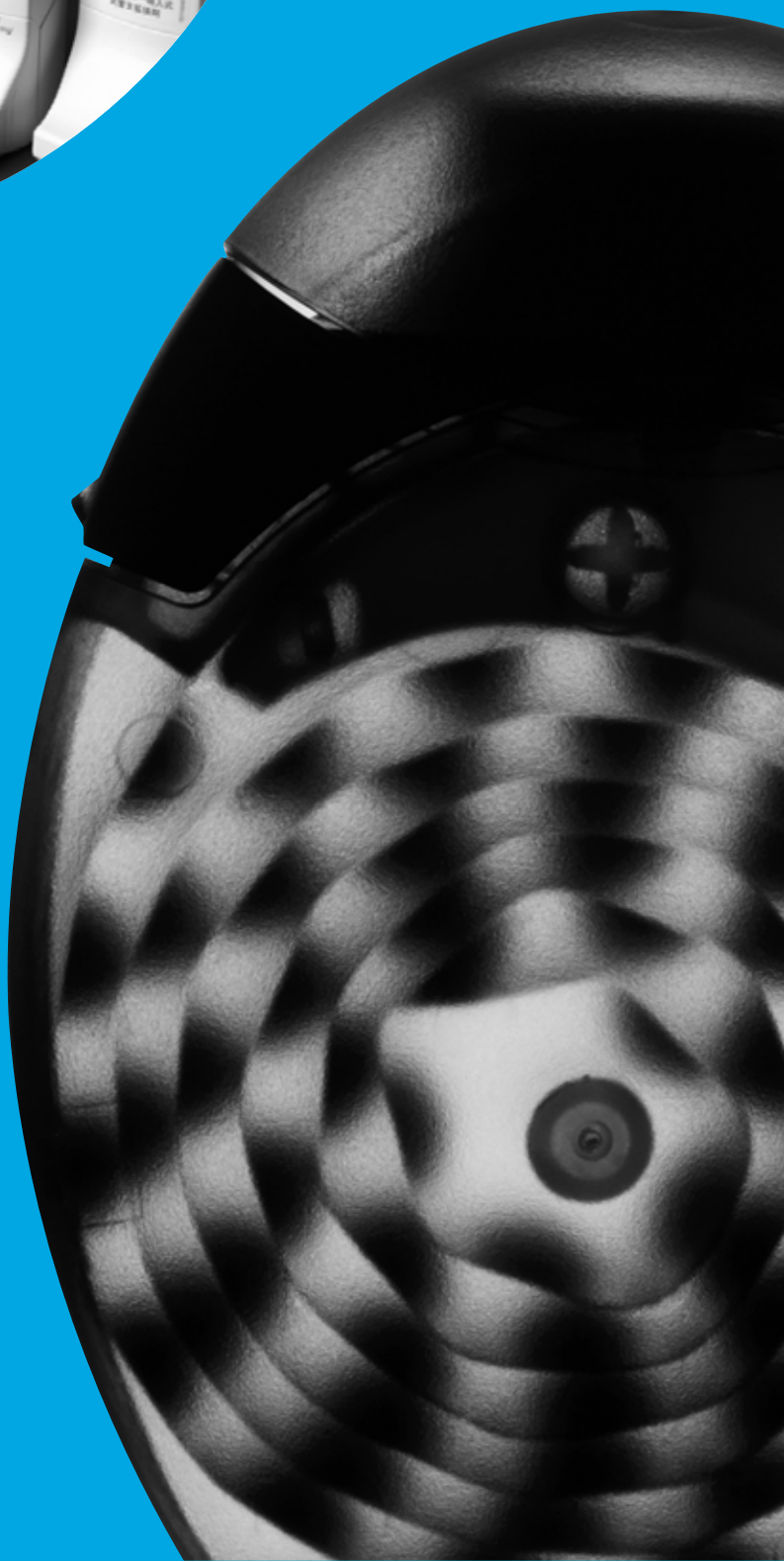
Unit dose DPIs

Vectura's unit dose technology is being developed as a re-useable, single-dose, dry powder inhaler. It is designed to be easy to use and inexpensive to manufacture, and is capable of delivering high dose masses with high efficiency. It is suitable for a wide range of conditions that require a rapid onset of effect or that are for occasional use.

← A range of Vectura's device technologies

Branded, combination dry powder inhaler (DPI) therapy is the biggest sector of the respiratory market, with annual sales in excess of $10bn

↗ Vectura's OmniHaler® in use



Business review
Capabilities

→ Modern equipment protects products from contamination and operators from exposure to drug powders

Pharmaceutical development services

Vectura's pharmaceutical development services revenues are generated by providing specialist product development services to other pharmaceutical companies, primarily licensing partners, to continue the development of products or technologies licensed from Vectura until complete transfer has been achieved.

Commercial and business development

Vectura's Commercial team, responsible for business development and licensing, maintains good relationships with international pharmaceutical companies and undertakes market analysis for all products under development. In addition, the team provides the market analysis and competitor information that is required to identify valuable new product opportunities. The major licensing deals Vectura has concluded to date demonstrate the strength of the Group's commercial and business development skills.

Development

Vectura's Development team has demonstrated its ability to develop products through stages of pre-clinical and clinical development. The team supports the development of Vectura's own products as well as some of those developed by our partners. Key functions include liaison with thought-leaders, clinical investigators and experts in the design of clinical trials (and associated pre-clinical development programmes), and the selection and management of specialist respiratory and other clinical research organisations (CROs) responsible for the conduct of clinical trials.

Regulatory affairs

The Regulatory team at Vectura is experienced in global pharmaceutical product registration and inhaled product development. The Regulatory team provides regulatory support for Vectura's own programmes and for those of its partners, and works closely with all functions within Vectura, advising on regulatory strategy and data requirements to ensure timely approvals. The team is responsible for the preparation and maintenance of Clinical Trial Authorisations (CTAs) and Marketing Authorisations (MAs) and preparation of responses to questions on a worldwide basis as required. Submission of dossiers and liaison with individual regulatory authorities is also undertaken as appropriate.

Quality

Quality in a pharmaceutical product development environment ensures that the products produced and the data intended to support regulatory submissions are generated in compliance with Good Manufacturing Practice (GMP), Good Laboratory Practice (GLP) and Good Clinical Practice (GCP), collectively referred to as GxP.

Vectura has a Manufacturer's Authorisation for Investigational Medicinal Products at both its Chippenham and Ruddington facilities – MIA(IMP)33496 and MIA(IMP)10441 – from the Medicines and Healthcare products Regulatory Agency (MHRA). An MIA(IMP) is a requirement of the EU Clinical Trials Directive, now embodied in national legislation, and allows for manufacture, assembly, certification and release of clinical trial supplies by the Group's Qualified Person.

Vectura is also certified under ISO 13485:2003 Medical Devices. In order to achieve the ISO 13485 certification, Vectura's device engineering and Quality Management System were inspected by an authorised quality standards organisation (Lloyds Register Quality Assurance), which found the quality system to be of sufficiently high standard to allow Vectura to self-certify its inhaler devices as being fit for market use in Europe.

Manufacturing operations

The Manufacturing Operations team is responsible for the late-stage development of Vectura's respiratory products, and ensures that such products can be validated and commercialised successfully in client or contract manufacturing facilities. The team is responsible for global supply chain operations as Vectura's products are distributed worldwide.

Vectura's strategy is to produce clinical trials supplies up to pilot-plant scale. The Group then uses contract manufacturing organisations for larger-scale manufacturing for late-stage development and commercial supply, as well as for some smaller-scale manufacturing where it is more economical to do so.

↖ Aluminium laminate strips formed prior to powder filling

Intellectual property

Vectura's portfolio of intellectual property is a valuable asset that is fundamental to success and the Group aims to secure registered protection for its products, processes and technology platforms.

Vectura's patent portfolio has in excess of 120 families of granted patents and patent applications, covering inventions made by the Group's researchers as well as inventions the Group has acquired or licensed from third parties. The Group actively protects and maintains this patent estate. Significant effort is also directed to other intellectual property rights including trade mark and design rights, and know-how.

Value continues to be obtained from Vectura's intellectual property estate from licensing its rights for the development of non-pulmonary products. Baxter International Inc. and its subsidiaries, for example, are licensed to use certain of Vectura's patents for the ADVATE®, Adept® and Extraneal® products, which are sold on the market.

Vectura trade marks
Adept® is a registered trade mark of Innovata Limited
Clickhaler® and **Duohaler**® are registered trade marks of Innovata Biomed Limited
GyroHaler®, **PowderHale**® and **Vectura**® are registered trade marks of Vectura Limited
Aspirair® and **Omnihaler**® are registered trade marks of Vectura Delivery Devices Limited

Third-party trade marks
Advair® and **Seretide**® are registered trade marks of Glaxo Group Limited
ADVATE® and **Extraneal**® are registered trade marks of Baxter International Inc.
Asmasal® and **Asmabec**®, are registered trade marks of Celltech Pharma Europe Limited
Breezhaler® and **Onbrez**® are registered trade marks of Novartis AG
Spiriva® is a registered trade mark of Boehringer Ingelheim Pharma GmbH & Co. KG

Facilities

Vectura currently operates from three leased facilities in the UK and one in the US. In the UK, there is an approximately 50,000 square-foot laboratory, office and manufacturing facility in Chippenham, Wiltshire. This facility is approved for GMP manufacturing of Investigational Medicinal Products for clinical trials. Vectura's Nottingham facility comprises approximately 30,000 square feet of laboratories and offices. On the Cambridge Science Park, Vectura occupies a 4,200 square-foot laboratory and device engineering unit. In the US, Vectura occupies a small office facility in Boston, Massachusetts.

↓ Drug and excipients (inactive ingredients) are weighed accurately into a formulation

Business review
Key performance indicators

Revenue growth
Revenues over the last three years have increased year on year as follows:

Year ended	Revenue £m	Increase %
31 March 2010	40.1	29
31 March 2009	31.2	24
31 March 2008	25.2	79

Cash management
This involves the management of the funding received and the cash resources available. The operational cash is defined by reference to the cash flow statements as being the addition of the net cash outflow from operations and the cash inflows from investing activities excluding cash inflow/outflow on acquisitions. These key performance indicators (KPIs) for the three years to 31 March 2010 are as follows:

Year ended	Operational cash (consumed)/generated £m	Financing activities £m
31 March 2010	(4.2)	(5.7)
31 March 2009	1.3	(6.1)
31 March 2008	3.6	(2.3)

Progress with collaborative partners and licensees for the development and commercialisation of products
Vectura continued to progress the development and commercialisation of programmes partnered in earlier years including VR315 (€2.5m received April 2009 and $6m August 2009) and NVA237/QVA149 ($7.5m received June 2009 and $7.5m received May 2010). In 2008/09 milestones of $2.5m were also received on VR315.

Progress with the un-partnered product pipeline
During the year Phase II trials were progressed on VR496 for the treatment of cystic fibrosis, and VR040 for Parkinson's disease. Vectura is actively seeking partners for its non-respiratory products.

Identification of new product pipeline
Vectura continues to evaluate new product opportunities. The Committee seeks and considers opportunities arising from internal development activities as well as potential in-licensing and co-development opportunities.

Maintaining and strengthening our intellectual property portfolio
Vectura has been successful during the year in oral opposition proceedings and has also achieved a number of patent grants.

Business review
Risk management

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

Industry risk

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

Clinical and regulatory risk

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

Competition and intellectual property risk

Certain companies are developing medicines that may restrict the potential commercial success of the Group's products or render them obsolete. Third parties may have intellectual property that may restrict the Group's or the Group's partners' freedom to operate. Licences may not be available or may be costly and may reduce net royalty income to the Group. The Group's intellectual property may become invalid or expire before its products are successfully commercialised.

Economic risk

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

Financial risk management objectives and policies

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

Cash flow risk

The Group's activities expose it to the financial risks of changes in foreign currency exchange rates. The majority of the Group's revenues are in euros or US dollars. Where known liabilities arise in these currencies the revenues are retained on deposit in the appropriate currency in order to off-set the exchange risk on these liabilities.

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments. The Group's credit risk is primarily attributable to its trade receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. However, the recent global credit problems could result in the failure of even high credit-rated banks where funds are deposited.

The Group's credit risk is concentrated on the five principal banks that hold its bank balances and cash, and on its collaboration partners and licensees from whom it receives licensing fees, development fees, royalties and proceeds from device sales.

Liquidity risk

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

Price risk

The Group is exposed to pricing risk in respect of its income and expenditure. The Group manages its exposure to price risk through commercial negotiations with customers and suppliers.

Risk management

The Group's risk management processes are detailed in the Corporate governance statement.

Business review
Corporate governance statement

The Board is committed to practising good corporate governance as part of its aim to deliver shareholder value. In assessing the appropriate standards of corporate governance the Board takes into account the nature and size of the operation, which comprised at 31 March 2010 six Directors and nearly 270 staff operating from three sites in the UK and one site in the US. The Board recognises that it is accountable to shareholders for the Group's standard of governance and is reporting here on its compliance with the code of best practice set out in the Combined Code on Corporate Governance effective for periods commencing on or after 29 June 2008 (the "Code").

Statement of compliance with the Combined Code

The Group has, in the Directors' opinion, complied with the provisions set out in Section 1 of the Code throughout the year ended 31 March 2010.

The principles set out in the Code cover four areas: the Board, Directors' remuneration, accountability and audit and shareholder relations. With the exception of Directors' remuneration (which is dealt with separately in the Report on remuneration), the following sets out how the Board has applied such principles.

The Board

The Code requires every company to be headed by an effective board, which is collectively responsible for its success. As part of its leadership and control of the Group, the Board has an agreed list of matters that are specifically reserved for its consideration. These include business strategy, financing arrangements, material acquisitions and divestments, approval of the annual budget, major capital expenditure projects, risk management, treasury policies and establishing and monitoring internal controls. At each meeting, the Board reviews strategy and progress of the Group towards its objectives, particularly in respect of research and development projects, and monitors financial progress against budget.

Non-executive Directors (NEDs) are encouraged to meet without the presence of Executive Directors as appropriate. Discussions took place on three occasions during the year and included discussions on each Executive Director's performance.

Vectura is committed to working towards achieving meaningful shareholdings in the Group for executive directors in order to align their interests to those of the shareholders.

Division of responsibilities between Chairman and Chief Executive

The Board has shown its commitment to dividing responsibilities for running the Board and for running the Group's business by appointing Jack Cashman as Non-Executive Chairman; by naming Dr John Brown as Senior Independent Director; by establishing an executive management team (Vectura Executive Committee, the "VEC") under the leadership of Chief Executive Dr Chris Blackwell; and by establishing a procedure whereby the VEC reports formally to the Board at each Board meeting.

Board balance

The Code requires a balance of Executive Directors and NEDs (and in particular independent NEDs) such that no individual or small group of individuals can dominate the Board's decision-taking. Four of the six current Board members are NEDs. The NEDs come from diverse business backgrounds and each has specific expertise, materially enhancing the judgement and overall performance of the Board.

Independence of NEDs

As explained in previous annual reports, in order to assist in securing the recruitment and retention of high-calibre NEDs, in the past the Group has, in addition to fees, remunerated NEDs in the form of options to acquire shares in Vectura.

Whilst the Code discourages the granting of share options to NEDs, it nevertheless acknowledges that such grants may be appropriate in a particular company's circumstances. The Board is of the view that the historic granting of share options to NEDs when Vectura Group plc was a private company was appropriate. No share options have been granted to NEDs since 2 July 2004, when the Company was admitted to the Alternative Investment Market (AIM).

It was essential for an emerging pharmaceutical company like Vectura to secure the recruitment and retention of NEDs with the appropriate experience and international perspective in the context of the Group's then stage of development. There are no performance criteria attaching to these options, and there is no intention to award any further options to NEDs.

The Board has determined that all NEDs are independent. The holding of share options by NEDs could be, amongst other things, relevant in determining whether a NED is independent. After detailed consideration, the Board has determined that it does not believe that the holding of share options by its NEDs impacts on their independence in character and judgement. Options granted to NEDs are now exercisable and thus similar to holding the equivalent amount of shares.

Other factors that may reflect on the independence of a NED include any material business relationships with the Group.

Dr Foden provides specific advice to the Group on intellectual property within her area of expertise. During the year ended 31 March 2010, £6,000 was paid to Dr Foden (2009: £7,000) in respect of these services. The Board considers that this assists the Board in providing further understanding of certain key scientific aspects of the business and, as the amount involved is not material to either party, does not in any way affect Dr Foden's independent judgement.

Throughout the year ended 31 March 2010 and up to the date of publication of this report, more than half the Board, excluding the Chairman, comprised NEDs determined by the Board to be independent.

The Board has established a Remuneration Committee, a Nomination Committee and an Audit Committee, whose make-up complies with the requirements of the Code. The terms of reference of each Committee can be downloaded from the Group's website. In accordance with the Smith Guidance on Board Committees, no one other than the Committee Chairman and committee members receive automatic invitations to the meetings. The NEDs serve on the three board committees, as described below. The Board has considered the composition of the committees and concluded that the independence and objectivity of the individual NEDs is not impaired by sitting on these committees.

The Remuneration Committee

The Code requires that the Remuneration Committee consists of at least two independent NEDs. Dr Foden chairs the Remuneration Committee, its other members being Dr Brown, Mr Cashman and Dr Richards. The Committee has responsibility for making recommendations to the Board on the Group's policy on the performance evaluation and remuneration of Directors and for determining, within agreed terms of reference, specific remuneration packages for each of the Directors and members of the VEC, including pension rights, any compensation payments and the implementation of executive incentive schemes. The Committee met formally three times during the financial year ended 31 March 2010 and the Board confirms full attendance by all members during the year. No Director is involved in determining their own remuneration.

The Nomination Committee

The Nomination Committee leads the process for Board appointments and makes recommendations to the Board. The Code recommends that a majority of members of the Nomination Committee are independent NEDs. Dr Brown chairs the Nomination Committee and its other members are Mr Cashman, Dr Foden and Dr Richards. The Nomination Committee meets at least once a year, or more if necessary, and has responsibility for considering the size, structure and composition of the Board, retirements and appointments of additional and replacement Directors and making appropriate recommendations to the Board. The Committee met once during the financial year ended 31 March 2010 and the Board confirms full attendance by all members at that meeting.

The Audit Committee

The Code recommends that the Board should establish an Audit Committee of at least three independent NEDs, with Dr Brown being the Non-Executive Director with recent and relevant financial experience. The Group complies with these recommendations. Dr Brown is Chairman of the Committee, the other members being Dr Foden and Dr Richards.

The Audit Committee met three times during the year ended 31 March 2010. The Board confirms full attendance by all members during the year. The Audit Committee is responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors and assesses annually the qualification, expertise, resources, remuneration and independence of the auditors, as well as the effectiveness of the audit process.

Any non-audit services that are to be provided by the external auditors are reviewed in order to safeguard auditor objectivity and independence. The Board confirms that there have been no non-audit services that are considered to have impaired the objectivity and independence of the external auditors.

The Code requires that this Annual Report separately describes the work of the Audit Committee and how it discharges its responsibilities. The Audit Committee focuses particularly on compliance with legal requirements, accounting standards and the Code, and on ensuring that an effective system of internal financial controls is maintained. The ultimate responsibility for reviewing and approving the financial statements in the Interim and Annual Reports remains with the Board. Written terms of reference are modelled on the Code provisions and set out the main roles and responsibilities of the Audit Committee. The Audit Committee reports to the Board, identifying any need for action or improvement on any of these terms of reference and making recommendations as to the steps to be taken. The Board reviews the effectiveness of the Audit Committee annually.

The Audit Committee meets with the external Auditors at least twice a year without management present and its Chairman keeps in touch, as required, with the key people involved in the Group's governance, including the Board Chairman, the Chief Executive, the Chief Financial Officer and the external audit lead partner.

Business review
Corporate governance statement
continued

All Audit Committee members understand the role of the Audit Committee, its terms of reference and their expected time commitments, and have the necessary overview of the Group's business, financial dynamics and risk.

The Audit Committee reviews arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Audit Committee's objective is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

The Audit Committee reviews the financial integrity of the Group's financial statements, including relevant corporate governance statements prior to Board submission.

The Group has a formal whistle-blowing policy, which is available to all staff via the Group's intranet.

Timeliness and quality of Board information
The Board has sought to ensure that Directors are properly briefed to help them make an effective contribution at the meetings by establishing procedures for distributing Board agendas and papers in a timely manner in advance of meetings. The Board plans formal meetings on a bi-monthly basis, with additional meetings when circumstances and urgent business dictate. In the financial year under review, six regular meetings of the full Board were held. The Board confirms full attendance by all Directors during the year.

In addition, the Executive Directors ensure regular informal contact is maintained with Non-Executive Directors. The Board makes full use of appropriate technology as a means of updating and informing all its members.

Transparency of Board appointments
There are formal, rigorous and transparent procedures for the appointment of new Directors to the Board. Shortlisted candidates are interviewed by the Chairman of the Board and at least one other member of the Nomination Committee, and evaluations of all appropriate candidates are circulated to all members of the Nomination Committee for consideration and approval prior to candidate recommendation to the Board.

Board performance evaluation
Directors are subject to election by shareholders at the first opportunity after their appointment, and to re-election at intervals of no more than three years thereafter. The Board has a process for evaluation of its own performance and that of its committees and individual Directors, including the Chairman. These evaluations are carried out formally once a year and informally on a regular basis throughout the year. The formal evaluation is through an appraisal process. The Company Secretary reports the results of the reviews to the Board with identified areas for future action. The performances of Dr Brown and Dr Foden, who are being proposed for re-election at the Annual General Meeting (AGM), have been so evaluated and it has been determined that they continue to perform effectively and show full commitment to their roles on the Board. All Directors have service agreements with indefinite terms, with 12 months' notice for Executive Directors and three months' notice for Non-Executive Directors.

Accountability and audit
The Board is required by the Code to present a balanced and understandable assessment of the Group's position and prospects. In relation to this requirement reference is made to the Statement of Directors' responsibilities for preparing financial statements. The independent auditors' report includes a statement by the auditors about their reporting responsibilities.

The Audit Committee must approve engagements with independent audit firms and fees for audit, audit-related and non-audit services. External auditors conducting the audit part of the financial statements are not permitted to perform certain other services without full consideration being given to alternative suppliers of the services.

Maintenance of a sound system of internal control
The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Group's internal controls are regularly reviewed as part of the risk management process. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The concept of reasonable assurance recognises that the cost of a control procedure should not exceed the expected benefits.

The Group's organisational structure has clearly established responsibilities and lines of accountability. Employees are required to follow clearly defined internal procedures and policies appropriate to the business and their position within the business.

The Group endeavours to appoint employees with appropriate skills, knowledge and experience for the roles they undertake.

The Board has shown its commitment to formal and transparent arrangements for internal control by, amongst other things, reviewing the Group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing (formalised in the grievance procedure and the whistle-blowing policy circulated to all employees).

Documented quality procedures are in place to ensure the maintenance of regulatory compliance. These are subject to periodic review to ensure current standards of quality compliance are maintained. A quality group monitors compliance with Good Laboratory Practice, Good Clinical Practice and Good Manufacturing Practice through the implementation of a compliance programme for in-house and contracted-out activities. The Group has a formal Health and Safety Committee, comprising appropriate members of management and other employees, to be responsible for these issues. The Group has formal procedures to ensure appropriate security of documents and proprietary information. Lean techniques addressing laboratory and office inefficiencies have also been adopted in the past year.

The Group regularly reviews its portfolio of insurance policies with its insurance broker to ensure that the policies are appropriate to the Group's activities, size and exposures.

A comprehensive budgeting system allows managers to submit detailed budgets, which are reviewed and amended by Executive Directors prior to submission to the Board for approval. At the end of each quarter a forecast is prepared in the same level of detail as the budget. Actual results against budget and forecast, highlighting variances, are prepared for managers and the Board.

Risk assessment review

An on-going process for identifying, evaluating and managing the significant risks that are detailed in the risk factors section of this report is in place. The effectiveness of the Group's internal control system has been reviewed by the Board during the year. The Audit Committee's terms of reference include the review of the Group's internal financial control systems and it recommends to the Board any improvements required. Each year, the Audit Committee considers the need for an internal audit function and has concluded that, given the size of the Group's operations at this time, it is not necessary. The Board also carries out reviews of the non-financial control systems.

Shareholder relations

The Group reports formally to shareholders twice a year by way of the Interim and Annual Reports and additionally issues two interim management statements, providing a quarterly communication with shareholders. All periodic reports and accounts are made available to shareholders on the Group's website, or are mailed to shareholders who have elected to receive hard copies. Separate announcements of all material events are made as necessary by press releases that are posted on the Group's website and automatically sent to all shareholders who are Vectura registered website users. These are the main mechanisms by which the Board seeks to present a balanced and understandable assessment of the Group's position and prospects. The Vectura website provides additional information about the Group and allows access to reports and accounts, press releases and other materials issued by the Group.

Regular communications are maintained with major institutional shareholders and, in particular, presentations are made when half-year and full-year financial results are announced. Dr Brown, as Senior Independent Director, is contactable by shareholders through a link on the Group's website. In addition, all NEDs have developed an understanding of the views of shareholders through corporate broker briefings and review of issued analyst notes.

Constructive use of the AGM

The Board seeks to use the AGM (together with other forums) to communicate with investors and encourage their participation by arranging business presentations and inviting shareholder questions. The Chairs of the Remuneration, Nomination and Audit Committees are present at the AGM to answer questions through the Chairman of the Board.

Anne Hyland
Company Secretary

6 June 2010

Board of Directors

1 John Patrick (Jack) Cashman
Non-Executive Chairman

Jack Cashman, aged 69, joined the Board of Vectura as Non-Executive Chairman in 2001 and is a member of both the Nomination and Remuneration Committees. Mr Cashman brings significant experience to the Board of Vectura, having held a variety of senior executive-level roles in business and having been a Board member for several companies in both North America and Europe. Jack is currently a Director of Telesat Holdings Inc. (Canada). He is the former Chairman and joint-Chief Executive Officer of RP Scherer Corporation and participated in its leveraged buyout and privatisation and its subsequent successful flotation on the New York Stock Exchange. (RP Scherer was later acquired by Cardinal Health Inc.) His early career was spent in the field of filtration and industrial mineral products. During that time, he took on successively more senior roles in marketing, operations and general management in the UK, Europe, Canada and USA. With this experience, he decided to pursue an entrepreneurial career in the industrial and healthcare sectors.

2 Christopher Paul Blackwell BSc PhD
Chief Executive

Dr Chris Blackwell, 48, was appointed Chief Executive of Vectura in February 2004. He joined the Group in 2002 as Chief Operations Officer and Executive Director. Prior to Vectura he was Director of Drug Development and an Executive Director at Scotia Pharmaceuticals Ltd, which he joined in 1998. He was previously at Hoffmann-La Roche specialising in project management and becoming UK Director, Global Project Management, and Glaxo Research and Development as a Clinical Pharmacologist. Chris trained as a research scientist at the University of Bath, where in 1988 he completed his doctorate investigating free radicals and reperfusion-induced arrhythmias. In July 2006, Chris was appointed Non-Executive Director of AGI Therapeutics plc, a specialty pharmaceutical company.

3 Anne Philomena Hyland BBS FCA FITI
Chief Financial Officer and Company Secretary

Anne Hyland, 49, was appointed Chief Financial Officer, Company Secretary and Executive Director of Vectura in March 2002. Prior to this she was a Director of Corporate Finance at Celltech Group plc. Other positions held at Celltech included Group Financial Controller and Finance Director for the Celltech/Medeva UK Division. She joined Celltech following the merger with Medeva plc, where she was Finance Director for the UK Division. Previously she was the Medeva Group Financial Controller where, through a period of rapid growth, she was responsible for managing treasury, tax, internal and external reporting, and acquisition and disposal activity. Anne joined Medeva from KPMG, London, where she was an audit manager and gained exposure to corporate finance, advisory and due diligence work. She has a Business Studies degree from Trinity College, Dublin, and is a Fellow of the Institute of Chartered Accountants, Ireland and a Fellow of the Institute of Taxation, Ireland.

4 John Robert Brown BSc PhD MBA FRSE
Non-Executive Director
and Senior Independent Director

Dr John Brown, 55, joined the Board of Vectura as Non-Executive Director and Senior Independent Director in 2004 and chairs the Audit and Nomination Committees as well as being a member of the Remuneration Committee. John is Chairman of BTG plc and Axis-Shield plc and, from 1999 until May 2008, he was Chairman of the Governing Council of the Roslin Institute in Edinburgh and is now Chairman of the Roslin Foundation. He is a Non-Executive Director of the UK Technology Strategy Board, and an advisor to several private equity and venture capital funds. Until late 2003, John was Chief Executive of Acambis plc, a leading producer of vaccines to treat and prevent infectious disease. John is an Honorary Professor of Edinburgh University and is a Fellow of the Royal Society of Edinburgh.

5 Susan Elizabeth Foden MA DPhil
Non-Executive Director

Dr Susan Foden, 57, joined the Board of Vectura as a Non-Executive Director in January 2007. She chairs the Remuneration Committee and is a member of the Audit and Nomination Committees. She holds a number of Non-Executive Directorships with both public and private companies and public funding bodies in the biotech and healthcare field, including Source Bioscience plc, CellCentric Ltd, Cizzle Biotechnology Ltd, Cascade Fund Management Ltd, The Rainbow Fund, and Oxford Ancestors Ltd. She also holds several Advisory Board roles, including Elara GmbH and Manchester Premier Fund. Prior to this Susan held positions in venture capital and UK biotech companies. From 2000 to 2003 she was an Investor Director with the London-based venture capital firm Merlin Biosciences Limited, and was Chief Executive Officer of the technology transfer company Cancer Research Campaign Technology Ltd from 1987 to 2000. She studied biochemistry at the University of Oxford from where she obtained an MA and a DPhil.

6 Andrew John McGlashan Richards BA MA (Cantab) MSc PhD CChem
Non-Executive Director

Dr Andy Richards, 50, joined the Board of Vectura as a Non-Executive Director in 2000 and is a member of the Audit, Nomination and Remuneration Committees. He is an established biotechnology entrepreneur and business angel, focusing on founding, investing in and growing biotechnology and healthcare companies. He has broad experience of the UK biotechnology sector in research, drug development and in building commercial relationships. He is Chairman of Altacor Ltd, Ixico Ltd and Novacta Biosystems Ltd and a Non-Executive Director of Arecor Ltd, Babraham Bioscience Technology Ltd, Cancer Research Technology Ltd (the commercial arm of Cancer Research UK), Theradeas Ltd, and Summit Corporation plc. He is also a founder member of the Cambridge Angels, and a member of BBSRC Council. In 1992, he co-founded Chiroscience and was Business Development Director through to its merger in 1999 with Celltech. Andy spent his early career with ICI (now AstraZeneca) and with PA Technology. Andy has a PhD in Chemistry.

Executive management

1 Timothy Wright BSc PhD MBA
Commercial Director

Dr Tim Wright, 49, joined Vectura as Commercial Director in March 2005. Prior to joining Vectura he gained a breadth of experience in business development and licensing in a number of senior roles at BTG plc, latterly as Vice President Business Development and Licensing, Oncology, and as Director of Business Development at DevCo Pharmaceuticals, where he was successful in building a portfolio of neuroscience development candidates. Between 1986 and 1999 Tim held a number of management positions at GlaxoWellcome Research and Development, both in Clinical Pharmacology and Medical Operations, and in project management at Simbec Research Limited. Tim trained as a research scientist at London University, obtaining a PhD in neuroendocrinology in 1987. He was awarded an MBA from London Business School's Executive Programme in 1994.

2 Martin John Shott PhD MRPharmS
Pharmaceutical Operations Director

Dr Martin Shott, 58 joined Vectura as Pharmaceutical Operations Director in October 2002 with a wide range of experience from within the pharmaceutical industry. Prior to joining Vectura he worked for four years at Innovata Biomed as Associate Director of Research and Development. Martin has gained extensive experience in the UK and Europe working as a senior manager at several companies, including Lers-Synthelabo and Ciba-Geigy (later Novartis), where he managed the global DPI development unit based in the UK. He trained as a research scientist, during which time he investigated the compression of pharmaceutical powders for a PhD at Nottingham University, while continuing to work in the industry. He is chairman of the European Pharma Aerosol Group and a member of the Royal Pharmaceutical Society of Great Britain.

3 Mark Jonathan Main BSc PhD
Development Director

Dr Mark Main, 50, joined Vectura as Development Director in May 2004. Prior to joining Vectura he was with Powderject Pharmaceuticals, which he joined in 2001 to lead multi-disciplinary development teams for both drug delivery and vaccine products involving all aspects of the drug/device development process. He was previously with Sterling Winthrop in 1986 and subsequently Parke-Davis, Ipsen International, and Scotia Pharmaceuticals, gaining extensive experience of clinical development and project management in the areas of cardiovascular and oncological treatment. Mark trained as a research scientist at St George's Hospital Medical School, where he gained his doctorate investigating the prevention of ischaemia-induced damage of the mammalian myocardium.

4 Stephen William Eason BSc (Eng)
Director of Device Development

Stephen Eason, 52, joined Vectura as Director of Device Development in February 2002 when the Aspirair® inhaler technology and staff were acquired from Cambridge Consultants Ltd (CCL), where he was an associate director. He had previously initiated and led the Aspirair® development programme at CCL and has subsequently initiated and led the GyroHaler® development programme for Vectura. At CCL Stephen carried out significant product developments in the areas of inhalation, injection and infusion products. Prior to joining CCL, Stephen worked for seven years as a design and development engineer within the manufacturing industry, first with the TI Group and then with Baxter Healthcare. Stephen studied Mechanical Engineering at the Imperial College of Science and Technology, London.

5 Colin Clive Dalton BTech PhD
Director of Intellectual Property and Corporate Affairs

Dr Colin Dalton, 60, joined Vectura as Director of IP and Corporate Affairs in January 2007 when Innovata plc was acquired. He was previously Corporate Development Director with Innovata and Quadrant Healthcare Limited, a formulation company acquired by Innovata. For five years prior to joining Quadrant he was Director of Business Development at GSK Biologicals where he managed a group responsible for licensing new products and technologies, collaborations and alliances. He previously worked in business development at Quadrant and British Sugar plc and was a senior consultant in the biotechnology practice at PA Consulting. He started his career as a fermentation scientist at BP Co Ltd. He trained as an applied biologist at Brunel University and obtained a PhD in 1977 at Leicester University.

6 Trevor Phillips BSc PhD MBA
President of US Operations

Dr Trevor Phillips, 49, joined Vectura as President of our US operations in January 2010. Prior to joining Vectura he gained extensive international experience in organisational leadership, management and pharmaceutical drug development in a number of senior roles, including positions as CEO and President of the US publicly held company, Critical Therapeutics Inc, following six years as the Company's Chief Operating Officer. During his time at Critical, Trevor was involved in setting up commercial partnerships, programme in-licensing and out-licensing, managing drug development, including NDA filings, manufacturing and mergers and acquisitions. Between 1986 and 2002 Trevor held a number of management positions at Sepracor, Scotia Pharmaceuticals, Accenture, GlaxoWellcome Research and Development and Simbec Research Limited. Trevor trained as a research scientist at University of Reading, obtaining a PhD in microbial biochemistry from the University of Wales in 1986. He was awarded an MBA from Henley Management College in 1997.

Corporate social responsibility statement

The Directors recognise the importance of corporate social responsibility and endeavour to take into account the interests of the Group's stakeholders, including its investors, employees, customers, suppliers and business partners when operating the business. The Group believes that having empowered and responsible employees who display sound judgement and awareness of the consequences of their decisions and actions, and who act in an ethical and responsible way, is key to the success of the business.

Our people

Employees

The key to our success is to develop core values within all of our staff which lead to an environment where they believe that what they are doing is making a difference. The core values with which we operate are participation, achievement, trust and respect, innovation and enthusiasm.

The Group recognises that in an industry based on innovation and research and development, its employees are some of its biggest assets and it seeks to communicate and, where appropriate, consult with them on matters affecting them as employees, in the correct manner.

The Group is committed to achieving equality of opportunity in all its employment practices, policies and procedures. Employees are valued highly and their rights and dignity are respected. The Group does not tolerate any harassment or discrimination. The Group practises equal treatment of all employees or potential employees irrespective of, inter alia, their race, creed, colour, sexual orientation, nationality, ethnic origin, religion, disability, age, gender or marital status. The equal opportunities policy covers all permanent and temporary employees (including Non-Executive Directors); all job applicants, agency staff, associates, consultants and contractors. The Group also endeavours to be honest and fair in its relationships with customers and suppliers and to be a good corporate citizen, respecting the laws of countries in which it operates.

The Group provides training and development appropriate to individual needs and offers remuneration packages (including pensions, private medical, permanent health and life insurance) and a working environment that are designed to be both fair and competitive with larger companies within the industry. Participation in the Group's share option schemes is extended to all of the Group's employees. More details are provided in the Report on remuneration.

Employee involvement

During the year, Vectura continued its policy of providing employees with information about the Group through regular presentations by Directors, management and the Group's intranet. In addition, regular meetings are held between management and employees to allow for a free flow of information and ideas. Staff forums are established to comply with the requirements of Information and Consultation of Employees Regulations 2004. The forums ensure implementation of the EC Directive.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. With regard to existing employees and those who may become disabled, Vectura's policy is to examine ways and means to provide continuing employment under its existing terms and conditions and to provide training and career development, including promotion, wherever appropriate.

Family-friendly employment policies and employee welfare

The maternity and paternity leave and pay policies conform to statutory requirements. Flexible approaches to return to work after maternity leave and part-time or non-standard hours and work patterns are considered where viable.

Ms Hyland is the board member responsible for overseeing responsibility for non-discrimination issues.

Health and safety

Vectura has a Health and Safety Committee to review health and safety standards within the Group. The Group considers health and safety to be a priority in its workplaces and a senior person is responsible for overseeing appropriate management. The Group has an excellent safety record and there have been no major incidents or accidents to report to the Health and Safety Committee. The Group has provided specialist training to individuals who are responsible for health and safety, and general health and safety training to all staff.

The Group continues to keep health and safety practices under review.

← A scientist sprays a non-harmful reagent in an extractor hood to reduce environmental exposure

Environment

We are committed to minimising the impact of our activities on the environment and energy efficiency is the most important means of climate protection currently available to the Group. Due to the nature of its activities, Vectura considers that it has a low environmental impact.

Vectura has adopted an environmental policy, which can be found on our website. The policy sets out a commitment to reducing gas and electricity consumption and CO_2 emissions per employee at the first assessed site, Chippenham, from the quantified levels for 2008/09. Quantifiable targets are established and we will monitor performance against these targets and progressively adopt the principles of environmental management systems to ISO14001 standards.

Our modern cleanroom complex at Chippenham for the manufacture of investigational medical products up to Phase III clinical trials was designed to be environmentally friendly by re-circulating treated and filtered air and using fresh air only for pressurisation. The running costs are significantly reduced when compared with a 100% fresh air facility. In addition, the refrigeration system uses a refrigerant which has an ozone depletion factor of zero and also has a very low global warming factor.

A Green Committee meets regularly and has responsibility to pursue objectives for environmental sustainability and carbon reduction within all Vectura operations.

Use is made of the company intranet to communicate widely to all staff on environmental affairs.

Vectura is committed to undertaking an environmental impact review of new product developments, site development and of merger and acquisitions.

Ms Hyland is the board member to whom responsibility for environmental issues has been delegated.

Waste management

Initiatives to effectively manage and reduce waste have been implemented throughout the Group, including recycling of all paper waste, aluminium cans, printer toners/cartridges and redundant mobile telephone handsets. We aim to comply with all legislation in this area, including using registered waste disposal contractors.

Ethical and social policies

The Group'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, the Group seeks to conduct its activities generally in accordance with good business ethics.

Vectura has adopted a clear anti-bribery policy and communicated it to all employees so they can recognise and avoid the use of bribery and report any suspicion for rigorous investigation. The Group does not consider it appropriate at its current stage of development to make significant financial donations to charitable, community or social activities, but does encourage its employees to take part in charity fundraising events. Political donations are prohibited and advance approval from management is required before management and staff may accept or solicit a gift of any kind.

Through the use of a risk register the Group has identified specific company-wide risks that include those in the key activities of intellectual property, medical and regulatory affairs, clinical development, pharmaceutical operations and device development.

Conclusion

Vectura considers that its most important contribution to the communities within which it operates is to provide high-quality employment opportunities and to develop therapies for diseases.

Corporate social responsibility matters are considered as part of the risk assessments of the Group and are part of the considerations when setting remuneration targets.

↙ Scientists making fine drug particles take appropriate precautions

Report on remuneration

Introduction

This report has been prepared in accordance with the Accounting Regulations of the Companies Act 2006 (the "Act") and complies with the Combined Code on Corporate Governance. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to Directors' remuneration under the Directors' Remuneration Report Regulations 2002. As required by the Act, a resolution to approve this report will be proposed at the Annual General Meeting of the Group at which the financial statements will be approved.

The Act requires the auditors to report to the Group's members on certain parts of the Report on remuneration and state whether in their opinion those parts of the report have been properly prepared in accordance with the Companies Act 2006. The report has, therefore, been divided into separate sections for unaudited and audited information.

Unaudited information

Remuneration Committee

The Remuneration Committee (the "Committee") consists entirely of NEDs and is constituted in accordance with the recommendations of the Combined Code. The Committee is formally constituted with written terms of reference and its main responsibilities are detailed below. Its members for the year ended 31 March 2010 were Dr Foden (Chair), Dr Brown, Mr Cashman and Dr Richards.

The Committee is responsible for:

- setting a remuneration strategy that ensures that talented executives are recruited, retained and motivated to deliver results;
- ensuring that the remuneration for the Executive Directors and other senior executives reflects both their individual performance and their contribution to the overall Company results;
- determining the terms of employment and remuneration for the Executive Directors and senior executives including recruitment and retention terms;
- approving the design and targets for any annual incentive schemes that include the Executive Directors and senior executives;
- agreeing the design and targets, where applicable, of all share incentive plans requiring shareholder approval;
- assessing the appropriateness and subsequent achievement of the performance targets related to any share incentive plans;
- recommending to the Board the fees paid to the Chairman. The Chairman is excluded from this process; and
- the selection and appointment of the external advisors to the Committee to provide independent remuneration advice where necessary.

The Committee members have no personal financial interests other than as shareholders in matters to be decided, no potential conflicts of interests arising from cross directorships and no day-to-day involvement in running the business. No Director plays a part in any discussion about his or her own remuneration.

The fees of the Non-Executive Directors are determined by the Board on the joint recommendation of the Chairman and the Chief Executive.

The Committee met formally four times during the year ended 31 March 2010.

A summary of the matters considered at each of those meetings is set out in the panel below.

Current approach to remuneration policy

When determining the structure and level of the Executive Directors' remuneration, the Committee has regard to compensation packages in the UK pharmaceutical and biotech sectors.

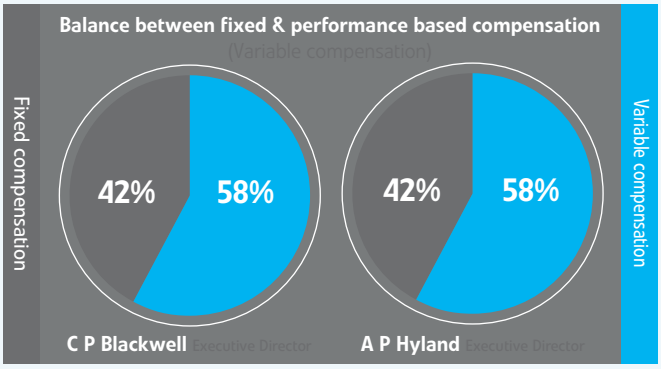
In determining the Group's current policy, and in constructing the remuneration arrangements of each Executive Director and senior employee, the Board, advised by the Committee, aims to provide remuneration packages that are competitive and designed to attract, retain and motivate Executive Directors and senior employees of the highest calibre. To achieve this objective, the Committee takes account of information from both internal and independent sources including Hay Group.

The total remuneration of each individual Executive Director and senior employee is benchmarked against the relevant sector. Vectura's policy is to provide remuneration generally at levels that are broadly aligned with the mid-points for equivalent roles in comparable companies in the UK.

Meeting	Standing agenda items	Other agenda items
May	• review and agree vesting of 2006 LTIP awards • approval of 2009 LTIP awards including setting performance targets • approval of the 2008/09 Report on remuneration	• update on governance and regulatory developments
July	• review of Remuneration Committee effectiveness	
November	• review of executive compensation packages for the two proposed employees of the US operations	
February	• review the overall structure of remuneration for all employees in the Group to be applied from 1 April 2010 • review of executive compensation packages in the UK pharmaceutical and biotech sectors including specialist studies on executive remuneration • review of Executive Directors' basic salary and benefits against comparator group • agree increase in basic salary and changes to benefits • agree performance against targets for the 2009/10 annual bonus • review and agree corporate goals and performance targets for the 2010/11 annual bonus	• consideration of the impact of the Finance Act 2009 on senior employees' remuneration

The Group's policy is that a substantial proportion of the remuneration of Executive Directors and senior employees should be performance-related. Performance measures are balanced between internal measures and sector-comparative measures to achieve maximum alignment between executive and shareholder objectives. Base salaries are supplemented by bonuses based on the achievement of corporate goals set at the start of each year.

The table below shows the components of the remuneration package as a percentage of total remuneration. 58% of the Executive Directors' total remuneration is performance related.



Components of the current remuneration package

The principal components of remuneration packages are base salary, short and long-term incentives and pension benefits. The policy in relation to each of these components, and key terms of the various incentive and benefit programmes, is explained further below.

Basic salary

Basic salaries are reviewed annually, taking into account recommendations on individual performance against objectives and levels of responsibility, together with salary levels in comparable companies and other indicators as described above. The Committee also took into consideration pay and conditions throughout the Company in setting salary levels.

Each Executive Director's base salary was broadly aligned with the mid-points of the chosen UK pharmaceutical sector comparator group (see next page) and adjusted to reflect company size and complexity. Based on this data, for the year ended 31 March 2010 the Committee considered that Dr Blackwell and Ms Hyland could receive basic salary increases (2008/09 nil and nil). However, given the Company's share price performance over the year to 31 March 2010, the Committee together with the Executive Directors agreed not to implement any increases to their salaries for the current year.

Performance-related cash bonuses

All employees are eligible for an annual discretionary cash bonus, whereby performance objectives are established at the beginning of the financial year by reference to suitably challenging corporate goals. Goals typically include revenue generation, development pipeline progress and control of cash expenditure, and are weighted towards goals with the highest corporate significance. Performance-related payments may be paid annually, dependent upon achievements measured against corporate goals. Bonus payments are not pensionable. The scheme is offered to all staff below board level with bonus award entitlements ranging between 10% and 50% of salary depending on grade. Cash bonuses are limited to a maximum of 100% of basic salary for each Executive Director.

For the year ended 31 March 2010 the performance objectives against which bonus payments were calculated were as follows:

Performance Metric	Weighting as % of maximum bonus potential	Level of bonus awarded as % of metric (% of salary)	Commentary (full disclosure has been restricted due to commercial sensitivity)
Revenue generation	25%	0% (0%)	Revenues in the year ended 31 March 2010 grew 29% to £40.1m. However this was below the target set by the Committee at the start of the financial year and no bonus was awarded for revenue generation.
Development & technology pipeline progress	55%	67% (37%)	Targeted products entered the pipeline and two phase II programmes proceeded during the year. New formulation and device patents were filed and device designs were finalised to allow for commercial scale-up. The Committee determined that this level of performance equated to an award of 67% against this metric.
Control of cash expenditure & generation of new partnerships	20%	50% (10%)	Cash outflow from operating activities showed a significant improvement on the target. The Committee determined that this level of performance equated to an award of 50% against this metric.
TOTAL BONUS PAYMENT AS % OF SALARY			**47%**

The Committee also assessed that a bonus in the order of 47% of salary was appropriate when judged by the achievement of the above metrics and when looking at a broader picture of the Company's corporate performance over the period.

Given the number of shares acquired for cash by the Executive Directors during the year ended 31 March 2010, the Remuneration Committee has not required any of the bonus payment for this year to be deferred into shares.

Report on remuneration
continued

Long-Term Incentive Plan
Annually, Executive Directors and certain senior executives are granted an award in the form of nil-cost options under the Vectura Group plc 2005 Long-Term Incentive Plan ("LTIP"). Under the LTIP, each participating executive is granted an annual award of shares, dependent on the achievement of a rigorous, pre-determined set of performance conditions.

Performance conditions
At the end of a three-year performance period, a percentage of the shares so awarded is made available to the participating executives, dependent upon the Group's Total Shareholder Return ("TSR") as compared to those of a comparator group of similar quoted UK pharmaceutical and biotechnology companies. Awards are released in accordance with the following table:

Level of comparative performance during the performance period	Percentage of LTIP award released %
Below median	–
At or above median	30*
Upper quartile	100*

* Linear vesting between points

In addition, the Committee is required to ensure that the underlying financial performance of the Group is consistent with its TSR performance, by considering the Group's performance against a range of objective financial measures. These measures include revenue and cash generation. If the Committee believes that the underlying corporate financial performance is not consistent with its TSR performance, then no LTIP awards will be released.

PricewaterhouseCoopers report to the Committee annually on the TSR performance measurement.

These performance conditions have been selected for the following reasons:

- the Committee is keen that Executives are encouraged to focus on ensuring that the Company's return to shareholders is competitive compared to comparable companies;
- participants will be rewarded only if the Company's comparative performance is better than its competitors even if the absolute value of the Company increases over the measurement period; and
- comparative total shareholder return is a measure operated in conjunction with the majority of LTIP schemes.

For grants issued after 31 March 2009, the comparator group of companies to which the performance of Vectura Group plc is compared is as follows:

Allergy Therapeutics plc
Antisoma plc
Ark Therapeutics plc
Axis-Shield plc
Biocompatibles International plc
BTG plc
GW Pharmaceutical plc
Oxford BioMedica plc
ProStrakan Group plc
Sinclair Pharma plc
SkyePharma plc
Vernalis Group plc

During the year ended 31 March 2010, shares were awarded to Dr Blackwell and Ms Hyland under the LTIP scheme, as further detailed in this report, below. Awards to each Executive Director are up to a maximum of 200% of salary with effect from May 2009 (previous maximum 100%) as approved by shareholders at the September 2008 AGM. The market price of the shares on the date of the 2009 award was 68.50p.

When determining the vesting of the above award (and any future awards) the Committee is likely to apply an underlying share price target in addition to the financial measures referred to above. The LTIP awards will only vest if the Committee is satisfied that there has been a significant improvement in the share price in the relevant period. For the 2009 awards, the LTIP awards will not vest if the average price of the Company's shares over the three-month period before the date of vesting is less than £1. Such an approach will ensure that even if the comparative TSR measure has been achieved, the Executive Directors will only benefit from the LTIP award if share price performance is strong. The Committee will also review the required vesting criteria for the 2010 award and this will be disclosed to shareholders as part of the Notice for the September 2010 AGM. The 2010 award will be the last award under the current scheme which expires in September 2010.

For the three-year performance period ended in the year ended 31 March 2010, 83.3% of LTIP shares awarded in November 2006 were released. In addition, 63.0% of LTIP shares awarded in May 2007 were released in May 2010.

In addition to the comparative TSR measures for these periods, the Committee also considered the underlying financial performance of the Group in its determination of the vesting of these LTIP awards. These included the 59% increase in revenues in the three years to 31 March 2010, and the fact that the Group increased its investment in its development activities whilst generating net cash inflow before financing activities in the same period.

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

Share Incentive Plan
The Vectura Group plc Share Incentive Plan ("SIP") is available to all employees, including Executive Directors, for the purpose of encouraging employees to become shareholders of the Group and to retain their shares over the medium to long term. It introduces share ownership to the employee in three ways: free shares, partnership shares, and matching shares. Vectura Group plc may award free shares annually, employees may buy partnership shares out of pre-tax salary, and Vectura Group plc may match any partnership shares purchased in a year with the award of additional matching shares on a one-for-one basis. The SIP is an HMRC approved scheme through which benefits are provided in a tax efficient manner.

Sharesave Share Option Scheme
Vectura Group plc also operates a Sharesave ("SAYE") Share Option Scheme for both employees and Executive Directors. Under this Scheme all eligible employees and Executive Directors are invited to subscribe for options, which may be granted at a discount of up to 20% of market value. The Sharesave Share Option Scheme is an all-employee plan where shares must be held for a minimum of three years, and to which performance conditions do not apply.

Approved and Unapproved Share Option Plans and the EMI Plan
Executive Directors hold options under the Approved and Unapproved Share Option Plans and under Enterprise Management Incentive arrangements (the "EMI Plan").

Historically, before it was listed, Vectura Group plc granted NEDs share options as part of their remuneration package. At the early stage of the Group's development this was considered to be essential to secure the recruitment and retention of high-calibre NEDs with the appropriate experience. This policy of granting share options to NEDs has not applied since the Group was publicly listed, and no further share option awards will be made to NEDs. In this connection, reference should also be made to the Corporate governance statement. The options held by the NEDs have vested and are exercisable at any time. The Board does not believe that the retention of these fully vested options in any way compromises the independence of the NEDs concerned.

Historically, no performance conditions have been attached to the options granted under the above schemes. The exercise price is equal to the market value of Vectura Group plc's shares at the time the options are granted.

Pension arrangements
All employees, including Executive Directors, are invited to participate in the Group Personal Pension Plan, which is money-purchase in nature. The only pensionable element of remuneration is basic salary. During the year, the Group contributed 20% of basic salary to the Group Personal Pension Plan in the name of the Executive Directors.

Future remuneration policy

The compensation packages in the UK pharmaceutical and biotechnology sector vary considerably as a result of the companies in those sectors themselves varying in terms of size and stage of development. There are also very few listed companies in the sector and fewer still that are of a comparable size to the Company. However, the Committee recognises the views of some shareholders and analysts that levels of fixed and variable remuneration in the sector may be exceptionally high in some cases relative to the value created for shareholders. This, together with the Company's desire to ensure best use of funds, has prompted the Committee to undertake a review of remuneration policy and this is now underway.

Through this review the Committee will ensure that the remuneration structure supports the Company's strategic aims in terms of becoming a sustainably cash-generative business over the medium term, and that there is a stronger alignment between the equity interests of shareholders and those of the executives than in previous years.

Performance graph
The following graph shows Vectura Group plc's performance since its initial listing in July 2004, measured by TSR, compared with the performance of the current comparator group of companies in the sector, as described above.

Other information

Directors' service contracts
It is the Group's policy that Executive Directors should have contracts with an indefinite term which provides for a maximum period of 12 months' notice. This applies to the contracts of Dr Blackwell and Ms Hyland, which were effective from 25 June 2004. All Executive Directors are subject to re-election at an AGM at intervals of no more than three years.

Dr Blackwell is also a Non-Executive Director of AGI Therapeutics plc for which he received a salary of €7,500 in the year to 31 March 2010 (2009: €30,000).

Report on remuneration
continued

Non-Executive Directors

All NEDs have specific terms of engagement which are terminable on three months' notice by either party, and their remuneration is determined by the Board within the limits set by the Articles of Association and based on a review of fees paid to NEDs of similar companies. NEDs are not eligible to join the Group's pension scheme, nor do they receive other benefits. All NEDs are subject to re-election at an AGM at intervals of no more than three years.

The dates of appointment of each of the NEDs serving at 31 March 2010 are summarised in the table below:

Name of Director	Date of appointment
J R Brown	13 May 2004
J P Cashman	27 March 2001
A J M Richards	21 January 2000
S E Foden	18 January 2007

All of the NEDs are considered independent, including those with service greater than nine years. This is due to the major change in the operating activities of the Group that occurred with effect from July 2004 when the Company completed its Initial Public Offering.

Directors' interests

The Directors who held office at 31 March 2010 and their interests in the share capital of Vectura Group plc at 31 March 2009 and 31 March 2010 were as follows:

	31 March 2010 ordinary shares of 0.025p each	31 March 2009 ordinary shares of 0.025p each
C P Blackwell [1]	235,664	143,873
J R Brown [2]	242,681	70,457
J P Cashman	434,749	434,749
A P Hyland [1]	241,896	150,105
A J M Richards	334,998	134,998
S E Foden	11,000	11,000

[1] The holdings of C P Blackwell and A P Hyland include 25,716 ordinary shares of 0.025p each, which are held in the Vectura Group plc Employee Benefit Trust (Share Incentive Plan).

[2] The holding of J R Brown includes 8,929 ordinary shares of 0.025p each, which are held through nominees.

There was no change in the Directors' interests between 31 March 2010 and 6 June 2010, the date of this report.

Audited information

Directors' remuneration

The remuneration of the individual Directors who served during the year was as follows:

	Basic salary and fees £000	Bonuses £000	Benefits £000	2010 Total emoluments £000	2009 Total emoluments £000
Executive Directors					
C P Blackwell	318	150	1	469	494
A P Hyland	212	100	1	313	330
Non-Executive Directors					
J R Brown*	45	–	–	45	45
J Cashman	60	–	–	60	60
S E Foden*	44	–	–	44	45
A J M Richards	30	–	–	30	30
	709	250	2	961	1,004

* Included within the NEDs' fees are the fees for chairing committees. Dr Brown received £15,000 for chairing the Audit and Nomination Committees. Dr Foden received £7,500 for chairing the Remuneration Committee.

Also included in the above are fees for consultancy services of £6,000 (2009: £7,000) paid to Dr Foden, for the provision of specialist advice on intellectual property matters.

Benefits represent payments for medical insurance.

Directors' pension entitlements

The money-purchase pension contributions paid by the Group for Executive Directors were as follows:

	2010 £000	2009 £000
C P Blackwell	64	64
A P Hyland	42	42
	106	106

Options

Directors holding office at 31 March 2010 with options outstanding over ordinary shares of 0.025p are as follows:

Plan	Options held at 1 April 2009	Options granted/ (exercised) during year	Options held at 31 March 2010	Exercise price (p)	Date from which first exercisable	Expiry date
J Cashman						
Unapproved	166,232	–	166,232	48.125	18/04/04	18/04/11
Unapproved	680,000	–	680,000	36.000	29/04/04	29/04/14
Unapproved	238,989	–	238,989	56.000	02/07/05	02/07/14 (1)
Total	1,085,221	–	1,085,221			
C P Blackwell						
EMI	277,776	–	277,776	48.125	05/11/05	03/11/12
Unapproved	122,224	–	122,224	48.125	01/10/05	01/10/12
Unapproved	23,376	–	23,376	48.125	11/04/06	11/04/13
Unapproved (2)	1,106,355	(83,000)	1,023,355	36.000	29/04/07	29/04/14
Unapproved	716,966	–	716,966	56.000	02/07/05	02/07/14 (1)
Unapproved	132,424	–	132,424	82.500	03/08/06	03/08/15 (1)
Unapproved	265,493	–	265,493	93.750	09/08/07	09/08/16 (1)
Unapproved	271,304	–	271,304	86.250	25/05/08	25/05/17 (1)
SAYE Scheme	26,666	–	26,666	36.000	01/04/11	01/10/11
Unapproved	237,384	–	237,384	53.500	23/05/09	23/05/18 (1)
Approved	37,383	–	37,383	53.500	23/05/09	23/05/18 (1)
Total	3,217,351	(83,000)	3,134,351			
J R Brown						
Unapproved (3)	172,224	(172,224)	–	36.000	–	–
Unapproved	238,989	–	238,989	56.000	02/07/05	02/07/14 (1)
Total	411,213	(172,224)	238,989			

Report on remuneration
continued

Options continued

Plan	Options held at 1 April 2009	Options granted/ (exercised) during year	Options held at 31 March 2010	Exercise price (p)	Date from which first exercisable	Expiry date
A P Hyland						
EMI	243,900	–	243,900	48.125	19/03/05	17/03/12
Unapproved	196,100	–	196,100	48.125	18/03/05	18/03/12
Unapproved	33,896	–	33,896	48.125	11/04/06	11/04/13
Unapproved [2]	539,335	(83,000)	456,335	36.000	29/04/07	29/04/14
Unapproved	358,483	–	358,483	56.000	02/07/05	02/07/14 [1]
Unapproved	94,090	–	94,090	82.500	03/08/06	03/08/15 [1]
Unapproved	188,640	–	188,640	93.750	09/08/07	09/08/16 [1]
Unapproved	192,174	–	192,174	86.250	25/05/08	25/05/17 [1]
SAYE Scheme	26,666	–	26,666	36.000	01/04/11	01/10/11
Unapproved	143,926	–	143,926	53.500	23/05/09	23/05/18 [1]
Approved	37,383	–	37,383	53.500	23/05/09	23/05/18 [1]
Total	2,054,593	(83,000)	1,971,593			
A J M Richards						
Unapproved [4]	450,000	(200,000)	250,000	36.000	29/04/04	29/04/14
Unapproved	238,989	–	238,989	56.000	02/07/05	02/07/14 [1]
Total	688,989	(200,000)	488,989			

All options were granted for nil consideration.

[1] Vesting in three equal annual instalments from date first exercisable.

[2] On 18 and 19 March 2010, C P Blackwell and A P Hyland each acquired a total of 83,000 ordinary shares at an exercise price of 36p through the exercise of Unapproved options granted on 29 April 2004. On the dates of exercise, the market value of the Company's shares was 50p and 46p per share respectively. The total cost of these exercises was £35,059, including taxation, and the total nominal gain was £10,640 in each case.

[3] On 22 March 2010, J R Brown acquired a total of 172,224 ordinary shares at an exercise price of 36p through the exercise of Unapproved options granted on 29 April 2004. On the date of exercise, the market value of the Company's shares was 44.75p per share. The total cost of this exercise was £69,337, including taxation, and the total nominal gain was £15,070.

[4] On 19 March 2010, A J M Richards acquired a total of 200,000 ordinary shares at an exercise price of 36p through the exercise of Unapproved options granted on 29 April 2004. On the date of exercise, the market value of the Company's shares was 44.75p per share. The total cost of this exercise was £80,519, including taxation, and the total nominal gain was £17,500.

The total gain for all Directors was £43,210.

Directors' LTIP awards

Under the LTIP scheme, the grants made to Directors at 31 March 2010 were as shown in the table below:

Director	1 April 2009 £	Awarded/ (cancelled) during year £	31 March 2010 £	Share price on date of grant pence	Date of release of shares
C P Blackwell	367,741	–	367,741	77.50	12/09/08 [1]
	258,064	(43,053)	215,011	93.00	22/11/09 [2]
	347,826	(128,821)	219,005	86.25	25/05/10 [3]
	594,392	–	594,392	53.50	23/05/11
	–	928,467	928,467	68.50	21/05/12
Total	1,568,023	756,593	2,324,616		
A P Hyland	261,290	–	261,290	77.50	12/09/08 [1]
	182,795	(30,496)	152,299	93.00	22/11/09 [2]
	231,884	(85,881)	146,003	86.25	25/05/10 [3]
	396,261	–	396,261	53.50	23/05/11
	–	618,978	618,978	68.50	21/05/12
Total	1,072,230	502,601	1,574,831		

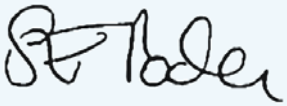
The number of shares released to the Directors at the end of the three-year performance period is dependent upon the performance TSR of the Group during that period in comparison to that of a comparator group of companies as described in the LTIP section of this Report on remuneration.

[1] The award made on 12 September 2005 reached the end of its holding period on 12 September 2008. The TSR of the Group during this period compared with that of the comparator group was in the upper quartile. Accordingly, 100% of the shares awarded were released. The nil-cost options relating to this award lapse on 11 September 2015.

[2] The award made on 22 November 2006 reached the end of its holding period on 22 November 2009. The TSR of the Group during this period compared with that of the comparator group equates to 83.32% of the shares awarded being released. The nil-cost options relating to this award lapse on 21 November 2016.

[3] The award made on 25 May 2007 reached the end of its holding period on 25 May 2010. The TSR of the Group during this period compared with that of the comparator group equates to 62.964% of the shares awarded being released. The nil-cost options relating to this award lapse on 25 May 2017.

On behalf of the Board



Dr S E Foden
Chair of the Remuneration Committee

6 June 2010

Directors' report

The Directors present their Annual Report on the affairs of the Company and Group, together with the financial statements and Auditors' report for the year ended 31 March 2010.

Principal activity
The principal activity of the Group undertaken during the year was the on-going research and development and commercialisation of novel therapeutic products and drug delivery systems for human use.

Review of business
Key events during the past year are referred to in the Highlights, Chairman and Chief Executive's report, the Business review and the Financial review. During the year, the Board has considered the key risks and uncertainties of the business, which are summarised on page 23. The Board has reviewed the risk management policies in place, as summarised in the Corporate governance statement.

Results and dividends
The group loss for the year, after taxation, amounted to £10.2m (2009: £16.7m). The Directors do not recommend the payment of a dividend (2009: £nil).

Future developments
The Directors expect the level of investment in research and development expenditure to increase, which will give rise to further losses in the following year.

Directors
Membership of the Board (together with Directors' biographies) is shown in the section on Board of Directors. Details of Directors' remuneration and their interests in the share capital of the Company are given in the Report on remuneration. None of the Directors has any interest in any contract of significance to the financial statements.

Employees
Details on the involvement of employees are disclosed in the Corporate social responsibility statement.

Financial instruments
The policy and practice of the Group with regard to financial instruments is disclosed in note 22 of the financial statements.

Payment of creditors
The Group's policy is to agree payment terms with the suppliers at the start of business relationships and to abide by them. The typical terms are 30 days (2009: 30 days).

Political and charitable donations
Vectura encourages employee involvement in charitable causes. During the year, Vectura made contributions amounting to £350 (2009: £350) to local charitable organisations in the UK. These contributions were made in lieu of posting seasonal greetings to customers. There were no political donations during the year (2009: £nil).

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

Significant shareholdings

At 31 May 2010, the nearest practical date to the date of this Report, the Company had a total of 3,737 ordinary shareholders and 323,949,323 ordinary shares in issue.

The Directors had been notified of the following substantial holdings in the Company's share capital as at the close of business on 28 May 2010:

	Number of shares '000	%
Aviva Institutional Group	37,399	11.54
Legal & General Investment Management	23,407	7.23
Aberforth Partners	23,360	7.21
Invesco Institutional Group	22,152	6.84
Standard Life Investments	17,765	5.48
AXA Institutional Group	13,794	4.26
APG Asset Management	9,883	3.05

Share price

The mid-market share price as shown by the London Stock Exchange Daily Official List was 47p on 31 March 2010. The mid-market share price ranged from 44p to 101.9p during the year to 31 March 2010. The average share price for the period was 73.75p.

Corporate social responsibility statement

The Group's policies on the environment, health and safety, ethical and social issues and its employees are described in the statement on pages 30 and 31.

Going concern

Although the current economic conditions may place pressures on customers and suppliers which may face liquidity issues, the Group's product diversity and customer and supplier base substantially mitigate these risks. In addition, the Group operates in the relatively defensive pharmaceutical industry which we expect to be less affected compared to other industries.

The Group has £64m of cash and cash equivalents as at 31 March 2010 (2009: £74m). The Board operates an investment policy under which the primary objective is to invest in low-risk cash or cash equivalent investments to safeguard the principal. The Group's forecasts, taking into account likely revenue streams, show that the Group has sufficient funds to operate for the foreseeable future.

After reviewing the Group's forecasts, the Directors believe that the Group is adequately placed to manage its business and financing risks successfully despite the current uncertain economic outlook. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Annual General Meeting

The Annual General Meeting will be held at the offices of Olswang, 90 High Holborn, London WC1V 6XX on 22 September 2010 at 11.00 a.m. Details of the business to be transacted at the forthcoming AGM will be sent to shareholders in a circular.

Auditors

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be put to the members at the forthcoming Annual General Meeting.

The Directors that were members of the Board at the time of approving the Directors' report are listed on page 28. Having made enquiries of fellow Directors and of the Company's auditors, each of these 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 auditors are 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 auditors are aware of that information.

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

By order of the Board

Anne Hyland
Company Secretary

6 June 2010

Financial statements

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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 are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent Company financial statements under IFRSs as adopted by the EU. Under company law the Directors must not approve the accounts 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Anne Hyland
Director

6 June 2010

Independent auditors' report to the members of Vectura Group plc

We have audited the financial statements of Vectura Group plc for the year ended 31 March 2010, which comprise the Consolidated statement of comprehensive income, the Consolidated and parent Company balance sheets, the Consolidated and parent Company cash flow statements, the Consolidated and parent Company statements of changes in equity and the related notes 1 to 29. 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 an auditors' 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 auditors

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 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 (APB'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 Group's and the parent 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.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2010 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Report on remuneration to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report 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:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Report on remuneration to be audited 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.

Under the Listing Rules we are required to review:

- the Directors' statement contained within the Directors' report in relation to going concern; and
- the part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

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

6 June 2010

Consolidated statement of comprehensive income
for the year ended 31 March 2010

	Note	2010 £m	2009 £m
Revenue	2	40.1	31.2
Cost of sales		(3.5)	(3.9)
Gross profit		36.6	27.3
Research and development expenses		(36.4)	(32.3)
Other administrative expenses		(3.4)	(3.2)
Amortisation		(10.6)	(10.2)
Share-based compensation		(1.5)	(1.9)
Total administrative expenses		(15.5)	(15.3)
Share of loss of associate	13	–	(0.6)
Operating loss	5	(15.3)	(20.9)
Investment income	4	0.6	3.6
Finance gains/(losses)	4	0.9	(2.3)
Loss before taxation		(13.8)	(19.6)
Taxation	7	3.6	2.9
Loss after taxation attributable to equity holders of the Company and total comprehensive income		(10.2)	(16.7)
Loss per ordinary share basic and diluted	8	(3.2p)	(5.2p)

All results are derived from continuing activities.

Consolidated balance sheet
at 31 March 2010

	Note	2010 £m	2009 £m
Assets			
Goodwill	9	49.6	49.6
Intangible assets	10	41.6	52.2
Property, plant and equipment	11	3.0	3.5
Investments in associates and joint ventures	13	–	–
Trade investments	14	0.4	0.4
Other receivables	15	0.4	0.4
Non-current assets		95.0	106.1
Inventories	16	–	0.1
Trade and other receivables	17	14.3	6.4
Cash and cash equivalents	22	64.1	74.0
Current assets		78.4	80.5
Total assets		173.4	186.6
Liabilities			
Trade and other payables	21	(19.5)	(14.7)
Deferred income	19	(2.7)	(8.6)
Financial liabilities	20	–	(1.2)
Current liabilities		(22.2)	(24.5)
Deferred income	19	–	(1.8)
Financial liabilities	20	–	(5.4)
Deferred tax liabilities	7	(4.1)	–
Non-current liabilities		(4.1)	(7.2)
Total liabilities		(26.3)	(31.7)
Net assets		147.1	154.9
Equity			
Share capital	23a	0.1	0.1
Share premium	23b	78.1	77.2
Special reserve	23c	8.2	8.2
Other reserve	23d	124.9	124.9
Share-based compensation reserve	23e	9.1	7.6
Retained loss		(73.3)	(63.1)
Total equity		147.1	154.9

The financial statements of Vectura Group plc, registered number 03418970, were approved and authorised for issue by the Board of Directors on 6 June 2010 and were signed on its behalf by:

Dr C P Blackwell
Director

A P Hyland
Director

Consolidated cash flow statement
for the year ended 31 March 2010

	2010 £m	2009 £m
Operating loss	(15.3)	(20.9)
Depreciation and amortisation	12.2	11.8
Share-based compensation	1.5	1.9
Decrease in inventories	0.1	0.1
Increase in receivables	(0.6)	(0.2)
Increase in payables	4.6	4.6
Decrease in deferred income	(7.7)	(3.3)
Exchange movements	0.9	1.8
Other non-cash movements	–	0.6
Net cash outflow from operations	(4.3)	(3.6)
Taxation paid	(0.2)	(0.4)
Research and development tax credits received	0.7	3.3
Net cash outflow from operating activities	(3.8)	(0.7)
Cash flows from investing activities		
Interest received	0.6	3.6
Purchase of property, plant and equipment	(1.0)	(1.6)
Net cash (outflow)/inflow from investing activities	(0.4)	2.0
Net cash (outflow)/inflow before financing activities	(4.2)	1.3
Cash flows from financing activities		
Proceeds from issue of ordinary shares	0.9	0.2
Payment of financial liabilities	(6.3)	(5.9)
Interest paid on loans and financial liabilities	(0.3)	(0.4)
Net cash outflow from financing activities	(5.7)	(6.1)
Decrease in cash and cash equivalents	(9.9)	(4.8)
Cash and cash equivalents at beginning of period	74.0	78.8
Cash and cash equivalents at end of period	64.1	74.0

Consolidated statement of changes in equity
for the year ended 31 March 2010

	Share capital £m	Share premium £m	Special reserve £m	Other reserve £m	Share-based compensation reserve £m	Retained loss £m	Total equity £m
At 1 April 2008	0.1	77.0	8.2	124.9	5.7	(46.4)	169.5
Loss for the year	–	–	–	–	–	(16.7)	(16.7)
Share-based compensation	–	–	–	–	1.9	–	1.9
Exercise of share options	–	0.2	–	–	–	–	0.2
At 31 March 2009	0.1	77.2	8.2	124.9	7.6	(63.1)	154.9
Loss for the year	–	–	–	–	–	(10.2)	(10.2)
Share-based compensation	–	–	–	–	1.5	–	1.5
Exercise of share options	–	0.9	–	–	–	–	0.9
At 31 March 2010	0.1	78.1	8.2	124.9	9.1	(73.3)	147.1

Company balance sheet
at 31 March 2010

	Notes	2010 £m	2009 £m
Assets			
Goodwill	9	2.0	2.0
Investments in subsidiary undertakings	12	125.6	133.9
Trade investments	14	0.1	0.1
Non-current assets		127.7	136.0
Trade and other receivables	17	–	0.2
Amounts due from subsidiary undertakings	18	84.1	75.1
Current assets		84.1	75.3
Total assets		211.8	211.3
Non-current liabilities			
Amounts owed to subsidiary undertakings	18	(18.5)	(20.2)
Net assets		193.3	191.1
Equity			
Share capital	23a	0.1	0.1
Share premium	23b	78.1	77.2
Special reserve	23c	8.2	8.2
Other reserve	23d	123.7	123.7
Share-based compensation reserve	23e	9.1	7.6
Retained loss		(25.9)	(25.7)
Total equity		193.3	191.1

The financial statements of Vectura Group plc, registered number 03418970, were approved and authorised for issue by the Board of Directors on 6 June 2010 and were signed on its behalf by:

Dr C P Blackwell
Director

A P Hyland
Director

Company cash flow statement
for the year ended 31 March 2010

	2010 £m	2009 £m
Operating loss	(0.2)	(0.6)
Decrease/(increase) in receivables	0.2	(70.0)
Decrease in payables	–	(6.0)
Decrease in deferred income	–	(0.9)
Other non-cash movements	–	0.6
Net cash outflow from operating activities	–	(76.9)
Decrease in cash and cash equivalents	–	(76.9)
Cash and cash equivalents at beginning of period	–	76.9
Cash and cash equivalents at end of period	–	–

Company statement of changes in equity
for the year ended 31 March 2010

	Share capital £m	Share premium £m	Special reserve £m	Other reserve £m	Share-based compensation reserve £m	Retained loss £m	Total equity £m
At 1 April 2008	0.1	77.0	8.2	123.7	5.7	(25.1)	189.6
Loss for the year	–	–	–	–	–	(0.6)	(0.6)
Share-based compensation	–	–	–	–	1.9	–	1.9
Exercise of share options	–	0.2	–	–	–	–	0.2
At 31 March 2009	0.1	77.2	8.2	123.7	7.6	(25.7)	191.1
Loss for the year	–	–	–	–	–	(0.2)	(0.2)
Share-based compensation	–	–	–	–	1.5	–	1.5
Exercise of share options	–	0.9	–	–	–	–	0.9
At 31 March 2010	0.1	78.1	8.2	123.7	9.1	(25.9)	193.3

Notes to the financial statements at 31 March 2010

1 Accounting policies

General information
Vectura Group plc is a public limited company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office and principal place of business is given on page 80. The Company's ordinary shares are traded on the London Stock Exchange (LSE) under the ticker VEC.

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 and, therefore, the Group financial statements comply with Article 4 of the EU International Accounting Standard (IAS) Regulation. The Group and Company financial statements are also consistent with IFRSs as issued by the International Accounting Standards Board (IASB).

The separate financial statements of the Company are presented as required by the Companies Act 2006 and have been prepared in accordance with IFRSs as adopted by the European Union. The Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual income statement and the related notes that form a part of these approved financial statements. The parent Company loss for the year ended 31 March 2010 is £0.2m (2009: £0.6m).

The financial statements have been prepared on the historical cost basis, revised for use of fair values where required by applicable IFRS. The presentational and functional currency of Vectura Group plc is sterling since that is the currency of the primary economic environment in which the Group operates. Therefore, the consolidated financial statements are presented in sterling and all values are rounded to the nearest one hundred thousand (£000), except where otherwise indicated. The principal accounting policies adopted are set out below.

Going concern
The accounts have been prepared on the going concern basis, for the reasons set out in the Directors' report on pages 40 and 41.

Basis of consolidation
The consolidated annual financial statements comprise the financial statements of Vectura Group plc and its subsidiaries as at 31 March each year.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control comprises the power to govern the financial and operational policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights, or by way of contractual agreement. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group had control.

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

The critical accounting judgements and key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the measurement and review for impairment of definite and indefinite-life intangible assets (goodwill), 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 Group determines on an annual basis whether goodwill is impaired and this requires the estimation of the value in use of the cash-generating units to which goodwill is allocated. The measurement of intangible assets other than goodwill on a business combination involves estimation of future cash flows and the selection of a suitable discount rate.

Notes to the financial statements at 31 March 2010 continued

1 Accounting policies continued

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.

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

Technology and product licensing
Technology and product licensing income represents amounts earned for licences provided under licensing agreements, including up-front payments, milestone payments and technology access fees. Revenues are recognised where they are non-refundable, the 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 it is no longer refundable. In general, up-front payments are deferred and amortised on a systematic basis in line with the period of development. Milestone payments relating to scientific or technical achievements are recognised as income when the milestone is accomplished.

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

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

Device sales
Device sales are recognised when goods are delivered to customers.

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

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

Business combinations
The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. In accordance with IFRS 3 – Business Combinations, the Group has a twelve-month period in which to finalise the fair values allocated to assets and liabilities determined provisionally on acquisition.

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 income statement. 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.

Other intangible assets
Intangible assets acquired separately from a business combination are carried initially at cost. 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 income statement in the year in which it is incurred. Expenditure relating to clearly defined and identifiable development projects is recognised as an intangible asset only after the following criteria are met:

- the project's technical feasibility and commercial viability can be demonstrated;
- the availability of adequate technical and financial resources and an intention to complete the project have been confirmed;
- 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, trade marks and licence agreements – between 3 and 10 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:

Laboratory equipment – 3–7 years
Office and IT equipment – 3 years
Motor vehicles – 3 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.

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

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

Investments in subsidiaries
Investments in subsidiaries are eliminated upon consolidation. In the Company accounts investments are carried at historic cost, less provision for impairment.

Notes to the financial statements at 31 March 2010 continued

1 Accounting policies continued

Investments in associates and joint ventures
The Group's interests in its associates, being those entities over which it has significant influence and which are neither subsidiaries nor joint ventures, are accounted for using the equity method of accounting. The Group's interests in its joint ventures are also accounted for using the equity method of accounting. Under the equity method, the investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the entity, less distributions received and less any impairment in value of individual investments. The Group's income statement reflects the Group's share of any income and expense recognised by the associate or joint venture outside profit and loss. The Group does not recognise losses in excess of the value of its investments.

Financial assets
Financial assets are recognised when the Group 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 Group 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.

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

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 Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

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 consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

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

Foreign currencies
Transactions in foreign currencies 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 income statement.

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.

Interest-bearing loans and borrowings
All loans and borrowings are initially recognised at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively as finance income or finance costs. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities
A provision is recognised when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. 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.

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

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

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 income statement.

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

Post-retirement benefits
The Group contributes a set proportion of employees' gross salary to defined contribution personal pension plans. The amount charged to the income statement 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.

Borrowing costs
Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Share-based payments
The Group operates a number of executive and employee share option schemes, including a Long-Term Incentive Plan (LTIP) and a Value Realisation Plan (VRP), 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 and VRP 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 Group has taken advantage of the exemptions afforded by IFRS 1 in respect of equity-settled awards and has applied IFRS2 only to equity-settled awards granted after 7 November 2002 and not vested at 1 January 2005.

Notes to the financial statements at 31 March 2010 continued

1 Accounting policies continued

New accounting Standards and Interpretations
In the current financial year, the Group has adopted the following Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee:

- IAS 1 (Amendment) (September 2007) – Presentation of Financial Statements
- IAS 23 (Amendment) (March 2007) – Borrowing Costs
- IFRS 2 (Amendment) (June 2008) – Vesting Conditions and Cancellations
- IFRS 7 (Amendment) (March 2009) – Improving Disclosures about Financial Instruments
- IFRS 8 – Operating Segments
- IFRIC 13 – Customer Loyalty Programmes

Adoption of these Standards and Interpretations did not have any effect on the financial statements of the Group, or result in changes in accounting policy or additional disclosure except as follows:

IFRS 8 – Operating Segments, requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess their performance. In accordance with IFRS 8, the chief operating decision maker has been identified as the Executive Management. They review the Group's internal reporting in order to assess performance and allocate resources.

Executive Management considers that the business comprises a single activity, being the development and commercialisation of pharmaceutical products. The Group is organised along group function lines with each line reporting to the Executive Management. Whilst each of these functions supports the overall business activities, no discrete financial information is provided for these function lines. Additionally, no discrete financial information is maintained on a regional basis. Decisions around the allocation of resources are not determined on a functional or geographic basis. Financial information is prepared and evaluated on a group wide basis.

As a consequence of the above, the Group is organised into one operating segment and there is one primary reporting segment. The segment information is the same as that set out in the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement and the consolidated statement of changes in equity. The previous standard, IAS 14 – Segment Reporting, required the Group to identify both business and geographical segments based on a risks and rewards approach with the Group's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments.

IAS 1 (Amendment) (September 2007) – Presentation of Financial Statements, has introduced a number of changes in the format and content of the financial statements. In addition, the revised Standard has required the presentation of a statement of comprehensive income in the years ended 31 March 2009 and 2010. This revision has no impact on the balance sheets for 2010, 2009 or 2008. The 2008 balance sheet is available in the 2009 financial statements which is available from Companies House.

During the year, the IASB and IFRIC have issued a number of Standards and Interpretations with an effective date after the date of these financial statements. The new Standards and Interpretations issued include the following:

- IAS 24 (revised November 2009) – Related Party Disclosures
- IAS 27 (Amendment) (January 2008) – Consolidated and Separate Financial Statements
- IAS 32 (Amendment) (October 2009) – Classification of Rights Issues
- IAS 39 (Amendment) (July 2008) – Eligible Hedged Items
- IFRS 1 (revised November 2008) – First-Time Adoption of International Financial Reporting Standards
- IFRS 1 (Amendment) (July 2009) – Additional Exemptions for First-Time Adopters
- IFRS 1 (Amendment) (January 2010) – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
- IFRS 2 (Amendment) (June 2009) – Group Cash-settled Share-based Payment Transactions
- IFRS 3 (revised January 2008) – Business Combinations
- IFRS 9 – Financial Instruments
- Improvements to IFRSs 2009 (April 2009)
- IFRIC 14 (Amendment) (November 2009) – Prepayments of a Minimum Funding Requirement
- IFRIC 17 – Distributions of Non-cash Assets to Owners
- IFRIC 18 – Transfers of Assets from Customers
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the Group's financial statements.

2 Revenue

Revenue represents amounts invoiced to third parties, derived from the provision of licences and services that fall within the Group's sole principal activity, the development of pharmaceutical products.

Group revenue by category:	2010 £m	2009 £m
Royalties	13.6	12.5
Product licensing	8.8	4.2
Technology licensing	9.4	6.1
Pharmaceutical development services	7.6	6.6
Device sales	0.7	1.8
	40.1	31.2
Investment income:		
Interest income (note 4)	0.6	3.6
Total income	40.7	34.8

Revenue by customer location:	2010 £m	2009 £m
United Kingdom	2.7	8.0
Rest of Europe	22.4	10.8
United States of America	14.8	12.4
Rest of world	0.2	–
	40.1	31.2

Information about major customers
Revenue earned from the Group's major customers is as follows; Customer A – £14.8m (2009: £12.4m), Customer B – £14.6m (£5m) and Customer C – £7.3m (£5.1m).

3 Segmental information

For management purposes the Group is currently organised into one business segment, which is the development and commercialisation of pharmaceutical products. Since this is the only primary reporting segment, no further information has been shown (see note 1).

All revenue and losses before taxation originate in the United Kingdom.

4 Investment income and finance gains/(losses)

	2010 £m	2009 £m
Interest income:		
Interest receivable on bank deposits and similar income	0.6	3.6
Finance gains/(losses):		
Imputed interest charge on financial liabilities	(0.3)	(0.4)
Exchange rate gain/(loss) on financial liability	0.3	(3.7)
Foreign exchange gains	0.9	1.8
	0.9	(2.3)

5 Operating loss

Operating loss is the result for the Group before interest and taxation, and is stated after charging (crediting):

	2010 £m	2009 £m
Amortisation of intangible assets	10.6	10.2
Depreciation of property plant and equipment	1.6	1.6
Cost of inventories recognised as expense	0.1	–
Share-based compensation	1.5	1.9
Share of loss of associate (after taxation)	–	0.6
Staff costs (note 6)	13.9	13.4
Operating lease rentals:		
– land and buildings	0.9	0.9
– plant and machinery	0.1	0.2

Notes to the financial statements
at 31 March 2010 continued

5 Operating loss continued

The analysis of auditors' remuneration is as follows:

	2010 £000	2009 £000
Fees payable to Deloitte LLP for the audit of the parent company and consolidated financial statements	20	20
Audit of the Company's subsidiaries pursuant to legislation	78	78
Total audit fees	98	98

	2010 £000	2009 £000
Fees payable to Deloitte LLP and its associates for other services:		
Tax services	29	–

6 Directors and employees

Directors' remuneration

The aggregate remuneration comprised:

	2010 £m	2009 £m
Fees	0.2	0.2
Salaries and benefits	0.5	0.5
Bonuses	0.3	0.3
	1.0	1.0
Pension contributions	0.1	0.1
	1.1	1.1

Two Directors (2009: two) receive company contributions to defined contribution personal pension plans. Four Directors exercised share options in the year and increased their shareholding in the Company by 538,224 Ordinary shares as a result of this exercise. No Director disposed of any shares during the year.

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 this Annual Report.

Employees

The average monthly number of employees (including Executive Directors) employed by the Group during the year was as follows:

	2010 No.	2009 No.
Research and development	250	226
Business development and administration	17	12
	267	238

The aggregate remuneration comprised:

	2010 £m	2009 £m
Wages and salaries	11.9	11.5
Social security costs	1.3	1.2
Other pension costs	0.7	0.7
	13.9	13.4

In addition to the wages and salaries analysis above are the effects of the charge for share-based compensation under IFRS 2 during the year of £1.5m (2009: £1.9m).

7 Taxation

The major components of the income tax credit for the years ended 31 March 2010 and 31 March 2009 are as follows:

	2010 £m	2009 £m
Foreign withholding tax charge on royalties	(0.2)	(0.4)
Research and development tax credits	7.9	3.3
Deferred tax charge	(4.1)	–
Total	3.6	2.9

Research and development tax credits are accrued based on the estimated receipt from Her Majesty's Revenue and Customs (HMRC).

The credit for the year can be reconciled to the loss per the income statement as follows:

	2010 £m	2009 £m
Loss on ordinary activities before tax	(13.8)	(19.6)
Loss on ordinary activities multiplied by standard rate of tax in the UK of 28% (2009: 28%)	(3.9)	(5.5)
Effects of:		
Permanent differences – expenses not deductible for tax purposes	0.4	0.7
Unrecognised tax losses carried forward	(0.6)	4.8
Foreign withholding taxes	(0.2)	(0.4)
Research and development tax credits	7.9	3.3
Total tax credit for the year	3.6	2.9

Factors that may affect future tax charges:

Cumulative tax losses of approximately £110.9m (2009: £128.1m), subject to agreement by HMRC, are available within the Group to carry forward against future taxable profits. There is a deferred tax asset of £31.6m (2009: £37.1m), including these tax losses, of which £7.3m are recognised (2009: £14.6m) and calculated at the standard rate of tax of 28% (2009: 28%), as follows:

	2010 £m	2009 £m
On cumulative tax losses – unrecognised	23.7	21.2
On cumulative tax losses – recognised	7.3	14.6
On unclaimed capital allowances	0.5	0.9
On unexercised share options	0.1	0.4
	31.6	37.1

As described above, of the total deferred tax asset, £7.3m has been recognised as a deferred tax asset as at 31 March 2010 (31 March 2009: £14.6m), which offsets a deferred tax liability in the same amount (see below). The losses and deferred tax assets have no formal expiry date.

Deferred tax asset

On the acquisition of Innovata, that business had accumulated losses of approximately £108m. A deferred tax asset of £7.3m relating to these losses has been recognised as at 31 March 2010 (31 March 2009: £14.6m). In accordance with IAS 12 – Income Taxes, this deferred tax asset has been offset against the deferred tax liability arising on the intangible assets, as far as permitted by IAS 12.

Deferred tax liability

A deferred tax liability of £11.6m exists at 31 March 2010 (31 March 2009: £14.6m). This relates to 28% of the intangible asset value at that date. A deferred tax liability of £7.3m is offset as described above. A deferred tax liability of £4.1m is provided for at 31 March 2010.

Notes to the financial statements
at 31 March 2010 continued

8 Loss per ordinary share

The calculation of loss per share is based on the following losses and number of shares:

	2010	2009
Loss for the year (£m)	(10.2)	(16.7)
Weighted average number of ordinary shares (No. 000)	322,110	320,566
Loss per ordinary share	(3.2p)	(5.2p)

The loss per share is based on the weighted average number of shares in issue during the period. IAS 33 – Earnings per Share, requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. No adjustment has been made to the basic loss per share, as the exercise of share options would have the effect of reducing the loss per ordinary share, and is therefore not dilutive.

9 Goodwill

Group	2010 £m	2009 £m
Cost:		
At 1 April	49.6	49.6
At 31 March	49.6	49.6
Net book value:		
At 1 April	49.6	49.6
At 31 March	49.6	49.6

Goodwill is allocated to future cash-generating units (CGUs), which are tested for impairment on an annual basis, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the future cash-generating units are assessed using a value-in-use model. The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates and expected changes to contribution during the period. The model has been based on the most recent cash flow forecasts prepared by management, which consist of detailed probability weighted product-by-product analyses. These forecasts are based on development timings and specific projections for sales volumes over a ten year period. No general growth rates are assumed. The discount rates used in the forecasts range from 13% to 16%.

The carrying value of goodwill is made up of balances arising on acquisition of the following companies:

	2010 £m	2009 £m
Co-ordinated Drug Development Limited (since re-named Vectura Limited)	1.5	1.5
Vectura Delivery Devices Limited	0.5	0.5
Innovata Limited	47.6	47.6
	49.6	49.6

Company	£m
Carrying amount:	
At 31 March 2009 and 31 March 2010	2.0

For the purposes of goodwill impairment testing, the Group recognises two distinct cash generating units, being the Vectura CGU, which includes Vectura Limited and Vectura Delivery Devices Limited, and the Innovata CGU, being the group of companies acquired in January 2007.

The goodwill in the Company arose on the acquisition of the Centre for Drug Formulation Studies, an unincorporated entity, in 1999. Amortisation of £684,000 was applied prior to 1 April 2004. Goodwill in the Company is tested for impairment using the same discount rates and on the same basis as for the Group.

10 Intangible assets

Group	Patents and trade marks 2010 £m	Licences 2010 £m	Total 2010 £m	Patents and trade marks 2009 £m	Licences 2009 £m	Total 2009 £m
Cost:						
At 1 April and at 31 March	3.5	74.6	78.1	3.5	74.6	78.1
Amortisation:						
At 1 April	(3.5)	(22.4)	(25.9)	(3.5)	(12.2)	(15.7)
Charge for the year	–	(10.6)	(10.6)	–	(10.2)	(10.2)
At 31 March	(3.5)	(33.0)	(36.5)	(3.5)	(22.4)	(25.9)
Net book value:						
At 1 April	–	52.2	52.2	–	62.4	62.4
At 31 March	–	41.6	41.6	–	52.2	52.2

Intangible assets are being amortised on a straight-line basis over the expected life of each separate asset. The expected life of these intangible assets is between three and ten years.

Notes to the financial statements
at 31 March 2010 continued

11 Property, plant and equipment

Group	Laboratory equipment £m	Office and IT equipment £m	Total £m
Cost:			
At 1 April 2008	9.0	0.8	9.8
Additions	1.5	0.2	1.7
Disposals	(0.1)	–	(0.1)
At 31 March 2009	10.4	1.0	11.4
Additions	0.9	0.2	1.1
Disposals	–	(0.2)	(0.2)
At 31 March 2010	11.3	1.0	12.3
Depreciation:			
At 1 April 2008	(6.1)	(0.3)	(6.4)
Charge for the year	(1.5)	(0.1)	(1.6)
Disposals	0.1	–	0.1
At 31 March 2009	(7.5)	(0.4)	(7.9)
Charge for the year	(1.5)	(0.1)	(1.6)
Disposals	–	0.2	0.2
At 31 March 2010	(9.0)	(0.3)	(9.3)
Net book value:			
At 31 March 2009	2.9	0.6	3.5
At 31 March 2010	2.3	0.7	3.0

Company	Laboratory equipment £m	Office and IT equipment £m	Total £m
Cost:			
At 1 April 2008	4.7	0.3	5.0
Transfer of assets to Vectura Limited	(4.7)	(0.3)	(5.0)
At 31 March 2009	–	–	–
At 31 March 2010	–	–	–
Depreciation:			
At 1 April 2008	(3.0)	(0.2)	(3.2)
Transfer of depreciation to Vectura Limited	3.0	0.2	3.2
At 31 March 2009	–	–	–
At 31 March 2010	–	–	–
Net book value:			
At 31 March 2009	–	–	–
At 31 March 2010	–	–	–

Notes to the financial statements
at 31 March 2010 continued

12 Investments in subsidiary undertakings

Company	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
Cost:			
At 1 April 2008 and 31 March 2009	125.7	8.3	134.0
Reduction	–	(8.3)	(8.3)
At 31 March 2010	125.7	–	125.7
Amounts written off:			
At 1 April 2008, 1 April 2009 and 31 March 2010	(0.1)	–	(0.1)
Net book value:			
At 31 March 2009	125.6	8.3	133.9
At 31 March 2010	125.6	–	125.6

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

Name of undertaking	Country of incorporation	Holding	Proportion held	Nature of business
Vectura Limited	England	Ordinary	100%	Pharmaceuticals
Vectura Delivery Devices Limited	England	Ordinary	100%	Pharmaceuticals
Vectura Inc	USA	Ordinary	100%	Pharmaceuticals
Innovata Limited	England	Ordinary	100%	Pharmaceuticals
Innovata Biomed Limited [1]	Scotland	Ordinary	100%	Pharmaceuticals
Quadrant Technologies Limited [1]	England	Ordinary	100%	Pharmaceuticals
Quadrant Drug Delivery Limited [2]	England	Ordinary	100%	Pharmaceuticals
Quadrant Healthcare Limited [3]	England	Ordinary	100%	Pharmaceuticals

[1] a subsidiary of Innovata Limited

[2] a subsidiary of Quadrant Technologies Limited

[3] a subsidiary of Quadrant Drug Delivery Limited

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

13 Investments in associates and joint ventures

Group and Company	2010 £m	2009 £m
Balance at 1 April	–	0.9
Share of loss	–	(0.6)
Transfer to trade investments	–	(0.1)
Transfer of sales proceeds to other receivables	–	(0.2)
Balance at 31 March	–	–

PharmaKodex Limited

PharmaKodex Limited was a 20.4% associated company until February 2009. Losses of the company have been consolidated until that date. PharmaKodex Limited was sold to Orexo AB in February 2009.

14 Trade investments

Group

The Group holds two investments with a total value of £0.4m (2008/09: £0.4m). One investment held by the Group is in Orexo AB, a Swedish listed company, which mainly relates to a holding of Orexo AB ordinary shares. This investment is as a result of the disposal of Vectura's shareholding in PharmaKodex Limited in February 2009. Vectura is entitled to deferred and contingent consideration from Orexo AB. The Group's second investment is in an unquoted company.

Company

The Company holds the investment in Orexo AB at 31 March 2010 and at 31 March 2009.

15 Other receivables

Group

Other receivables represent an investment bond of £428,000 in respect of a rental deposit paid under the terms of a lease agreement for the Company's premises at Chippenham. The deposit is for a fixed period of one year and is renewed annually. Under the terms of the lease agreement the deposit must be maintained until the Group has made three years of consecutive profits. The interest rate is 1% below the Royal Bank of Scotland base rate and was 0% for the year ended 31 March 2010. Interest is recognised using the effective interest method.

Notes to the financial statements
at 31 March 2010 continued

16 Inventories

	Group 2010 £m	2009 £m	Company 2010 £m	2009 £m
Finished goods	–	0.1	–	–

17 Trade and other receivables

	Group 2010 £m	2009 £m	Company 2010 £m	2009 £m
Trade receivables	2.1	1.4	–	–
Other receivables	7.2	0.3	–	0.2
Prepayments and accrued income	4.0	4.0	–	–
VAT recoverable	1.0	0.7	–	–
	14.3	6.4	–	0.2

The average credit period taken by customers is 30 days (2009: 30 days). The Directors consider that the carrying value of trade and other receivables approximates to their fair value.

18 Amounts due from and owed to subsidiary undertakings

	Group 2010 £m	2009 £m	Company 2010 £m	2009 £m
Amounts falling due within one year:				
Due from subsidiary undertakings	–	–	84.1	75.1
Amounts falling due after more than one year:				
Owed to subsidiary undertakings	–	–	18.5	20.2

19 Deferred income

Deferred income relates to amounts received under product licensing agreements. Vectura continues to provide services to these licensing partners over a period of time. Milestone payments under these licensing agreements are therefore spread, and income is deferred as follows:

	Group 2010 £m	2009 £m	Company 2010 £m	2009 £m
Amounts due within one year	2.7	8.6	–	–
Amounts due in more than one year	–	1.8	–	–
	2.7	10.4	–	–

20 Financial liabilities

	2010 £m	2009 £m
At 1 April	6.6	8.8
Utilised	(6.3)	(5.9)
Exchange rate adjustment	(0.3)	3.7
At 31 March	–	6.6

	2010 £m	2009 £m
Amounts due within one year	–	1.2
Amounts due in more than one year	–	5.4
At 31 March	–	6.6

A revenue management agreement was entered into on 28 June 2001 between Innovata and Paul Capital Royalty Acquisition Fund L.P. ("PRF" or "Paul Capital"), which was subsequently amended and restated ("the PRF Agreement"), pursuant to which Paul Capital provided funding totalling £22.5m in return for a share of the revenues earned by Innovata from the commercialisation of Extraneal® and Adept®. Since these arrangements were entered into, the interests of Paul Capital have been assigned to Royalty Securitization Trust (RST).

A deed of waiver and amendment ("the RST Deed") was entered into between Innovata and RST on 17 January 2007, the date of the acquisition of Innovata by Vectura. Payments by Vectura to RST under the agreement were subject to guaranteed minimum and maximum annual payments as follows:

Fiscal Year (1 October to 30 September)	Minimum payment	Maximum payment
2006–2007	US$5,000,000	US$11,000,000
2007–2008	US$8,000,000	US$12,000,000
2008–2009	US$9,000,000	US$13,000,000
2009–2010	US$10,000,000	US$14,000,000

As at 31 March 2010, the final minimum payment of $10m had been paid to RST.

RST holds a Put Option which may become exercisable in the future under certain circumstances (for example, on a change of control of Vectura). Dependent upon when the Put Option is exercised, there will be a fixed price at which Innovata would have the obligation to re-purchase RST's interests in the royalty streams from Extraneal® and Adept®. This fixed price is as follows:

Exercise date	Put option price
Between 1 October 2008 and 30 September 2010	US$25,000,000

Innovata has a Call Option under which it has the right to buy out the interests of RST on the same fixed payment basis as that described above. Vectura has agreed to guarantee the performance by Innovata of its obligations under the RST Deed.

Notes to the financial statements
at 31 March 2010 continued

21 Trade and other payables

	Group 2010 £m	2009 £m	Company 2010 £m	2009 £m
Amounts falling due within one year:				
Trade payables	6.5	3.2	–	–
Other taxes and social security costs	0.9	–	–	–
Other payables	0.6	1.6	–	–
Accruals	11.5	9.9	–	–
	19.5	14.7	–	–

Trade payables principally comprise amounts outstanding for trade purchases and on-going costs. The average credit period taken by the Group for trade purchases is 39 days (2009: 35 days).

22 Financial instruments

Categories of financial instruments
Unless stated otherwise, all disclosures relate to the Group.

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

	2010 £m	2009 £m
Cash and cash equivalents	64.1	74.0
Loans and receivables	14.9	6.8
	79.0	80.8

All financial assets fall due within the first quarter of the year, with the exception of the investment bond, the repayment of which is determined by the Group's results (see note 15).

There were no provisions against impaired assets at 31 March 2010 (2009: £nil). There are no amounts past due but not impaired (2009: £nil).

Cash and cash equivalents comprise current accounts held by the Group with immediate access and short-term bank deposits with a maturity value of three months or less.

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:

	2010 £m	2009 £m
Other	(19.5)	(13.1)
Financial liabilities	–	(6.6)
	(19.5)	(19.7)

All financial liabilities fall due within the 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 Group's financial assets and liabilities at the balance sheet date.

Capital risk management
The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders. The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of Vectura Group plc, comprising issued share capital (note 23a), reserves and retained earnings as disclosed in the Consolidated statement of changes in equity.

Externally imposed capital requirement
The Group is not subject to externally imposed capital requirements.

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

Financial risk management
The Group's objective in using financial instruments is to maximise the returns on funds held on deposit, to minimise exchange rate risk where appropriate, and to generate additional cash resources through the issue of shares when appropriate. Balance sheets at 31 March 2010 and 31 March 2009 are not necessarily representative of the positions throughout the year, as cash and short-term investments fluctuate considerably depending on when share issues have occurred.

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

The Group is funded principally with equity and invests its funds in short-term bank deposits. The Group has access to the majority of these deposits at a maximum of 24 hours' notice. The Group'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 Offer Rate (LIBOR).

Foreign currency risk management
The Group's principal functional currency is sterling. However, the Group undertakes certain transactions denominated in foreign currencies. The Group'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 US dollar denominated income is uncertain, it is not possible to estimate the impact of a change in the foreign exchange rates on the Group.

Notes to the financial statements
at 31 March 2010 continued

22 Financial instruments continued

All assets and liabilities are denominated in sterling other than those shown below:

Group	2010 £m	2009 £m
Cash and cash equivalents:		
US Dollar	10.8	–
Euro	–	0.3
	10.8	0.3
Financial Liabilities:		
US Dollar	–	(9.1)
Euro	–	(1.3)
	–	(10.4)

Company	2010 £m	2009 £m
Cash and cash equivalents:		
US Dollar	–	–
Financial Liabilities:		
US Dollar	–	–

Foreign currency sensitivity analysis
The following table details the Group's sensitivity to a 10% increase and decrease in sterling against the Euro and US Dollar. 10% represents management's assessment of a reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where sterling weakens against the relevant currency. For a 10% strengthening of sterling against the relevant currency, there would be an equal and opposite impact on the loss and other equity, and the balances below would be negative (2009: positive).

Group	2010 £m	2009 £m
Euro currency impact – loss	–	(0.1)
US Dollar currency impact – gain/(loss)	0.9	(0.6)

The Company does not hold any balances denominated in foreign currencies at year end and therefore is not exposed to any risk from fluctuations in foreign currencies.

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

Interest rate risk management
The Group has no external borrowings and is not exposed to interest rate risk through borrowings. Cash and cash equivalents earned £0.6m of finance income during the year (2009: £3.6m). If interest rates had been 0.5% higher/lower and all other variables were constant, the Group's profit for the year ended 31 March 2010 would increase/decrease by £0.6m (2009: £0.5m).

All the Group's monetary assets and liabilities are held at floating rates.

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

Credit risk management
The Group's credit risk is primarily attributed to its cash and cash equivalents. The Board 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 Group'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 Group's exposure to market risk primarily comprises interest rate exposure. Group funds are invested in cash deposits with the objective of maintaining a balance between accessibility of funds and competitive rates of return.

23 Equity

(a) Share capital

	2010 £m	2010 No. '000	2009 £m	2009 No. '000
Authorised:				
Ordinary shares of 0.025p each	0.1	441,200	0.1	441,200
Redeemable preference shares of £1 each	–	34	–	34
Allotted, called up and fully paid:				
Ordinary shares of 0.025p each:				
At 1 April	0.1	321,030	0.1	319,511
Issued to Share Investment Plan	–	1,003	–	919
Issued on exercise of share options	–	1,916	–	600
At 31 March	0.1	323,949	0.1	321,030
Redeemable preference shares of £1 each:				
At 1 April and 31 March	–	34	–	34

The rights attaching to the redeemable preference shares are summarised as follows: (a) the shares do not confer any right to dividend or other distributions; (b) on a return of capital on liquidation or otherwise, the assets of the Company available for distribution among the members are to be applied first in repaying to the holders of the redeemable preference shares the amounts paid up or credited as paid up in respect of such shares; (c) holders of redeemable preference shares have the right to receive notice of and attend general meetings, but have no right to vote thereat; (d) the price per share at which redeemable preference shares are transferred may not exceed the amount paid or credited as being paid up; and (e) the Company may specify by notice in writing the date upon which it intends to redeem all (but not some only) of the shares. The price per share payable by the Company to the holders of the redeemable preference shares on their redemption shall be the amount paid up or credited as paid up on each such share.

Between 1 April 2009 and 31 March 2010 the Company issued 1,003,783 (2009: 919,315) ordinary shares of 0.025p each to the Vectura Group plc Employee Benefit Trust in satisfaction of the issue of matching and free shares due to employees in accordance with the rules of the Vectura Group plc Share Incentive Plan (SIP).

Between 1 April 2009 and 31 March 2010 the Company issued 1,915,735 (2009: 599,796) ordinary shares of 0.025p each on the exercise of employee share options at a weighted average exercise price of 47.2 pence per share (2009: 35.8 pence).

Notes to the financial statements
at 31 March 2010 continued

23 Equity continued

(b) Share premium
The share premium account consists of the proceeds from the issue of shares in excess of their par value (which is included in the share capital account).

(c) Special reserve
The special reserve was created on 19 May 2004 as part of the process prior to the Company's Initial Public Offering on 2 July 2004, to enable re-registration as a public company. It is a non-distributable reserve.

(d) Other reserve
The other reserve was created on the acquisition by the Company of Co-ordinated Drug Development Limited (since renamed Vectura Limited) in August 1999, of Vectura Delivery Devices Limited in February 2002 and of Innovata plc in January 2007. This reserve is a non-distributable reserve.

(e) Share-based compensation reserve
The share-based compensation reserve represents the credit arising on the charge for share options calculated in accordance with IFRS 2.

24 Equity-settled share option schemes and Long-Term Incentive Plan

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

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

The 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 following 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 are detailed in the Report on remuneration. At 31 March 2010, Executive Directors and eligible senior managers hold rights to 949,776 ordinary shares that vested on 12 September 2008, 557,234 ordinary shares that vested on 22 November 2009, 314,274 ordinary shares that vested on 2 March 2010, 532,845 ordinary shares that vested on 25 May 2010, and further rights that may result in the issue of 1,630,705 ordinary shares on 23 May 2011 and 2,575,522 ordinary shares on 21 May 2012.

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

Fair value calculations

The Group has taken advantage of the exemption in IFRS 1 and has applied IFRS 2 only to options granted after 7 November 2002 and not vested at 1 January 2005. At 31 March 2010 there were 2,770,113 options outstanding that were granted before this date (2009: 3,579,113).

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

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

	Year of grant 2010	2009
Weighted average share price of grants during the year	69.25p	51.89p
Weighted average exercise price of grants during the year	60.85p	49.18p
Expected volatility [1]	35%–36%	33%–37%
Expected life	5 years	5 years
Expected dividends	Nil	Nil
Risk-free interest rate [2]	1.8% – 2.7%	1.9% – 5.4%

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

Weighted average share price of grants during the year	68.50p	43.98p
Weighted average exercise price of grants during the year	0.025p	0.025p
Expected volatility [1]	39%	34%
Expected life	3 years	3 years
Expected dividends.	Nil	Nil
Risk-free interest rate [2]	1.9%	5.0%

[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 income statement.

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

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

The share-based compensation charge for the year ended 31 March 2010, including the LTIP, was £1,539,000 (2009: £1,898,000).

The aggregate of the estimated fair value of options granted under share option schemes and Share Incentive Plan during the year ended 31 March 2010 was £450,000 (2009: £585,000) and under the SAYE Scheme £55,000 (2009: £64,000). The estimated fair value of the LTIP awards during the year ended 31 March 2010 was £1,270,000 (2009: £1,096,000, incl. VRP).

Notes to the financial statements
at 31 March 2010 continued

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

	Share Option Schemes		SAYE Scheme		LTIP	
Options outstanding	**Number of options**	**WAEP***	**Number of options**	**WAEP***	**Number of options**	**WAEP***
At 1 April 2008	20,855,740	63.85	2,396,950	42.63	2,790,529	0.025
Options granted	1,155,554	49.29	333,100	48.80	1,634,705	0.025
Options exercised	(381,210)	27.12	(218,586)	50.80	–	–
Options cancelled	(612,642)	118.10	(381,711)	51.21	–	–
At 31 March 2009	21,017,442	61.36	2,129,753	41.22	4,425,234	0.025
Options granted	167,861	68.50	254,664	55.80	2,575,522	0.025
Options exercised	(1,861,788)	46.61	(53,947)	67.37	–	–
Options cancelled	(295,183)	191.50	(215,157)	52.14	(440,400)	0.025
At 31 March 2010	19,028,332	60.50	2,115,313	41.20	6,560,356	0.025
Range of exercise prices		0.025p – 488.77p		36.00p – 71.20p		0.025p
Weighted average remaining contractual life		4.72 years		1.43 years		7.85 years
Options vested						
At 31 March 2009	16,943,935	61.10	–	–	949,776	0.025
At 31 March 2010	14,800,342	60.34	–	–	1,821,284	0.025
Weighted average remaining contractual life		3.93 years		N/A		6.07 years

* = Weighted average exercise price (p)

25 Analysis of net funds

Group	1 April 2009 £m	Cash flow £m	31 March 2010 £m
Cash and cash equivalents	74.0	(9.9)	64.1
Financial liabilities	(6.6)	6.6	–
	67.4	(3.3)	64.1

The Company had no net funds at 31 March 2010 and 31 March 2009.

26 Retirement benefits plans

The Group 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 Group and are independently administered. The total cost charged in the income statement is detailed in note 6. At 31 March 2010, contributions of £0.1m (2009: £nil), due in respect of the current reporting period, had not been paid over to the scheme. This amount was included in other payables (note 21).

27 Operating lease arrangements

At the balance sheet date, the Group has aggregate outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Land and buildings		Other	
Group	2010 £m	2009 £m	2010 £m	2009 £m
Expiry date:				
Within one year	0.8	0.9	0.1	0.1
In the second to fifth years inclusive	2.8	2.9	0.1	–
After five years	1.6	2.3	–	–
	5.2	6.1	0.2	0.1

On 26 July 2002, the Group entered into a 25-year lease agreement in respect of the lease of premises at One Prospect West, Chippenham, Wiltshire. There is a break clause in July 2017.

On 5 February 2007, the Group entered into an agreement in respect of the lease of premises at Five Prospect West, Chippenham, Wiltshire. The lease expires on 28 September 2011.

On 13 June 2005, the Group entered into agreement in respect of premises at Cambridge Science Park, Milton Road, Cambridge and on 27 October 2006, the Group entered into a lease agreement on an adjacent property at Cambridge Science Park; both these leases expire on 13 June 2010. Renewed leases are under negotiation.

On 23 February 1996, the Group entered into a lease in respect of the premises at Ruddington, expiring on 27 July 2017. There is a break clause in June 2010.

On 15 March 2010, the Group entered into a lease in respect of the premises at Boston, Massachusetts, US, expiring on 31 March 2012.

The Company had no operating lease arrangements at 31 March 2010 and 31 March 2009.

Notes to the financial statements
at 31 March 2010 continued

28 Capital and other commitments

At the year end the Group had capital commitments contracted, but not provided for, of £0.2m (2009: £0.2m).

The Company had no capital and other commitments at 31 March 2010 and 31 March 2009.

29 Related party transactions

Group
Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. Except as disclosed below, no Group company entered into a transaction with a related party that is not a member of the Group.

As noted in the Board's Report on remuneration, during the year £6,000 (2009: £7,000) was paid to Dr S Foden for consultancy services.

Remuneration of key management personnel

	2010 £m	2009 £m
Short-term employee benefits	1.1	1.1
Post-employment benefits	0.1	0.1
Share-based payments	0.6	0.5
	1.8	1.7

Company
Details of the Company-related party transactions with parties outside of the Group are noted above. In addition, the following details of trading within the Group are disclosed in accordance with IAS 24.

Related party	Recharge from related parties £m	Recharge to related parties £m	Amounts owed by related parties £m	Amounts owed to related parties £m
Subsidiaries:				
2009	–	1.9	75.1	20.2
2010	–	1.5	84.1	18.5

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

Five-year summary
year ended 31 March

Unaudited **Year ended 31 March**	**2006** **£m**	**2007** **£m**	**2008** **£m**	**2009** **£m**	**2010** **£m**
Consolidated statement of comprehensive income					
Revenue	8.4	14.1	25.2	31.2	40.1
% gross profit to sales	77%	77%	83%	88%	91%
Research and development expenses	(12.4)	(17.0)	(29.7)	(32.3)	(36.4)
Other administrative expenses	(1.8)	(2.6)	(3.0)	(3.2)	(3.4)
Amortisation	–	(2.0)	(10.2)	(10.2)	(10.6)
Share-based compensation	(0.7)	(1.6)	(2.7)	(1.9)	(1.5)
Share of loss of associate	–	(0.2)	(0.3)	(0.6)	–
Other income	–	1.4	–	–	–
Operating loss	(8.5)	(11.2)	(25.1)	(20.9)	(15.3)
Investment income	1.0	2.8	4.5	3.6	0.6
Finance gains/(costs)	–	(0.1)	(0.8)	(2.3)	0.9
Taxation	1.0	1.4	2.2	2.9	3.6
Loss after taxation	(6.5)	(7.1)	(19.2)	(16.7)	(10.2)
Loss per ordinary share	(6.0p)	(4.6p)	(6.1p)	(5.2p)	(3.2p)
Consolidated cash flow statement					
Net cash outflow from operations	(2.5)	(7.9)	(3.7)	(3.6)	(4.3)
Net taxes received	1.0	1.4	2.2	2.9	0.5
Interest received	1.0	2.8	4.5	3.6	0.6
Net capital expenditure	(1.3)	(2.4)	0.6	(1.6)	(1.0)
Net cash acquired with Innovata acquisition	–	17.1	–	–	–
Investment in associates	–	(0.2)	–	–	–
Net cash (outflow)/inflow before financing	(1.8)	10.8	3.6	1.3	(4.2)
Consolidated balance sheet					
Cash and cash equivalents	16.8	77.0	78.8	74.0	64.1
Shareholders' equity	16.6	182.0	169.5	154.9	147.1
Net current assets	12.4	70.4	68.6	56.0	56.2

Shareholder information

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Dr Christopher P Blackwell
(Chief Executive)

Anne P Hyland
(Chief Financial Officer)

Dr John R Brown
(Non-Executive)

Dr Susan E Foden
(Non-Executive)

Dr Andrew J R Richards
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Registered in England and Wales
Number: 3418970

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Designed and produced by **Fox Design Consultants**
Printed by **Beacon Press**