Vectura Group plc Annual Report and Accounts **2007/08**

vectura

A leader in inhaled pharmaceuticals

Contents

Highlights 2007/08

Corporate highlights

£78.8 million
strong cash position

Cash generative year with net cash inflow of £3.6 million* (2006/07: net cash burn of £6.3 million*) following a full year contribution from the Innovata business, with strong revenues and cost savings in excess of expectations

Significant progress across Vectura's key respiratory programmes

VR315 for asthma/COPD
- Achievement of milestone (partnered with major generic company)
- €3 million received October 2007

Boehringer Ingelheim
- Achievement of milestone on collaboration to develop a new dry powder inhaler (DPI) – €10 million cash payment, and an additional €5 million equity investment received in December 2007

NVA237 and QVA149 for COPD (partnered with Novartis)
- Initiation of five new Phase II clinical studies

VR632 for asthma/COPD
- Deal worth €15.5 million plus royalties to develop a second combination product for asthma with Vectura's collaboration partner for VR315, announced in December 2007

Successful outcomes from clinical studies

VR147 for migraine
- Completion of early proof-of-concept study

VR040 for Parkinson's disease
- Completion of second Phase II study

VR004 for erectile dysfunction
- Completion of second Phase IIb study

VR776 for premature ejaculation
- Completion of Phase IIa study

Completion of Phase I glucose clamp study

Move from AIM to the Official List of the London Stock Exchange in July 2007

Financial highlights

+80%

Total revenues
increased by 80% to £25.2 million
(2006/07: £14.1 million)

+94%

Gross profit
up by 94% to £20.8 million
(2006/07: £10.8 million)

+75%

Investment in research and development
up by 75% to £29.7 million
(2006/07: £17.0 million)

£78.8 million

Cash of
£78.8 million at 31 March 2008
(£77.5 million at 31 March 2007)

* Cash flows are before financing and exclude the £19.9m cash acquired with the Innovata business and the £2.8m of acquisition expenses in 06/07

Vectura is a leader in the development of inhaled pharmaceuticals, creating products to treat respiratory and neurological diseases using innovative technologies, experience and expertise. We are making excellent progress on our goal to become a sustainable, self-funding company, which in return will provide valuable returns for our shareholders.

vectura

“

Vectura has made great progress over the past twelve months, a year in which we achieved major pipeline and business milestones, which together advance the Company towards our vision to build a leading speciality pharmaceutical company. We also achieved cash generation during the year, while at the same time increasing our investment in development activities by 75% to £29.7 million. Our strong cash position validates the exceptional fit of the **profitable Innovata business** with Vectura’s product development strategy as we progress towards our goal of becoming cash generative on a sustainable basis. We look forward to the initiation of the key registration trials on our asthma and COPD programmes.

”

Dr Chris Blackwell Chief Executive of Vectura

Chairman's and Chief Executive's report

Jack Cashman
Chairman

Overview

Vectura completed another successful year, enjoying good progress on the product pipeline, including the introduction of a new partnered asthma/COPD therapy (VR632), revenues of over £25 million, and net cash generation of £3.6 million before financing. This strong financial performance is attributable to the addition of the Innovata business, which contributed over £17 million (68%) of revenues and £8.6 million of earnings before interest, taxes, depreciation and amortisation (EBITDA). Our goal, to become a sustainable, self-funding principal player in the development of inhaled pharmaceutical products, has been strengthened by the acquisition and is validated by these results.

Important milestones during the year include the receipt of a further €15 million from Boehringer Ingelheim under our global licensing agreement, providing considerable validation of the progress we are making on our device technologies. Whilst Vectura's focus is as a company that develops products, the nature of the agreement with Boehringer Ingelheim provides us with another opportunity to deliver value from our inhaled therapy technologies.

We also received €3 million in October 2007 from our partner on our generic asthma/COPD product, which provides a strong indicator that the programme is moving forward positively. This was further endorsed in December 2007 when we announced a second collaboration with the same partner on a new generic asthma/COPD product, VR632. Under this agreement, Vectura will receive up to €15.5 million in milestones and development funding prior to the launch of VR632, and royalties on all product sales in the EU. Vectura is free to sell or to license this product in other territories.

In May 2008, Sandoz, the generics division of Novartis, disclosed that they are investing over US$50 million in manufacturing facilities for GyroHaler® products for both the US and European generic respiratory markets.

Novartis, which is also our partner on our monotherapy and combination COPD therapies, NVA237 and QVA149, is making good progress with three completed and two ongoing Phase II studies and Vectura expects Novartis to apply for regulatory approval for both products in 2011.

Over the course of the year, we announced positive data from five clinical programmes, the most recent of which was completion of

Chris Blackwell
Chief Executive

an early proof-of-concept study with our inhaled triptan, VR147. The data demonstrate that the drug is safe and well tolerated, providing a rapid achievement of plasma concentrations known to be effective in patients with migraine. This offers exciting opportunities, not just for VR147, but also in the applicability of our inhalation technologies to deliver other triptans. In addition, we successfully completed a second Phase II study with VR040, our product for treating "off" episodes associated with Parkinson's disease. The results demonstrate that it is well tolerated and successfully recovers patients from an induced "off" episode with a rapid onset of action that is also durable.

We continue to seek licensing partners for our sexual dysfunction programmes. During the year we generated positive Phase II data for both VR004 for erectile dysfunction and VR776 for premature ejaculation.

People

Our employees are crucial to the success of the Company and we are committed to the development of a motivated and professional workforce. It is their skill and expertise that has enabled us to achieve our progress to date and we have a first-class team to help us as we move closer towards approval of some of our late-stage products. On behalf of the entire Board, we would like to thank our staff for their hard work and their continued support and commitment.

Financial strength

In these challenging markets, it is important to have a well-financed company; we ended the year with £78.8 million in cash, £1.3 million more than when we started at the beginning of this financial year (£77.5 million). This was as a result of a number of factors, including revenues from our marketed products, the receipt of milestones from our partners, and careful management of our financial resources. We also generated cash savings in excess of our expectations from the integration of the Innovata business. Whilst we have not yet reached a sustainable cash-generative position, we are confident that we will achieve this goal in the future, aided by substantial milestones and royalties from our partners as our late-stage respiratory programmes are filed and come to market.

Outlook

Vectura has a broad and innovative clinical pipeline that combines mid- and late-stage pharmaceutical products with earlier stage opportunities addressing fast-growing market sectors.

Our key efforts over the coming year will be focused on the principal respiratory programmes. It is an exciting time in the Company's trajectory as we look forward to the commencement of registration trials both with the COPD programmes partnered with Novartis and with our generic asthma/COPD programmes. The markets we target provide us with huge opportunities and are significant value drivers for Vectura. We have a healthy pipeline of products in development and we will continue to drive these forward in a focused manner, whilst maintaining a prudent eye on expenditure. It is with this in mind that we are exploring partnering one or more of our proprietary programmes, including our migraine therapy, VR147.

We are pleased to have finished the year with more cash in the bank than when we started. Although not a sustainable trend at this time, it validates our acquisition of Innovata, a company that provides us with steady revenues and gives us confidence that we can achieve our goal of becoming a cash-generative business, and provide valuable returns for our shareholders.

21 May 2008

Business review – overview

Vectura Group plc is a product development company focused on the development of a range of inhaled therapies, principally for the treatment of respiratory diseases. Vectura develops products to treat respiratory diseases such as asthma, chronic obstructive pulmonary disease (COPD) and cystic fibrosis, a market that is forecast to double over the next ten years from US$23 billion in 2007 to US$46 billion by 2017. Vectura also develops products for non-respiratory diseases where optimised delivery via the lungs could provide significant benefits, such as a rapid onset of action, improved efficacy and improved tolerability compared with current therapies.

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. The Company seeks to develop certain programmes further through development to optimise value through licensing at a later stage. Vectura also offers its formulation and inhalation technologies to other pharmaceutical companies on a licensing basis where this complements Vectura's business strategy.

Vectura has development collaborations with several pharmaceutical companies including Boehringer Ingelheim, Chiesi, Novartis and Sandoz (the generics arm of Novartis). The acquisition of Innovata in January 2007 brought established alliances with a number of additional companies, such as Baxter, GlaxoSmithKline (GSK), Merck Generics (part of Mylan Inc), UCB and Otsuka, as well as providing revenue streams, complementary products and critical mass.

Vectura is based in the UK with headquarters and development operations in Chippenham, Wiltshire, further laboratories in Nottingham and device development in Cambridge.

Business review – markets

Inhalation market – why deliver drugs to the lungs?

Delivering drugs to their site of action in the lungs often results in fewer systemic side effects. Where a drug needs to gain access to the bloodstream for systemic activity, delivery through the lungs often leads to a more rapid onset of action and requires lower doses than, for example, swallowing a tablet.

Respiratory market

The majority of treatments for asthma and COPD are delivered by inhalation, with many sufferers taking more than one type of therapy. The majority of 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 21 million people suffering from asthma in the US alone) and are forecast to continue to grow rapidly, achieving sales in 2011 of US$21 billion and US$11 billion respectively. 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 asthma therapy is the use of two drugs in a fixed-dose combination in one formulation, which aims to provide optimal clinical benefits; the combined mechanisms of the two drugs results in more effective treatment. An example is Seretide®/Advair® (salmeterol/fluticasone) marketed by GlaxoSmithKline (GSK), which is now the fourth biggest selling pharmaceutical product worldwide with sales of £3.5 billion (US$6.9 billion) in 2007. Fixed-dose combination therapy is likely to remain fundamental to the treatment of both asthma and COPD, and is seen as a major driver for growth.

Unlike asthma, for which the treatment options are extremely effective, COPD responds relatively poorly to the same medications. The COPD market is historically less well developed. It is estimated that up to 50% of Americans and 75% of Europeans with COPD are undiagnosed. Recently introduced treatments such as Spiriva® (tiotropium) – which achieved sales of £1.3 billion in 2007, its second full year after launch – have made an important therapeutic contribution to this sector and are driving growth forecasts.

Neurology market

Systemically acting drugs delivered by inhalation may offer some patients a needle-free and easier-to-use product and can also offer users a more immediate therapeutic benefit. Delivery of drugs by the inhaled route is often highly efficient, leading to greater bioavailability. This means that less active drug will be required for the same clinical effect, potentially reducing the side effects associated with the higher dose of drug required when using conventional delivery routes. Neurological conditions, for which inhalation of a drug can provide benefit, include Parkinson's disease, migraine and pain.

Other markets

Other markets that lend themselves to treatments delivered via the inhaled route include sexual dysfunction, where the rapid onset of action that can be provided by inhaled medicine is important for patients. An example of such a condition is erectile dysfunction (ED), which affects more than 50 million men in the US and the EU. The market for drugs to treat ED is expected to increase to approximately US$4.4 billion in 2010.

Business review – products

Product pipeline

Respiratory development products

Vectura has a strong respiratory development portfolio, as well as marketed products from which revenues are generated.

Product	Indication	Description	Status	Partner
NVA237	COPD	Long-acting muscarinic antagonist	Phase II	Novartis
QVA149	COPD	Combination of NVA237 and a long-acting beta agonist (QAB149)	Phase II	Novartis
VR315	Asthma/COPD	Generic combination product	In preparation for registration studies	Undisclosed
VR632	Asthma/COPD	Generic combination product	In preparation for clinical development	Undisclosed
Duohaler® programmes	Asthma/COPD	Generic dual-drug products	In preparation for registration studies	Undisclosed
BI collaboration	Various	DPI for respiratory products	Pre-clinical	Boehringer Ingelheim
VR496	CF/COPD	Mucolytic/anti-inflammatory	In preparation for Phase II	–
Budesonide Clickhaler®	Asthma	Budesonide delivered in Clickhaler®	Phase III	Japan, undisclosed

NVA237 and QVA149 for chronic obstructive pulmonary disease (COPD)
NVA237 is a dry powder inhaled formulation of glycopyrronium bromide, a long-acting muscarinic antagonist (LAMA) with a rapid onset of activity. NVA237 was licensed to Novartis International Pharmaceuticals Limited ("Novartis") in April 2005 by Vectura and its co-development partner Sosei Co Ltd ("Sosei").

Novartis intends to launch NVA237 as a once-daily monotherapy for COPD and in combination with Novartis's once-daily, long-acting beta agonist (LABA) indacaterol (or QAB149), which is currently in Phase III development. The combination of NVA237 and indacaterol is known as QVA149.

COPD, the world's fourth largest cause of death, is a chronic obstruction of the airways, which is caused primarily by smoking. It is estimated that COPD occurs in over 6% of the US population and that at least one in eight smokers suffers from the condition. The current market for COPD drug therapy is estimated to be worth US$6 billion a year and is predicted to grow to US$11 billion by 2011.

Under the terms of the licence agreement, Vectura and Sosei each received an initial payment of US$15 million (£7.9 million) in April 2005. Clinical, regulatory and commercialisation milestones payable upon the achievement of pre-agreed targets for both the monotherapy and the combination product could reach US$172.5 million for each company. The initial payment of US$15 million to each company and the potential milestones could total up to US$375 million.

In addition, royalties on product sales will be paid for the monotherapy and the combination products.

QVA149 is one of the most advanced once-daily LAMA/LABA combinations in development and Vectura believes that it could be the first such 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, has the potential to address a large and unmet need for COPD sufferers.

Novartis is currently undertaking Phase II studies on NVA237 and QVA149, and Vectura expects Novartis to apply for regulatory approvals in 2011.

VR315 for asthma/COPD
Combination therapy for asthma is the biggest and fastest growing sector of the asthma market, with annual sales currently exceeding US$8 billion.

NVA237 and QVA149 for COPD

Initiation of five new Phase II clinical studies

VR632 for asthma

Deal worth €15.5 million plus royalties to develop a second combination product for asthma with Vectura's collaboration partner for VR315

Respiratory disease affects an increasing number of people of all ages. Asthma and chronic obstructive pulmonary disease are two of the largest and fastest growing areas in a respiratory market that is projected to be worth around

$46 billion

within ten years

VR315 is an inhaled combination therapy for asthma and COPD that is being developed as a generic product using the GyroHaler® DPI delivery device. Vectura licensed the European rights for VR315 to a leading international pharmaceutical company in March 2006. The US rights were licensed to the same partner in December 2006. In October 2007, Vectura received €3 million in cash from its partner in relation to milestones achieved during the six months to 30 September 2007.

Vectura should receive a further €10 million in milestones from its EU collaboration and up to US$30 million from its US collaboration prior to the launch of VR315 in these regions. Revenues will also be earned on all product sales in the EU and from a profit share in the US and Vectura will also earn a margin on the commercial manufacture and supply of GyroHaler®. Vectura retains rights for other territories.

Business review – products (continued)

VR632 for asthma/COPD
On 18 December 2007, Vectura announced that its collaboration partner for VR315 had exercised an option to license VR632, a second combination therapy for asthma and COPD. VR632 will be developed as a generic combination product using the GyroHaler®.

Vectura will receive up to €15.5 million in milestones and development funding prior to the launch of VR632, and will earn royalties on all product sales, as well as a margin on the commercial manufacture and supply of GyroHaler®.

Duohaler® for asthma/COPD
Vectura has two exclusive agreements with a global pharmaceutical company for the marketing and distribution in Europe and other specified countries (excluding the US and Japan) of two Duohaler® products, each of which delivers two separately formulated respiratory drugs using a single inspiratory breath.

Boehringer Ingelheim collaboration on respiratory medicines
Most treatments for asthma and COPD are delivered by inhalation. Global markets for these treatments are valued in excess of US$23 billion today and are forecast to grow to US$46 billion by 2017. Dry powder inhalers are increasingly the first choice for patients with these conditions and it is expected that DPIs will be used to deliver the majority of the drugs sold in these markets by 2011. There is, therefore, a growing demand for dry powder inhalers, particularly those that can deliver high performance and consistent dosing. Vectura believes that its device and formulation technologies are well placed to capture a significant market share.

In April 2006, Vectura agreed a non-exclusive, worldwide collaboration, development and licence agreement with Boehringer Ingelheim to develop a DPI as a tailored device to deliver a range of Boehringer Ingelheim proprietary respiratory products, primarily for treating asthma and COPD. In November 2007, Vectura announced that it had achieved a pre-agreed milestone under the collaboration, receiving a cash payment of €10 million and a €5 million equity investment. Boehringer Ingelheim will be responsible for further development, manufacturing and clinical trial use of the DPI with their proprietary compounds, and the commercialisation of these products. Vectura will receive development milestones and royalties on sales of each product that uses the device. Our collaboration with Boehringer Ingelheim has added significantly to our intellectual property portfolio and provided Vectura with an excellent DPI platform to deliver further value from its inhaled therapy technologies through other collaborations.

VR496 for cystic fibrosis (CF) and COPD
VR496 is being developed as an inhaled, locally acting treatment for CF, and has the potential to be developed as a therapy for COPD. The active component of VR496 is a drug that has been approved worldwide as an injected or infused treatment for other indications. A significant literature database describes the multi-modal and complementary pharmacological properties of the active molecule that is relevant to the treatment of CF and COPD, with mucolytic, anti-inflammatory, bronchodilatory and anti-infective activity being particularly relevant. The European Medicines Evaluation Agency (EMEA) and US Food and Drug Administration (FDA) have designated VR496 an orphan drug.

Vectura expects this product to enter Phase II studies in the third quarter of 2008.

Vectura intends taking VR496 through both Phase II and Phase III clinical trials unpartnered. For COPD, we intend to offer VR496 for out-licensing.

Budesonide Clickhaler® for asthma in Japan
Vectura has an exclusive agreement with an undisclosed Japanese pharmaceutical company for the marketing rights to the Clickhaler® for use with budesonide in Japan. Under the agreement, Vectura supplies devices on commercial terms and will receive milestone payments based on its successful clinical and regulatory development and royalty payments on future sales. The Japanese pharmaceutical company is responsible for the clinical and regulatory activities regarding the product, for which Phase III trials have been undertaken.

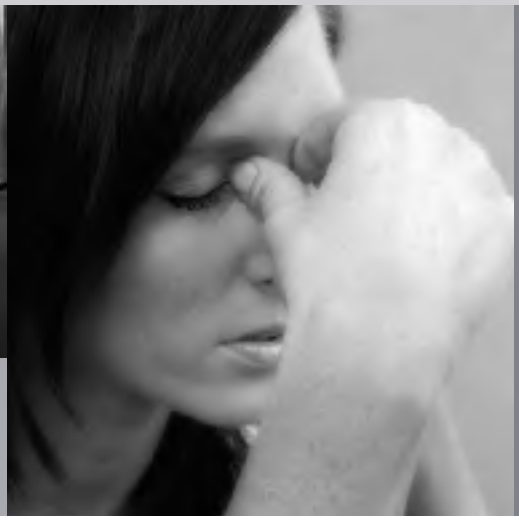
Neurology development products

Vectura has two products in full development in its neurology franchise.

Product	Indication	Description	Status	Partner
VR040	Parkinson's disease	Inhaled apomorphine	Phase II	Available for licensing
VR147	Migraine	Inhaled triptan	Phase I	Available for licensing

VR040 for Parkinson's disease

Successful completion of proof-of-concept study



Neurological disorders constitute a large and increasing share of the global burden of disease. These debilitating disorders include degenerative conditions such as Parkinson's disease as well as migraine and pain.

VR040 for Parkinson's disease (PD)
VR040 is an inhaled, systemically acting product for treating "off" episodes associated with advanced PD. The active ingredient in VR040, apomorphine hydrochloride, has previously been approved as an injectable formulation in Europe, and more recently in the US, for treating "off" episodes. VR040 is Vectura's formulation of apomorphine, delivered by inhalation using our proprietary DPI technology.

The EMEA has designated VR040 an orphan drug. Vectura is using the EMEA Scientific Advice procedure to progress the development of VR040.

The successful results of a Phase IIa proof-of-concept clinical study for VR040 were reported in August 2006. In October 2007, Vectura announced successful completion of a second Phase II clinical study for VR040 in patients with PD. The study demonstrated that VR040 is safe, well-tolerated, and successfully recovers patients from an induced "off" episode with a rapid onset of action; this effect is also durable. Vectura believes that through delivery of apomorphine by inhalation, patients may experience benefits beyond those offered by currently available formulations of apomorphine.

Vectura will commence a VR040 Phase IIb "at-home" study in the fourth quarter of 2008.

VR147 for migraine
VR147 is an orally inhaled DPI formulation of a triptan that offers the potential to provide a rapid onset of action, and so provide early symptomatic relief for migraine sufferers. In April 2008, Vectura announced the successful completion of an early proof-of-concept study. The data demonstrated that VR147 is safe and well-tolerated. Plasma concentrations are proportionate with the dose given. Maximum arterial and venous plasma concentrations were observed 4 minutes and 8 minutes after dosing, respectively, compared with an average of 12 minutes when the triptan is administered subcutaneously.

Vectura is exploring out-licensing opportunities for VR147.

Business review – products (continued)

Other development products

Product	Indication	Description	Status	Partner
VR004	Erectile dysfunction	Inhaled apomorphine	Phase IIb completed	Available for licensing
VR776	Premature ejaculation	Inhaled product that acts via 5HT- and noradrenergic-mediated pathways in the brain	Phase IIa	Available for licensing

VR004 for erectile dysfunction

Completion of Phase IIb study

Vectura has demonstrated efficacy, with a rapid onset of action in ED patients in a Phase IIb clinical study.

VR776 for premature ejaculation (PE)

Successful proof-of-concept study

VR004 for erectile dysfunction (ED)
VR004 is inhaled, ultra-low dose, apomorphine that has the potential to provide rapid benefit to patients with mild, moderate and severe ED. Apomorphine has been approved previously in Europe for ED as a sublingual tablet. VR004 is formulated in a proprietary Vectura formulation, delivered using Vectura's Aspirair® device.

Vectura has demonstrated efficacy, with a rapid onset of action in ED patients in a Phase IIa clinical study. In subsequent Phase IIb clinical trials, completed in June 2006 and April 2007, Vectura demonstrated a safe, effective and well-tolerated dose range and is now seeking licensing partners for the product.

VR776 for premature ejaculation (PE)
VR776 is a proprietary, inhaled, systemic treatment for PE in which the active ingredient is an off-patent neuro-active drug approved worldwide for the treatment of other indications. VR776 is formulated using PowderHale® and is delivered with Aspirair®.

Vectura has completed pre-clinical toxicology studies and a clinical Phase I study. A successful Phase IIa proof-of-concept study was announced in May 2007. Vectura is seeking licensing partners for the product.

Aspirair® single unit-dose inhaler device

Marketed products

Vectura receives royalties from the sale of products by its partners, three of which are licensed to Baxter.

Product	Indication	Description	Status	Partner
ADVATE®	Haemophilia A	Serum-free recombinant factor VIII	Marketed – worldwide	Baxter
Adept®	Prevention of surgical adhesions	4% icodextrin solution	Marketed – US and Europe	Baxter
Extraneal®	Peritoneal dialysis	Solution containing icodextrin	Marketed – worldwide	Baxter
Asmasal®	Asthma	Salbutamol delivered in Clickhaler®	Marketed – UK, France and Ireland	UCB SA
Asmabec®	Asthma	Beclometasone delivered in Clickhaler®	Marketed – UK, France and Ireland	UCB SA
Budesonide Clickhaler®	Asthma	Budesonide delivered in Clickhaler®	Marketed – some European countries	Mylan Inc
Formoterol Clickhaler®	Asthma	Formoterol delivered in Clickhaler®	Marketed – some European countries	Mylan Inc
Meptin Clickhaler®	Asthma	Procaterol delivered in Clickhaler®	Marketed – Japan	Otsuka Pharmaceutical Co

ADVATE® for Haemophilia A

In 2000 Baxter was granted worldwide rights to use Vectura's stabilisation patents and has utilised the 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®. Sales have increased to over US$1.2 billion in 2007, compared to US$850 million in 2006.

There is strong demand for ADVATE®, and 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. Sales growth is expected from increased compliance, establishing prophylaxis as the standard of care and continuing to support global penetration of the therapy. Baxter projects sales for 2008 in the region of US$1.4 billion.

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. Vectura signed a global licence deal with Baxter in December 2005 for the manufacture and distribution of Adept®.

On 1 August 2006, Baxter announced that the FDA had approved Adept® adhesion reduction solution for intraperitoneal use as an adjunct to good surgical technique for the reduction of post-surgical adhesions in patients undergoing gynaecological laparoscopic adhesiolysis. Baxter launched Adept® in the US in October 2006.

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 major US and Japanese markets. From September 2006, Vectura no longer receives royalties on the sales of Extraneal® in Europe but continues to receive royalties on sales in the US, Japan and the rest of the world.

Business review – products (continued)

Budesonide Clickhaler® and Formoterol Clickhaler® for asthma

Further approvals are being progressed

ADVATE®

Sales have increased to over US$1.2 billion in 2007, compared to US$850 million in 2006

ADVATE® sales growth is expected from increased compliance, establishing prophylaxis as the standard of care and continuing to support global penetration of the therapy. Baxter projects sales for 2008 in the region of

$1.4 billion

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 UCB SA in the UK, France and Ireland.

Budesonide Clickhaler® and Formoterol Clickhaler® for asthma
These are Clickhaler® based products containing budesonide and formoterol respectively. Budesonide is a steroid used as standard preventative therapy for asthma. Formoterol is a long-acting beta-2 agonist with a fast onset of action and longer duration than salbutamol, benefiting sufferers with more severe symptoms. Both products are marketed by Merck Generics (part of Mylan Inc) in some European countries and South Africa (formoterol only). Further European approvals are being progressed.

Meptin Clickhaler® for asthma
Otsuka 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.

Vectura continues to explore licensing opportunities for Clickhaler® products in other countries. Vectura receives royalties on the majority of Clickhaler® products and also supplies the Clickhaler® devices to licensees and earns a margin on these device sales.

Business review – enabling technologies

Vectura has several important, patent-protected, pulmonary technology platforms. In addition to using these technologies to support its own product development programmes, Vectura's strategy is to out-license to other pharmaceutical companies non-exclusive rights to the technologies for certain areas where the Company believes that the resulting licence will derive significant value and will not impact Vectura's own product development opportunities. Such agreements have already generated revenues from licensees while allowing Vectura to retain its focus on its own product development strategy.

Dry Powder Inhaled (DPI) formulation technology – including PowderHale®
The formulation of drugs for inhalation is more complex than for oral delivery. Different approaches are needed depending on whether the treatment is for local or systemic action. For systemic delivery the dose needs to be formulated and produced such that the particles are less than five microns in size. The know-how, expertise and patents available to Vectura enable the Company to develop patent-protected inhaled products.

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 penetration 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.

GyroHaler® and OmniHaler® – "Passive" DPI devices
The GyroHaler® and OmniHaler® are novel, 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 are designed to have competitive aerosolisation characteristics and to provide excellent drug protection from moisture and light using sealed foil blisters. Automated form/fill/seal machinery for producing the blister strips is available in Vectura's Chippenham facility.

GyroHaler® and OmniHaler® have the potential to deliver respiratory products in an efficient and patient-friendly manner.

Clickhaler® – multi-dose reservoir DPI
The Clickhaler® is a multi-dose, reservoir DPI that uses well-proven technology. It is approved for use and marketed to treat asthma and COPD with a number of different drugs (salbutamol, beclometasone, formoterol, budesonide and procaterol) in a number of countries 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 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 Vectura's 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.

The Aspirair®, alone or in conjunction with appropriate formulation technologies, can be used to deliver systemic products efficiently and effectively. Aspirair® can also be used to deliver proteins and macromolecules.

Unit Dose DPIs
Unit dose devices are being developed as re-useable or disposable single-dose dry powder inhalers. They are designed to be easy to use and inexpensive to manufacture and may be suitable for a wide range of conditions that require a rapid onset of effect, such as migraine, nausea/vomiting and analgesia, or which require a short duration of therapy or occasional use.

OmniHaler® multi-dose inhaler device

Business review – capabilities

Pharmaceutical development services

Vectura's product development activities are augmented and supported by an established, profitable pharmaceutical development services business. This business generates revenues 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

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 group 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 commercial and business development skills available.

Clinical development

Vectura's Clinical 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 those developed on behalf of other companies. Key functions include liaising 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 conducting clinical trials.

Regulatory affairs

The Regulatory team at Vectura is experienced in global pharmaceutical product registration and inhaled product development. The Regulatory group provides regulatory support for Vectura's own programmes and for those of its partners and works closely with all functions within the Vectura Group, 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. Responsibility for submission of dossiers and liaison with individual regulatory authorities is also undertaken as appropriate.

Quality assurance

Quality assurance (QA) in a pharmaceutical product development environment ensures that 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, MIA(IMP) 20066 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 and release of clinical trial supplies by the company's Qualified Person.

Vectura is also accredited to ISO 13485:2003 Medical devices. In order to achieve ISO 13485 accreditation Vectura's device engineering and contract manufacturing processes 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 Company 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.

Intellectual property

Vectura's intellectual property is a valuable asset that underpins its past, present and future success. The Group aims to secure multi-layered registered protection for its products, processes and technology platforms, which has the potential to provide highly effective protection.

Vectura's patent portfolio includes over 130 families of 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 maintains and protects this patent estate.

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

Facilities

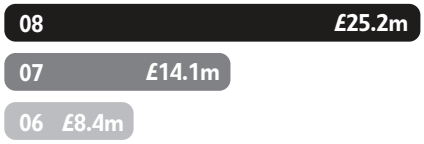
Vectura currently operates from three leased facilities in the UK. The first of these is an approximately 50,000 square-foot laboratory, office and manufacturing facility in Chippenham, Wiltshire. This facility is approved for GMP manufacturing of IMPs for clinical trials. Vectura's Nottingham facility is an approximately 30,000 square-foot laboratory and office in Ruddington. On the Cambridge Science Park, Vectura occupies a 4,200 square-foot laboratory and device engineering unit.

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 2008	25.2	80
31 March 2007	14.1	67
31 March 2006	8.4	88



Cash management

This involves the management of the cash consumed/generated in the business and funding received. The operational cash consumed 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 2008 are as follows:

Year ended	Operational cash generated/ (consumed) £m	Financing activities £m
31 March 2008	3.6	(2.3)
31 March 2007	(6.3)	67.0
31 March 2006	(1.9)	0.3

Progress with collaborative partners and licensees for the development and commercialisation of products

During the year, Vectura entered into a new collaborative agreement to develop VR632, a combination product to treat asthma/COPD. Vectura continued to progress the development and commercialisation of programmes partnered in earlier years including NVA237/QVA149, VR315, Duohaler® and Clickhaler® products and the collaboration with Boehringer Ingelheim.

Progress with the un-partnered product pipeline

During the year Vectura reported results on VR147 for the treatment of migraine and VR040 for the treatment of Parkinson's disease. Vectura is actively seeking partners for its sexual dysfunction products, which successfully completed clinical trials in 2007.

Identification of new product pipeline

Vectura continues to drive evaluation of new product opportunities through a New Opportunities Committee. The Committee explores opportunities arising from internal development activities as well as potential in-licensing and co-development opportunities. VR632, the combination product for the treatment of asthma/COPD, entered the pipeline during the year.

Maintaining and strengthening our intellectual property portfolio

Vectura has been successful during the year in oral opposition proceedings and has 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. Particular risks include the following.

Industry risk

The nature of pharmaceutical development is such that drug candidates may not be successful due 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 reproduce. 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 may cause undue delays in clinical trials. 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 Company's or the Company's partners' freedom to operate. Licences may not be available or may be costly and may reduce net royalty income to the Company. 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 carry 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 help 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 either euros or US dollars. Where known liabilities arise in these currencies the revenues are retained on deposit in the appropriate currency in order to off-set the exchange risk on these liabilities.

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.

The Group's credit risk is concentrated on the two 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 ongoing 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 Report on Corporate Governance.

Business review – core purpose, strategy and values

Vectura's core purpose

To establish a world-class speciality 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 pulmonary products.

Vectura's strategy is to target the treatment of respiratory and neurological diseases.

The Company 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 (COPD) and cystic fibrosis (CF).

In the neurological area, Vectura is exploiting its intellectual property to develop therapies for indications such as Parkinson's disease and migraine.

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

- its intellectual property and expertise in inhaled product development. Vectura will:
  - out-license products to major pharmaceutical companies, having demonstrated clinical proof of concept, to deliver 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
- 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.

Vectura's main values:

- **Achievement**
  Our success depends on satisfying the needs of our customers. We set ourselves challenging goals and are proud of delivering on our commitments.
- **Enthusiasm**
  We welcome enthusiastic people who give of their best and encourage others to do the same. We take our work seriously and value what we do, but we also want to have fun doing it.
- **Participation**
  We can be successful by only 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 Company 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.

Financial review

Summary of results

The results for the year ended 31 March 2008 show total revenue of £25.2 million (2006/07 – £14.1 million), an 80% increase on the previous year. The operating loss for the year was £25.1 million (2006/07 – £11.2 million). The loss before tax was £21.4 million (2006/07 – £8.5 million) and the loss after tax £19.2 million (2006/07 – £7.1 million).

Innovata acquisition

Comparison of the results with the previous year is affected by the acquisition of Innovata in January 2007. Note 2 identifies separately the results relating to the Innovata business for the 12 months to 31 March 2008. The combination of the two businesses has provided approximately £5 million per annum in research and development and administration cost savings, which would not have been possible had both companies remained independent.

Revenue

Revenue includes fee income from product licensing, technology licensing, development fees, royalties and Clickhaler® device sales. In the 12 months to 31 March 2008, total revenue increased compared to the prior year by 80% to £25.2 million, and included a contribution of £17.2 million from Innovata.

Product and technology licensing revenues are non-recurring and are typically triggered by the signing of new licence agreements or by regulatory or commercial events and, as such, tend to be irregular in timing and subject to variation from one period to another. Total product licensing revenues in the period were £2.8 million, and included the final £0.2 million recognised from the upfront NVA237/QVA149 access fee of £7.9m, which was received in April 2005, £1.9 million of the VR315 £3.8 million access payments received in 2006 and £0.7 million relating to Innovata programmes.

Technology licensing revenues of £2.9 million were realised during the period. This related to a €5 million access fee from Boehringer Ingelheim, which was received in April 2006, and a €10 million milestone payment generated in November 2007, both of which are being recognised over two years, as we continue to work with Boehringer Ingelheim during this period.

Pharmaceutical Development Services (PDS) revenues of £9.0 million (2006/07 £5.8 million) represent principally contractual development fees charged to licensing partners for work carried out during the year. These revenues were exceptionally high for the year ended 31 March 2008 due to the scale of the contract development work during the year, which mainly related to work undertaken for our generic partners.

Total royalties for the period were £9.1 million and relate to products acquired from Innovata. The principal royalty income streams are from ADVATE® and Extraneal®, with smaller contributions from Adept® and products delivered in Clickhaler®. Royalties earned on these products in the 12 months to 31 March 2007 were £7.8 million, of which £1.4 million was included in the Vectura results for the 12 months to 31 March 2007. The royalties earned on ADVATE® in the year to 31 March 2008 were £5.8 million, or 64% of the total royalties generated, with Adept® and Extraneal® contributing £3.1 million (34%).

Device sales revenue of £1.5 million was derived mainly from the sale of Clickhaler® devices to licensees.

Gross margin

The gross profit in the period to 31 March 2008 was £20.8 million, a £10 million improvement on the prior year (£10.8 million). Gross margin in the year to 31 March 2008 represents 83% of revenue (2007 – 77%) with the improvement arising from the increased proportion of royalties received during the year.

Research and development expenses

Total investment in research and development was £29.7 million, a 75% increase on the prior year (£17.0 million). The development investment was lower than originally planned for the year ended 31 March 2008 due to the timing of two clinical studies. We expect our investment in this area to continue to increase as some of our key products move to late-stage development, with 2008/09 investment targeted at an approximate 15% increase on the current year.

The research and development costs include primarily clinical trial costs, salary costs for scientists and scientific support staff, intellectual property costs, laboratory running costs and depreciation.

The research and development expenses for the 12 months to 31 March 2008 have included savings in the region of £1.0 million arising as a result of the acquisition of Innovata; these savings are as a result of a reduction in regulatory, clinical development and intellectual property costs as the Group now benefits from the in-house expertise in these areas acquired with the Innovata business.

Financial review (continued)

Other administrative expenses

Other administrative expenses for the year to 31 March 2008 were £3.1 million, a £0.4 million increase on the prior period but an area where the synergies of combining the Innovata and Vectura businesses have resulted in savings of approximately £4.0 million per annum. These savings have arisen from the consolidation and the elimination of duplicate costs of running two listed companies.

Amortisation expenses

We acquired £74.6 million of intangible assets with Innovata. These assets are being amortised over a period of up to 10 years. The charge for the 12 months to 31 March 2008 was £10.2 million and it is expected that the charge will remain in this region for the year ending 31 March 2009. These charges have no cash impact. In accordance with accounting practice, the calculation of the fair value of the assets acquired with the Innovata business was revised during the period to January 2008 and the year ended 31 March 2007 was restated following this revision. The restatement resulted in a small £0.1 million increase in the value of the intangible assets as at the date of acquisition. Details of the adjustments are shown in note 2 to the financial statements.

Finance income and costs

Interest receivable relates primarily to the interest income from cash invested in overnight and other short-term deposits. In the year ended 31 March 2008, the Group had net interest receivable of £3.7 million (2007 – £2.7 million).

Taxation

R&D tax credits are recorded upon receipt. £2.3 million of R&D tax credits were received in the year (2006/07 – £1.4 million) and £0.1m (2006/07 – £nil) of withholding taxes were paid, bringing the net cash received to £2.2 million.

Loss after taxation and loss per share

The loss for the year after taxation was £19.2 million (2006/07 – £7.1 million) giving a loss per ordinary share of 6.1p (2007 – 4.6p).

Assets

Non-current assets were £117.0 million, compared with £129.7 million at 31 March 2007, the reduction being mainly due to the amortisation of intangible assets. Current assets were £85.0 million (2007 – £86.0 million).

Restatement of fair value balance sheet on Innovata acquisition

Innovata was acquired for a total consideration of £123.6 million, which consisted of £2.8 million of cash costs and the issue of 143.8 million ordinary shares at 84p each. Note 2 to the financial statements summarises the revision to the fair value calculations in accordance with applicable accounting standards. The major change relates to the recognition of an additional £20.4 million deferred tax asset relating to the tax losses acquired with the business. In addition, there has been a £4.3 million reduction in a financial liability acquired with the business and a £0.1 million increase in the value of the acquired intangible assets. As a result of these adjustments the goodwill acquired with the business is now recorded at £47.6 million. In accordance with International Financial Reporting Standard 3 – "Business Combinations", these adjustments have been reflected in the balance sheet as at 31 March 2007.

Restatement of income statement for the year ended 31 March 2007

The impact of the above adjustments on the income statement for the 12 months to 31 March 2007 has been to increase the loss after taxation by £0.3 million. There are three adjustments contributing to this change: a £0.1 million reduction in the amortisation charge, a £0.1 million reduction in the imputed interest charge on the financial liability, and a £0.5 million increase in the tax charge for that year due to the recognition of the deferred tax asset off-setting the deferred tax liability release.

Liabilities

Total liabilities of £32.4 million include £10.0 million of trade and other payables, a £1.9 million increase from the previous year (2007 – £8.1 million), reflecting the increase in activities of the enlarged Group. Liabilities also include £13.7 million of deferred income and a financial liability of £8.8 million.

Financial liability

Current liabilities include £0.9 million of a total £8.8 million financial liability, which represents an Innovata liability to a third party in respect of the Adept® and Extraneal® royalty streams. The total liability equates to an estimated £9.5 million of which £0.7 million will be expensed as interest and is thus not included as part of the liability in the balance sheet as at 31 March 2008.

Deferred income

Deferred income relates to milestones received but not yet recognised as revenue. Included in the £5.5 million deferred income expected to be recognised in the year ending 31 March 2009 is £3.7 million relating to Boehringer Ingelheim, £1.0 million relating to VR315 and £0.8 million relating to Clickhaler®. The £8.2 million to be recognised as revenue in later years includes £2.4 million relating to Boehringer Ingelheim, £0.9 million for VR315, £2.6 million for Clickhaler® and £2.3 million for Duohaler®.

Shareholders' equity

Shareholders' equity at 31 March 2008 was £169.5 million (2006 – £182.0 million).

Capital expenditure

Capital expenditure in the period was £0.7 million (2006/07 – £2.4 million). During the year one of our two blister filling machines was sold to our VR315/VR632 partner for £1.4 million in order to assist with the scale-up of their manufacturing operations. Capital expenditure is expected to be in excess of £2.0 million in the year ending 31 March 2009 and will include an expansion of our GMP facilities in Chippenham.

Operating cash flow

Net cash outflow from operating activities in the period was £1.5 million compared to £6.5 million in the prior year. At 31 March 2008, Vectura had cash and short-term deposits of £78.8 million (2006 – £77.5 million).

Treasury

The primary objective of the Group's investment policy is to invest in low-risk cash or cash equivalent investments to safeguard the principal, seeking both to maximise return and to ensure that the resources remain available to fund the Group's operations.

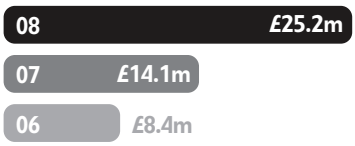
Financing activities

We successfully moved from AIM to the Official List of the London Stock Exchange in July 2007. No additional fund raising took place as part of this move. The main financing activities that occurred during the year were the issue of 3.6 million ordinary shares to Boehringer Ingelheim in December 2007 at a price of £0.96 per share generating £3.5 million, and the repayment of a £5.2 million financial liability.

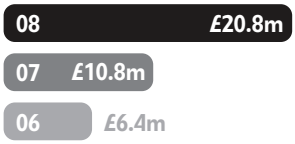
Anne Hyland
Chief Financial Officer

21 May 2008

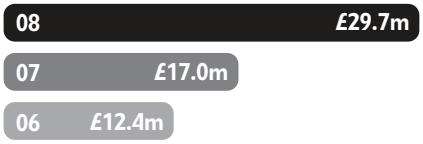
Total revenue



Gross profit



Research and development expenses



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 2008 six directors and approximately 240 staff operating from three sites in the UK. The Board recognises that it is accountable to shareholders for the Group's standard of governance and is reporting here as a matter of best practice on its compliance with the Combined Code on Corporate Governance published in July 2003 and revised in June 2006 (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 2008.

The principles set out in the Combined 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 Directors' 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 Company, the Board has an agreed list of items 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.

NEDs are encouraged to meet without the presence of Executive Directors as appropriate.

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 Company'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. A smaller company, such as Vectura, must have at least two independent NEDs. 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. Dr Brown is the Non-Executive Director with relevant financial experience.

Independence of NEDs

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

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. For the reason set out below, and as stated in the Company's Listing Particulars dated 25 June 2004, the Board is of the view that the granting of share options to NEDs while the company was a private company was appropriate.

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 Company's then stage of development. There are no performance criteria attaching to these options.

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 were not subject to any performance conditions and are now exercisable.

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

Dr Foden provides advice to the Company on request on particular intellectual property and licensing matters within her area of expertise. During the year ended 31 March 2008, £4,000 was paid to Dr Foden (2007 – nil). The Board considers that this assists the Board in providing further understanding of certain key scientific aspects of the business and does not in any way affect Dr Foden's independent judgement.

Dr Richards is currently a Director and shareholder in PharmaKodex Limited, a company of which Vectura owns 20.4% of the issued share capital and Dr Richards

1.84%. The Directors do not consider that this arrangement compromises his independence because his responsibilities include management of Vectura's investment in PharmaKodex.

Throughout the year ended 31 March 2008 and up to the date of publication of this report, at least 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 Company'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 NED members of the Board 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 in no way impaired thereby.

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 Company'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 Vectura Executive Committee, including pension rights, any compensation payments and the implementation of executive incentive schemes. The Committee met formally twice during the financial year ended 31 March 2008 and the Board confirms full attendance by all members during the year.

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 2008 and the Board confirms full attendance by all members during the year.

The Audit Committee
The Code recommends that the Board should establish an Audit Committee of at least three independent NEDs, one of whom has recent and relevant financial experience. The Company 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 2008. 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 significant 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.

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 Company's governance, including the Board Chairman, the Chief Executive, the Chief Financial Officer and the external audit lead partner. 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 Company's business, financial dynamics and risk.

The Audit Committee reviews arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Audit

Corporate governance statement (continued)

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.

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 has at least six scheduled formal meetings per year (approximately every two months), with additional meetings when circumstances and urgent business dictate. In the financial year under review, eight 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 thereafter at intervals of no more than three years. 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 on a regular basis throughout the year. The performance of Mr Cashman and Ms Hyland, who are being proposed for re-election at the Annual General Meeting, 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.

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.

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.

Risk assessment review

An ongoing process for identifying, evaluating and managing the significant risks which 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. The Audit Committee considers the need for an internal audit function annually and has concluded that, given the size of the Group's operations at this time, it is not necessary. The Board carries out reviews of the non-financial control systems.

Maintenance of a sound system of internal control

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 grievance procedure and "whistle blowing" policies 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 (GLP), Good Clinical Practice (GCP) and

Good Manufacturing Practice (GMP) through the implementation of a compliance programme for in-house and contracted-out activities. The Group has set up 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.

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.

Shareholder relations

The Company reports formally to shareholders twice a year by way of the Interim and Annual Reports. Separate announcements of all material events are made as necessary by press releases that are posted on the Company'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 Company's position and prospects. All periodic reports and accounts are made available to shareholders by e-mail, on the Company's website, or mailed to shareholders who have elected to receive hard copy. The Vectura website provides additional information about the Company and allows access to reports and accounts, press releases and other materials issued by the Company.

Regular communications are maintained with major institutional shareholders and, in particular, presentations are made when half-year and full-year financial results are announced. In accordance with the new Transparency and Disclosure Rules of the FSA, the Company now also issues interim management statements and thus is reporting quarterly.

Dr Brown, as Senior Independent Director, is contactable by shareholders through a link on the Company 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.

Going concern basis

After making enquiries, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Anne Hyland
Company Secretary

21 May 2008

Board of Directors

John Patrick (Jack) Cashman Non-Executive Chairman

Jack Cashman, aged 68, joined the Board of Vectura as Non-Executive Chairman in 2001. Mr Cashman brings significant experience to the Board of Vectura, having held a variety of senior executive level roles in business and as a Board member for several companies in both North America and Europe. He is currently Non-Executive Chairman of Interface Biologics Inc, and Insception Biosciences Inc, Canada's largest and most established cord blood bank. He is also a Non-Executive Director of Phoqus Group plc, a Director of Transat AT Inc (Canada) and a Director of Telesat Inc. (Canada). Jack 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.

Christopher Paul Blackwell BSc PhD Chief Executive

Dr Chris Blackwell, 46, was appointed Chief Executive of Vectura in February 2004. He joined the company 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, where he became UK Director, Global Project Management in 1996, 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 speciality pharmaceutical company focused on gastrointestinal drug products.

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

Anne Hyland, 47, 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.

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

Dr John Brown, 53, joined the Board of Vectura as Non-Executive Director and Senior Independent Director in 2004. He is Chairman of BTG plc and also a Non-Executive Director of a number of private and public biotech companies, including Ardana plc and Protherics plc. From 1999 until May 2008 John was Chairman of the Governing Council of the Roslin Institute in Edinburgh and is now Chairman of the Roslin Foundation. He is Chairman of BIA Scotland, sits on the Advisory Board of the Life Sciences ITI in Scotland and is a member of the Technology Strategy Board. Until December 2003, John was Chief Executive of Acambis plc, a leading producer of vaccines to treat and prevent infectious disease. He joined Acambis as Finance Director in 1995 and became CEO in 1997. John holds an MBA and a PhD in neuropharmacology.

Susan Elizabeth Foden MA DPhil Non-Executive Director

Dr Susan Foden, 55, joined the Board of Vectura as a Non-Executive Director in January 2007 having previously served on the Board of Innovata plc. 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 Medical Solutions plc, Piramed Ltd and Cell Centric Ltd, and is a Trustee of The Institute of Cancer Research. Prior to this Susan held positions in venture capitalism, technology transfer and UK biotech. 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 1997 to 2000. From 1983 to 1987 Susan headed up the academic liaison function at what was then Celltech Ltd, dealing with some of the earliest tech transfer deals in the UK, which set industry precedents. She studied biochemistry at the University of Oxford from where she obtained an MA and a DPhil.

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

Dr Andy Richards, 48, joined the Board of Vectura as a Non-Executive Director in 2000. 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 and a Non-Executive Director of Aitua Ltd, Biowisdom Ltd, Babraham Bioscience Technology Ltd, Cancer Research Technology Ltd (the commercial arm of Cancer Research UK), Pharmakodex Ltd, Theradeas Ltd and Summit Corporation plc. He is also a founder member of the Cambridge Angels, a director of the BIA (BioIndustry Association), a member of BBSRC Council and member of the UKTI Lifesciences strategy implementation board. In 1992, he co-founded Chiroscience and was Business Development Director through to its merger in 1999 with Celltech. Originally a protein chemist, Andy spent his early career with ICI (now AstraZeneca) and with PA Technology.

Executive management

Timothy Wright BSc PhD MBA Commercial Director

Dr Tim Wright, 47, 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 Executive Programme in 1994.

Martin John Shott PhD MRPharmS Pharmaceutical Operations Director

Dr Martin Shott, 56, 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 a member of the Royal Pharmaceutical Society of Great Britain.

Mark Jonathan Main BSc PhD Development Director

Dr Mark Main, 48, 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.

Stephen William Eason BSc (Eng) Director of Device Development

Stephen Eason, 50, joined Vectura as Director of Device Development in February 2002 when the Aspirair® inhaler technology and staff were acquired from Cambridge Consultants Ltd, 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. While 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.

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

Dr Colin Dalton, 58, 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, a formulation company acquired by Innovata. For five years prior to 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 Healthcare plc and British Sugar plc and was a senior consultant in the biotechnology practise 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.

Corporate social responsibility statement

The directors recognise the increasing 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.

Environment

Vectura is committed to complying with environmental legislation and minimising the impact of its activities on the environment. Vectura considers that its activities have a low environmental impact. The Group is committed to minimising any adverse environmental impact of its manufacturing and laboratory facilities and complies with UK environmental legislation.

Waste management

Various waste management initiatives were implemented through the Group in 2007, including recycling of all paper waste, aluminium cans, printer toners/cartridges and redundant mobile telephone handsets. The Group's employees are actively encouraged to reduce power usage in the office environment, and video-conferencing facilities are used wherever possible in order to reduce unnecessary air travel.

Health and safety

Vectura has established a Health and Safety Committee to review health and safety standards within the Group on an ongoing basis. The Group considers health and safety to be a priority in its workplaces. 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 training to individuals who are responsible for health and safety.

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

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.

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. 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.

Employees

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

The Group is committed to achieving equality of opportunity in all its employment practices, policies and procedures. Employees are highly valued 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 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 Remuneration Report.

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 have been formed 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 leave and maternity pay policy conforms with 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. The Group has adopted a paternity leave policy in line with UK legislation.

Report on Directors' remuneration

Introduction

This report has been prepared in accordance with Schedule 7A of the Companies Act 1985 (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 Company 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 Directors' remuneration and state whether in their opinion those parts of the report have been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has, therefore, been divided into separate sections for unaudited and audited information.

Unaudited information

Remuneration Committee

The Remuneration Committee consists entirely of NEDs and is constituted in accordance with the recommendations of the Combined Code. Its members for the year ended 31 March 2008 were Dr Foden (Chairman), Dr Brown, Mr Cashman and Dr Richards. The Committee met formally twice during year ended 31 March 2008. It seeks independent advice, where appropriate, for the purpose of determining the remuneration policy for the Group. The remuneration of each Executive Director and senior employees is determined by the Committee (including the award of annual bonuses, share options and LTIP awards), as are the terms of their service agreements. If appropriate, the Committee will commission reports from expert remuneration consultants. The Committee also recommends to the Board the fees paid to the Chairman. The fees of the Non-Executive Directors are determined by the Board on the joint recommendation of the Chairman and the Chief Executive.

None of the Committee's members has any personal financial interest (other than as a shareholder) or conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. No Director plays a part in any discussion about his or her own remuneration.

In determining the Directors' remuneration for the year, the Committee reviewed executive compensation packages in the UK pharmaceutical and biotech sectors. It also referred to a number of specialist studies on executive remuneration, including a survey carried out by Halliwell Consulting on executive directors' salaries in the pharmaceutical sector.

Remuneration policy

Policy on remuneration of Executive Directors and senior employees

In determining the Group's policy, and in constructing the remuneration arrangements of each Executive Director and senior employee, the Board, advised by the Remuneration 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.

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.

The Group's ongoing 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 can be supplemented by corporate goals bonuses. Corporate goals are set at the start of each year.

Components of the remuneration package

The principal components of remuneration packages are base salary, short-term incentives, medium- 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 and salary levels in comparable companies.

In formulating its decision, the Committee takes into account appropriate benchmarks. As in the prior year, for the financial year ended 31 March 2008 the Committee chose the UK pharmaceutical sector.

Each Executive Director's base salary was broadly aligned with the mid-points of the chosen UK pharmaceutical sector comparator group (see opposite) and adjusted to reflect company size and complexity. Basic salaries aligned with these mid-points, combined with cash and bonus incentives, continue to provide competitive compensation packages, in which performance-related components represent a substantial element.

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. Performance-related payments may be paid annually, dependent upon achievements measured against corporate objectives. The scheme is offered to all staff and Executive Directors. Bonus award entitlements range between 10% and 50% (100% in the case of the Executive Directors) of salary depending on grade. Cash bonuses are limited to a maximum of 100% of basic salary for each Executive Director; however, the Remuneration Committee maintains the right to make one-off bonus awards for exceptional performance.

Performance-related share option awards
Share option awards are also made over shares for Executive Directors and senior employees, normally having a value equivalent to the annual cash bonus, which, as stated above, is itself based on corporate performance objectives being met. Awards are not subject to any further performance conditions. Awards vest in three equal tranches, on the first, second and third anniversaries of the date on which the award is made, or three years after the date of grant, and expire 10 years from the date of grant. Participation is at the discretion of the Committee. Vectura operates the Plan in order to provide additional incentives to its key senior executives, recognising that the retention and recruitment of such employees is critical to the Company's long-term success. The Remuneration Committee plans to replace the performance-related share option award for Executive Directors and certain senior employees with an appropriate award under the Long-Term Incentive Plan with effect from the year ending 31 March 2009.

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

Historically, the Company's policy was also to grant NEDs share options (in addition to fees) as part of their remuneration package. At the early stage of the Company'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 no longer applies. In this connection, reference should also be made to the Corporate Governance report.

The exercise price of the options granted under the above schemes is equal to the market value of the Company's shares at the time the options are granted.

Long-Term Incentive Plan
Annually, Executive Directors and certain senior executives are granted an award under the Vectura Group plc 2005 Long-Term Incentive Plan (the "LTIP"). At the end of a three-year period, shares are released to the executive depending on the achievement of set performance conditions. The Company's policy is that awards under option schemes and the LTIP combined shall not exceed two times salary. The LTIP provides for the award of whole shares, subject to performance conditions based on the relative performance of the Group's shares compared to other similar companies over time. Under the LTIP, each participating executive is granted an annual award of shares, which are held over a period of three years. At the end of the period, a percentage of the shares is made available to the executive, dependent upon the Group's comparative Total Shareholder Return (TSR) performance compared to a comparator group of quoted UK pharmaceutical and biotechnology companies. Awards will be released in accordance with the following table:

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

* Linear vesting between points

In addition, the Remuneration 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. If the Committee believes that the underlying corporate financial performance is not consistent with its TSR performance, then no LTIP awards will be released.

The Comparator Group of companies to which the performance of Vectura Group plc is compared is as follows:

Acambis plc
Alizyme plc
Allergy Therapeutics plc
Antisoma plc
Ark Therapeutics plc
Axis-Shield plc
CeNeS Pharma plc
Futura Medical plc
GW Pharmaceutical plc
Oxford BioMedica plc
Proteome Sciences plc
Protherics plc
Sinclair Pharma plc
SkyePharma plc
Vernalis Group plc

During the year ended 31 March 2008, grants of shares were made to Dr Blackwell and Ms Hyland under the LTIP scheme. The market price of the shares on the date of grant of the LTIP awards was 86.25p.

Report on Directors' remuneration (continued)

Sharesave Share Option Scheme
The Company 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 to which performance conditions do not apply.

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 Company 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. The Company may award free shares annually; the employee may buy partnership shares out of pre-tax salary; and the Company may match any partnership shares purchased in a year with 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.

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.

Performance graph
The following graph shows the Company's performance since its initial listing in July 2004, measured by Total Shareholder Return, compared with the performance of the Comparator Group of companies in the sector, as described above.

Directors' service contracts
It is the Company's policy that Executive Directors should have contracts with an indefinite term and providing for a maximum of one year's 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 receives a fee of €30,000 per annum. He retains such earnings.

Non-Executive Directors
All NEDs have specific terms of engagement with an indefinite term (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. 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 2008 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

Directors' interests

The Directors that held office at 31 March 2008 and their interests in the share capital of the company at 31 March 2007 and 31 March 2008 were as follows:

	31 March 2008 ordinary shares of 0.025p each	31 March 2007 ordinary shares of 0.025p each
C P Blackwell [2]	106,526	53,138
J R Brown [1]	70,457	20,457
J P Cashman	434,749	434,749
A P Hyland [2]	112,758	59,370
A J M Richards	134,998	84,998
S E Foden	11,000	11,000

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

[2] The holdings of C P Blackwell and A P Hyland include 4,578 ordinary shares of 0.025p each, which are held in the Vectura Group plc Employee Benefit Trust (Share Incentive Plan).

There was no change in the Directors' interests between 31 March 2008 and 21 May 2008, 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	2008 Total emoluments £000	2007 Total emoluments £000
Executive Directors:					
C P Blackwell	300	150	1	451	475
A P Hyland	200	100	1	301	337
Non-Executive Directors:					
J R Brown*	45	–	–	45	45
J Cashman	60	–	–	60	60
S E Foden*	38	–	–	38	8
A J M Richards	30	–	–	30	30
	673	250	2	925	955

*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.

In addition to the above, fees for consultancy services of £4,000 (2007 – £nil) were paid to Dr Foden, who is a leading scientist, for specialist scientific advice not connected with her services as a Director.

Benefits represent payments for medical insurance.

Directors' pension entitlements

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

	2008 £000	2007 £000
C P Blackwell	60	24
A P Hyland	40	17
	100	41

Report on Directors' remuneration (continued)

Directors holding office at 31 March 2008 with options outstanding over ordinary shares of 0.025 are as follows:

Plan	Options held at 1 April 2007	Options granted/ (exercised) during year	Options held at 31 March 2008	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]
	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]	1,162,704	(50,000)	1,112,704	36.000	29/04/07	29/04/14
Unapproved	716,966	–	716,966	56.000	02/07/05	02/07/14
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]
SAYE Scheme	18,651	–	18,651	50.800	01/04/08	30/09/08
Unapproved	–	271,304	271,304	93.750	25/05/07	25/05/17 [1]
SAYE Scheme	–	26,666	26,666	36.000	01/04/11	30/09/11
	2,719,614	247,970	2,967,584			
J R Brown						
Unapproved [2]	222,224	(50,000)	172,224	36.000	29/04/04	29/04/14
Unapproved	238,989	–	238,989	56.000	02/07/05	02/07/14 [1]
	461,213	(50,000)	411,213			
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]	595,684	(50,000)	595,684	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]
SAYE Scheme	18,651	–	18,651	50.800	01/04/08	30/09/08
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	30/09/11
	1,729,444	168,840	1,898,284			
A J M Richards						
Unapproved [2]	500,000	(50,000)	450,000	36.000	29/04/04	29/04/14
Unapproved	238,989	–	238,989	56.000	02/07/05	02/07/14 [1]
	738,989	(50,000)	688,989			

All options were granted for nil consideration.

(1) Vesting in three equal annual instalments from date first exercisable.

(2) On 27 November 2007, C P Blackwell, J R Brown, A P Hyland and A J M Richards each acquired 50,000 ordinary shares through an exercise of options at an exercise price of 36p per share. On the date of exercise the share price was 61p per share. The total cost of this exercise was £24,085 per Director, including taxation. As at the date of this report the unrealised capital loss incurred by each of these directors in relation to this exercise was approximately £2,750.

Directors' LTIP awards

Under the LTIP scheme, the grants made to Directors at 31 March 2008 were as shown in the table below:

Director	1 April 2007 £	Awards during year £	31 March 2008 £	% of salary %	Share price on date of grant pence	Date of release of shares
C P Blackwell	361,741	–	361,741	125	77.50	12/09/08
	258,064	–	258,064	100	93.00	22/11/09
	–	347,826	347,826	100	86.25	25/05/10
	619,805	347,826	967,631			
A P Hyland	261,290	–	261,290	125	77.50	12/09/08
	182,795	–	182,795	100	93.00	22/11/09
	–	231,884	231,884	100	86.25	25/05/10
	444,085	231,884	675,969			

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

On behalf of the Board

Dr S E Foden
Chair of the Remuneration Committee

21 May 2008

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 2008.

Principal activity

The principal activity of the Group undertaken during the year was the ongoing research and development 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's 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 and has reviewed the risk management policies in place.

Results and dividends

The group loss for the year, after taxation, amounted to £19.2 million (2007 – £7.1 million). The Directors do not recommend the payment of a dividend (2007 – £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 sections on Board of Directors and Executive Management. Details of Directors' remuneration and their interests in the share capital of the Company are given in the Report on Directors' 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 24 of the financial statements.

Payment of creditors

The Group's policy in relation to its suppliers is to agree terms of payment when first contracting with a supplier, and to abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with such agreed terms and conditions. The Group operates a prompt payment policy in settling supplier invoices. The average credit period taken by the Group for trade purchases was 29 days (2007 – 32 days). The average credit period taken by the Company for trade purchases was 33 days (2007 – 30 days).

Political and charitable donations

Vectura encourages employee involvement in charitable causes. During the year, Vectura made contributions amounting to £350 (2007 – £350) to charitable organisations in the UK. These contribution were made in lieu of posting seasonal greetings to customers. There were no political donations during the year (2007 – £nil).

Directors' liabilities

The Company has granted an indemnity to its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' report.

Significant shareholdings

At 16 May 2008, the nearest practical date to the date of this Report, the Company had a total of 3,888 ordinary shareholders and 319,514,656 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 16 May 2008:

	Number of shares '000	%
Invesco Institutional Group	31,461	9.85%
Morley Fund Management	26,350	8.25%
AXA Framlington Institutional Group	25,738	8.06%
Aberforth Partners	21,532	6.74%
Fidelity Institutional Group	20,943	6.55%
Legal & General Investment Management	18,716	5.86%
F&C Management Institutional Group	15,971	5.00%
J O Hambro Investment Management	9,746	3.05%

Share price

The mid-market share price as shown by the London Stock Exchange Daily Official List was 47.25p on 31 March 2008. The mid-market share price ranged from 34.75p to 91.25p during the year to 31 March 2008. The average share price for the period was 69p.

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 page 30.

Going concern basis

Vectura is a research and development based emerging pharmaceutical company, which expects to incur further losses until revenues from royalty income and milestone receipts exceed expenditure on the product portfolio. The Directors have prepared projections which, by their nature, are inherently subject to some uncertainty, particularly in respect of revenues, but have reasonable expectations that the Group anticipates having sufficient cash resources to continue in operation for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements.

Annual General Meeting

Details of the business to be transacted at the forthcoming AGM will be sent to shareholders in a separate Circular.

Auditors

A resolution to appoint Deloitte & Touche LLP as auditors to the Group will be put to the members at the Annual General Meeting.

Directors' statement as to disclosure of information to auditors

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 s234ZA of the Companies Act 1985.

By order of the Board

Anne Hyland
Company Secretary

21 May 2008

Financial statements

Financial table of contents

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRs) as adopted by the European Union.

The Directors are required to prepare financial statements for each financial year that present fairly the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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 is 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
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the group and enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

Independent auditors' report

to the shareholders of Vectura Group plc

We have audited the Group and parent Company financial statements (the "financial statements") of Vectura Group plc for the year ended 31 March 2008 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Changes in Equity and the related notes 1 to 31. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Report on Directors' remuneration that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the Annual Report, the Report on Directors' remuneration and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Report on Directors' remuneration to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Report on Directors' remuneration to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Report on Directors' remuneration, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Report on Directors' remuneration to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Report on Directors' remuneration to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Report on Directors' remuneration to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2008 and of its loss for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 March 2008;
- the financial statements and the part of the Report on Directors' remuneration to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants & Registered Auditors
Cambridge

21 May 2008

Consolidated income statement

for the year ended 31 March 2008

	Notes	2008 £000	Restated [1] 2007 £000
Revenue	3	**25,225**	14,051
Cost of sales		(4,399)	(3,295)
Gross profit		**20,826**	10,756
Research and development expenses		(29,659)	(16,994)
Other administrative expenses		(3,052)	(2,615)
Amortisation		(10,177)	(1,952)
Share-based compensation		(2,702)	(1,633)
Total administrative expenses		(15,931)	(6,200)
Share of loss of associate	14	(314)	(208)
Other income		–	1,423
Operating loss	6	**(25,078)**	(11,223)
Investment income	5	4,482	2,816
Finance costs	5	(773)	(134)
Loss before taxation		**(21,369)**	(8,541)
Taxation	8	2,163	1,396
Loss after taxation attributable to equity holders of the Company		**(19,206)**	(7,145)
Loss per ordinary share basic and diluted	9	(6.1p)	(4.6p)

[1] Restated to reflect the final allocation of the cost of the acquisition of Innovata (see note 2).

All results are derived from continuing activities.

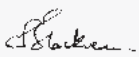
Consolidated balance sheet

for the year ended 31 March 2008

	Notes	2008 £000	Restated [1] 2007 £000
Assets			
Goodwill	10	49,562	49,562
Intangible assets	11	62,437	72,614
Property, plant and equipment	12	3,389	5,635
Investments in associates and joint ventures	14	914	1,228
Trade investment	15	250	250
Other receivables	16	428	428
Non-current assets		116,980	129,717
Inventories	17	190	202
Trade and other receivables	18	5,986	8,230
Short-term investments	24	–	500
Cash and cash equivalents	24	78,804	77,029
Current assets		84,980	85,961
Total assets		**201,960**	215,678
Liabilities			
Trade and other payables	22	(9,970)	(8,060)
Obligations under finance leases	23	–	(410)
Deferred income	20	(5,499)	(4,400)
Financial liabilities	21	(860)	(2,708)
Current liabilities		(16,329)	(15,578)
Deferred income	20	(8,194)	(6,888)
Financial liabilities	21	(7,897)	(11,262)
Non-current liabilities		(16,091)	(18,150)
Total liabilities		**(32,420)**	(33,728)
Net assets		**169,540**	181,950
Equity			
Share capital	25a	114	113
Share premium	25b	76,982	72,889
Special reserve	25c	8,245	8,245
Other reserve	25d	124,905	124,905
Share-based compensation reserve	25e	5,738	3,036
Retained loss		(46,444)	(27,238)
Total equity		**169,540**	181,950

[1] Restated to reflect the final allocation of the cost of the acquisition of Innovata (see note 2).

These financial statements were approved by the Board of Directors on 21 May 2008 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 2008

	2008 £000	Restated [1] 2007 £000
Operating loss	(25,078)	(11,223)
Depreciation and amortisation	11,809	3,217
Share-based compensation	2,702	1,633
Decrease in inventories	12	24
Decrease in receivables	2,244	4,469
Increase/(decrease) in payables	1,910	(2,555)
Increase/(decrease) in deferred income	2,405	(2,236)
Other non-cash movements	314	(1,235)
Net cash outflow from operations	(3,682)	(7,906)
Taxation paid	(164)	–
Research and development tax credits	2,327	1,396
Net cash outflow from operating activities	**(1,519)**	(6,510)
Cash flows from investing activities		
Cash acquired as part of Innovata	–	19,882
Costs in association with acquisition of Innovata	–	(2,830)
Interest received	4,482	2,816
Investment in associate	–	(160)
Purchase of property, plant and equipment	(745)	(2,438)
Receipts from sale of property, plant and equipment	1,359	22
Net cash inflow from investing activities	**5,096**	17,292
Net cash inflow before financing activities	**3,577**	10,782
Cash flows from financing activities		
Proceeds from issue of ordinary shares	4,094	52,143
Share issue costs	–	(2,072)
Payment of financial liabilities	(5,213)	–
Payment of finance lease liabilities	(410)	(139)
Interest paid on finance leases	(14)	(10)
Interest paid on loans and financial liabilities	(759)	(3)
Net cash (outflow)/inflow from financing activities	**(2,302)**	49,919
Increase in cash and cash equivalents	**1,275**	60,701
Cash and cash equivalents at beginning of period	77,529	16,828
Cash and cash equivalents at end of period	**78,804**	77,529

[1] Restated to reflect the final allocation of the cost of the acquisition of Innovata (see note 2).

Consolidated statement of changes in equity

for the year ended 31 March 2008

	Share capital £000	Share premium £000	Shares to be issued £000	Special reserve £000	Other reserve £000	Share-based compensation reserve £000	Retained loss £000	Total equity £000
Note	25a	25b		25c	25d	25e		
At 1 April 2006	62	22,869	918	8,245	3,211	1,403	(20,093)	16,615
Loss for the year	–	–	–	–	–	–	(7,145)	(7,145)
Total recognised income and expense for the year	–	–	–	–	–	–	(7,145)	(7,145)
Share-based compensation	–	–	–	–	–	1,633	–	1,633
Exercise of share options	–	203	–	–	–	–	–	203
Shares issued	51	51,889	(918)	–	121,694	–	–	172,716
Share issue costs	–	(2,072)	–	–	–	–	–	(2,072)
At 31 March 2007 (restated[1])	113	72,889	–	8,245	124,905	3,036	(27,238)	181,950
Loss for the year	–	–	–	–	–	–	(19,206)	(19,206)
Total recognised income and expense for the year	–	–	–	–	–	–	(19,206)	(19,206)
Share-based compensation	–	–	–	–	–	2,702	–	2,702
Exercise of share options	–	613	–	–	–	–	–	613
Shares issued	1	3,480	–	–	–	–	–	3,481
31 March 2008	114	76,982	–	8,245	124,905	5,738	(46,444)	169,540

[1] Restated to reflect the final allocation of the cost of the acquisition of Innovata (see note 2).

Company balance sheet

at 31 March 2008

	Notes	2008 £000	2007 £000
Assets			
Goodwill	10	2,022	2,022
Property, plant and equipment	12	1,840	3,552
Investments in subsidiary undertakings	13	133,936	135,164
Investments in associates	14	914	1,228
Other receivables	16	428	428
Non-current assets		139,140	142,394
Trade and other receivables	18	928	896
Cash and cash equivalents	24	76,856	76,370
Current assets		77,784	77,266
Total assets		**216,924**	219,660
Liabilities			
Trade and other payables	22	(6,032)	(4,156)
Deferred income	20	(480)	(864)
Current liabilities		(6,512)	(5,020)
Amounts owed to subsidiary undertakings	19	(20,434)	(16,895)
Deferred income	20	(384)	(646)
Non-current liabilities		(20,818)	(17,541)
Total liabilities		**(27,330)**	(22,561)
Net assets		**189,594**	197,099
Equity			
Share capital	25a	114	113
Share premium	25b	76,982	72,889
Special reserve	25c	8,245	8,245
Other reserve	25d	123,651	123,651
Share-based compensation reserve	25e	5,738	3,036
Retained loss		(25,136)	(10,835)
Total equity		**189,594**	197,099

These financial statements were approved by the Board of Directors on 21 May 2008 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 2008

	2008 £000	2007 £000
Operating loss	(18,961)	(8,303)
Depreciation and amortisation	797	682
Share-based compensation	344	1,633
(Increase)/decrease in receivables	(32)	3,929
Increase in payables	7,373	17,320
Decrease in deferred income	(646)	(3,181)
Other non-cash movements	314	(1,067)
Net cash (outflow)/inflow from operations	(10,811)	11,013
Research and development tax credits	1,865	1,216
Net cash (outflow)/inflow from operating activities	**(8,946)**	12,229
Cash flows from investing activities		
Costs in association with acquisition of Innovata	–	(2,830)
Interest received	4,425	2,633
Investment in associate	–	(160)
Purchase of property, plant and equipment	(424)	(2,319)
Receipts from sale of property, plant and equipment	1,337	–
Net cash inflow/(outflow) from investing activities	**5,338**	(2,676)
Net cash (outflow)/ inflow before financing activities	**(3,608)**	9,553
Cash flows from financing activities		
Proceeds from issue of ordinary shares	4,094	52,143
Share issue costs	–	(2,072)
Payment of finance lease liabilities	–	(14)
Interest on bank loans and overdrafts	–	(3)
Net cash inflow from financing activities	**4,094**	50,054
Increase in cash and cash equivalents	486	59,607
Cash and cash equivalents at beginning of period	76,370	16,763
Cash and cash equivalents at end of period	**76,856**	76,370

Company statement of changes in equity

for the year ended 31 March 2008

	Share capital £000	Share premium £000	Shares to be issued £000	Special reserve £000	Other reserve £000	Share-based compensation reserve £000	Retained loss £000	Total equity £000
Note	25a	25b		25c	25d	25e		
At 1 April 2006	62	22,869	1	8,245	2,874	1,403	(6,526)	28,928
Loss for the year	–	–	–	–	–	–	(4,309)	(4,309)
Total recognised income and expense for the year	–	–	–	–	–	–	(4,309)	(4,309)
Share-based compensation	–	–	–	–	–	1,633	–	1,633
Exercise of share options	–	203	–	–	–	–	–	203
Shares issued	51	51,889	(1)	–	120,777	–	–	172,716
Share issue costs	–	(2,072)	–	–	–	–	–	(2,072)
At 31 March 2007	113	72,889	–	8,245	123,651	3,036	(10,835)	197,099
Loss for the year	–	–	–	–	–	–	(14,301)	(14,301)
Total recognised income and expense for the year	–	–	–	–	–	–	(14,301)	(14,301)
Share-based compensation	–	–	–	–	–	2,702	–	2,702
Exercise of share options	–	613	–	–	–	–	–	613
Shares issued	1	3,480	–	–	–	–	–	3,481
At 31 March 2008	114	76,982	–	8,245	123,651	5,738	(25,136)	189,594

Notes to the financial statements

at 31 March 2008

1 Accounting policies

General information

Vectura Group plc is a public limited company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office and principal place of business is given on the back cover. The Company's ordinary shares are traded on the London Stock Exchange (LSE).

Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 1985 and International Financial Reporting Standards (IFRS) 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 International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

The separate financial statements of the Company are presented as required by the Companies Act 1985 and have been prepared in accordance with IFRS as adopted by the European Union. The Company is taking advantage of the exemption in s230 of the Companies Act 1985 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 2008 is £14.3 million (2007 – £4.3 million).

The financial statements have been prepared on the historical cost basis, revised for use of fair values where required by applicable IFRS. The consolidated financial statements are presented in sterling and all values are rounded to the nearest thousand (£000), except where otherwise indicated. The principal accounting policies adopted are set out below.

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 Vectura Group plc 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 impairment of indefinite-life intangible assets (including goodwill), the measurement of provisions, the estimation of share-based payment costs and the treatment of R&D expenditure in line with the relevant accounting policy.

The Group determines whether goodwill is impaired on an annual basis 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.

The measurement of provisions involves estimation of future cash flows and the associated level of liabilities expected to arise as a result of these cash flows.

The estimation of share-based payment costs requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgements relating to the probability of meeting non-market conditions and the continuing participation of employees.

The treatment of R&D 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.

1 Accounting policies (continued)

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.

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 in which they relate to.

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.

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 future cash-generating units monitored by management. Where the recoverable amount of the future 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 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. Expenditure on internally developed intangible assets, including development costs, 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; and
- the correlation between development costs and future revenues has been established.

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

Patents, trademarks and licence agreements – over the useful life of the asset
Computer software – 3 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.

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.

1 Accounting policies (continued)

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
Assets held under finance leases and hire purchase contracts, which confer risks and rewards to the Group similar to those attaching to owned assets, are capitalised as property, plant and equipment and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities and shown as obligations under finance leases, while the interest elements are charged through the income statement over the period of the lease to produce a constant rate of charge on the capital repayments outstanding. All other leases are 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.

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

The cost of equity-settled 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 IFRS 2 only to equity-settled awards granted after 7 November 2002 and not vested at 1 January 2005.

New accounting Standards and Interpretations
In the current year, the Group has adopted IFRS 7 – Financial Instruments: Disclosures, which is effective for annual reporting periods beginning on or after 1 January 2007. The impact of the adoption of IFRS 7 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 24). Five Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are:

- IFRIC 7 – Applying the Restatement Approach under IAS 29: Financial Reporting in Hyperinflationary Economies
- IFRIC 8 – Scope of IFRS 2
- IFRIC 9 – Reassessment of Embedded Derivatives
- IFRIC 10 – Interim Financial Reporting and Impairment
- IFRIC 11 – IFRS 2 Group and Treasury Share Transactions

The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

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:

- IFRS 8 – Operating Segments
- IFRIC 12 – Service Concession Arrangements
- IFRIC 13 – Customer Loyalty Programmes
- IFRIC 14 – IAS 19: The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction
- IAS 1 (Amendment) – Presentation of Financial Statements
- IAS 23 (Amendment) – Borrowing Costs

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 Innovata acquisition

On 18 January 2007, Vectura Group plc ("Vectura") acquired Innovata plc ("Innovata") and its subsidiaries for a consideration of £123.6m, including acquisition costs of £2.8m. This was satisfied by the issue of 143.8 million new ordinary shares in Vectura whereby Innovata's share capital was acquired by Vectura and Innovata shareholders were allotted new shares in Vectura.

Innovata earned revenues of £17.2 million in the year to 31 March 2008 (2007 – £3.0 million, 2.5 months), and achieved an operating profit of £4.7 million (2007 – £1.7 million loss, 2.5 months). Innovata's retained profit for the year to 31 March 2008 was £8.0 million (2007 – £1.4 million loss). An analysis of the EBITDA (earnings before interest, tax, depreciation and amortisation) for the operations for the period is shown below:

	2008 Group £000	2008 Vectura excl. IOV £000	2008 Innovata excl. VEC £000
Revenues	25,225	8,069	17,156
Cost of sales	(4,399)	(1,568)	(2,831)
Gross profit	20,826	6,501	14,325
Research and development costs	(28,027)	(22,769)	(5,258)
Administrative costs	(3,052)	(2,540)	(512)
EBITDA	(10,253)	(18,808)	8,555
Share of loss of associate	(314)		
Depreciation	(1,632)		
Amortisation	(10,177)		
Share-based compensation	(2,702)		
Net interest income	3,709		
Loss before taxation	(21,369)		
Taxation	2,163		
Loss after taxation	(19,206)		

In accordance with IFRS 3 – Business Combinations, the fair values assigned to the identifiable assets, liabilities and contingent liabilities acquired with the Innovata business on 17 January 2007 were determined provisionally on that date and these provisional estimates have been revised in the period to 17 January 2008.

The following table shows the original fair values of the net assets acquired from Innovata and the adjustments made to the original fair values:

	17/1/2007 Provisional £000	Revisions £000	17/1/2007 Final £000
Intangible assets	74,500	66	74,566
Property, plant and equipment	700	–	700
Investments	250	–	250
Inventories	228	–	228
Debtors	8,009	–	8,009
Deferred tax asset [1]	2,000	20,370	22,370
Cash	19,882	–	19,882
Creditors	(9,912)	–	(9,912)
Deferred income	(3,274)	–	(3,274)
Financial liability	(18,657)	4,301	(14,356)
Deferred tax liability [1]	(22,350)	(20)	(22,370)
Net assets acquired	51,376	24,717	76,093
Goodwill	72,267	(24,717)	47,550
Acquisition value	123,643	–	123,643

[1] In accordance with IAS 12 – Income Taxes, the deferred tax asset and deferred tax liability have been offset.

3 Revenue

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

Group revenue by category:	2008 £000	2007 £000
Product licensing	2,813	4,592
Technology licensing	2,920	1,713
Pharmaceutical development services	8,959	5,838
Royalties	9,062	1,443
Device sales	1,471	465
	25,225	14,051
Finance income:		
Interest income (note 5)	4,482	2,816
Total revenue	29,707	16,867

Revenue by customer location:	2008 £000	2007 £000
United Kingdom	7,869	3,246
Rest of Europe	8,372	9,371
United States of America	8,931	1,397
Rest of world	53	37
	25,225	14,051

4 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.

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

5 Finance income and finance costs

	2008 £000	2007 £000
Interest income:		
Interest receivable on bank deposits and similar income	4,482	2,816
Finance costs:		
Bank loans and overdrafts	–	(3)
Finance charges payable under finance leases	(14)	(10)
Imputed interest charge on financial liabilities	(759)	(121)
	(773)	(134)

6 Operating loss

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

	2008 £000	Restated [1] 2007 £000
Amortisation of intangible assets	10,177	1,952
Depreciation of property plant and equipment:		
– owned	1,632	1,242
– held under finance leases and hire purchase contracts	–	23
Share-based compensation	2,702	1,633
Share of loss of associate (after taxation)	314	208
Operating lease rentals:		
– land and buildings	846	456
– plant and machinery	182	86
Net foreign exchange (gain)/loss	(140)	32
Fees payable to Ernst & Young LLP for the audit of the parent company and consolidated financial statements	–	95
Fees payable to Deloitte & Touche LLP for the audit of the parent company and consolidated financial statements	55	–
Fees payable to Ernst & Young LLP and its associates for other services	43	120
Fees payable to Deloitte & Touche LLP and its associates for other services	73	35

[1] Restated to reflect the final allocation of the cost of the acquisition of Innovata (see note 2).

	2008 £000	2007 £000
Fees payable to Ernst & Young LLP and its associates for other services:		
Audit of the Company's subsidiaries pursuant to legislation	–	10
Corporate finance services	43	110
	43	120

	2008 £000	2007 £000
Fees payable to Deloitte & Touche LLP and its associates for other services:		
Audit of the Company's subsidiaries pursuant to legislation	43	–
Corporate finance services	30	35
	73	35

7 Directors and employees

Directors' remuneration

The aggregate remuneration comprised:

	2008 £000	2007 £000
Fees	173	143
Salaries and benefits	502	412
Bonuses	250	400
	925	955
Pension contributions	100	41
	1,025	996

Two Directors (2007 – two) receive company contributions to defined contribution personal pension plans. Four Directors exercised share options in the year and each increased their shareholding in the Company by Ordinary 50,000 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 Directors' 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:

	2008 No.	2007 No.
Research and development	231	153
Business development and administration	12	10
	243	163

The aggregate remuneration comprised:

	2008 £000	2007 £000
Wages and salaries	11,567	7,018
Social security costs	1,315	860
Other pension costs	647	407
	13,529	8,285

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 £2,702,000 (2007 – £1,633,000).

8 Taxation

The major components of the income tax charge for the years ended 31 March 2008 and 31 March 2007 are as follows:

	2008 £000	Restated [1] 2007 £000
Foreign withholding tax charge on royalties	(164)	(41)
Research and development tax credits	2,327	1,437
Total	2,163	1,396

Research and development tax credits are recorded upon 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:

	2008 £000	Restated [1] 2007 £000
Loss on ordinary activities before tax	(21,369)	(8,541)
Loss on ordinary activities multiplied by standard rate of tax in the UK of 30%	(6,411)	(2,562)
Effects of:		
Permanent differences – expenses not deductible for tax purposes	98	210
Other differences	–	(36)
Utilisation of Innovata tax losses	(3,676)	(130)
Unrecognised tax losses carried forward	9,989	2,518
Foreign withholding taxes	(164)	(41)
Research and development tax credits relating to prior years	2,327	1,437
Total tax credit for the year	2,163	1,396

Factors that may affect future tax charges:

Cumulative tax losses of approximately £133 million (2007 – £111 million), subject to agreement by HMRC, are available within the Group to carry forward against future taxable profits. There is a deferred tax asset of £38 million (2007 – £33 million), including these tax losses, of which £17 million are recognised (2007 – £20 million) and calculated at the standard rate of tax of 28%, as follows:

	2008 £000	2007 £000
On cumulative tax losses – unrecognised	19,807	10,753
On cumulative tax losses – recognised	17,482	20,332
On unclaimed capital allowances	879	700
On unexercised share options	135	1,627
Total	38,303	33,412

As described above, of the total deferred tax asset, £17 million has been recognised as a deferred tax asset as at 31 March 2008, 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 £108 million. A deferred tax asset of £17 million relating to these losses has been recognised as at 31 March 2008. 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 described below. As described in note 2, this deferred tax asset was increased during the year following the revision of the provisional estimate of the deferred tax asset in accordance with IFRS 3 – Business Combinations.

Deferred tax liability

A deferred tax liability of £17 million exists at 31 March 2008. This relates to 28% of the intangible asset value at that date. This deferred tax liability will result in no cash tax charge as it is offset by an equal and opposite deferred tax asset, as described above.

[1] Restated to reflect the final allocation of the cost of the acquisition of Innovata (see note 2).

9 Loss per ordinary share

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

	2008	Restated [1] 2007
Loss for the year (£000)	(19,206)	(7,145)
Weighted average number of ordinary shares (No. 000)	315,793	155,205
Loss per ordinary share	(6.1p)	(4.6p)

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 and warrants would have the effect of reducing the loss per ordinary share, and is therefore not dilutive.

[1] Restated to reflect the final allocation of the cost of the acquisition of Innovata (see note 2).

10 Goodwill

Group	2008 £000	Restated [1] 2007 £000
Cost:		
At 1 April	49,562	2,012
Additions	–	47,550
At 31 March	49,562	49,562
Net book value:		
At 31 March	49,562	49,562
At 1 April	49,562	2,012

Goodwill existing at 1 April 2006 arose on the acquisition of Vectura Limited and Vectura Delivery Devices Limited.

The addition to goodwill added during the year ended 31 March 2007 arose on the acquisition of Innovata plc, and results from assets which cannot be recognised separately and measured reliably, including early-stage pipeline products and a highly skilled workforce.

As stated in note 2, as a result of finalising the allocation of the purchase cost, goodwill relating to the acquisition of Innovata plc is restated.

Goodwill is allocated to future cash-generating units 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 product-by-product analyses based on individual forecasts for development timings, royalty and growth rates. The discount rate used in the forecasts is 13%.

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

	2008 £000	Restated [1] 2007 £000
Co-ordinated Drug Development Limited (since re-named Vectura Limited)	1,476	1,476
Vectura Delivery Devices Limited	536	536
Innovata Limited	47,550	47,550
	49,562	49,562

Company	£000
Carrying amount:	
At 31 March 2007 and 31 March 2008	2,022

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 on the same basis as for the Group, within the PDS cash-generating unit.

[1] Restated to reflect the final allocation of the cost of the acquisition of Innovata (see note 2).

11 Intangible assets

Group	VDD Patents and trademarks 2008 £000	Innovata licences 2008 £000	Total 2008 £000	VDD Patents and trademarks 2007 £000	Innovata licences 2007 £000	Restated [1] Total 2007 £000
Cost:						
At 1 April	3,490	74,566	78,056	3,490	–	3,490
Additions	–	–	–	–	74,566	74,566
At 31 March	3,490	74,566	78,056	3,490	74,566	78,056
Amortisation:						
At 1 April	(3,490)	(1,952)	(5,442)	(3,490)	–	(3,490)
Charge for the year	–	(10,177)	(10,177)	–	(1,952)	(1,952)
At 31 March	(3,490)	(12,129)	(15,619)	(3,490)	(1,952)	(5,442)
Net book value:						
At 31 March	–	62,437	62,437	–	72,614	72,614
At 1 April 2006	–	–	–	–	–	–

Intangible assets recognised upon the acquisition of Innovata 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 four and ten years.

[1] Restated to reflect the final allocation of the cost of the acquisition of Innovata (see note 2).

12 Property, plant and equipment

Group	Laboratory equipment £000	Office and IT equipment £000	Motor vehicles £000	Total £000
Cost:				
At 1 April 2006	7,448	171	–	7,619
Additions	2,083	113	–	2,196
Acquisition	188	449	63	700
Disposals	(65)	–	(2)	(67)
At 31 March 2007	9,654	733	61	10,448
Additions	660	85	–	745
Disposals	(1,339)	(3)	(58)	(1,400)
At 31 March 2008	8,975	815	3	9,793
Depreciation:				
At 1 April 2006	(3,408)	(140)	–	(3,548)
Charge for the year	(1,187)	(66)	(12)	(1,265)
Disposals	–	–	–	–
At 31 March 2007	(4,595)	(206)	(12)	(4,813)
Charge for the year	(1,477)	(143)	(12)	(1,632)
Disposals	15	3	23	41
At 31 March 2008	(6,057)	(346)	(1)	(6,404)
Net book value:				
At 31 March 2008	2,918	469	2	3,389
At 31 March 2007	5,059	527	49	5,635
At 31 March 2006	4,040	31	–	4,071

The net book value of assets above includes the following assets held under hire purchase agreements and finance leases:

Group	Laboratory equipment £000	Office and IT equipment £000	Motor vehicles £000	Total £000
At 31 March 2008	–	–	–	–
At 31 March 2007	–	–	49	49

12 Property, plant and equipment (continued)

Company	Laboratory equipment £000	Office and IT equipment £000	Motor vehicles £000	Total £000
Cost:				
At 1 April 2006	3,763	102	–	3,865
Additions	1,969	105	–	2,074
Disposals	(65)	–	–	(65)
At 31 March 2007	5,667	207	–	5,874
Additions	353	68	3	424
Disposals	(1,339)	–	–	(1,339)
At 31 March 2008	4,681	275	3	4,959
Depreciation:				
At 1 April 2006	(1,568)	(72)	–	(1,640)
Charge for the year	(658)	(24)	–	(682)
Disposals	–	–	–	–
At 31 March 2007	(2,226)	(96)	–	(2,322)
Charge for the year	(744)	(67)	(1)	(812)
Disposals	15	–	–	15
At 31 March 2007	(2,955)	(163)	(1)	(3,119)
Net book value:				
At 31 March 2008	1,726	112	2	1,840
At 31 March 2007	3,441	111	–	3,552
At 31 March 2006	2,195	30	–	2,225

The net book value of assets above does not include any assets held under hire purchase agreements and finance leases.

13 Investments in subsidiary undertakings

Company	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Total £000
Cost:			
At 1 April 2006	2,113	10,088	12,201
Additions	123,643	–	123,643
Reduction	–	(610)	(610)
At 31 March 2007	125,756	9,478	135,234
Reduction	–	(1,228)	(1,228)
At 31 March 2008	125,756	8,250	134,006
Amounts written off:			
At 1 April 2006, 1 April 2007 and 31 March 2008	(70)	–	(70)
Net book value:			
At 31 March 2008	125,686	8,250	133,936
At 31 March 2007	125,686	9,478	135,164
At 31 March 2006	2,043	10,088	12,131

Details of the investments in 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
Innovata Limited	England	Ordinary	100%	Pharmaceuticals
Innovata Biomed Limited [1]	Scotland	Ordinary	100%	Pharmaceuticals
Quadrant Technologies Limited [1]	England	Ordinary	100%	Pharmaceuticals
Quadrant Healthcare Limited [2]	England	Ordinary	100%	Pharmaceuticals
Quadrant Drug Delivery Limited [2]	England	Ordinary	100%	Pharmaceuticals

[1] a subsidiary of Innovata Limited

[2] a subsidiary of Quadrant Technologies Limited

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

14 Investments in associates and joint ventures

Group and company	Total £000
Balance at 1 April 2006	–
Value at 12 May 2006	61
Share of loss	(61)
	–
Value at 17 November 2006	1,375
Share of loss	(147)
Balance at 31 March 2007	1,228
Share of loss from 1 April 2007 to 31 March 2008	(314)
Balance at 31 March 2008	914

PharmaKodex Ltd

PharmaKodex Limited ("PharmaKodex") was a 100%-owned subsidiary until 12 May 2006. From this date, the Group held a 49.99% interest until 17 November 2006, when the holding was diluted to 20.40%. PharmaKodex has been accounted for as an associate under the equity method in accordance with IAS 28 – Investments in Associates.

Aggregated unaudited amounts relating to the associate for the year ended 31 March 2008, which is unlisted, are shown below:

	2008 £000	2007 £000
Assets	4,890	6,375
Liabilities	(412)	(357)
Net assets	4,478	6,018
Turnover	15	145
Loss after taxation	(1,652)	(1,402)

QDose Limited

The Group also has a 50% investment in a joint venture with Microdose Technologies Limited. This investment is carried at £nil as the joint venture has net liabilities. The Group does not continue to recognise losses in excess of the value of its investment.

15 Trade investment

The Group has an investment in an unquoted company, representing 12% of the share capital of that company. The value in the balance sheet is stated at fair value.

16 Other receivables

Group and Company

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 fixed annually and was 4.75% for the year ended 31 March 2008. Interest is recognised using the effective interest method.

17 Inventories

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Finished goods	190	202	–	–

18 Trade and other receivables

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Trade receivables	2,920	2,099	715	421
Other receivables	18	14	18	6
Prepayments and accrued income	2,798	5,538	24	4
VAT recoverable	250	579	171	465
	5,986	8,230	928	896

Debtor days at the year end were 71 days (2007 – 54 days). No interest was charged on receivables. The Directors consider that the carrying value of trade and other receivables approximates to their fair value.

19 Amounts owed to subsidiary undertakings

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Amounts falling due after more than one year:				
Owed to subsidiary undertakings	–	–	20,434	16,895

20 Deferred income

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

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Amounts due within one year	5,499	4,400	480	864
Amounts due in more than one year	8,194	6,888	384	646
	13,693	11,288	864	1,510

Approximately £5.7 million of the total deferred income of £13.7 million outstanding at 31 March 2008 is potentially repayable under certain circumstances.

21 Financial liabilities

Group	£000
At 1 April 2007 (restated[1])	13,970
Utilised	(5,213)
At 31 March 2008	8,757

	2008 £000
Provisions due within one year	860
Provisions due in more than one year	7,897
	8,757

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 £22.5 million in return for which Paul Capital would receive 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 I (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 will be 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

The provision as at 31 March 2008 of £8.8 million is based on the total future discounted minimum payments due excluding an imputed interest charge of £0.7 million.

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®. These fixed prices (subject to certain adjustments to reflect payments made and royalty sharing entitlements earned during the relevant year) would be as follows:

Exercise date	Put option price
Between 1 October 2007 and 30 September 2008	US$40,000,000
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.

[1] Restated to reflect the final allocation of the cost of the acquisition of Innovata (see note 2).

22 Trade and other payables

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Amounts falling due within one year:				
Trade payables	1,854	1,063	1,027	757
Other taxes and social security costs	380	416	212	192
Other payables	404	438	37	47
Accruals	7,332	6,143	4,756	3,160
	9,970	8,060	6,032	4,156

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken by the Group for trade purchases is 29 days (2007 – 32 days). The average credit period taken by the Company for trade purchases is 33 days (2007 – 30 days).

23 Obligations under finance leases

The maturity of these amounts is as follows:

Group:	2008 £000	2007 £000
Amounts payable under finance leases:		
Within one year	–	410
Less: finance charges allocated to future periods	–	–
	–	410

There are no finance leases held in the Company at 31 March 2008 (2007 – £nil).

Details of the movements in finance leases and hire purchase contracts in the year are as follows:

	2008 £000	2007 £000
At 1 April	410	14
Acquired as part of Innovata	–	535
Repayments made	(410)	(139)
At 31 March	–	410

24 Financial instruments

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 25a), 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.

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 2008 and 31 March 2007 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 7-day sterling London Inter-Bank Offer Rate (LIBOR).

Foreign currency risk management

The Group had no significant commitments to foreign currencies throughout the period. When foreign currencies are received the business aims to match these with payments in foreign currency. Where there are no imminent foreign exchange transactions, the balances are exchanged for sterling at spot rate.

Interest rate and currency profile of financial instruments at the year-end:

Group	2008 £000	2007 £000
Cash and cash equivalents (held at floating rates):		
Sterling	79,041	76,700
US Dollar	(178)	190
Euro	(59)	139
	78,804	77,029
Short-term investments:	%	4.75%
Amounts on deposit for a period of more than 3 months (fixed rate)	–	500
	–	500
Other receivables:	4.75%	3.50%
Investment bond (fixed rate)	428	428
	428	428
Finance leases:	%	5.20%
Finance leases (fixed rate)	–	(410)
	–	(410)

The amounts disclosed reflect the book value and fair value of the Group's financial instruments. 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. The fair value of the financial instruments is as per the book values disclosed above. The fair value of the investment bond and finance leases is identical to the book values as disclosed in notes 16 and 23.

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

Company	Floating rate 2008 £000	2007 £000
Cash and cash equivalents (held at floating rates):		
Sterling	77,131	76,176
US Dollar	(217)	55
Euro	(58)	139
	76,856	76,370
Other receivables:	4.75%	3.50%
Investment bond (fixed rate)	428	428
	428	428

Categories of financial instruments

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

	2008 £000	2007 £000
Amounts receivable from revenues	715	421
Other receivables	428	428
Short term investments	–	500
Cash and cash equivalents	78,804	77,029
	79,947	78,378

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

	2008 £000	2007 £000
Trade creditors and accruals	(9,186)	(7,206)
Deferred income	(13,693)	(11,288)
Obligations under finance leases	–	(410)
Financial liabilities	(8,757)	(13,970)
	(31,636)	(32,874)

24 Financial instruments (continued)

Foreign currency sensitivity analysis

The Group's principal functional currency is sterling. However, the Group had expenditure in US dollars and euros during 2008 and 2007. The Group's policy is to maintain natural hedges, where possible, by matching foreign currency revenues with matching foreign currency expenditure. The Group considers foreign currency risk to be immaterial due to natural hedges and to the low amounts of foreign currency held.

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 £4.5 million of finance income during the year (2007 – £2.8 million). 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 2008 would increase/decrease by £0.4 million (2007 – £0.2 million).

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 credit risk is primarily attributed to its cash and cash equivalents. The risk is limited because the Group primarily deposits its cash with banks that have an AAA rating with S&P, Moody's and Fitch.

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.

25 Equity

(a) Share capital

	2008 £000	2008 No. 000	2007 £000	2007 No. 000
Authorised:				
Ordinary shares of 0.025p each	110	441,200	110	441,200
Redeemable preference shares of £1 each	34	34	34	34
Allotted, called up and fully paid:				
Ordinary shares of 0.025p each:				
At 1 April	79	314,518	28	110,330
Issued to investors	1	3,628	15	57,881
Issued to Share Investment Plan	–	123	–	300
Issued on exercise of share options	–	1,242	–	832
Issued on acquisition of Innovata plc	–	–	36	143,825
Issued in satisfaction of deferred consideration	–	–	–	1,350
At 31 March	80	319,511	79	314,518
Redeemable preference shares of £1 each:				
At 1 April and 31 March	34	34	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.

In accordance with the terms of a licensing agreement dated 16 April 2006 signed with Boehringer Ingelheim International GmbH ("Boehringer"), Boehringer agreed to subscribe for ordinary shares in the Company for a consideration of €5,000,000 upon the achievement of certain milestones. Accordingly, on 12 December 2007 Boehringer subscribed for 3,628,145 ordinary shares of 0.025p each at a price of £0.9595 per share. The subscription price per share was equal to the average of the middle-market quotation for an ordinary share in the capital of the Company as reported by the London Stock Exchange for the 30 dealing days ending three business days prior to the effective date of the Deed of Subscription signed with Boehringer on 13 November 2007, plus a premium of 35%.

Between 1 April 2007 and 31 March 2008 the Company issued 122,579 ordinary shares of 0.025p each to the Vectura Group plc Employee Benefit Trust in satisfaction of the issue of Matching Shares due to employees.

Between 1 April 2007 and 31 March 2008 the Company issued 1,241,972 (2007 – 832,327) ordinary shares of 0.025p each on exercise of employee share options at an average exercise price of 49.4 pence per share (2007 – 24.4 pence).

(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 IPO 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.

(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.

26 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 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 over .2858 Vectura shares for every one Innovata share.

The Company operates a Save as You Earn Share Option Scheme (the "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 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. Further information on the performance conditions of the LTIP are detailed in the Report on Directors' remuneration. At 31 March 2008, Executive Directors and eligible senior managers hold rights which may result in the issue of 949,776 ordinary shares on 12 September 2008, 668,814 ordinary shares on 22 November 2009, 329,670 ordinary shares on 2 March 2010 and 842,269 ordinary shares on 25 May 2010.

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 2008, there were 3,968,221 options outstanding that were granted before this date (2007 – 4,460,450).

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

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

	Year of grant 2008	2007
Weighted average share price of grants during the year	68.31p	92.27p
Expected volatility[1]	33–48%	47–59%
Expected life	5 years	5 years
Expected dividends	Nil	Nil
Risk-free interest rate[2]	3.9–5.6%	4.9–5.4%
The assumptions input into the Monte Carlo model were as follows:		
Weighted average share price of grants during the year	88.65p	92.34p
Expected volatility[1]	48%	48%
Expected life	3 years	3 years
Expected dividends	Nil	Nil
Risk-free interest rate[2]	5.7%	5.0–5.3%

[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 2008, including the LTIP, is £2,702,000 (2007 – £1,633,000).

The aggregate of the estimated fair value of options granted under share option schemes during the year ended 31 March 2008 was £576,000 (2007 – £435,000) and under the SAYE Scheme £226,000 (2007 – £178,000). The estimated fair value of the LTIP awards during the year ended 31 March 2008 was £510,000 (2007 – £555,000).

26 Equity-settled share option schemes and Long-Term Incentive Plan (continued)

Options outstanding

	Share Option Schemes Number of options	WAEP*	SAYE Scheme Number of options	WAEP*	LTIP Number of options	WAEP*
At 1 April 2006	11,306,556	41.72	701,660	55.86	1,032,611	77.50
Options acquired from Innovata plc	9,496,791	93.83	–	–	–	–
Options granted	1,045,462	92.27	439,003	71.20	998,484	92.34
Options exercised	(832,327)	24.43	–	–	–	
Options cancelled	(42,900)	70.75	(19,397)	50.80	(82,835)	77.50
At 31 March 2007	20,973,582	68.45	1,121,266	61.95	1,948,260	85.11
Options granted	1,915,831	68.31	1,656,476	36.00	842,269	88.65
Options exercised	(1,241,972)	49.38	–	–	–	–
Options cancelled	(791,701)	206.64	(380,792)	70.70	–	–
At 31 March 2008	20,855,740	63.85	2,396,950	42.63	2,790,529	86.18
Range of exercise prices		0.025p–489p		36p–72p		
Weighted average of remaining contractual life		6.01 years		2.75 years		8.43 years

Options vested

	Share Option Schemes Number of options	WAEP*	SAYE Scheme Number of options	WAEP*	LTIP Number of options	WAEP*
At 31 March 2007	10,387,229	67.82	–	–	–	–
At 31 March 2008	15,002,506	58.26	–	–	–	–
Weighted average of remaining contractual life	5.15 years		N/A		N/A	

* = Weighted average exercise price (p)

27 Analysis of net funds

Group	Restated [1] 1 April 2007 £000	Cash flow £000	Non-cash movements £000	31 March 2008 £000
Cash and cash equivalents	77,529	1,275	–	78,804
Financial liabilities	(13,970)	5,972	(759)	(8,757)
Finance leases	(410)	410	–	–
	63,149	7,657	(759)	70,047

[1] Restated to reflect the final allocation of the cost of the acquisition of Innovata (see note 2).

28 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 7. At 31 March 2008, contributions of £58,902 (2007 – £47,593), due in respect of the current reporting period, had not been paid over to the scheme. This amount is included in other payables (note 22).

29 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		Total	
	2008	2007	**2008**	2007	**2008**	2007
Group	**£000**	£000	**£000**	£000	**£000**	£000
Expiry date:						
Within one year	829	672	114	108	943	780
In the second to fifth years inclusive	3,030	1,316	44	71	3,074	1,387
After five years	3,039	1,332	–	–	3,039	1,332
	6,898	3,320	158	179	7,056	3,499

On 26 July 2002, the Company 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 Company 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, Vectura Delivery Devices Limited entered into a 5-year lease agreement in respect of premises at Cambridge Science Park, Milton Road, Cambridge. There is a break clause in June 2008.

On 27 October 2006, Vectura Delivery Devices Limited entered into a lease agreement in respect of additional premises at Cambridge Science Park, expiring on 13 June 2010.

On 23 February 1996, Quadrant Technologies Limited entered into a lease in respect of the premises at Ruddington, expiring on 27 July 2017.

All items in the above table also relate to the Company, with the exception of the Cambridge and the Quadrant Technologies Limited leases described above.

30 Capital and other commitments

At the year-end the Group and Company had capital commitments contracted, but not provided for, of £56,000 (2007 – £29,000).

At the year end the Group also had a potential commitment to pay future milestones in relation to an agreement with Theradeas Limited based on successful clinical development of three potential products. There are no royalties due to Theradeas Limited if these products are successfully launched (see note 31).

31 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.

On 6 April 2006, the Company entered into an agreement with Theradeas Limited in relation to an initial evaluation of three inhaled therapy concepts that are the subject of Theradeas's patent applications. The broad concept is that Vectura and Theradeas would, following successful completion of Vectura's initial evaluation, enter into a collaboration that would be funded by Vectura. Under the collaboration, Theradeas would grant Vectura an exclusive licence, with rights to sub-license, over the Theradeas patents and know how, to develop, manufacture and commercialise inhaled products resulting from their patents. In accordance with this agreement, a payment of £40,000 was made to Theradeas in the year ended 31 March 2008 (2007 – £125,000). Dr A J M Richards, a Non-Executive Director of Vectura Group plc, is also a Non-Executive Director and shareholder of Theradeas Limited.

As noted in the Board's Report on Directors' remuneration, during the year £4,000 (2007 – £nil) was paid to Dr S Foden for consultancy services.

Dr Richards is a Non-Executive Director and has a holding of 1.84% in PharmaKodex Limited, an associated company (note 14).

Remuneration of key management personnel

	2008 £000	2007 £000
Short-term employee benefits	1,042	1,062
Post-employment benefits	100	41
Share-based payment	661	522
	1,803	1,625

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.

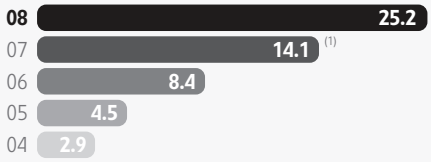
Related party	Recharge from related parties £000	Recharge to related parties £000	Amounts owed by related parties £000	Amounts owed to related parties £000
Subsidiaries:				
2008	2,762	6,832	8,250	20,434
2007	619	3,202	9,478	16,895

Five-year summary

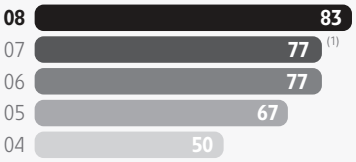
year ended 31 March

Trading results (All amounts are shown in £ millions)

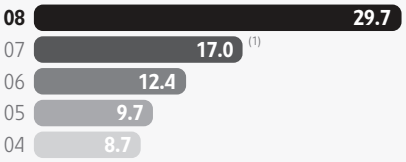
Turnover



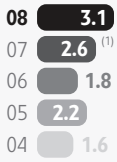
% gross profit to sales



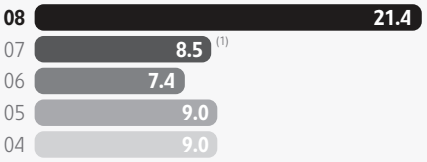
Research and development



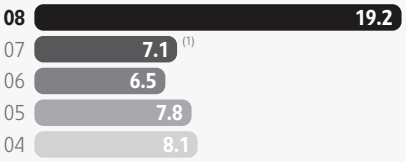
Administrative expenses



Loss before tax

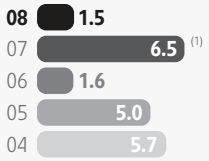


Loss after tax

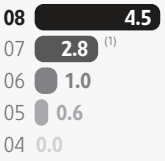


Cash flows (All amounts are shown in £ millions)

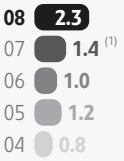
Net cash outflow from operations



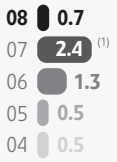
Interest



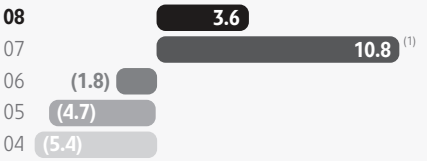
Research and development tax credits



Capital expenditure

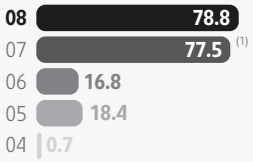


Net cash (outflow)/inflow before financing

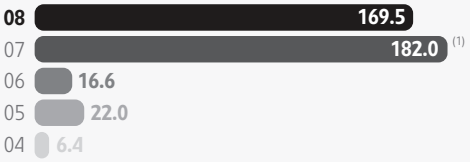


Balance sheet (All amounts are shown in £ millions)

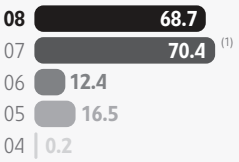
Net cash and cash equivalents



Shareholder funds



Net current assets



(1) Restated to reflect the final allocation of the cost of the acquisition of Innovata (see note 2).

Note: 2005 figures have been adjusted to reflect the impact of the IFRS restatement made in 2006. The 2004 figures are stated under UK GAAP.

Shareholder information

Directors
John ("Jack") P Cashman (Non-Executive Chairman)
Dr Christopher P Blackwell (Chief Executive)
Dr John R Brown (Non-Executive)
Dr Susan E Foden (Non-Executive)
Anne P Hyland (Chief Financial Officer)
Dr Andrew J M Richards (Non-Executive)

Secretary
Anne P Hyland

Nominated adviser and broker
Piper Jaffray Limited
One South Place
London
EC2M 2RB, UK

Registrars
Computershare Investor Services plc
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH, UK

Public relations
Financial Dynamics Limited
26 Southampton Buildings
London
WC2A 1PB, UK

Auditors
Deloitte & Touch LLP
126-130 Hills Road
Cambridge
CB2 1RY, UK

Bankers
Barclays Bank plc
28 Chesterton Road
Cambridge
CB4 3UT, UK

Solicitors
Olswang
90 High Holborn
London
WC1V 6XX, UK

Designed and produced by Fox Design Consultants www.foxdc.co.uk

Printed by The Midas Press
The text is printed on Revive 100 Uncoated, FSC certified as containing 100% post-consumer reclaimed material and manufactured at a mill accredited with ISO 14001. The pulp used in this product is bleached using an Element Chlorine Free process (ECF).

The cover is printed on an FSC Mixed Sources certified paper.