Delivering

for our customers and their patients

VECTURA

Vectura Group plc
Annual Report and Accounts 2020

Delivering

for our customers and their patients

> 20
years of experience

13
approved inhaled products utilising Vectura's IP

10m+
global patients using products utilising Vectura's IP in 2020[1]

Our ambition is to create the market-leading company in the inhalation CDMO[2] space to deliver long-term growth and sustained returns.

Our strategy focuses on:

1

Building a first-class business development and marketing function to diversify our customer base and grow our market share

2

Ensuring excellence in our execution at every stage of the customer experience

3

Enhancing our competitive position through industry-leading science and innovation to serve the future needs of our customers

1 Evaluate Pharma, internal estimates.

2 Contract Development and Manufacturing Organisation.

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

For more information visit
www.vectura.com
@vecturagroup

Highlights

2020 financial performance ahead of expectations

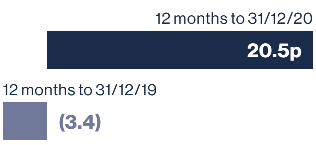
Operational highlights

- Strong execution of strategy to become an industry-leading inhalation CDMO
  - New Business Development team now established with presence in East and West Coast US, Europe and UK
  - 18 new CDMO contracts signed during the year, contributing £3.0m to revenues in H2 2020
- Progress across co-development pipeline
  - Approval of VR315 (US), generic Advair® programme partnered with Hikma, in December 2020 triggered milestones of $11m
  - Approval of Enerzair® Breezhaler® in Japan and Europe triggered milestones of $6.25m
- Operational transformation continues, with phased transition of R&D operations from Switzerland to the UK now underway
- US Jury verdict upheld at appeal in patent litigation against GSK; £127.6m received to-date in 2021, with further royalties due for Q1 and Q2 2021
- Post period update: Following a review of the Group's capital allocation priorities, the Board has approved, in principle, a special dividend of approximately £115m intended to be paid during 2021

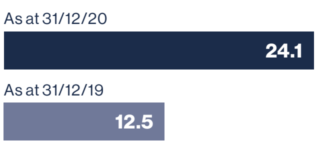
Financial highlights

- Total revenue of £190.6m increased by 6.9% versus prior year (2019: £178.3m)
  - Product supply revenue decreased by 4.4% to £109.9m; *flutiform*® product supply revenues marginally ahead of guidance at £95.8m
  - Development services revenues increased by 4.4% to £11.9m (2019: £11.4m), reflecting contribution from new CDMO contracts in second half of financial year
  - Royalty and other marketed revenues increased by 32.6% to £68.8m (2019: £51.9m), driven by milestones and Q4 GSK Ellipta® royalties of £6.5m following successful US litigation outcome
- Gross profit increased by 6.4% to £101.4m (2019: £95.3m)
- Adjusted EBITDA[1] increased by 41.7% to £61.5m (2019: £43.4m), reflecting an increase in Royalty and other marketed revenues and a material decrease in R&D investment
- Operating profit of £132.8m (2019: £27.0m loss) driven by the recognition of £121.1m exceptional income for damages and interest associated with the enforcement of a patent covering three US GSK Ellipta® products and improved adjusted EBITDA performance
- Strong liquidity maintained with closing cash and cash equivalents of £78.6m (2019: £74.1m), reflecting free cash flow generation of £24.1m and a share buyback of approximately £16.4m during 2020

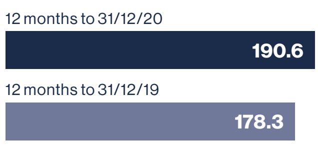
Basic EPS
p
20.5p
n/m



Free cash flow
£m
£24.1m
+92.8%



Revenue
£m
£190.6m
+6.9%



This is an exciting time for the Group and with continued momentum expected from our CDMO business, we look forward to a positive 2021.

Will Downie, Chief Executive Officer

The business has performed well during 2020, delivering financial performance ahead of expectations. We are pleased with the progress we have made against our inhalation CDMO strategy.

Paul Fry, Chief Financial Officer

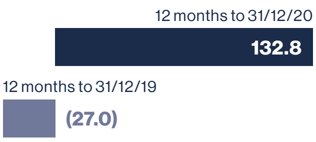
Guidance and outlook

- The operational focus of the business in 2021 continues to be on the execution of our services based strategy. Building on the positive momentum seen in 2020, Vectura expects the revenue contribution from CDMO service based agreements to more than triple versus 2020. Revenues from co-development contracts are expected to remain broadly in-line with 2020.
- As previously announced, *flutiform*® product supply revenues benefited from partner stock builds in both 2019 and 2020, driven by moves towards more conservative stock holding policies given supply chain uncertainties, including Brexit, and in the case of Japan a move from air to sea freight. These stock builds are not expected to recur in 2021, with partner demand forecasts indicating Vectura product supply revenue in the range of £75m – £80m. From 2022 onwards, Vectura product supply volumes are expected to align more closely with underlying growth of in-market sales.
- Royalties and other marketed revenues benefited from $17.3m approval milestones in 2020, following approval of generic Advair® and Enerzair® Breezhaler®. Excluding milestones and any 2021 royalty contributions from Hikma and GSK, underlying royalties for 2021 will remain broadly in-line with 2020 (2020: £40.1m).
- R&D is expected to be within a £22m – £25m range, comprising continued investment in the generic Ellipta® programme with Hikma, and focused investment in our platform technologies and capabilities to maintain our specialised and broad spectrum of inhalation capabilities.
- Reflecting the Group's transition towards a development services model and restructuring of the Group's operational footprint, the Group expects to incur low-single digit £'millions of exceptional cash costs in 2021.

Operating profit
£m

£132.8m

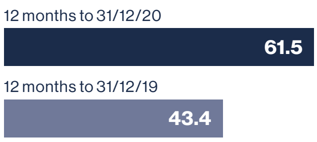
n/m



Adjusted EBITDA[1]
£m

£61.5m

+41.7%



1 Adjusted EBITDA is a non-IFRS measure comprising operating loss, adding back amortisation and impairment, depreciation, share-based payments and exceptional items. A reconciliation of operating loss to adjusted EBITDA is presented in note 9 of the financial statements.

At a glance

Providing innovative inhaled drug delivery services

Molecules

Customers choose us for our unique combination of inhalation development expertise, formulation science and device technology

Formulation
Proven formulation capability

Device platforms
Proprietary devices and development capability: DPI, pMDI and nebuliser

Medicines

Executing on our inhalation CDMO strategy

c.$11bn[1]
cum. partner sales of inhaled products using our technology since initial launch in 2012

18
CDMO deals signed during 2020

27
molecules being worked on

10
disease areas in which we work

Despite the challenges of the coronavirus pandemic, we have continued to execute on our inhalation CDMO strategy, signing 18 deals during 2020, with revenue from this new business beginning to build in the second half of the year.

+ Read more about our strategy on page 18

We have made important progress across our co-development pipeline, and in December 2020 we were pleased to announce FDA approval of our generic Advair® programme (VR315 (US)), partnered with Hikma Pharmaceuticals.

+ For further information, see page 19

1 Evaluate Pharma and partner quarterly reports.

Current partnerships and licensees

BAYER, hikma., KINGYORK, Kyorin, mundipharma, NOVARTIS, SANDOZ A Novartis Division

Investment case

1. A proven track record with highly differentiated inhalation expertise, technology and IP
2. Competing in an attractive, specialist segment of the wider, growing outsourced healthcare market
3. Lower-risk service delivery strategy, focused on meeting the growing demand for complex inhalation services
4. Cash-generative business, with a strong balance sheet

Shaping a stronger and more agile organisation

Protecting the health, safety and wellbeing of our employees, ensuring the continued supply of important medicines to our partners, and delivering for our CDMO customers and their patients have remained Vectura's priorities throughout the COVID-19 outbreak.

Protecting employees

Excellent response from our teams

Our primary focus has been to protect the safety and wellbeing of our staff, and the teamwork, dedication and resilience of our employees have been exceptional. I really cannot thank our team enough.

Will Downie
Chief Executive Officer

98%

of our employees were able to work throughout the crisis in 2020, either on site or remotely

Informed by robust crisis management and business continuity plans, our laboratories and manufacturing sites have remained open and operational throughout the national lockdowns, with social distancing and stringent hygiene protocols in place to protect employees.

Where possible, extensive home working utilising digital platforms was encouraged and, as a consequence, 98% of our employees were able to work throughout the crisis in 2020, either on site or remotely.

Our "COVID-19 Management Team" (CMT) has ensured that our employees feel supported, and a number of new health, safety and wellbeing initiatives have been rolled out across the business. The CMT communicates regularly and proactively with employees, sharing the latest guidance, whilst listening and responding to their feedback.

The COVID-19 outbreak has taught us just what we can achieve by working in new ways. As a consequence, in 2020 we launched a new agile working approach for the long term, building on learnings and positive work experiences during the pandemic so far.

Maintaining product supply

Operational sites remained open

Our main focus has been to maintain a robust supply chain to ensure continued supply of important products to our partners and their patients.

We saw no supply disruption in our portfolio in 2020 as a result of COVID-19, with no shortages of products, active pharmaceutical ingredients or components, which was testament to our strong partnerships with suppliers and the efforts of our operations team.

We have worked closely with key suppliers to identify and mitigate potential supply chain disruptions, and closely monitored inventory levels to ensure that continuity of supply was maintained.

> We saw no supply disruption in our portfolio as a result of COVID-19.

Financial resilience

Business resilience maintained

Despite the pandemic crisis and the risks posed by COVID-19, with a strong balance sheet, an undrawn £50m revolving credit facility (RCF) and minimal corporate debt, Vectura continued to be a resilient business and did not access any government funding schemes. The Group's current RCF expires in August 2022.

> Despite the pandemic crisis, Vectura did not access any government funding schemes.

Delivering for customers

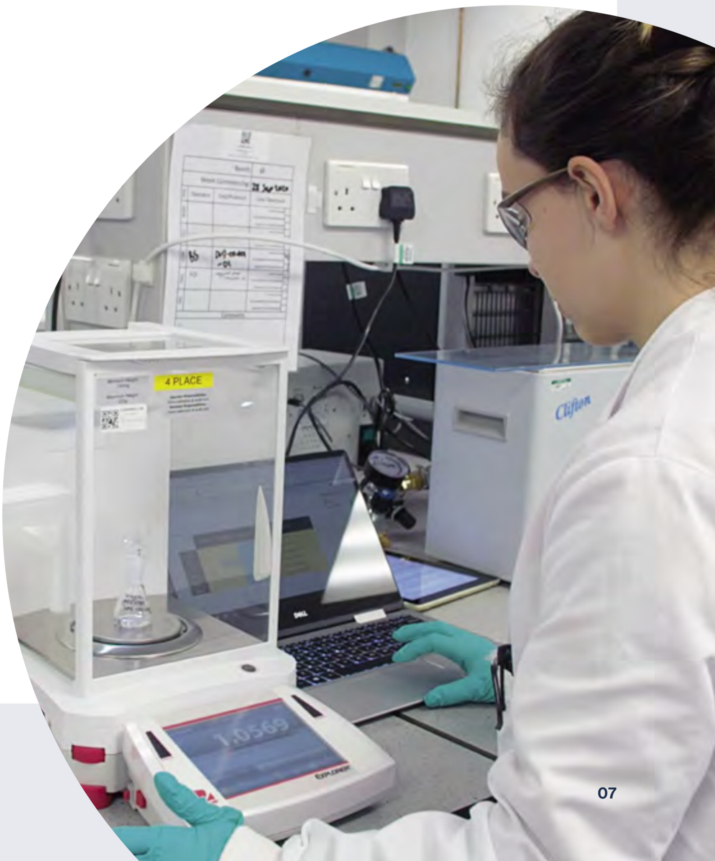
Continuing to execute our strategy

> We made significant progress in expanding our business development funnel, signing 18 new CDMO deals.

We have continued to execute on our inhalation CDMO strategy, delivering for our customers and continuing the formulation and development of their products, despite our interactions with them being conducted in a virtual world.

To support this, we have continued with the transformation and simplification of our core business processes, whilst managing a diverse range of new projects.

Virtual marketing and business development activities continued throughout the year and beyond, and despite travel restrictions being in place, we made significant progress in expanding our business development funnel in 2020, signing 18 new CDMO deals.



Chairman's statement

Our teams responded excellently

“

The management team and all our employees have demonstrated great agility and made significant headway with the further evolution of the Group.

Dear Shareholder

Despite the unprecedented challenges of the global pandemic, 2020 has been a year of progress for Vectura. Work in our laboratories and manufacturing facilities continued, ensuring the Group delivered for customers, their patients and our shareholders.

The management team and all our employees have demonstrated great agility and made significant headway with the further evolution of the Group into a market-leading inhalation contract development and manufacturing organisation (CDMO).

Vectura signed 18 new CDMO contracts during 2020, addressing a diverse range of client needs across a wide range of indications and molecules. At the same time, the Group transformed many of its core business processes and continued the cultural adjustment required to succeed as a CDMO. The Board are pleased with the progress made so far, which reinforces our confidence in the attractiveness of Vectura's inhalation platform in the CDMO market.

In addition, the Group announced financial results that exceeded Board expectations, the approval of Enerzair® Breezhaler (QVM149) and generic Advair® (VR315 (US)), and a positive outcome to the US GSK litigation.

Financial performance

Vectura delivered 2020 financial performance ahead of expectations, with total revenue of £190.6m, an increase of 6.9% versus last year. Gross profit of £101.4m increased by 6.4% and adjusted EBITDA of £61.5m increased by 41.7%, reflecting an increase in Royalty and other marketed revenues and a material decrease in R&D investment.

Operating profit of £132.8m was driven by the recognition of £121.1m exceptional income for damages and interest associated with the enforcement of a patent covering three US GSK Ellipta® products and improved adjusted EBITDA performance.

The Group closed the year with cash and cash equivalents of £78.6m, reflecting free cash flow generation of £24.1m and a share buyback of approximately £16.4m during 2020.

Operational performance

With the challenges of COVID-19 affecting all our lives, 2020 was a year like no other. Vectura prioritised protecting the health, safety and wellbeing of our employees, who responded excellently and kept the business going. We undertook robust risk assessments, mandated increased hygiene protocols at all sites, and stepped up proactive communications to support our people working remotely and on site.

The efforts of our employees ensured the continued supply of important medicines to our partners; the delivery of key projects for our customers and their patients; and progression towards our goal of becoming the market-leading inhalation CDMO.

We also advanced our partnered development programmes, with Novartis receiving regulatory approval in Europe and Japan for Enerzair® Breezhaler® (QVM149), and Hikma Pharmaceuticals receiving approval for generic Advair® (VR315 (US)).

In November, the United States Court of Appeals for the Federal Circuit upheld damages and on-going royalties awarded to Vectura amounting to an estimated $200m, following the US Jury verdict in the patent litigation against GSK in the US.

Strategic focus

In 2019, Vectura shifted its focus away from developing our own assets to operating under a new CDMO business model with a reduced level of risk and a smoother, diversified earnings profile.

2020 was a year of delivery and transformation and saw many of our core business processes reorganised to support the implementation of this new strategy.

Key to this progress was the hiring of experienced leaders with a deep understanding of the CDMO market to help us attract new business and deliver growth. For example, we expanded the Business Development team, strengthening our resources in the UK, Europe and on the West and East Coasts of the US, and invested in our marketing efforts. This resulted in 18 new CDMO deals being signed in 2020.

We are also delighted to be launching a new strategy to formalise our approach to environmental, social and governance (ESG) matters. The ESG strategy will help set a baseline to measure the impact of our sustainability efforts and provide a framework for us to report our achievements. The Board is pleased to oversee Vectura's ESG initiatives and lend its wholehearted support to the important work that has already started to increase our positive contribution to the world we live in over the coming years.

There is still work to be done, but the progress this year lays a strong foundation upon which we can be confident of our ability to grow and attract further customers in 2021. See page 18 for more information about how we have delivered against our strategic goals in 2020.

Capital allocation

Following receipt of £127.6m from GSK, the Board has approved, in principle, a special dividend of approximately £115m, intended to be paid to shareholders during 2021. Further details regarding the proposed return of capital will be provided in late April, after the window in which GSK can petition the Supreme Court has expired.

People and culture

We remain highly dependent on the talent, innovation and creativity of our employees. They have not compromised on quality, compliance and execution of our strategy despite many of them working from home since March 2020.

I am proud of the way they have managed during the COVID-19 pandemic and I would like to thank each one of them for their hard work and continued commitment.

To build on our culture, be a great place to work, and embrace inclusivity throughout all levels of the organisation, we have updated key employee policies to ensure they are consistent with Vectura's values and support its long-term sustainability.

+ See page 44 for more information.

Board changes

Following feedback from shareholders regarding Board tenure and size, we reported last year that Neil Warner would not be standing for reappointment to the Board at the 2020 AGM.

It was with regret in September that Anne Whitaker stepped down from the Board due to potential conflicts that could arise as a result of her role of chief executive officer at Aerami Therapeutics.

I would like to thank both Neil and Anne for their significant contributions to Vectura and wish them every success in the future.

In December we were pleased to announce the appointment of two new Non-Executive Directors, Jeanne Taylor Hecht and Jeanne Thoma. They bring significant experience in global drug development services, and commercial, HR and business leadership in pharmaceutical services, which will add significant expertise to our Board.

Governance

As a Board, we remain committed to the principles of good corporate governance. We have continued to comply with the provisions of the Corporate Governance Code throughout the year and to the date of this report. Through a robust internal framework of systems and controls, we strive to maintain the highest standards.

The Group also supports the principles of the Hampton-Alexander Review on gender and the recommendations of the Parker Review on ethnic diversity.

+ More information can be found on pages 48 to 98.

Shareholders

I would like to thank our shareholders for their continued support throughout 2020, which has been a challenging year for everyone affected by the global pandemic.

Vectura has demonstrated its resilience and as we continue to deliver on our CDMO strategy, I am looking forward to the business building further value in 2021 and beyond.

Outlook

I am confident that we will continue to develop the business in 2021, leveraging the expertise of our strengthened leadership team, and further progressing the Group's transformation to be even more competitive and meet customer demand.

Bruno Angelici
Chairman
17 March 2021

Chief Executive's statement

A year like no other

66

Our base business is proving resilient in the face of wider challenges, posed by the coronavirus outbreak, and we are continuing to execute on our inhalation CDMO strategy.

2020 was a year in which Vectura made great progress, despite unprecedented challenges. It is impossible to review the year without reflecting on COVID-19, our resilience and the performance of the business in a world disrupted by the coronavirus.

Throughout the pandemic, our primary focus was and continues to be to protect the safety and wellbeing of our staff. I could not be more proud of our entire team; their collaboration, dedication and determination were exceptional, and I cannot thank them enough.

We made sure that our supply chains held up to give uninterrupted supply of important medicines, such as *flutiform*®, to patients. We also maintained our high quality standards at all times and put in place robust hygiene and distancing measures across all of our sites which allowed us to keep our laboratories and production facilities open.

Finally, but no less importantly, we focused on delivering for our customers and partners, continuing to carry out the formulation and development of their products. To read more about our COVID-19 response, see pages 6 and 7.

Embedding our CDMO strategy

As we first set out in 2019, our ambition for Vectura is threefold:

1. To create a market-leading company in the inhalation CDMO market space, using our deep scientific heritage and inhalation expertise in order to diversify our customer base and our earnings profile.
2. To continue to expand our capabilities, technology and innovation and to focus on driving a high-performance culture at all times.
3. In doing all of this, to deliver long-term sustainable results for our shareholders.

With this in mind, throughout 2020 we built our Business Development capability and repositioned our brand in the market to diversify our customer base and work with more clients simultaneously.

From a scientific perspective, we continued to focus on innovation so that we can bring the next generation of technologies and formulation capabilities to market. And we invested in our equipment, capacity and infrastructure to be able to handle an increased volume of new business and variety of molecules.

Finally, from an operational point of view, we continued to simplify the Group and our processes to ensure they are fit for purpose and allow us to deliver for customers in a lean and efficient manner.

Market opportunity

The underlying dynamics of the overall CDMO market remain very strong, with growth of approximately 7%[1] and that is likely to continue for several years to come.

+ For more information, see page 13

We have a unique position in this market, by combining expertise in both product formulation and development for our customers, as well as being experts in device development across DPIs, pMDIs and smart nebulisers. There are very few companies that are able to provide both drug and device capability to clients, and this combination can be a potent advantage for our customers.

Delivering in 2020

During the year, we have continued to execute on our inhalation CDMO strategy. We saw the efforts of our teams result in a total of 18 CDMO deals signed, covering 27 different molecules across 10 indications.

These deals comprised 14 feasibility studies, two phase I/II programmes and two full development deals with the potential for royalties and licensing milestones downstream. This new business resulted in £3m in revenues that came largely from the second half of the year.

To support the strategy, we have made great progress in reshaping our business for the years ahead, with a focus on prioritising future investment in our FOX® mesh-nebuliser technology platform and developing our capabilities to ensure we can serve a much broader range of customers and molecules.

We have also reviewed our operational footprint to make the Group more efficient for the future. In December we closed our facility in Munich and transferred our device capability to Cambridge in the UK. Additionally, following a strategic review, we have decided to right-size our site network, a process that will take us two years to complete. In line with this, as publicly announced in January 2021, we will be scaling back our site in Switzerland and consolidating our activities in the UK. This means we will serve our pMDI business out of the UK, which will make our cost base more competitive.

During the year, we have also seen important progress across our co-development pipeline. In the summer, we saw regulatory approval of Novartis' QVM149 product (Enerzair® Breezhaler®) in both Europe and Japan. Approval of the product, which utilises our formulation IP, triggered total milestone payments of $6.25m to Vectura. In addition, the Group will receive a low-single-digit royalty on net sales of the product in both territories.

In the latter part of 2020, the United States Court of Appeals for the Federal Circuit upheld damages and on-going royalties awarded to Vectura amounting to an estimated $200m, following the earlier US Jury verdict in the patent litigation against GSK in the US. The first payment of £121.1m, reflecting damages, associated interest and royalties accrued up to the period ending Q3 2020, was received in January 2021. A further £6.5m was received in February 2021 for Q4 2020 royalties. Additional royalties due for 2021 will be received in the quarter following reported sales, bringing total amounts receivable to approximately $200m.

In December, we were very pleased to announce the approval of VR315 (US), our generic Advair® programme with our partner Hikma. This was a long-awaited and incredibly complex project which will enable Hikma to compete in a very lucrative respiratory generics market in the US. The approval resulted in an $11m milestone payment for Vectura and we will earn a mid-teen royalty on all in-market sales of the product. Approval also paves the way for the future development with Hikma of generic versions of GSK's Ellipta® portfolio, and we are making good progress on this development programme.

Capital allocation

To date, Vectura has received £127.6m from GSK in respect of the US patent litigation which comprises payment for the settlement of damages, associated interest and royalties accrued up to Q3 2020, and a payment for Q4 2020 ongoing royalties. The Board has determined that the Group is in a strong position to execute on its growth plans without the need to utilise these proceeds, and therefore has approved, in principle, a special dividend of approximately £115m, to be paid during 2021. This return to shareholders represents the approximate after tax proceeds received from GSK to-date. Further details regarding the proposed return of capital will be provided in late April, after the window in which GSK can petition the Supreme Court has expired.

When considering the Group's wider capital allocation priorities, the Board sees clear opportunities to accelerate the growth of the CDMO business through both organic and inorganic means.

To support organic growth, we will continue to make focused investment in technology and innovation to enhance our leading position within the inhalation space and to meet the future demands of customers. These annual investments will be typically funded through in year free cash flow generation.

Targeted M&A offers the opportunity to deliver attractive returns to shareholders by further enhancing our global platform and accelerating growth. In order to provide strategic optionality, Vectura will maintain a strong balance sheet, net of ongoing working capital requirements, and will utilise debt, as necessary.

Further returns to shareholders, either special or ordinary, will be kept under review as the business evolves and the CDMO model matures.

People and culture

Despite the challenges of the global pandemic, our teams proved that Vectura can still deliver for customers and broader stakeholders when working in new, flexible and agile ways. In managing the pandemic, changes to our working policies and practices were driven by necessity. However, we are now introducing an approach to agile working which is sustainable for the long term.

Throughout the year I remained hugely impressed by our teams' hard work, resilience and support for one another and for the business. Guided by our values and driven by a collective determination, they continued to succeed, and I believe we will emerge from the pandemic as an even stronger organisation.

1 Results Healthcare – November 2020 Whitepaper.

Chief Executive's statement continued

This is a very exciting time for Vectura, and I look forward to working with the team in 2021 as we deliver on our ambition to be the leading inhalation specialist in the CDMO market.

Environmental, social and governance

Vectura has always been committed to operating responsibly and creating long-term value for all our stakeholders. To support these efforts, in 2020 we developed a new strategy to formalise our approach to environmental, social and governance (ESG) matters.

Our ESG strategy, which we launched early in 2021, sets out our commitment to creating long-term growth by embedding sustainability in all our business practices. It will act as a roadmap to drive our ongoing improvement efforts and bring together all the initiatives already underway by establishing shared priorities and clear objectives. It will also provide a framework for us to measure our ESG performance against our peers, demonstrate our progress against ESG targets, and hold ourselves to account over the coming years. See pages 42 to 47 for more information.

Summary

2020 was a year in which we made great progress, despite the challenges of the pandemic that affected people across the globe. From our focus on operational transformation, to building a strong brand, signing 18 new CDMO deals and progressing our co-development programmes and in-market products, we have laid a solid foundation for future growth.

This is a very exciting time for Vectura, and I look forward to working with the team in 2021 as we deliver on our ambition to be the leading inhalation specialist in the CDMO market.

Will Downie
Chief Executive Officer
17 March 2021

Targeting an attractive inhalation segment in a growing global CDMO market

c.7%[1]

strong underlying CDMO market growth

Increasing trend towards outsourcing

~40–45%[2]

of projects outsourced over the next five years in large and small pharma

Market need for innovation

~90%[3]

small and medium companies

Growth of inhalation as a medicine delivery route

>300[3]

new molecules where inhalation is the primary route of administration

Inhaled product development is complex

~70%[3]

in development are pre-Phase II across multiple disease areas

The underlying dynamics of the overall CDMO market remain very strong, with current growth of approximately 7%[1] and that is likely to continue for several years to come.

Within the broader CDMO market, outsourcing rates are very strong and expected to rise to about 40–45%[2] in the next five years, across both large and small pharmaceutical companies. For smaller businesses and biotechs, the rate of outsourcing is even higher[3].

There is a continued need for innovation as companies look to differentiate their products and meet payor demands.

In the inhalation segment of the CDMO market, there are more than 300 molecules in development and more than 70% of them are in pre-clinical or very early development[3].

As the CDMO deals we signed during 2020 illustrate, there is opportunity to support the treatment of non-respiratory diseases through inhalation, including pulmonary vascular, postpartum haemorrhage, oncology and COVID-19. For more details see page 19.

Product development in inhalation is very difficult – the barriers to entry are high and the number of competitors are relatively low.

All these factors combined make the inhalation CDMO space an attractive market for Vectura.

1 Results Healthcare – November 2020 Whitepaper.

2 Expert interviews (n=20) and expert survey (n=35) based on a sample of executives from CDMOs, pharmaceutical and medtech companies.

3 Global Data pipeline analysis (July 2019) – "Respiratory" includes infectious disease assets "Small and medium-sized respiratory companies", excludes companies with significant in-house inhalation capabilities: AstraZeneca, GSK, Bayer, Novartis, BI, Pfizer, Chiesi, Orion.

Delivering value for our stakeholders

We are continuing to build a business that is not only commercially successful but delivers long-term value for all our stakeholders: our people; our partners, customers and their patients; our suppliers; and our shareholders.

Resources and relationships

Our talented people
Over 500 employees working internationally across four sites with expertise throughout the development, manufacturing and regulatory processes

Our shared culture
Our values underpin a strong culture which is a definitive expression of who we are and how we do things at Vectura

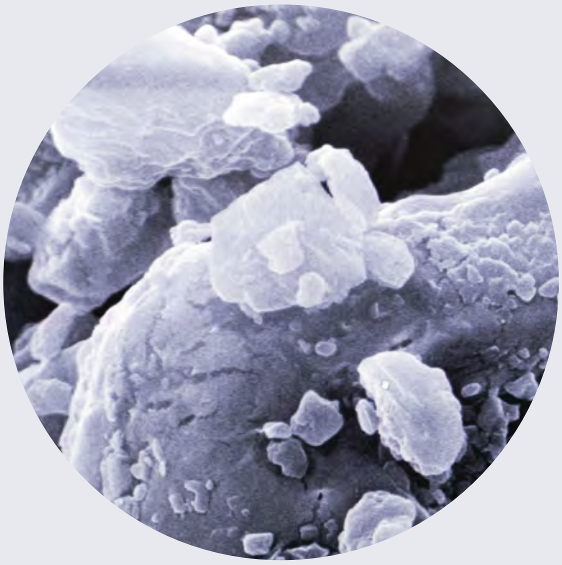
Our intellectual property
We have a broad IP base covering our technologies and capabilities, managed by our experienced teams

Our strong partnerships
We pride ourselves in our active partnerships with pharmaceutical and biotech companies, and with our suppliers

510
employees working internationally across four different sites

Molecules

Drug delivery services



Formulation
Proven formulation capability

Phases of development ▶ Complex drug device selection ▶ Device design and development ▶

Device platforms

Proprietary devices and development capability: DPI, pMDI and nebuliser

Full pharmaceutical development ▶ Device scale-up and industrialisation ▶ Technology transfer and manufacturing

Inhaled medicines ▶

Value we create for our stakeholders

Patients
Helping our customers to develop products to improve their patients' lives, including addressing major areas of unmet medical need. With our partners Hikma and Sandoz, supporting patient access to affordable quality generic treatments

Our shareholders
Highly differentiated inhalation expertise, technology and IP, delivering long-term growth and sustained returns

Our people
Creating a dynamic and rewarding place to work where science is at the heart of what we do

Our customers and partners
Delivering scientific and operational excellence to ensure a broad range of technologies and capabilities are leveraged to support customers to bring their inhaled medicines to patients

Our environment and local communities
We are committed to making a positive impact on our environment and society, through our new ESG strategy

+ Read more on pages 42 to 47

Section 172 statement

Effective engagement

The table below shows our key stakeholders and how we engage with them, together with examples of how the Board has taken the interests of stakeholders into account during the year when making decisions and how those decisions may promote the long-term success of the Group.

Our shareholders

Why they matter to us
Our shareholders are the owners of the Company, and we have a responsibility to them to be transparent and open about our strategy and our financial performance to enable them to make informed investment decisions.

What we believe matters to them
- Share price evolution
- Strategic focus
- Directors' remuneration
- Board succession planning

How we engaged and how this interaction impacts decision making
Despite the challenges of the COVID-19 pandemic we continued to engage with our shareholders through a comprehensive investor relations programme.

We hosted virtual results presentations and investor roadshows, which were held in March and September. Through these virtual channels, we met with over 100 investors during 2020. In addition, we attended four virtual conferences.

Regrettably, in light of the stay at home measures imposed by the UK government on 23 March 2020 which prohibited, amongst other things, public gatherings of more than two people, the AGM was held behind closed doors and attended by two shareholders facilitated by Vectura. This decision was not taken lightly and was a measure that many other companies also took. Shareholders were encouraged to submit questions prior to the meeting and all were answered directly.

+ See pages 58 for more information on shareholder engagement

Our people

Why they matter to us
Our ability to deliver our strategy and innovate for the future is dependent on the skills, expertise and commitment of our workforce. By empowering and rewarding colleagues appropriately we give them the confidence and ability to help enable us to succeed.

What we believe matters to them
- Belief in the future, and pride in the organisation
- Strong purpose, vision and values
- Career development
- Flexibility, equality and inclusivity
- Recognition
- Open and honest communication
- Work environment

How we engaged and how this interaction impacts decision making
The Executive Leadership Team held virtual town hall style meetings throughout the year, continuing to ensure that Group strategy and progress were clearly communicated to employees.

The designated workforce engagement NED, Dr Per-Olof Andersson, attended two virtual meetings of the Employee Representative Forum. He also held virtual one-to-one meetings with site leaders in Chippenham and Cambridge. An interview with Dr Andersson can be found on page 57.

There is an annual Board update on HR strategy and key people initiatives, including an overview of employee engagement by the designated workforce engagement NED and EVP HR. The terms of engagement for Board workforce engagement are reviewed annually.

These activities, along with feedback from colleagues via three employee pulse surveys, informed the Group's response to the pandemic. More about our response can be found on pages 6 and 7.

The Board continued to be apprised and supportive of progress relating to our site strategy, endorsing the announcement of our plans to relocate the Chippenham facility to a new Inhalation Centre of Excellence in the South West of England. Potentially affected employees were also consulted as part of our review of our operational footprint and the proposed re-structure of our site in Muttenz.

+ See pages 46 and 47 for more information on employee engagement

Our customers

Why they matter to us
Winning business and driving CDMO revenue growth requires customers who value and choose the services we offer to help develop their products.

What we believe matters to them
- Utilising our knowledge and expertise to provide effective devices and services to support the development of their drug product
- Efficient and competitive services offering, with fair commercial terms and conditions
- Broad "under one roof" offering
- Delivery of quoted services and devices on time and right first time

How we engaged and how this interaction impacts decision making
We are engaging through an integrated sales and marketing infrastructure – targeted marketing and inside sales campaigns, with business development focused on demonstrating why Vectura's services meet customers' needs.

This allows the Group's technology, capabilities and infrastructure decisions to be based on market and customer needs alike.

Strong project execution and business management are required to deliver projects and satisfy the customers' needs to help drive our brand, reputation and repeat business.

+ See page 22 for more information on our services and products

Our partners

Why they matter to us
Partnerships continue to drive significant value for Vectura. For this reason we work closely with our alliance partners to develop and improve the ways in which we collaborate to drive co-development initiatives for mutual benefit.

What we believe matters to them
- Utilising our knowledge and expertise to develop solutions to support their product launches
- Improving how we collaborate, ensuring productivity and standardisation of work practices to allow regulatory filing to happen at the earliest opportunity to allow for the earliest entry of an approved product to market
- Driving efficiencies and meeting required timelines to support their objectives with optimal commercial terms and conditions

How we engaged and how this interaction impacts decision making
We engage with each of our partners through multiple mechanisms, including regular project execution meetings and Joint Steering Committees and partnership health check surveys that seek to deliver on Vectura's co-development obligations, and identify and improve specific elements of each alliance and the quality of each business relationship overall. In addition, employees collaborate frequently with our partners to provide issue resolution and commercial outcomes, whilst understanding market demand forecasts, supply schedules and general management of operational improvement initiatives.

In 2020 partner representatives presented at Board meetings to discuss industry trends and further collaboration and opportunities.

+ See page 25 for more information on our track record

Our suppliers

Why they matter to us
To succeed, we need suppliers that understand our business in order to provide assurance of supply of goods and services at the right quality and at a market-competitive, fair price.

What we believe matters to them
- The opportunity to understand our business and access opportunities in our supply chain
- A transparent and collaborative relationship with us through which they receive fair value for their products and services

How we engaged and how this interaction impacts decision making
Throughout 2020 we engaged virtually with our diverse supplier base to unlock value for the business and deliver a high-level approach to procurement. Regular business review meetings were held with critical suppliers to build trust and transparency and ensure effective Brexit planning to avoid significant delays.

We also engaged with our suppliers during the pandemic to minimise disruption and to maintain supplies to customers, partners and their patients.

+ See page 7 for more information on maintaining product supply through COVID-19

Our environment and local communities

Why they matter to us
We are committed to having a long-term positive impact on our environment and society.

Having a good reputation as a responsible and sustainable business ensures we have a licence to operate. Being able to attract and retain people from our local communities with relevant skills and expertise is important to us.

What we believe matters to them
- Reassurance that we are a responsible business that takes its corporate citizenship seriously
- Focusing on our environmental impact and reduced carbon footprint
- Supporting global and local initiatives, including charitable giving, employee wellbeing and links with local schools and colleges to promote careers in science, technology, engineering and mathematics (STEM)

How we engaged and how this interaction impacts decision making
In 2020, the Board endorsed a new ESG strategy, developed with input from our employees and specialist advice from an independent ESG consultancy.

Our teams were encouraged to share their views and opinions via our intranet, myVectura, with the aim of making ESG a priority in everyone's work, woven into the fabric of the organisation, and aligned with best practice.

We continued to maintain close relationships with universities to encourage careers in STEM subjects through presentations at virtual career fairs.

Although the pandemic restricted our ability to partake in charitable events, we responded to employee feedback by supporting organisations working on the frontline with PPE and other donations.

+ See pages 42 to 47 for more information on our ESG strategy and activities

The Board is primarily responsible to shareholders for the overall direction and control of the Company and has the powers and duties set out in the Companies Act 2006 (the "Act") and the Company's Articles of Association. However, we have always endeavoured to hold shareholder interests and those of our wider stakeholders in equilibrium as is the Directors' duty under section 172 of the Act.

The long-term success of the business is dependent on the way we work with a large number of important stakeholders and continues to require effective engagement, constructive working practices and a recognition of stakeholder views in order to create value for our shareholders and stakeholders alike. Vectura's values underpin every relationship built and business decision made, reflecting our intention to do the right thing for shareholders and all stakeholders.

+ More information on our Company values can be found on page 55

Important progress against our strategic priorities in 2020

Our ambition and strategy

Our ambition is to create the market-leading company in the inhalation CDMO space to deliver long-term growth and sustained returns.

Our strategy focuses on:

1. Building a first-class business development and marketing function to diversify our customer base and grow our market share

2. Ensuring excellence in our execution at every stage of the customer experience

3. Enhancing our competitive position through industry-leading science and innovation to serve the future needs of our customers

Delivering against our 2020 corporate goals

1. Financial accountability
2. Transform the Company into a successful CDMO
3. Drive product development and delivery management excellence
4. Quality and operational excellence

Important progress during 2020

We have focused on executing on our strategy, with a primary focus on:

Commercial excellence

- Creating a strong commercial engine for the business. We now have a full complement of Business Development staff in the US, the UK and Europe, as well as one individual who has experience in Asia. In addition, we have repositioned Vectura and rebranded the business

End-to-end CDMO processes

- Transforming our core business processes in order to deliver excellence at every stage of the customer experience

Infrastructure and capacity

- Investing in our equipment, capacity and infrastructure to be able to meet the needs of our increasing volume of new business

Right-sizing our site network

- Following a strategic review of the Group's operating footprint, we announced a phased reduction of activities at the Muttenz site in Switzerland, beginning in 2021, to support increased competitiveness as a CDMO

Investing in our inhalation capabilities

- Investing in our science, technology roadmap and key capabilities to serve our customers' future needs

Securing new business in 2020

The progress we made in executing on our strategy during the year resulted in 18 new CDMO deals and an increase in the number of molecules we are working on, across a greater range of indications. This drove £3m of CDMO revenue in 2020.

18 deals[1]

- **14** feasibilities
- **2** Phase I/II
- **2** full-development deals, including potential licensing milestones and royalties

27 molecules

- **11** small molecules
- **16** biologics
- Range of delivery platforms: **5** DPI, **14** nebuliser[2]

10 indications[3]

- **2** asthma/COPD
- **9** specialist respiratory (CF, IPF and PAH)
- **1** postpartum haemorrhage
- **2** lung cancer
- **2** COVID-19

1 Period covered 1 January 2020 to 31 December 2020.
2 Molecules may be tested in more than one device.
3 Not all indications are disclosed.

Further validating our industry-leading development capabilities

- Approval of our partner Hikma Pharmaceuticals' Fluticasone Propionate and Salmeterol (generic Advair®) in the US further validated Vectura's industry-leading development capabilities in 2020.
- Reflecting our strong collaboration with Hikma Pharmaceuticals, delivering this "complex-combination" product required specialist capabilities, IP and know-how.
- The product approval marked the first US FDA approval of a Vectura dry powder inhaler. Upon approval, Vectura received an $11m milestone payment and will earn a mid-teen royalty on net sales of the product.
- This approval paves the way for our substitutable generic GSK Ellipta® development portfolio with Hikma in the coming years.

Product utilises Vectura proprietary dry-powder device and formulation technology

Key performance indicators

Measuring our progress

We measure our success by tracking key performance indicators (KPIs) that reflect our strategic priorities and growth drivers. Success against these KPIs forms a component of the remuneration of the Executive Directors and senior management.

Financial KPIs

Revenue growth

£m

£190.6m +6.9%

Link to goals 1

Why is it a KPI?
Revenue is a critical KPI as it drives profit and cash growth for the Group. The KPI is the total of revenues generated by the Group's business model, comprising:

- supply of finished or semi-finished product to commercial distribution partners;
- royalties and sales-based milestones and product approval and launch milestones; and
- development revenues including those earned from historical co-development agreements, as well as from new "fee-for-service" CDMO contracts.

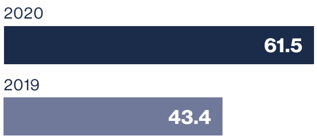
How is it measured?
Revenue is recognised in accordance with the Group's accounting policies as presented in note 3 of the consolidated financial statements.

2020 performance
Revenues have increased by 6.9% driven by 32.6% growth in royalty and milestone revenues resulting from the receipt of approval milestones for Enerzair® Breezhaler® (QVM149) and generic Advair® (VR315 (US)), and Q4 GSK Ellipta® royalties recognised arising from the recent US litigation settlement. Development services revenues grew 4.4% helped by the addition of new CDMO revenues. *flutiform®* product supply revenues declined 5.5% following very strong stocking activity in 2019.

Adjusted EBITDA progression

£m

£61.5m +41.7%



Link to goals 1

Why is it a KPI?
Adjusted EBITDA is an important non-statutory measure used by the Board, the Executive Leadership Team and managers to monitor the Group's performance. It provides useful information about the Group's underlying cash-generating performance.

How is it measured?
Adjusted EBITDA is defined as the Group's profit/loss before taxation adding back amortisation and impairment, depreciation, share-based payments and exceptional items.

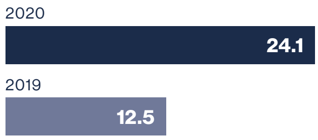
Refer to note 9 of the consolidated financial statements for a reconciliation of the Group's loss before tax to adjusted EBITDA.

2020 performance
Adjusted EBITDA has improved by 41.7% driven by growth in gross profit of 6.4%, and a reduction in R&D expenditure of 35.0%. Gross margin remained steady versus 2019, with lower expenses driving up adjusted EBITDA margin by 7.9 percentage points.

Free cash flow

£m

£24.1m +92.8%



Link to goals 1

Why is it a KPI?
Free cash flow generation is an important non-statutory measure used by the Board and the Executive Leadership Team to measure the ability of the Group to support future business expansion, distributions or financing.

How is it measured?
Net cash flow from operating and investing activities, less repayment of lease liabilities.

2020 performance
Free cash flow generation in 2020 was £24.1m, an increase of £11.6m versus 2019. This performance was driven by a 63.2% improvement in operating cash flows, as well as a one-off reimbursement of historical capital expenditure by our partner Hikma (£8.0m), and proceeds from the sale of property at our Swiss site (£5.3m).

Delivering our goals

Our KPIs in 2020 were designed to help us measure progress on the execution of our strategy, and are reported under four main categories, all underpinned by our ongoing focus on creating a great place to work:

1. **Financial accountability**
2. **Transform the Company into a successful CDMO**
3. **Drive product development and delivery management excellence**
4. **Quality and operational excellence**

Changes to our KPIs this year

The KPIs for 2020 continue with the same emphasis on financial measures as in 2019, as the Group evolves to a lower risk, more cash-generative business model. However, non-financial metrics were refocused in 2020 away from pipeline progression measures, and onto measures that more directly reflected progress on executing our strategy to become a world-leading CDMO.

Revenue from new CDMO contracts

£m

£3.0m

2020

2019

£nil

Link to goals 2

Why is it a KPI?

The strategic focus of the Group is to become the market-leading inhalation CDMO. Revenues earned from CDMO contracts are an important indicator of how well the business is attracting new customers with its CDMO offering.

How is it measured?

Revenues recognised in 2020 from new "fee for service" CDMO contracts. These contracts are entirely new agreements relating to inhalation development services, and are not co-development in nature.

2020 performance

In 2020 the Group signed a total of 18 new CDMO contracts (or "deals"), ranging from early feasibility studies through to full development activities. In 2020 Vectura recognised £3m of revenue associated with formulation and device services that were delivered to customers under these agreements. These types of agreements did not exist in 2019.

Non-financial KPIs

Driving product development and delivery management excellence

FOX® platform evolution

The FOX® device is a small, handheld, breath-actuated, battery-powered inhalation system that delivers nebulised liquids with high performance using a vibrating mesh technology. FOX® is suitable for the delivery of small molecules and biologics formulated as solutions or nano-suspensions.

The FOX® platform has proven to be an attractive option for customers, with the majority of CDMO deals in 2020 being based around this technology. This has led to a significant increase in demand for FOX® units, and it is therefore important for Vectura to be able to produce these devices in the right quantities at the right quality. This has required an evolution in our processes and the capabilities of the platform. We were successful in making these changes and meeting customer demand in 2020 as planned.

Quality and operational excellence

Delivering for customers

Vectura supplies inhalation services, devices and finished and semi-finished products to a variety of customers and partners, either directly or through the management of third-party providers. Examples include the delivery of FOX® devices for use in clinical studies, the delivery of formulated drug product, or the supply of finished *flutiform*® metered dose inhalers.

It is very important that we are able to meet our commitments to customers to deliver these products and services that meet quality standard both when they need them, and in the quantities they need them. We therefore carefully track metrics that help us measure this delivery performance. We aim to perform as close to 100% as possible, taking into account the need to adapt to changing customer requirements as their development plans evolve. In 2020 we were able to meet these goals.

Great place to work

94%

of respondents feeling well informed

89%

of respondents feeling well supported working from home

76%

of respondents feeling well supported working on site

We believe that having engaged and empowered people is fundamental to Vectura's success and is a key leadership accountability reflected in personal objectives as well as a corporate responsibility. We monitor our employee engagement to ensure we can build on our strengths and address any adverse trends or issues in a timely fashion.

The pandemic presented some unique challenges for our workforce in 2020 and in this context, we took the decision to run three focused pulse surveys rather than our usual full annual employee engagement survey.

These short surveys were conducted in April, August and December and asked three core questions as well as inviting free text comments on any topic. Feedback was positive with a high percentage of favourable responses broadly maintained across all three surveys. In the final pulse of the year, 94% of respondents indicated they felt well informed, 89% felt appropriately supported when working from home, and 76% felt well supported when working on site.

Throughout the year, the feedback from these pulse surveys was used to drive continuous improvements as we supported our teams through the challenge of a global pandemic and our own significant business model transformation.

Services and products

Tailored inhalation services for a diverse range of customers

Inhalation is our focus: we help customers progress small or large molecule products at any stage of development. They value our unique combination of inhaled development expertise, formulation science and device technology.

Our services at a glance

Formulation

Inhaled formulation development is complex and challenging. We help overcome these challenges with our formulation technologies and deep scientific know-how to maximise the probability of success for customers' products.

We offer formulation development for DPI, pMDI and nebuliser products for small molecules, biologics, complex combinations and generic products.

Pharmaceutical analysis

Our experienced inhalation group of analytical scientists can undertake the comprehensive array of test methodologies and physical properties characterisation required to support the development of inhaled products.

With extensive, state-of-the-art analytical testing facilities and equipment, our expert teams are able to develop and validate the methodologies required to characterise inhaled delivery platforms, especially DPI, pMDI and nebulised products.

Device platforms

The optimal choice of drug delivery platform technology is critical to the success of an inhaled development programme. Making the right choices at each development stage can have a significant impact on the development timeline, cost and probability of success for the programme. We have developed commercially available DPIs, pMDIs and nebuliser devices to deliver a broad range of complex inhaled therapies.

Process development and tech transfer

We can support customers' programmes by developing robust manufacturing processes, scaling up from laboratory to pilot to commercially representative scale, ultimately enabling seamless transfer to commercial manufacturing organisations.

We also have strong installation engineering capability to install and qualify manufacturing equipment and offer post-installation technical support.

Product manufacturing

We can manufacture drug product and medical devices for development studies and clinical trials, using our in-house GMP facilities. For late-phase and commercial products, we have a track record of managing manufacture and supply at third-party CMOs.

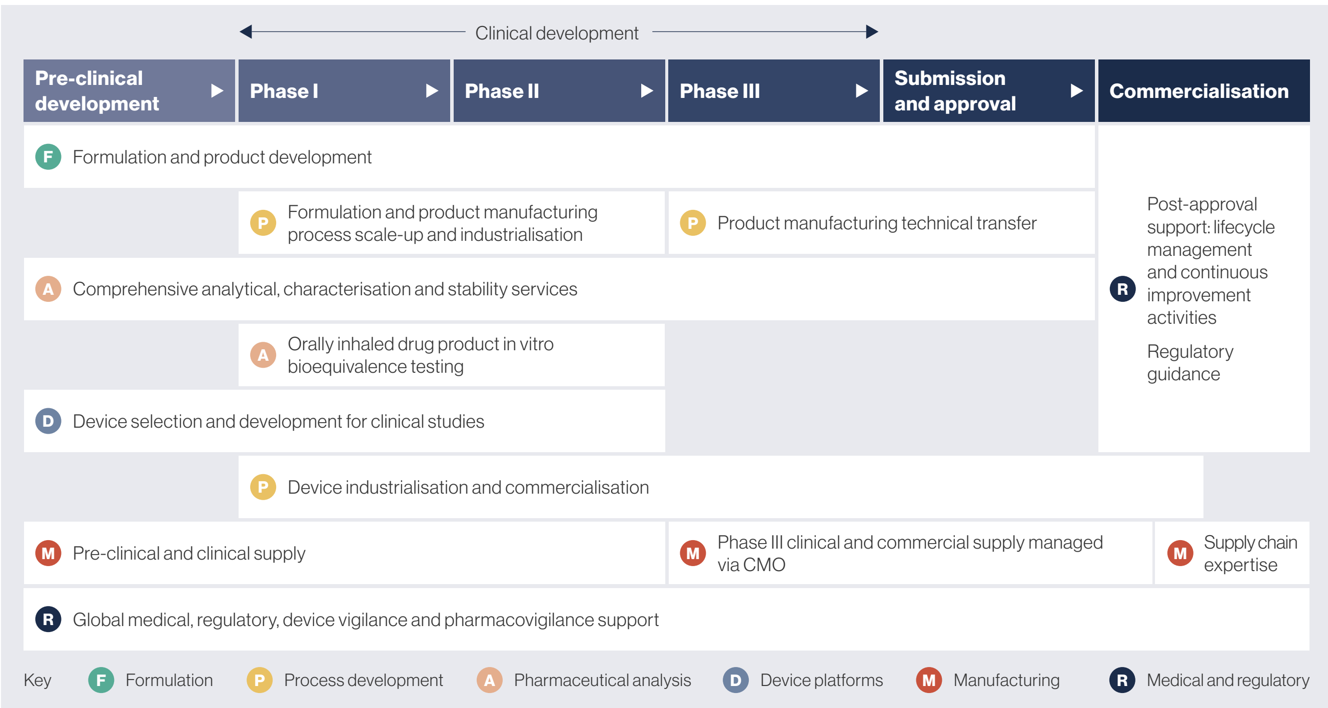
In addition to our extensive development manufacturing facilities, we have separate GMP manufacturing facilities for DPI, pMDIs and nebuliser medical devices and we have further capability to handle biological molecules. We have recently expanded our DPI capabilities with a new capsule filler, a capsule blister packer, and a Mikron semi-automated device assembly machine.

Our GMP manufacturing facilities and equipment are relevant-to-commercial scale, meet all required EHS, quality and regulatory standards, and are operated by a dedicated manufacturing team.

Regulatory Affairs, Device Vigilance and Pharmacovigilance

Navigating the complex regulatory requirements for inhaled products is critical to the success of customers' development programmes. Our expert in-house regulatory team can provide a broad range of regulatory services for inhalation devices, combination products and drug products.

For more information see vectura.com/services/regulatory



Services and products continued

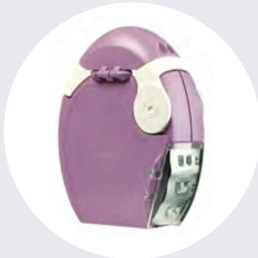
Devices

DRY POWDER INHALERS

Our dry powder inhalers are derived from the commercially validated AirFluSal® GyroHaler® platform, but with a range of user interfaces and payload volumes, giving customers confidence of performance and a proven regulatory track record

Our DPI capability includes:

- A range of devices including multi-unit dose and single blister unit dose devices
- Simplicity of design and low component count
- Robust and low cost
- Intuitive user interface
- Add-on or integrated connectivity (for Open-Inhale-Close (OIC) device)
- Consistent performance
- Broad and long-term patent coverage



GyroHaler®

Lever-operated

Open-Inhale-Close

Multi-use single unit dose

PRESSURISED METERED DOSE INHALERS

We have a track record of supporting successful pMDI developments including *flutiform*® and breath-actuated *flutiform*® K-haler®

Our particular areas of expertise include:

- Development of tailored solutions based on commercially available pMDI devices
- Optimisation of container closure systems to be compatible with pMDI formulations

Devices are designed for high volume and low cost manufacture.

Dose indicating pMDI actuator

NEBULISERS

Our state-of-the-art breath-actuated nebulisers with guided inhalation have been developed to improve lung delivery for inhaled drugs, with the aim of achieving better clinical outcomes and/or shortened treatment times

VIBRATING MESH NEBULISER

- Use with solutions and nano-suspensions of small molecules and biologics
- Low inspiration flow rate
- Controlled inhalation volume
- Guided inhalation and real-time feedback
- Bluetooth®-enabled for connectivity for digital health applications, including monitoring adherence and compliance

FOX®

JET NEBULISER

- Use with suspensions and solutions of small molecules and some biologics
- Guided inhalation and real-time feedback
- Breath actuation
- Bluetooth®-enabled for digital health applications, including monitoring adherence and compliance
- Potential to increase lung delivery efficiency and reduce drug dosage and/or treatment time

AKITA® JET

Our track record

Our formulation and device technology has contributed to the success of 13 approved inhaled medicines

flutiform®

Kyorin mundipharma

flutiform® K-haler®

mundipharma

Ultibro® Breezhaler®

NOVARTIS

Seebri® Breezhaler®

NOVARTIS

Enerzair® Breezhaler®

NOVARTIS

AirFluSal® Forspiro®

SANDOZ A Novartis Division

Airbufo® Forspiro®

SANDOZ A Novartis Division

Fluticasone Propionate and Salmeterol

Recently approved

hikma.

Breelib™

BAYER

Incruse® Ellipta®

gsk

Anoro® Ellipta®

gsk

Relvar/Breo® Ellipta®

gsk

Trelegy® Ellipta®

gsk

c.$11bn[1]

cum. partner sales of inhaled products using our technology since initial launch in 2012

>20

years of experience

1 Evaluate Pharma and partner quarterly reports.

Financial review

Strong financial results, ahead of expectations

Adjusted EBITDA up 42% reflecting a significant increase in Royalty and other marketed revenues and a material decrease in R&D investment

Following the Group's shift in business model towards a contract development and manufacturing organisation (CDMO), the Board has reviewed the presentation of the Consolidated income statement to assess whether it continues to provide reliable and relevant information about the effects of transactions, or other events or conditions, on the financial performance of the Group.

The previous Consolidated income statement presentation was relevant when the Group's primary focus was on developing, or co-developing, a proprietary product pipeline of respiratory therapies or complex generics.

With this shift in business model, and the ceasing of investment in the development of proprietary respiratory therapies, the Board has determined that it was appropriate to update the Group's accounting policy relating to the categorisation of research and development (R&D) costs and general and administrative (G&A) costs to be more in line with peers and to provide a better understanding of the Group's performance. As a result of this change the costs of support functions that were focused on supporting the Group's R&D efforts under its previous strategy, and therefore reported as an R&D expense, are now reported within G&A expenses, reflecting the fact that these functions are focused on supporting a wider number of business priorities. The impact of this change in accounting policy is detailed in note 30 to the consolidated financial statements.

This change is intended to improve the relevance of our consolidated financial statements by enabling users of the accounts to better interpret the Group's performance versus CDMO peers. The scope of R&D, as now defined, will also be more closely aligned to Group decision making around investments, which are intended to provide longer term returns through innovation, differentiation and the creation of intellectual property.

Summary financial information for the year ended 31 December 2020

	2020 £m	2019 Restated £m	% change
Product supply revenues	**109.9**	115.0	(4.4%)
Royalty and other marketed revenues	**68.8**	51.9	32.6%
Development revenues	**11.9**	11.4	4.4%
Revenue	**190.6**	178.3	6.9%
Cost of sales	**(89.2)**	(83.0)	7.5%
Gross profit	**101.4**	95.3	6.4%
Gross profit margin	**53.2%**	53.4%	(0.2) ppts
Research and development expenditure	**(23.8)**	(36.6)	(35.0%)
Selling and marketing expenditure	**(4.1)**	(3.0)	36.7%
General and administrative expenditure	**(28.7)**	(27.3)	5.1%
Other operating expenditure and income	**3.4**	1.7	100.0%
Exceptional items	**124.9**	(3.5)	n/m
Amortisation and impairment	**(40.3)**	(53.6)	(24.8%)
Operating profit/(loss)	**132.8**	(27.0)	n/m
Adjusted EBITDA	**61.5**	43.4	41.7%
Adjusted EBITDA margin %	**32.3%**	24.3%	8.0 ppts
Basic earnings/(loss) per share	**20.5p**	(3.4p)	n/m
Diluted earnings/(loss) per share	**20.1p**	(3.4p)	n/m

Overall revenue increased by 6.9% versus 2019, driven by a significant increase in Royalty and other marketed revenues. Product supply revenues of £109.9m (2019: £115.0m) largely relate to *flutiform*® which delivered revenue of £95.8m (2019: £101.4m), marginally ahead of our guidance for the year. Whilst *flutiform*® product supply revenues in 2020 continued to benefit from partner stock builds, they declined by 5.5% versus the prior year, reflecting a very strong performance in 2019 which benefited from material stock building from our partners as they moved to more conservative stock holding policies given supply chain uncertainties, including Brexit.

Royalty and other marketed revenues of £68.8m, grew 32.6% versus the prior year (2019: £51.9m). This growth was largely driven by milestones earned following important product approvals for the Novartis Enerzair® Breezhaler®[1] (QVM149), and for our generic Advair® programme with Hikma (VR315 (US)). In addition, royalties of £6.5m were recognised in respect of fourth quarter GSK Ellipta® US sales, following the successful outcome of the US GSK litigation. Development revenues of £11.9m (2019: £11.4m) increased by 4.4%, driven by new CDMO contracts signed in 2020 which contributed revenue of £3.0m during the second half of the financial year.

flutiform® product supply delivered an underlying gross margin of 33.6% in 2020, down 2.2 percentage points, as a result of higher compliance costs associated with Brexit, agreed price changes in some territories, and overall adverse mix changes. These effects were more than offset by supplier credits totalling £2.8m, primarily relating to historical process improvements and volume discounts. This resulted in reported gross profit of £35.0m (2019: £36.3m), and representing a 36.5% gross margin, up 0.7 percentage points. Group gross margin was maintained at 53.2% (2019: 53.4%), with the increase in Royalty and other marketed revenues offset by strong growth of oral development services business, which to date contributes a negative margin, and one-off costs incurred to improve Breelib™ manufacturing performance.

R&D expenses declined 35.0% to £23.8m (2019: £36.6m), mainly due to the reduction in costs associated with development of the Group's proprietary nebulised therapies, primarily VR647, as the Group ceased investment in its own proprietary product pipeline. In line with our strategy, R&D investment is now focused on existing co-development agreements, principally generic Ellipta® (Hikma) and VR2081 (Sandoz), and investments in proprietary device and formulation technology platforms to support future CDMO revenue opportunities.

Selling and marketing costs of £4.1m grew by £1.1m reflecting the build out of the Business Development function, and increased promotional and marketing activities. G&A expenses of £28.7m increased by £1.4m, primarily due to increased non-cash share-based compensation charges following an increase in estimated vesting levels, and the recruitment of senior hires.

As announced on 19 November 2020, the United States Court of Appeals for the Federal Circuit denied GlaxoSmithKline's (GSK) motions for judgement as a matter of law, a new trial on infringement and a new trial on damages in litigation concerning Vectura's US patent 8303991, which is infringed by GSK's US sales of three Ellipta® products. In January 2021, GSK paid Vectura $164.2m (£121.1m) reflecting all damages and associated interest due to the Group to the end of Q3 2020. These amounts are recognised within exceptional income, with corresponding amounts recognised on the balance sheet. From the beginning of Q4 2020 onwards, GSK has undertaken to pay Vectura amounts equivalent to a 3% uncapped royalty on the net sales of infringing products. Vectura will recognise such payments as royalty revenue, beginning with the payment related to Q4 2020. Royalty and other marketed revenues recognised in 2020 therefore include £6.5m of royalties recognised in respect of the three GSK Ellipta® products.

Adjusted EBITDA, a measure of underlying performance, increased by 41.7% to £61.5m (2019: £43.4m), impacted by an increase in Royalty and other marketed revenues and a significant decrease in R&D investment. The Group delivered operating profit of £132.8m (2019: loss of £27.0m) driven by the recognition of damages and associated interest from the enforcement of a Vectura patent in respect of three GSK Ellipta® products in the US, and improved adjusted EBITDA performance compared to the prior year.

1. Revenue

1.1 Product supply revenue

The Group generates significant revenues from the supply to commercial distribution partners of finished or semi-finished products, largely manufactured by third-party suppliers. The costs incurred to deliver these revenues are reported under cost of sales. These revenues fell by 4.4% in 2020, driven by a reduction in *flutiform*® revenues versus the prior period. Overall product supply gross profit margin fell by 2.8 percentage points due to a change in product mix towards lower margin brands, and to one-off costs incurred to improve Breelib™ manufacturing performance.

Total product supply revenues and gross margin

	2020 £m	2019 £m	% change
flutiform®	**95.8**	101.4	(5.5%)
Other inhaled products	**3.6**	3.2	12.5%
Non-inhaled products	**10.5**	10.4	1.0%
Revenue	**109.9**	115.0	(4.4%)
Cost of sales	**(82.4)**	(83.0)	(0.7%)
Gross profit	**27.5**	32.0	(14.1%)
Gross profit margin %	**25.0%**	27.8%	(2.8) ppts

flutiform®

flutiform® product supply revenues of £95.8m (2019: £101.4m) were marginally ahead of our guidance for the year. In Europe and Japan the ICS/LABA market showed very strong growth in H1 2020, followed by a decline in H2 2020. These dynamics are thought to be the result of changing prescribing and pharmacy stocking behaviours during the COVID-19 outbreak.

flutiform® in-market sales volumes in these two regions reflected this market movement, and were able to retain volume market share. *flutiform*® remains at an early stage of its lifecycle in Rest of World territories and volumes declined by 31.4% versus 2019. Rest of World territories are more reliant on tender driven markets and therefore, aside from any COVID-19 effects, growth has been more volatile than in the European and Japanese markets.

Whilst *flutiform*® product supply revenues in 2020 continued to benefit from partner stock builds, they declined by 5.5% versus the prior year, reflecting a very strong performance in 2019 which benefited from material stock building from our partners as they moved to more conservative stock holding policies given supply chain uncertainties, including Brexit.

1 Seebri®, Ultibro®, Enerzair® and Breezhaler® are registered trademarks of Novartis AG.

Financial review continued

1. Revenue continued

1.1 Product supply revenue continued

flutiform® revenues

In-market *flutiform®* volumes[1]

	2020 '000 units	2019 '000 units	% change
Territory			
Europe	**3,811**	3,612	5.5%
Japan	**3,206**	3,171	1.1%
RoW (ex. North America)	**695**	1,012	(31.4%)
Total in-market sales	**7,712**	7,795	(1.1%)

Vectura product supply revenues and gross profit

	2020 £m	2019 £m	% change
flutiform® product supply revenue	**95.8**	101.4	(5.5%)
Cost of sales	**(63.6)**	(65.1)	(2.3%)
Non-underlying margin credit	**2.8**	—	n/m
Gross profit	**35.0**	36.3	(3.6%)
Gross profit margin %	**36.5%**	35.8%	0.7 ppts
Gross profit margin % (ex. non-underlying credits)	**33.6%**	35.8%	(2.2) ppts

1 IQVIA SMART MIDAS volume data.

flutiform® product supply delivered an underlying gross margin of 33.6% in 2020, down 2.2 percentage points versus 2019, as a result of higher compliance costs associated with Brexit, agreed price changes in some territories, and overall adverse mix changes. These effects were more than offset by supplier credits totalling £2.8m, delivering reported gross profit of £35.0m (2019: £36.3m), and representing a 36.5% gross margin, up 0.7 percentage points versus 2019.

The Group also earns royalties on *flutiform®* sales made by Kyorin in Japan. Including these royalties, total revenues for *flutiform®* were £102.1m (2019: £107.7m).

Other inhaled products

The Group earns revenue from the supply of GyroHaler® and GyroPLUS® device components to Sandoz for use in the AirFluSal® and Airbufo® Forspiro® products, and from the supply of FOX® devices to Bayer for use in its Breelib™ product. This revenue stream contributed £3.6m, an increase of 12.5% compared to the prior year.

Non-inhaled products

The Group's oral manufacturing facility in Lyon, France, generates product supply revenues from sales of oral products to partners. The site has focused efforts on bringing new manufacturing contracts to the site to help mitigate the volume declines and operating losses from older products. In 2020, product supply revenues from Lyon were £10.5m, virtually flat compared to the prior year (2019: £10.4m).

The Group earns royalties on some of the products manufactured at the Lyon site, reported separately.

1.2 Royalty and other marketed revenues

The Group also generates revenues from products marketed by partners which incorporate Vectura's intellectual property. These revenues typically comprise royalties, sales-based milestones, and product approval and launch milestones. These revenues reflect financial returns from historical R&D investments in partnered programmes. These revenues are earned without further material costs being incurred by the Group.

Total royalty and other marketed revenues

	2020 £m	2019 £m	% change
Novartis Breezhaler® products	**17.3**	18.4	(6.0%)
GSK Ellipta® (Skyepharma)	**9.0**	9.0	—
GSK Ellipta® (Vectura)	**6.5**	—	n/m
flutiform®	**6.3**	6.3	—
AirFluSal® Forspiro®	**2.7**	2.3	17.4%
Other inhaled royalties	**0.1**	0.3	(66.7%)
Non-inhaled royalties	**12.2**	14.2	(14.1%)
Royalty revenue	**54.1**	50.5	7.1%
Other marketed revenues	**14.7**	1.4	n/m
Royalty and other marketed revenues	**68.8**	51.9	32.6%

Vectura royalty revenues from Novartis Breezhaler® products, which include Ultibro®, Seebri® and Enerzair® Breezhaler®, are derived from a percentage of net sales reported by Novartis, and are also subject to certain contractual adjustments. Royalties from Novartis Breezhaler® products fell 6.0% in 2020, and by 5.5% on a CER basis, as Ultibro® and Seebri® continued to decline, and Enerzair® is still in the early stages of its launch.

In respect of GSK's Ellipta® products Vectura has recognised the capped annual royalty of £9.0m for the legacy Skyepharma patent. This is in addition to £6.5m recognised for Q4 2020 in relation to a legacy Vectura US patent, which will continue to be earned until the end of the second quarter of 2021.

flutiform® royalties are received in respect of sales made in Japan. *flutiform®* in-market sales in Japan (CER) increased by 2.6% versus the prior year (2019: 11.4% annual growth), reflecting a more volatile market backdrop in 2020 given the COVID-19 pandemic. Royalties received from Japan remained flat at £6.3m (CER 1.6% decline) compared to the prior year (2019: £6.3m).

Non-inhaled royalties comprise royalties earned on oral and other non-inhaled products, which incorporate the Group's intellectual property. Many of these products are manufactured at the Group's production facility in Lyon.

Total non-inhaled royalties decreased by 14.1% primarily due to market conditions, including COVID-19. The Group remains eligible to receive a non-patent-dependent $32m sales milestone when twelve-month net sales of EXPAREL® reach $500m on a cash received basis. Net product sales of EXPAREL® were $413.3m for the twelve months ended 31 December 2020 (2019: $407.9m).

Other marketed revenues of £14.7m include milestones of $11.0m (£8.1m) following approval of generic Advair® (VR315 (US)) partnered with Hikma, and milestones of $5.0m (£4.1m) and $1.25m (£1.0m) following approval of Enerzair® Breezhaler® (QVM149) for use in Europe and Japan respectively.

Other marketed revenues also include a €1.0m (£0.9m) milestone received on the anniversary of the first European launch of Breelib™. Under the terms of its agreement with Bayer, the Group is eligible to receive a further €1.75m in milestones spread over the next three years, paid annually.

1.3 Development revenues

The Group also earns revenues from contracted development activities provided to customers and partners. These activities draw on the Group's device and formulation capabilities to help deliver commercially attractive inhalation products.

Historically these contracts have primarily been co-development agreements, under which the risks, costs and rewards of product development are materially shared between the parties. Under these types of agreements, Vectura would typically receive a series of cash flows in consideration for a variety of activities. These cash flows would often comprise an upfront fee as consideration for a licence to access intellectual property (licensing revenues) and milestone payments for specific clinical or other development-based outcomes or fees billed directly for work performed (inhaled development services).

Revenues are recognised when contractual performance obligations are deemed to have been met, with the profile of these revenues varying by programme and over time. Under co-development agreements, revenues would normally be structured to cover the Group's costs during the development phase, with the majority of returns earned later from approval and launch milestone payments, and royalties.

Given their co-development nature, costs to deliver these revenues continue to be reported under research and development expenses in the Consolidated income statement.

Following a shift in business model in 2019, the Group is focused on generating revenues from service-based (CDMO) contracts, where the material risks, costs and rewards of development remain with the customer. Under these contracts, revenues to Vectura will normally be derived from fees billed directly for work performed, including a profit margin, rather than milestone payments which are contingent on specific clinical or development-based outcomes. The costs to generate these "fee-for-service" based revenues are reported under cost of sales in the Consolidated income statement.

Contracts may still involve a customer paying to access the Group's device and/or formulation intellectual property. This may result in upfront licence fees, milestones and royalty payments. These licensing revenues will be reported under development revenues where they relate to the development phase. Any subsequent approval, launch or sales milestones, or royalty payments, relating to this licence will be reported as Royalty and marketed revenues.

Development revenues

	2020 £m	2019 £m	% change
Development revenues from co-development contracts			
Inhaled development services	**5.7**	6.9	(17.4%)
Licensing milestones	**—**	2.4	n/m
Total revenues from co-development contracts	**5.7**	9.3	(38.7%)
Development revenues from CDMO contracts			
Inhaled development services	**2.4**	—	n/m
Licensing milestones	**0.6**	—	n/m
Total revenues from CDMO contracts	**3.0**	—	n/m
Revenues from non-inhaled development services	**3.2**	2.1	52.4%
Total development revenues	**11.9**	11.4	4.4%

Revenues from co-development contracts

The Group earned development services revenues of £5.7m (2019: £6.9m) from co-development agreements in 2020, principally from work related to the progression of the generic Ellipta® and VR2081 programmes. The decrease of £1.2m is driven by lower activity related to Mundipharma's *flutiform*® K-haler®, following its launch at the end of 2018.

Licensing milestone revenue of £2.4m in the prior year primarily relates to a $2.5m (£1.9m) milestone earned under an exclusive licensing agreement with Novartis AG following EU Regulatory Authorities acceptance in May 2019 of a valid Marketing Authorisation Application (MAA) made by Novartis for its Enerzair® Breezhaler® (QVM149) product. As detailed above, the Group has received further milestones related to Enerzair® Breezhaler® approvals in Japan and Europe in 2020, which are recognised within Royalty and other marketed revenues.

Costs to deliver revenues from co-development contracts are reported under research and development (R&D) expenditure in the Consolidated income statement.

Revenues from CDMO contracts

During the first six months of 2020, the Group signed four new CDMO contracts, with a further 14 contracts signed in the second half of the year. These contracts began to contribute to revenues during the second half of the financial year, delivering £3.0m revenue in total.

We expect to see momentum from new CDMO contracts build during 2021, with revenue from new CDMO contracts expected to more than triple compared to 2020.

Costs to deliver these revenues are reported under cost of sales.

Non-inhaled development services

The Group earned £3.2m in 2020 (2019: £2.1m) from the provision of development services by Skyepharma SAS (Lyon, France) related to oral products. Costs to deliver these revenues are reported under cost of sales.

2. Research and development (R&D) expenditure

Following a voluntary change in accounting policy, support function costs, including HR, Finance and IT, which were previously considered as dedicated to R&D, are now included within G&A costs reflecting that these functions are now supporting a broader range of activities across the Group. Costs for 2019 have been restated in line with this new policy. Refer to note 30 of the consolidated financial statements.

R&D expenses declined 35.0%, mainly due to the reduction in costs associated with ceasing development of the Group's proprietary nebulised therapies, primarily VR647.

The scope of R&D expenses now comprises expenditure relating to:

a) Co-development R&D – this category is the equivalent to the previously reported "Partnered" category and represents R&D expenses related to co-development agreements. These expenses are principally funded by development milestone payments from partners, which may be contingent upon programme progression.

b) Technology platforms – this category represents development and improvement of the Group's own proprietary device and formulation technologies. This investment provides the basis for generating future partnering and licensing revenue opportunities.

Financial review continued

2. Research and development (R&D) expenditure continued

Total R&D expenditure by category

	2020 £m	2019 Restated £m	% change
Co-development R&D and technology platforms	**23.8**	22.8	4.4%
Proprietary product pipeline programmes	**–**	13.8	n/m
Total R&D	**23.8**	36.6	(35.0%)

Co-development R&D and technology platforms

The majority of 2020 co-development R&D costs are focused on the generic Ellipta® (Hikma) and VR2081 programmes. There has been a reduction in spend versus last year driven by work on VR315 (US) and *flutiform*® K-haler® reaching conclusion.

The Group has increased investment in technology platforms in 2020 compared to the prior year, including additional investments in the innovative FOX® handheld nebuliser, its dry-powder device platforms and formulation technologies. These investments were partially offset by reductions in Group R&D investment in non-inhaled processes and capabilities, which are now being leveraged to generate increased oral development revenues.

Proprietary product pipeline programmes

In 2019, expenditure related to the Group's proprietary product pipeline of nebulised therapies, including VR647, was previously presented as "pre-partnered" R&D. From the end of 2019, all investment in this pipeline has ceased, and the category of "pre-partnered" R&D will no longer be used for presentation of the Group's results.

3. General and administrative (G&A) expenditure

Following the voluntary change in accounting policy, support function costs, including HR, Finance and IT, which were previously considered as dedicated to R&D, are now included within G&A costs. This change reflects the fact that these functions now support a broad range of Group activities. Costs for 2019 have been restated in line with this new policy.

G&A expenditure of £28.7m increased by 5.1% compared to the prior year, primarily due to increased non-cash share-based compensation charges following an increase in estimated vesting levels, and the recruitment of senior hires (2020: £4.2m; 2019: £2.7m).

4. Selling and marketing expenditure

Selling and marketing expenses of £4.1m have increased versus 2019 due to the build out of the new Business Development team in Europe and North America, as well as increased promotional activities.

5. Other operating expenditure and income

Other operating income includes R&D tax credits of £2.4m (2019: £1.7m) primarily driven by an increase in qualifying development expenditure in Lyon, and a £1.0m gain recognised on the receipt of an asset as part of the terms of the termination of a historical co-development agreement.

6. Amortisation and impairment

The Group recognised a £40.3m charge for amortisation and impairment of intangible assets, compared to £53.6m in the prior year. The lower charge in 2020 is largely the result of lower *flutiform*® amortisation following an extension to certain Japanese patents (2020: £20.9m; 2019: £33.5m), the full amortisation (£6.6m) of the GSK Ellipta® intangible asset in 2019, and the full amortisation and impairment of VR647 in 2019 (£8.1m). This decrease is offset by a £15.6m impairment of goodwill in 2020 relating to the Group's Swiss operations.

The impairment charge recognised in respect of the Swiss Group of cash generating units (CGUs) is the result of an assumed restructuring of operations, including the transition of R&D activities to the UK. As a consequence, future revenue expectations for the Swiss Group of CGUs have reduced materially, with a corresponding increase in the future revenue expectations for the UK and Germany CGU.

7. Exceptional items

Exceptional income of £124.9m in 2020 (2019: exceptional expenses of £3.5m) largely consists of £121.1m received for damages and associated interest awarded to Vectura for the period to the end of Q3 2020. These receipts followed the announcement on 19 November 2020 that the United States Court of Appeals for the Federal Circuit denied GSK's motions for judgement as a matter of law, a new trial on infringement and for a new trial on damages in litigation concerning Vectura's US patent 8303991, which covers three of GSK's Ellipta® products sold in the US. Associated legal fees of £0.9m (2019: £3.0m) have been recognised as exceptional expenses.

Exceptional items for 2020 also include a £3.5m gain recognised following the release of a commercial provision with a partner, and a £1.4m gain on disposal of one of the Group's properties in Switzerland. Following the Group's decision to reduce R&D operations in Switzerland a £2.8m gain has been recognised due to the partial release of the Swiss pension liability due to pension curtailments, offset by restructuring provisions of £2.4m. A further £0.6m of exceptional costs have been recognised for the closure of the Group's operating site in Gauting, Germany, completed in Q4 2020.

8. Adjusted EBITDA

Adjusted EBITDA is a non-statutory measure that demonstrates the underlying performance of the Group. It is used by management and the Board to monitor the Group's performance over time.

As shown in note 9 to the consolidated financial statements, adjusted EBITDA is calculated by adjusting the operating profit for the non-cash items of depreciation, amortisation and share-based compensation, and for items that are reported as exceptional items. These adjustments are not affected by the Group's change in accounting policy or restatement of the Consolidated income statement.

Adjusted EBITDA of £61.5m (2019: £43.4m) increased by 41.7% compared to the prior year primarily due to the recognition of approval milestones, and GSK Ellipta® revenues in the second half of the year, as well as reductions in R&D costs.

The mix of revenues towards royalties and marketed revenues also improved adjusted EBITDA margin by 8.0 percentage points to 32.3%.

9. Net finance expenses

Net finance expenses of £1.5m in 2020 (2019: income of £0.9m) increased primarily due to foreign exchange.

10. Profit/(loss) before tax

The Group's statutory profit before tax of £131.3m has improved from a loss of £26.1m in 2019 largely as a result of the recognition of £124.9m in exceptional income, as well as an increase in royalties and other marketed revenues, a reduction in research and development expenditure, and a £13.3m decrease in amortisation and impairment charges.

11. Tax

The Group's net tax charge has moved from a net tax credit in the prior period due to the increase in the current tax charge and a decrease in deferred tax credits. The £8.7m increase in the current tax charge to £12.8m (2019: £4.1m) is primarily due to tax payable on the GSK US patent litigation award. Deferred tax credits have decreased by £4.2m (2020: £3.9m; 2019: £8.1m) due to lower amortisation of intangible assets leading to a reduction in the unwinding of associated deferred tax liabilities.

12. Earnings per share

The Group has achieved earnings per share of 20.5p compared to a loss per share of 3.4p in 2019. The Group has made a profit after tax in 2020, which is largely due to the recognition of exceptional income related to the GSK US patent litigation.

13. Foreign exchange exposure

The Group receives revenue and incurs expenses in a number of foreign currencies and, as such, movements in foreign exchange rates can materially impact the Group's financial results. Had foreign currency rates in 2020 remained constant with those of 2019, the Group's reported adjusted EBITDA would have been approximately £0.1m higher.

As an indication, a 5% strengthening or weakening of sterling against the euro, US dollar and Swiss franc would have had an impact of between £4.0m and £4.4m on the Group's adjusted EBITDA in 2020.

Balance sheet

Goodwill

The decrease of £12.6m in goodwill to £149.6m at 31 December 2020 is due to a £15.6m impairment of the goodwill allocated to Switzerland. The impairment charge recognised in respect of the Swiss Group of CGUs is the result of assumed restructuring of operations, including the transition of R&D activities to the UK. As a consequence, future revenue expectations for the Swiss Group of CGUs have reduced materially, with a corresponding increase in the future revenue expectations for the UK and Germany CGU. The impairment has been offset by a £3.0m foreign exchange gain upon revaluation of goodwill denominated in foreign currencies, primarily the Swiss franc.

Intangible assets

The £14.0m decrease in the carrying value of intangible assets is due to amortisation of £24.7m offset by foreign exchange gains of £9.7m and other intangible additions of £1.0m.

Property, plant and equipment

The net book value of property, plant and equipment is £56.4m, £1.3m higher than at 31 December 2019. The key movements are £9.1m of depreciation offset by £2.5m of foreign exchange gains, £11.9m of additions and £4.0m of disposals, which mostly relate to the sale of part of the Group's property in Switzerland. The additions include £2.7m of non-cash additions, which relate to the recognition of right-of-use property assets under IFRS 16 and the receipt of an asset from a partner.

Inventory

Inventory is £1.1m higher with approximately 90% of the £28.8m carrying value at 31 December 2020 attributable to *flutiform*®.

Cash and liquidity

The Group ended the year with cash and cash equivalents of £78.6m (2019: £74.1m). Cash generated from operating activities of £31.5m (2019: £19.3m) has been largely offset by capital returns of £16.4m (2019: £3.4m), the repayment of property mortgages of £4.3m (2019: £0.1m) in Switzerland, and net tax payments for the year totalling £6.7m (2019: net tax receipts of £1.1m). Tax payments of £4.1m relate to a payment that was due to be paid towards the end of 2019, but was paid in early 2020 due to a late request by the Swiss tax authorities.

The Group also received a reimbursement of £8.0m for historical purchases of capital equipment made by the Group on behalf of a customer as part of a co-development agreement, and a £5.3m receipt for the sale of one of the Group's properties in Switzerland. These inflows have been offset by capital expenditure in the year of £13.0m.

The Group generated free cash flow of £24.1m (2019: £12.5m). Free cash flow (FCF) is a non-statutory measure used by the Board and the senior management team to measure the ability of the Group to support future business expansion, distributions or financing. FCF is defined as net cash flow from operating and investing activities (£24.8m and £0.4m respectively) less repayment of lease liabilities (£1.1m).

Cash generated from operating activities was £31.5m in 2020 (2019: £19.3m), compared to an adjusted EBITDA for the year of £61.5m. After accounting for presentational differences, this represents a conversion of adjusted EBITDA to operating cash of 51% (2019: 44.5%). Both the approval milestone for generic Advair® (VR315 (US)) and fourth quarter GSK Ellipta® revenues were recognised in 2020, but the related cash was not received until Q1 2021. The increase versus 2019 is mainly due to an improvement in the December trade payables position versus the prior year. The reconciliation of adjusted EBITDA to operating cash is presented in the table below.

	2020 £m	2019 £m
Adjusted EBITDA	**61.5**	43.4
Presentational		
– Exceptionals cash outflow – GSK litigation	**0.4**	(3.0)
– Research and development tax credit income presented outside of operating cash	**(2.4)**	(1.7)
Working capital		
– GSK Ellipta® Q4 2020 revenue recognition timing	**(6.5)**	—
–VR315 (US) milestone revenue recognition timing	**(8.1)**	—
– Generic Ellipta® (Hikma) and VR2081 revenue recognition timing	**(1.8)**	(3.5)
– Decrease in payables	**(6.8)**	(11.1)
– Increase in receivables	**(4.9)**	(3.5)
– Other working capital	**0.1**	(1.3)
Cash generated from operating activities	**31.5**	19.3

The Group has access to a £50.0m multi-currency revolving credit facility with Barclays Bank PLC and HSBC Bank PLC. This facility expires in August 2022 and remains undrawn.

By order of the Board

Paul Fry
Chief Financial Officer
17 March 2021

Risk management and internal control

Our risk management framework is designed to ensure that existing or emerging significant risks are identified, assessed and managed, and are reported to relevant stakeholders in a timely manner to inform and support decision making. This process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts.

Our process aims to mitigate the significant risks faced by Vectura in accordance with our risk appetite. It is recognised that no risk management process can provide absolute assurance against material misstatement and loss.

At the Board meeting in January 2021, the Board completed its year-end assessment of risks. This followed the Audit Committee's formal assessment of risk and internal controls also in January 2021, which was supported by a detailed risk assessment by the Executive Leadership Team. The Board believes that it has taken all reasonable steps to satisfy itself that the risk management process is effective and fit for purpose. No material control weaknesses or deficiencies were identified as part of this review.

The diagram below illustrates the internal governance process within the Group around risk management.

Objectives of our risk management process:

- to identify and assess the likelihood and potential impact of the risks that Vectura faces in the execution of its strategy and the operation of its business model, and ensure that appropriate mitigating actions and controls are in place such that the residual risk is aligned to the risk appetite of the Board;
- to control systematic risks within the organisation by maintaining a system of internal controls to manage risks in decision making, legal contract management, quality and regulatory processes and the processing of financial transactions; and
- to ensure that identified risks are reported to relevant stakeholders in a timely manner to facilitate effective decision making.

Evaluation of risks

A risk scoring matrix is used to ensure risks are evaluated on a consistent basis. Risk is assessed net of the application of current control activities using a standard matrix which considers the potential likelihood of a risk event occurring and the potential impact on the business were such an event to occur. The output of this matrix allows the business to prioritise risks and mitigating actions. Risks are considered within the timeframe of at least three years, which is the same period that has been used in the Viability statement.

Principal risks

Not all the risks identified as part of our risk management processes are considered to be principal risks. The principal risks reported in the following section are those risks that the Directors believe to be the most important and which could cause Vectura's results to differ materially from expected or historical results, or to significantly impact our strategy. Not all of these risks are within the control of the Group and other factors besides those listed may affect the Group's performance. As with all businesses operating in a dynamic environment, some risks may not yet be known whilst other low level risks could become material in the future.

Our risk management framework

Setting the tone	Designing the system	Completing the review
The Board Accountable for carrying out a robust assessment of the principal risks facing Vectura, including those threatening its business model, future performance, solvency and liquidity. Responsible for conducting an annual effectiveness review of Vectura's risk management and internal control systems, and the principal risks facing Vectura. This review covers all material controls, including financial, operational and compliance controls. A detailed effectiveness review is performed by the Audit Committee on behalf of the Board. Responsible for reporting to shareholders about Vectura's risk management process.	**Executive Leadership Team** Responsible for ensuring that the risk management and internal control systems are appropriately designed, implemented and aligned to the Board's risk appetite. Responsible for ensuring that the risk appetite of the Board is appropriately understood by risk owners and key decision makers. Responsible for reviewing the business-wide and project risk registers. Responsible for conducting an annual assessment of the key principal risks to ensure controls are in place and where gaps are identified, plans are assigned to address them.	**Project managers and senior leaders** Responsible for updating project and functional risk registers and reporting those considered key to the Executive Leadership Team. Responsible for implementing and monitoring mitigating actions and controls. Responsible for informing project and functional teams about risks and ensuring that mitigating actions are carried out.
Review of process and outputs	Review of high risks	Risk registers

Emerging risks

Emerging risks are new risks which may challenge us in the future. They have the potential to crystallise at some point in the future but are unlikely to impact the business during the next year. The potential future impact of such risks is often more uncertain. They may begin to evolve rapidly or simply not materialise.

We monitor our business activities and external and internal environments for new, emerging risks and changes to risks to ensure that these are managed appropriately. This process is fully embedded within the overall risk management framework.

How our principal risks have evolved since the 2019 Annual Report

This year we have seen risk scores for our principal risks increase relative to 2019. This primarily reflects the fact that the business is in a transitionary phase as it pivots towards the new CDMO business model, as well as the impact of a number of changes in the macro environment, most notably the COVID-19 pandemic and the increased frequency of cyber-attacks.

A new principal risk, "COVID-19", has been added to the Group's risk register since the Annual Report and Accounts 2019, reflecting the current pandemic situation. Whilst to date there have been no material adverse impacts of COVID-19 on the Group, the situation is constantly evolving and is being monitored as a principal risk. Refer to pages 6 and 7 for detail on how the Group has responded to the pandemic.

Following the UK exiting the EU on 31 December 2020, it is no longer considered necessary to have specific Brexit-related risks as they have either materialised, or the remaining risks are considered to be adequately managed under other existing principal risks, for example "Supply chain and product quality". The previous principal risk, "Failure of partners to deliver on their obligations" has been disaggregated into "Co-development partner risk" and "*flutiform*® partner risk", as it more appropriately reflects how these risks are managed within the Group.

Following the FDA approval for generic Advair® in December 2020, the principal risk "Failure to launch VR315 in a competitive timeframe" has been removed from the risk register. Reflecting the change in the strategic emphasis of the Group, the risk register has been further simplified with the consolidation of the principal risk "Failure or delay in achieving development milestones required to advance the generic product pipeline" into "Co-development partner risk".

The Audit Committee and Board also considered emerging risks relating to climate change as part of their annual risk reviews. Rather than climate change being a single principal risk for the Group, climate change has the potential to impact on a range of business processes in different ways, requiring a varied set of mitigations. To reflect this, climate change risks are therefore presented and managed under a number of principal risk headings in the risk register.

Risk management and principal risks

Principal risks

Robust risk management underpins our strategic approach, with each risk monitored by the Board and Executive Leadership Team.

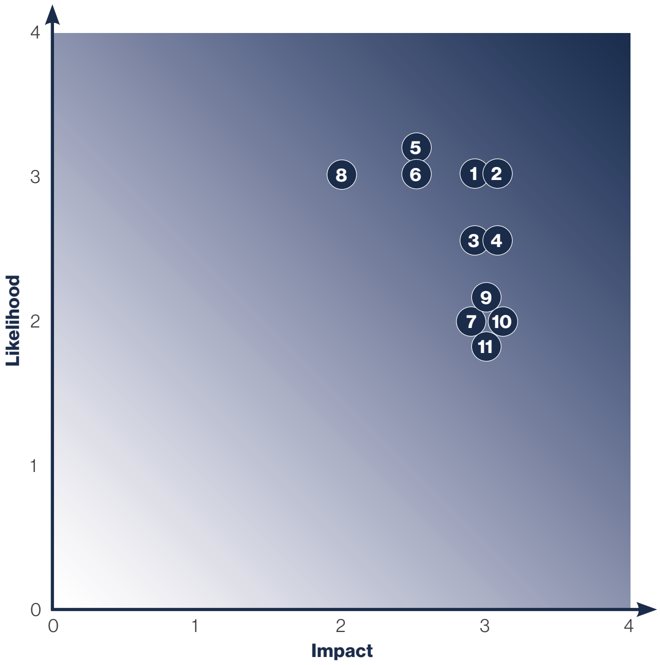
Principal risks overview

This table summarises the Group's principal risks, showing how each links to our corporate goals. Controlling each of these is critical to the ongoing success of the business.

Risks	Corporate goals	Risk change in the year
1 *flutiform*® partner risk	1, 4	Increase
2 Technology platform innovation	1, 2, 4	Increase
3 Co-development partner risk	1, 3, 4	Increase
4 CDMO business development	1, 2	Increase
5 CDMO execution	1, 2, 4	Increase
6 Information and cyber security	4	Increase
7 Supply chain and product quality	1, 4	Decrease
8 Talent attraction and retention	3, 4	Increase
9 Intellectual property	1, 2	Decrease
10 COVID-19	1, 2	New
11 Regulatory and compliance	1, 2	Increase

Principal risks heat map

The heat map illustrates the relative inherent positioning of our principal risks from an impact and likelihood perspective. Further details of our principal risks can be found on the following pages.



flutiform® partner risk

Risk movement: Increase

Corporate goals impact: 1 4

What is the risk?

Damage to *flutiform*® performance or long-term value due to actions or omissions of licensee partners.

What would the impact be?

- Product performance below potential, resulting in lost revenues and reduced returns.
- Potential under or over valuation of *flutiform*® future cash flows, leading to under or over valuation of Vectura shares.
- Potential damage to Vectura reputation.

Causes

- Poor commercial strategy and/or sub-optimal promotional effort.
- Poor demand forecasting leading to an inability to plan capacity, and increasing the risk of stock shortages.
- Significant organisational change leading to sub-optimal partner decision making.
- Partner reputational damage reflecting badly on the *flutiform*® brand, thereby inhibiting commercial potential.
- Partner legal and/or regulatory non-compliance resulting in product use restrictions or withdrawal.
- Partner insolvency or change in control resulting in an inability to effectively promote *flutiform*®.
- Inadequate response to environmental concerns leading to loss of market share and/or additional costs.

Managing the risk

- Regular interactions with partners at all levels of management, including both formal and informal governance.
- Visibility of partner marketing plans and commercial forecasts.
- Independent tracking of *flutiform*® in market performance, and broader respiratory market intelligence.
- Contractual protections, including binding demand periods and change of control provisions.

Our corporate goals

1 **Financial accountability**

2 **Transform the Company into a successful CDMO**

3 **Drive product development and delivery management excellence**

4 **Quality and operational excellence**

Technology platform innovation

Risk movement: Increase

Corporate goals impact: 1 2 4

What is the risk?
Failure to be able to offer robust, differentiated technologies, which meet present and future customer needs.

What would the impact be?
Failure to differentiate versus other inhalation platforms, leading to losing current or future revenue opportunities.

Causes
- Insufficient insight into changing customer demands and emerging treatment developments, including climate-related requirements, for example GHG or recyclability.
- Failure to identify and leverage relevant changes in technology.
- Lack of the right knowledge and skills within the Group.
- Failure to allocate sufficient investment to technology platform development.
- Failure to scale up new technologies reliably.

Managing the risk
- Consistent mapping of market dynamics and the competitive environment.
- A technology roadmap and associated investment plan, with clear Executive team level ownership, and regular ELT and Board review.
- Strong, multi-disciplinary teams with clear focus on technology delivery and scale up.
- Attracting and retaining key skill sets within the organisation.
- Active use of external advisors with deep domain expertise.

Co-development partner risk

Risk movement: Increase

Corporate goals impact: 1 3 4

What is the risk?
Vectura invests in and earns revenues from a limited number of large development programmes which are structured as co-development agreements. Under these agreements, Vectura co-invests alongside partners in the development of products, with revenues earned through milestone payments and material post-launch royalty streams.

The realisation of future financial returns from these programmes is highly dependent on partner development and commercialisation execution, capital availability, and strategic investment priorities.

What would the impact be?
Failure by a strategic partner to either properly execute on or sufficiently invest in key deliverables during the development phase or subsequent commercialisation could result in a project termination, launch delay, or underperformance of the product in the market. These consequences would result in lower returns on investment for Vectura, and may also adversely affect Vectura's reputation and future prospects.

Causes
- Change in partner strategy or investment priorities.
- Change in partner assessment of commercial opportunity, for example due to changes in costs, competition, or macro factors, such as climate-related factors.
- Partner viability or insolvency.
- Partner development activities poorly executed.
- Partner's marketing, supply chain or commercialisation strategy is sub-optimal or not executed successfully.
- Partner failure to obtain appropriate pricing and reimbursement.
- Partner failure to comply with relevant legislation or regulations, including climate-related regulations.

Managing the risk
- All collaborations are performed under a suitable legal agreement which is assessed by Vectura and its legal advisors.
- Typically, for collaborations, a joint steering committee (JSC) is established involving both Vectura and partner personnel. This provides Vectura with a mechanism to ensure that any joint project activity is managed appropriately. Where the Group supplies product, regular operational meetings take place to review demand forecasts.
- At a product or project level, regular operational meetings take place to review progress, plans and forecasts.
- The Commercial and Business Development department maintains regular dialogue with existing partners.
- Vectura has an established governance process to oversee the conduct and delivery of all development programmes and to ensure that any potential changes to the development plan or budget are identified and discussed in a timely manner such that mitigating activities or actions can be put in place as required.
- Individuals with the necessary skills and experience have been recruited to lead and oversee the development of our co-development assets. Vectura continues to work with a network of experienced consultants and contractors which provide additional support and expertise as required.
- Vectura regularly reviews the commercial opportunity for these assets, based on data from both partner and independent sources.

Our corporate goals

1 **Financial accountability**

2 **Transform the Company into a successful CDMO**

3 **Drive product development and delivery management excellence**

4 **Quality and operational excellence**

Risk management and principal risks continued

Principal risks

CDMO business development

Risk movement: Increase

Corporate goals impact: 1 2

What is the risk?
Failure to develop a strong pipeline of CDMO opportunities and convert these into revenues, with an acceptable margin profile.

What would the impact be?
Inability to deliver inhaled CDMO market share, revenue growth and profitability expectations, impacting the success of the new CDMO business model.

Causes
- Insufficient investment in business development resources and marketing to drive presence and awareness.
- Market offering is not competitive, for example: pricing, service catalogue, differentiated technology, new climate-related requirements, or delivery timelines.
- Damage to brand reputation, reducing new customer leads, or repeat business.

Managing the risk
- The Group has significantly increased the size of the Business Development team, appointing CDMO experienced business development personnel in Europe and the US.
- Significant investment has been made in the Group's branding and marketing, as well as developing effective digital channels for raising awareness and engaging with potential customers.
- Service catalogue and pricing are well developed, including competitive assessment.
- A standard selling methodology, with KPIs to assess the size and quality of the pipeline of new business, is established and regularly reviewed.
- Consistent mapping of market dynamics and the competitive environment.
- A technology roadmap and associated investment plan, with clear Executive team level ownership, and regular ELT and Board review.

CDMO execution

Risk movement: Increase

Corporate goals impact: 1 2 4

What is the risk?
Inability to meet CDMO customer requirements at the right margins, in order to generate expected financial returns.

What would the impact be?
Failure to generate sufficient financial returns from contracts, loss of new, future or repeat business, and reputational damage.

Causes
- Failure to invest in footprint, physical capacity and capital assets to support the growth potential of the CDMO business.
- Shortage of staff with requisite technical skills and experience.
- Organisation structure, processes and systems not fit for purpose.
- Inefficient or mismatched cost base to deliver inhaled development services.
- Additional unplanned costs associated with compliance with environmental regulations (e.g. GHG, recyclability and waste management) which reduce profitability of contracts or loss of business.

Managing the risk
- Key leadership appointments have been made bringing with them significant CDMO experience.
- Strong project management function, with clear operational governance.
- Clear set of operational, capital utilisation and financial KPIs reviewed at a senior level.
- Prioritisation of capital investments to support forecasted revenue profile.
- Back up plans enabling rapid expansion of capacity to manage unplanned peaks.

Our corporate goals

1. Financial accountability
2. Transform the Company into a successful CDMO
3. Drive product development and delivery management excellence
4. Quality and operational excellence

Information and cyber security

Risk movement: Increase

Corporate goals impact: 4

What is the risk?
Data and information are critical to our operations. Significant disruption to systems due to computer viruses, cyber threats, malicious intrusions or unintended or malicious behaviour by employees, contractors or service providers could affect the Group's operations. In addition, failure of people, processes or organisation controls to protect, resulting in loss or misuse of confidential information, is a threat to the Group's operations.

What would the impact be?
- Significant reputational damage.
- Significant penalties.
- Loss of customers and revenues.
- Potential for fraud.
- The loss of proprietary or other commercially sensitive information may provide competitors with a competitive advantage.

Causes
- Security vulnerabilities in existing processes and systems.
- External cyber-criminal activity.
- Missing or ambiguous policies, data governance and accountability.
- Malicious, negligent or accidental actions from employees, suppliers or contracted third parties.
- Increase in employee remote working.

Managing the risk
- Training, policies and standards with compliance monitored.
- Dedicated information security expert, supported by external parties.
- Appropriate backup of systems and data.
- Employee laptops and mobile phones are protected via secure encryption with multi-factor authentication in place.
- Cyber risk insurance cover in place.
- Internal vulnerability scanning performed with annual external penetration testing.
- Ongoing programme to enhance our information and system capabilities.
- Code of conduct for working from home.

Supply chain and product quality

Risk movement: Decrease

Corporate goals impact: 1 4

What is the risk?
The supply chains for *flutiform*®, Breelib™ and other finished or semi-finished products are largely outsourced and cross international borders. Extended disruption to these supply chains could result in loss to the Group. In addition, manufactured products must adhere to strict quality regulations, which may vary according to the end market. Failure to meet these quality standards risks significant loss to the Group.

What would the impact be?
- Lost revenues and profits.
- Loss of new business opportunities.
- Reputational damage.
- Additional compliance and re-work costs.
- Regulatory fines, suspension of licences, or legal action.

Causes
- Disruption to the movement of goods across borders, leading to raw material or component shortages.
- Inadequate testing of finished goods, and of materials and components used in the production process.
- Disruption of third-party operations, including capacity limits, industrial action, loss of licences or regulatory actions and financial viability.
- Increase in costs or disruption to supplies due to failure to comply with new environmental regulations.
- Increased costs and/or wastage due to additional EU importation testing following the UK exit from the EU.

Managing the risk
- Vectura has strong working relationships with its suppliers; we have established due diligence processes to ensure that our stringent quality standards are maintained and we have put in place appropriate systems that will provide an early warning of potential issues.
- A dedicated Commercial Quality Director has oversight of release of commercial product and ensures appropriate management of quality for commercial products.
- Monthly meetings are held to discuss customer demand forecasts and to review Vectura's ability to meet these forecasts. Vectura has established contingency arrangements to ensure that production capacities exceed forecast demand so that it would be possible to catch up on any shortfall in production or meet unexpected demand. Appropriate levels of safety stock are maintained.
- Supply chain mapping has been undertaken, and is regularly reviewed, to identify potential points of failure and mitigating actions. Where economically feasible, additional sources of supply are established and contracts negotiated to include appropriate provisions for replacement of defective goods.
- A risk assessment has been undertaken to assess inventory coverage risks for new business and how CDMO requirements are integrated into the supply chain.
- New testing arrangements are in place for EU release, and improvement initiatives underway to limit additional costs or wastage.
- The Group also has appropriate insurance, but it is not possible to insure against all risks and not all insurable risks can be fully insured on an economically feasible basis.

Our corporate goals
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Risk management and principal risks continued

Principal risks

Talent attraction and retention

Risk movement: Increase

Corporate goals impact: 3 4

What is the risk?
Failure to attract or retain talent/key personnel in the context of our CDMO transformation and a challenging labour market.

What would the impact be?
The loss of experienced talent or the failure to attract required skill sets could adversely affect the effectiveness of the Group's operations, the ability to attract new business and limit progress in the development of our technology platforms.

Causes
- Inadequate succession planning and talent management.
- Organisational disruption and/or change fatigue.
- Failure of reward and/or incentive strategy.
- Misperceptions of reduced opportunities for personal development, including the opportunity to innovate.
- Economic uncertainty impacting candidate mobility.
- Weak external brand versus competitors, including how Vectura is addressing diversity, inclusion and climate-related matters.

Managing the risk
- Vectura seeks to develop employees for current and future roles and our career development and talent management programmes remain a key area of focus for the Executive Leadership Team. We continue to invest in ongoing training and development with leadership and management development programmes in place.
- Succession plans for key roles have been developed to ensure a talent pool is identified, developed and ready for implementation.
- Vectura regularly benchmarks its reward strategy to ensure it continues to incentivise, motivate and retain our talented employees. This benchmarking covers both short and long-term incentives. Salaries of all employees are reviewed annually to ensure we remain market competitive.
- For major restructuring, the Group uses appropriate retention schemes, and deploys a strong project management approach, including a focus on change management and knowledge transfer aspects.

Intellectual property

Risk movement: Decrease

Corporate goals impact: 1 2

What is the risk?
Patent infringement by a competitor organisation or failure to obtain patents for technology developed by Vectura could impact the value of Vectura's market offering as a CDMO and inhibit the delivery of the generic pipeline.

What would the impact be?
Such infringement or failure could result in Vectura or a customer having to take a licence to third-party IP in order to develop a product, or even being unable to commercialise a product, materially impacting Vectura's future revenues, profitability and prospects.

Causes
- Poorly constructed patents, making a successful challenge to Vectura IP more likely.
- Failure to identify patentable technologies early enough.
- Failure to identify infringement of Vectura IP.
- Failure to protect IP sufficiently in key partner or supplier agreements.

Managing the risk
- Dedicated internal resources, supplemented with external expertise, which files for and prosecutes patents and other forms of intellectual property.
- In conjunction with our partners where relevant, Vectura takes steps to enforce these rights.
- Monitoring of third-party rights that may have relevance for the operations of the Group.

Our corporate goals

1. **Financial accountability**
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COVID-19

Risk movement: NEW New

Corporate goals impact: 1 2

What is the risk?
COVID-19 could have a material adverse effect on Vectura operations and financial results.

What would the impact be?
- Inability to grow CDMO business in line with forecast and reduction in cash flows from existing partner products.
- Loss of revenues due to supply chain disruption and employee absence.

Causes
- Supply chain disruption, including production shutdowns or lack of availability of raw materials or components.
- Disruption to customer businesses, delaying demand for CDMO services.
- Reduced capacity to deliver contracted services, due to employee absences and/or social distancing measures.
- Disruption to customer due diligence activities, causing delays in contracting.

Managing the risk
- Crisis management team established with regular reviews by the ELT and the Board.
- Working closely with partners and suppliers to maintain supply chains.
- Support for employee remote working.
- Site risk assessments, with strict measures to support social distancing and personal protection.

Regulatory and compliance

Risk movement: Increase

Corporate goals impact: 1 2

What is the risk?
Vectura operates in the highly regulated international pharmaceutical services industry. Failure to comply with relevant regulations governing medical devices, pharmaceutical and combination products can result in non-approval by regulatory authorities.

What would the impact be?
- Risks to patient safety.
- Potential device and product recalls.
- Litigation and/or reputational damage.
- Loss of market access.
- Suspension of site manufacturing licence/registration.
- Increased costs and/or delays.

Causes
- Failure to track changes in regulations as they affect the Group and its products.
- Inadequate quality management system, resulting in gaps in people, process and system compliance.
- Inadequate focus from leadership or management on the importance of quality and data integrity.
- Lack of clear organisational accountabilities.
- Insufficient control or oversight of contracts and suppliers.

Managing the risk
- Competent and well-staffed Quality function, reporting directly to CEO.
- Formal quality management system in place, regularly reviewed.
- Transparency and governance ensuring gaps are properly reported and addressed promptly.
- Staff training programmes appropriate to roles.
- Programme of internal quality audits focused on both Group and supplier operations.

Our corporate goals
1. **Financial accountability**
2. **Transform the Company into a successful CDMO**
3. **Drive product development and delivery management excellence**
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Viability statement

In accordance with the provisions in the UK Corporate Governance Code (C.2.2 of the 2014 revision), the Directors have assessed the viability of the Group over a three-year period. The Directors' assessment has been made with reference to the Group's current strategy, strong balance sheet including positive cash reserves of £78.6m at 31 December 2020, the availability of the £50m revolving credit facility to August 2022 and principal risks as described in this Strategic report.

Whilst the Directors have no reason to believe that the Group will not be viable over a longer period, a three-year period is considered appropriate as it is possible that one or more principal risks could reasonably be realised in the period which could materially impact the viability of the Group. In addition, this period is more than double that used for the going concern assessment. The Group continues to be strongly cash generative and has cash and cash equivalents of £78.6m at 31 December 2020. The use of the Group's £50m revolving credit facility is not forecast during the three-year viability period. This facility expires in 2022 and the Board expects that it will be renewed. The three-year period therefore provides the Board with an appropriate degree of confidence while still providing a suitable longer-term outlook.

The process adopted to assess viability this year is unchanged from 2019 and involved collaborative input from a range of business functions to model a series of plausible "stress test" scenarios linked to the Group's principal risks. These scenarios included both significant adverse financial outcomes and operational failures. Consideration was given to the impact of mitigations as well as their interdependencies. The Audit Committee reviewed the process before the viability evaluation was provided to the Board to assist in its assessment.

The key assumptions underpinning the assessment during the period are as follows:

- projected *flutiform*® product supply volumes and the related supply margin;
- manufacturing and assembly of *flutiform*® by Recipharm continues in line with contractual obligations;
- forecast net royalties from Seebri®/Ultibro® Breezhaler® in EU/RoW and Rayos® and generic Advair® (VR315) in the US;
- the timing of receipt of development phase milestones from partnered programmes, particularly from development of generic versions of GSK's Ellipta® portfolio;
- the receipt of the $32m EXPAREL® net sales milestone; and
- projected growth in CDMO development services revenues.

The following reasonably plausible stress tests were performed:

- lower royalty revenues from Seebri® and Ultibro® Breezhaler®, being the Group's most significant royalties;
- termination of the generic Ellipta® and VR2081 programmes, by Hikma and Sandoz respectively;
- failure to grow the revenues of the CDMO business in line with current projections; and
- a COVID-19-related reduction in the revenues of inhalation and other products for which the Group receives royalties.

Whilst the COVID-19 pandemic has not to date had any significant impact on the Group's performance, it has been considered as part of the stress testing scenarios of the viability model due to the continued uncertainty.

As a worst case, the combined impact of these downside scenarios was assessed in combination against the Group's liquidity. Based on this assessment and stress testing, the Directors have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the three-year period of assessment.

Non-financial information statement

The following aligns to the non-financial reporting requirements contained in sections 414CA and 414CB of the Companies Act.

Environmental matters	• Doing business responsibly • ESG strategy microsite	page 43 esg.vectura.com
Employees	• Section 172 statement • Doing business responsibly • Promoting a positive culture	page 16 pages 44 to 47 pages 55 and 56
Social and community matters	• Section 172 statement • Doing business responsibly • ESG strategy microsite	page 17 pages 44 and 45 esg.vectura.com
Respect for human rights	• Directors' report	page 96
Anti-corruption and bribery matters	• Doing business responsibly • Promoting a positive culture	page 46 page 56
Description of the business model	• Business model • Our strategy	pages 14 and 15 pages 18 and 19
Description of principal risks and impact of business activity	• Risk management and internal control • Principal risks	pages 32 to 34 pages 34 to 39
Non-financial key performance indicators	• Progress against our strategic priorities • Non-financial KPIs • Committed to creating a safe and healthy workplace	pages 18 and 19 page 21 page 46

Shaping the future

Vectura has always been committed to operating responsibly and creating long-term value for our shareholders. To support these efforts, in 2020 we developed a new strategy to formalise our approach to environmental, social and governance (ESG) matters.

Our ESG strategy, launching early in 2021, sets out our commitment to creating long-term growth by embedding sustainability in all our business practices. It will act as a roadmap to drive our ongoing improvement efforts and bring together all the initiatives already underway by establishing shared priorities and clear objectives. It will also provide a framework for us to measure our ESG performance against our peers, demonstrate our progress against ESG targets, and hold ourselves to account over the coming years.

Our ESG priorities

During 2020, with input from a wide range of internal and external stakeholders, we developed a set of priorities that align with the ESG factors that are increasingly important to our people, partners, customers, investors and patients. These priorities will enable us to focus our ESG efforts for maximum impact.

Our seven key ESG priorities were identified by assessing a range of criteria, including: investor interest, customer demand, employee interest, alignment with Vectura strategy, resource requirement and return on investment.

E Environmental

Manage and reduce the impact of our environmental footprint

1 **Operational environmental impact**
Monitor and reduce energy use and our carbon footprint

2 **Products and packaging**
Review product and device design and raw materials used

3 **Supplier performance**
Adjust procurement processes and supplier audits

S Social

Be a good corporate citizen, supporting our employees and our community

4 **Employee engagement**
Promote diversity and inclusion and support employee wellbeing

5 **Community support**
Encourage corporate giving and employee volunteering

G Governance

Drive ESG performance through improved transparency and accountability

6 **Corporate governance and ethics**
Clear codes of conduct and policy documentation

7 **Communications and stakeholder engagement**
Transparent and timely communications

Environmental

We are committed to playing our part in environmental stewardship by managing and reducing our environmental footprint. Our business already has a low impact on the environment, but we are taking steps to improve this further. Our priorities include reducing our carbon footprint, monitoring waste and improving supplier performance. In 2021, we have committed to aligning with and achieving certification to the ISO 14001:2015 Environmental Management standard.

A focus on energy efficiency

We are currently developing an energy efficiency/carbon reduction programme as part of the design of our new Inhalation Centre of Excellence. This is aligned to BREEAM and WELL sustainable building standards, and we are targeting "Outstanding" certification on the building design and operation. We are also working on a submission to the voluntary Carbon Disclosure Project (CDP) in 2021 to establish a benchmark for our future carbon reduction initiatives.

In 2019, Vectura renegotiated its electrical utility contracts for its main two sites in the UK, Chippenham and Cambridge, moving to providers with power from 100% renewable generation sources. We continue to renew our lighting with low-energy LED, and the Chippenham site has a solar array which provides power directly to the grid and offsets site utility costs.

Monitoring and reporting greenhouse gases

We report our greenhouse gas emissions in line with the Companies Act 2006, and strive to reduce activities, such as global travel, that contribute to emissions.

Our greenhouse gas emissions declined during 2020 due to a reduction in headcount on sites throughout the COVID-19 pandemic, and an almost complete stop on business travel. We switched to 24-month renewable energy source utility contracts in 2019 and will renew these again in 2021.

	Greenhouse gas emissions[1]				Energy consumed (mWh)[2]	
	Year ended 31 December 2020	% Emissions UK Sites	Year ended 31 December 2019	% Emissions UK Sites	**Year ended 31 December 2020**	% Energy UK Sites
Scope 1	**2,298**	8.6	2,763	3.9	**10,252**	9.4
Scope 2[3]	**1,004**	59.4	1,172	64.6	**10,849**	23.6
Total (Scope 1 and 2)	**3,302**		3,935		**21,101**	33
Total (Scope 1 & 2) per £m revenue	**17.3**		22		**110.7**	

1 GHG emissions reported in metric tonnes of carbon dioxide equivalent. Emissions factors were sourced from the UK DEFRA database.

2 2020 is the first year we are required to report our energy consumption therefore no comparable data is available.

3 Gas and electricity usage information has been obtained from purchase invoices and verified by reference to meter readings. Vehicle fuel usage is based upon recorded mileage.

UK sites represent 18.2% of Vectura real estate portfolio sq ft.

For more information about our environmental ambition, visit esg.vectura.com

Our business already has a low impact on the environment, but we are taking steps to improve this further.

Social

We believe operating ethically and having a long-term positive impact on society is a duty and a responsibility. The health and wellbeing of our people is paramount, and we support them to be engaged and inspired by their work. We also want to give back to the communities we are part of.

We continue to provide opportunities for colleagues to participate in local volunteering and fundraising via our Charitable Support Policy. Our highly effective and active Social Committee continues to organise a multitude of fundraising events.

We continue to collaborate academically with local universities, and our science, technology, engineering and maths (STEM) ambassadors encourage students to select STEM subjects at an early age, with members of our laboratory teams providing local schoolchildren with valuable insight into careers in science.

During the COVID-19 pandemic in 2020, we supported organisations working on the frontline and caring for patients. We donated spare PPE respirator systems to Wiltshire Air Ambulance to help protect its life-saving teams. We donated face coverings to Jubilee Field Surgery in Yatton Keynell, near Chippenham, and Dorothy House Hospice in Wiltshire. We also supported the RISE Trust in Wiltshire with a £5,000 donation.

> The donation of these hoods has brought confidence to us when dealing with patients who might have COVID-19.
>
> **Ground Operations Manager, Wiltshire Air Ambulance**

Protecting our team, supporting each other

During 2020 and continuing into 2021, supporting the wellbeing of our people throughout the COVID-19 pandemic has been our top priority. But our focus is not just on the physical wellbeing of colleagues; we have also been careful to prioritise mental health and emotional resilience. To that end, we have taken a number of steps to support and protect our workforce, including:

- increased hygiene and vigilance at all sites;
- enhanced environment, health and safety and wellbeing protocols;
- comprehensive proactive communications to support our people working remotely and on site;
- hygiene packs provided to all employees, either on site or sent to their homes;
- internal campaigns to celebrate our own Vectura heroes – both those working tirelessly on site or at home;
- social distancing maintained at two metres, despite relaxation of government measures to one metre; and
- facilitating vital personal connections for those working remotely through informal team catch-ups, and virtual conversations via our intranet.

For more information about our response to COVID-19, please see pages 6 and 7

Diversity and inclusion

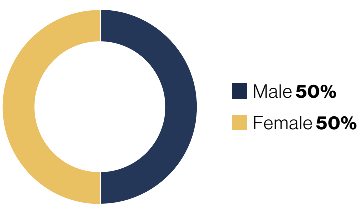
We believe in a diverse and gender-balanced workforce, and our Equal Opportunities Policy ensures the provision of equal opportunities in all aspects of employment, for all individuals, irrespective of age, disability, sex, gender reassignment, pregnancy, maternity, race (which includes colour, nationality and ethnic or national origins), sexual orientation, religion or belief, or marital status.

Our family-friendly policies enabled 19.7% of employees to work flexibly on a contractual basis, as at 31 December 2020. In light of the significant increase in remote working necessitated by the global pandemic and the high degree of value placed on this way of working by our employees, we also confirmed our intention to support agile working on an ongoing basis. We provided our managers with toolkits and support to help them manage virtual teams, and encouraged all leaders to understand and support a variety of working practices and preferences to enable a fully inclusive working environment.

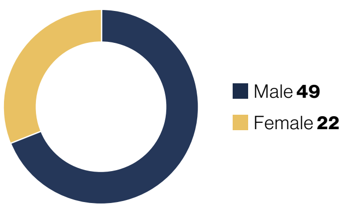
Irrespective of whether or not we meet the government threshold for reporting purposes, we choose to publish our gender pay gap report annually because we believe it is the right thing to do. The latest report can be found on our website.

In 2021 we will enhance our focus on D&I as part of our ESG programme, as outlined on page 42.

Gender breakdown

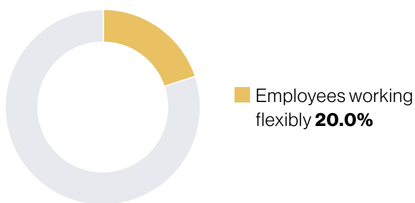


Males/females in senior manager and above roles*



* Director level and above.

Percentage of employees working flexibly



People development

Our talent management framework is used by all functions resulting in the support and development of our talented employees. Our career framework articulates the skills and experience required to progress both laterally and vertically, and we encourage our people to maximise their potential and pursue their career goals through personal development planning.

Our “Science Live” campaign continued during 2020, enabling colleagues to deepen their understanding and appreciation of our unique device, formulation and development capabilities. In addition to ongoing training and development, employees can apply for scholarship funding for a range of professional qualifications. We develop the essential skills needed to lead employees through an in-house Leadership Development Programme and Management Development Programme. Despite the disruption of the pandemic, we were pleased to be able to continue to enable participants to complete this course remotely during the year. Looking ahead to 2021, we will revise and relaunch these programmes as we support our managers to lead in our CDMO environment.

Rewarding our people

We recognise the importance of a fair and competitive reward package and seek to provide well-constructed and regularly benchmarked reward systems which incentivise superior performance and align the interests of our employees with those of our shareholders.

The annual bonus is derived from corporate and individual performance, and our remuneration packages include a pension entitlement, permanent health insurance, life insurance and medical care. Additionally, all employees can participate in our share plans. For more details of our all-employee share plans, please refer to the Remuneration report.

In addition to the performance management process, recognition for the role models of our values or for those who have gone above and beyond in any aspect of their working life is provided through our Recognition Policy, comprised of “thank you” cards or small financial rewards, such as dinner with a partner, and through our “People’s Champion” annual award ceremony.

Case study: A friend in need

During Mental Health Awareness Week in 2020, we ran an internal campaign with our Mental Health First Aiders to support the wellbeing of our people during the COVID-19 pandemic.

Mental Health First Aiders complete specialist training to support colleagues through non-judgemental listening and guidance. Colleagues with concerns about their mental health are encouraged to reach out, and first aid can be provided until appropriate help from professionals is arranged.

During Mental Health Awareness Week our campaign focused on reducing the stigma around mental health and encouraged people to take extra care during the pandemic. We created a wellbeing hub on the intranet with mental health resources, tips and colleagues’ stories, and team members were encouraged to share their experiences.

We have continued to expand the hub, providing videos and other resources to support resilience, good health and wellbeing.

For more information about our response to the COVID-19 pandemic, see pages 6 and 7.

Doing business responsibly continued

Governance

We are proud to have a culture of making the right decisions and doing the right thing, and it plays an important role in ensuring we can continue to create long-term value for all our stakeholders. Our governance structures support and enable our workforce to give their best and achieve high standards, which, in turn, drive strong business performance.

As a responsible employer operating in a highly regulated industry, we have a comprehensive Code of Conduct and supporting policies, which set standards for ensuring our business activities are conducted responsibly for the benefit of our shareholders, clients, employees and suppliers.

In line with best practice in corporate governance, we have implemented new procedures to support our Whistleblowing Policy and make it easier for colleagues to speak up if they feel they need to. As part of our efforts to improve transparency, in 2021 we will be defining a list of these policies to be updated and published on our website.

Case study: Building a community of colleagues

Throughout 2020, via our social intranet, myVectura, we harnessed the latest digital technology to enable open and engaging communication between colleagues.

It provides access to Vectura news, policies and information, along with online spaces for collaboration and real-time feedback from all staff.

myVectura has been a great tool during the COVID-19 outbreak, helping to keep people motivated and informed as many team members worked remotely. During the recent employee pulse survey, there was a 94% positive response to our COVID-19 communications. One team member shared: "Despite working in isolation, I've never felt more connected to my colleagues and company."

> Our governance structures support and enable our workforce to give their best and achieve high standards, which, in turn, drive strong business performance.

Our commitment to health and safety

Keeping our colleagues, visitors and contractors safe is a priority for us, and a strong focus on environment, health and safety (EHS) is central to this effort, particularly during the COVID-19 pandemic.

We paid particular attention to supporting our colleagues' mental health during 2020 and launched a range of tools and resources for team members. We also supported increased home working by ensuring ergonomics of home offices were appropriate, by DSE self-assessment and follow up on any ergonomic issues.

In 2021, we have committed to an EHS Regulatory Audit to ensure we have no gaps. We will begin work to align with and achieve the ISO 14001:2015 Environmental Management certification, and we will continue to build on the good start we have made towards ISO 45001 Health and Safety certification, targeted for 2023. EHS contributes significantly in our new ESG strategy.

We have continued to roll out our Employee Wellbeing Programme, which provides information, resources and support to help our people stay healthy. We have trained Mental Health First Aiders to provide additional support as a supplement to our Employee Assistance Programme.

Acknowledging the importance of "psychological safety" for both employee wellbeing and engagement, our Leadership and Management Development Programmes equip people managers with the understanding and tools to create an environment of openness and learning. Will Downie is the Board member to whom responsibility for health and safety has been assigned.

We had four reportable injuries during 2020 – two in the UK and two in Switzerland. In the UK they resulted from home working DSE issues and in Switzerland they were very minor but notifiable locally under healthcare insurance rules. All were investigated and rapidly remediated.

Communications and stakeholder engagement

The long-term success of the business is dependent on the way we communicate and engage with important stakeholders and continues to require effective engagement, constructive working practices and a recognition of stakeholder views. For more information, see page 16 and 17.

Employee engagement and communication

We have always believed in the power of an engaged and inspired workforce, and the important role that communication plays in motivating our people and its impact on business performance, culture and employee retention. In the context of the global pandemic, and with an average of 71% of our colleagues working remotely, keeping people informed and engaged was more essential than ever. MyVectura, the intranet we launched in 2019, played an integral role in sharing Group news and COVID-19 updates, as well as providing online spaces for collaboration, personal stories, inspiration and encouragement.

During the most recent employee pulse survey in December 2020, there was a 94% positive response to our COVID-19 communications. We are proud that our efforts to keep employees informed and involved were shortlisted for a corporate communications award.

How we engage

Employee pulse surveys
In 2020 we elected to run three, short, COVID-19 orientated pulse surveys in place of our usual annual employee engagement survey. The results indicated a significant percentage of favourable responses relating to how participants felt about our corporate communications, and support for home working and working on site. As usual, we used these results to inform action planning at corporate and site levels. We have well-established engagement channels which we leveraged to share progress updates and to continue driving towards our corporate mission of creating a great place to work.

Business updates
We ensure that business strategy is clearly communicated and well understood through regular all-employee business updates, hosted by the Executive and Business leadership teams. In 2020 and the COVID-19 context, these were held virtually and enabled a highly effective approach, including an enhanced opportunity for Q&A using live chat functionality. On average, 90% of colleagues attended.

Employee Representative Forum
Our Employee Representative Forum of elected representatives from across the Group allows colleagues to drive the agenda and discuss issues that matter to them.

Non-Executive Director – workforce engagement
To support the updated Corporate Governance Code, we appointed Per-Olof Andersson as the Non-Executive Director who oversees engagement between the Board and the workforce.

During 2020, site visits by Non-Executive Board members were not possible due to the pandemic. In this context, the dedicated workforce engagement NED attended two virtual meetings with the Employee Representative Forum, and held virtual one-to-one meetings with site leaders for our Chippenham and Cambridge sites.

A summary of employee feedback and sentiment was provided by the Executive Vice President for HR and the dedicated workforce engagement NED to the Board in September 2020.

> As we look ahead to 2021, we will ensure we embed the values further through a programme of internal communications, leadership and engagement activity.

Embedding our positive culture

In light of our strategy to transform Vectura into a leading inhalation CDMO, we have reviewed our culture to ensure alignment with our ambitions. Founded on the rich heritage of the previous values, our revised guiding principles build on the innovation, collaboration, patient focus and achievement ethos which remain critical to our success. They also highlight the need for us to provide a great experience for our customers and to ensure quality is at the heart of everything we do. As we look ahead to 2021, we will ensure we embed the values further through a programme of internal communications, leadership and engagement activity, and in all of our people processes to reinforce our culture as the definitive expression of "how we do things at Vectura". We strive to foster a culture where everyone has a sense of belonging and receives fair treatment.

Setting a course

2021 will be an important year in setting a baseline for our ESG strategy, establishing a framework and identifying targets against which to measure our progress and review our priorities going forward. Heading into 2022 and beyond, we want our ESG efforts to differentiate us in our field. Our ambitions are clear, but we know our priorities may need to evolve to accommodate new challenges and opportunities as they arise. However, we will apply the same strict rigour and oversight to our ESG initiatives as we do to creating quality medicines for our customers' patients.

View Vectura's full ESG strategy **esg.vectura.com**

The Strategic Report has been approved by the Board and is signed by order of the Board.

Paul Fry
Chief Financial Officer
17 March 2021

Governance

Board leadership and Company purpose

Introduction from the Chairman

2020 was a year like no other, not just for Vectura but for companies around the world. The governance and culture of a company were tested like never before and I am incredibly proud of the way Vectura has conducted itself during the COVID-19 pandemic. There has been no compromise on quality, compliance and execution of our strategy despite many of our employees working from home since March 2020. This commitment to continued excellence is testament to the Company and has really demonstrated our culture and values in action. More information on the Company's response to the pandemic can be found on pages 6 and 7.

Corporate governance statement

The Disclosure Guidance and Transparency Rules (DTR) require a company to include in its directors' report a governance statement containing certain information. However, as allowed by DTR 7.2.9, we have chosen to set out the information in this governance section of the Annual Report. The Group's risk management and internal control framework and the principal risks and uncertainties, described on pages 32 to 39, the Directors' report on pages 95 to 97 and the Nomination Committee report on pages 64 and 65 also contain required information and are incorporated into this Corporate governance statement by reference.

Our culture

Creating sustainable, long-term value for our stakeholders is a priority for all members of the Board. Last year, we were pleased to announce a revised set of values for the Group and, having reaffirmed the Company's cultural foundations, the Board sought to satisfy itself that policies, practices and behaviours across the Group were aligned with the Company's purpose, values and strategy. To build on our commitment to create a great place to work, and one which embraces inclusivity throughout all levels of the organisation, we have updated our Equal Opportunities Policy and Fairness and Dignity at Work Policy to ensure they are consistent with the Company's values and support its long-term sustainability.

Just as our customers and their patients trust us to deliver quality medicines that transform lives, they also expect us to work to the highest standards. During the year we updated our Whistleblowing Policy and strengthened our reporting process by introducing a new, independent whistleblowing portal and telephone line. This enables employees to report concerns via telephone or a web portal, anonymously if they wish.

We have always been committed to making a positive impact on our environment and society, and our ESG strategy is a logical next step to further embedding our values into everything we do. As with our work on our whistleblowing portal, what remains unchanged is our commitment to being a responsible business and delivering long-term sustainable growth for our investors.

Employee Voice

In late 2019 Dr Per-Olof Andersson was designated as the workforce engagement NED in line with provision five of the UK Corporate Governance Code (the "Code"). Dr Andersson attended two of the six Employee Representative Forums (ERF) held during the year. The ERF, made up of employees who volunteer to represent their respective sites, plays a critical role in the exchange of views and discussion between colleagues and the Company – all to help build a better place to work. See page 57 for an interview with Dr Andersson on how he thinks it has been beneficial, not just for the Board to hear views of the workforce, but also for employees to have access to the Board. In addition to these forums, employee pulse surveys were conducted three times during 2020 in order to monitor employees' wellbeing and to ensure the Company's actions to support employees during the pandemic were appropriate and proportionate. The results of each of these surveys were reported to the Board.

Board composition

Following extensive shareholder consultation in 2019 and early 2020, we were grateful for the support received for the re-election of our Board at the 2020 AGM, with all Directors receiving over 97% of the votes in favour of their election or re-election.

It was with immense regret that in September that Anne Whitaker and the Company determined that it was appropriate for her to step down in light of potential conflicts that could arise in the future as a result of her role of chief executive officer at Aerami Therapeutics. As previously indicated the Nomination Committee had begun the search for a new Non-Executive Director (NED) to take over from Dr Thomas Werner who will step down as a NED by the 2021 AGM. In light of Ms Whitaker's departure, this was accelerated and we were pleased to announce the appointment of two new Non-Executive Directors, Jeanne Taylor Hecht and Jeanne Thoma, on 31 December 2020. These two additional independent NEDs bring significant understanding and experience of the CDMO and CRO sectors to the Board. More information on the appointment process the Company undertook can be found on page 62 of this report and, on the appointments themselves, in the Nomination Committee report on page 65.

In accordance with the Code, all Directors (with the exception of Dr Werner) will stand for re-election at the 2021 AGM.

"

This commitment to continued excellence is testament to the Company and has really demonstrated our culture and values in action.

Remuneration

The current Remuneration policy was approved by shareholders at the 2020 AGM with 94.55% of votes supporting the policy. The Remuneration report detailing how we have implemented the policy in 2020 can be found on pages 76 to 94.

Evaluation

Following a comprehensive external evaluation conducted in 2019, the Board undertook an externally facilitated self-evaluation for 2020. Overall the results confirmed that the Board and its Committees continue to function effectively and in accordance with their respective terms of reference. More information on how the Board has applied learnings from the 2019 evaluation and recommendations arising from the 2020 evaluation can be found on pages 62 and 63.

Section 172 statement – Directors' duty to consider stakeholders

Whilst the Board is primarily responsible to shareholders for the overall direction and control of the Group, we have always endeavoured to hold shareholder interests and those of our wider stakeholders in equilibrium as required by section 172 of the Companies Act 2006.

The long-term success of our business is dependent on the way we work with a large number of important stakeholders and continues to require effective engagement, constructive working practices and a recognition of stakeholder views in order to create value for our shareholders and stakeholders alike.

Considering this broad range of interests is an important part of the way the Board makes decisions but at times, the Board will have to balance the competing interests of different stakeholders and other factors in delivering the Company's strategy, and it will not always be possible to deliver a favourable result for everyone.

Our section 172 statement, giving an overview of our key stakeholders and examples of how the Board has engaged with and given consideration to them during the year, can be found on pages 16 and 17. The methods used by the Board to perform its duties and principal decisions made by the Board can be found in this governance statement on pages 54 and 59 to 60.

UK Corporate Governance Code

We have carefully reflected on the independence of the Non-Executive Directors, taking into consideration the circumstances which are likely to impair, or could appear to impair, their independence as set out in the Code and considers that they all remain independent in accordance with the Code. More information can be found on page 61.

We have further strengthened our Code compliance by updating our Whistleblowing Policy and introducing a new additional route to report wrongdoing, anonymously if preferred, with an independent, externally hosted whistleblowing portal. As a responsible business, we believe it is important to create an open and safe working environment where colleagues feel able to speak up about wrongdoing without being worried about what might happen as a result.

For the year ended 31 December 2020 I am pleased to confirm that the Board considers that it has been in compliance with the 2018 UK Corporate Governance Code, which is available on the Financial Reporting Council website (www.frc.org.uk).

Bruno Angelici
Chairman
17 March 2021

Board leadership and Company purpose

Board of Directors

Bruno Angelici
Non-Executive Chairman

N R

Nationality French

Appointment to the Board
Bruno Angelici was appointed to the Vectura Board in December 2013 and became Non-Executive Chairman in February 2014. Following the merger with Skyepharma in June 2016, Bruno became Chairman of the enlarged Vectura Group plc.

Experience and expertise
Bruno has an MBA (Kellogg School of Management) and business and law degrees from Reims.

Bruno's career includes senior management roles in pharmaceutical and medical device companies. Bruno retired from AstraZeneca in 2010 as executive vice president international after a 20-year career. He was responsible for Europe, Japan, Asia Pacific, Latin America, the Middle East and Africa having originally joined as president of ICI Pharmaceuticals France. Prior to this, he was at Baxter, a US-based global supplier of medical devices. He has extensive international business leadership experience, including in the US, and brings a deep understanding to the Company of the medical device and pharmaceutical industries. Bruno was a member of the supervisory board of Wolters Kluwer NV, a global information services and publishing company. A non-executive director of Novo Nordisk A/S, a global healthcare company and world leader in diabetes care and a non-executive director of Smiths Group plc, a leading technology group.

Current external appointments
Bruno does not currently hold any other directorships.

Will Downie
Chief Executive Officer

Nationality British

Appointment to the Board
Will Downie was appointed Chief Executive Officer in November 2019.

Experience and expertise
Will holds a BSc (Hons) in biochemistry from the University of Edinburgh.

Prior to joining Vectura, Will spent ten years as the senior vice president, global sales and marketing at Catalent Inc. In this role, Will led the commercial effort and had responsibility for global sales, marketing and commercial operations activities. During his tenure, he developed an outstanding track record in helping drive the long-term growth of the company, as well as positioning Catalent as one of the leading brands in the pharmaceutical services space.

He has a deep understanding of the drug development and advanced drug delivery market, and has amassed significant experience in driving sustained long-term results, as well as building performance-focused organisations and meeting customer needs on a global scale.

Prior to Catalent, Will held positions as vice president and general manager, global molecular imaging at GE Healthcare, vice president sales EMEA at Amersham Health and director of business development and commercial operations at Quintiles Innovex UK Limited. In his early career, he worked in a range of sales and marketing management positions at both Sanofi and Merck & Co.

Current external appointments
Will does not currently hold any other directorships.

Paul Fry
Chief Financial Officer

Nationality British

Appointment to the Board
Paul Fry was appointed Chief Financial Officer in October 2018.

Experience and expertise
He graduated from Oxford University in 1988 and qualified as an accountant with the Chartered Institute of Management Accountants in 1991.

Paul joined Vectura from Immunocore, a privately held T-cell receptor biotechnology company, where he was chief financial officer. Before joining Immunocore, he served as director of global finance operations at Vodafone Plc, where he was responsible for key financial controller activities and core processes as well as large transformation programmes. Prior to his role at Vodafone, he spent more than 25 years at GlaxoSmithKline (GSK), where he held a number of senior roles including head of global finance services and CFO for GSK's Italian pharmaceutical business.

Current external appointments
In February 2020 Paul became a non-executive director of AIM-listed Avacta Group plc, a developer of Affimer® biotherapeutics and reagents and is also Avacta's audit committee chairman.

Thomas Werner
Senior Independent Non-Executive Director

Nationality German

Appointment to the Board
Dr Thomas Werner was appointed to the Board of Skyepharma as a Non-Executive Director in May 2009 and joined the Board of Vectura following the merger in June 2016.

Experience and expertise
He holds a degree in chemistry from the University of Göttingen.

Thomas has over 30 years of experience in the pharmaceutical industry, previously as senior vice president of GlaxoSmithKline, where he was managing director for Germany and also co-ordinated its European oncology business. Prior to that, he was responsible for Glaxo Wellcome Germany and Central Europe, Bristol-Myers Squibb Germany and Convatec Germany/Central Europe. He has held various non-executive positions including Riemser Pharma GmbH and New Oncology AG. Besides his business responsibilities, he has previously served for many years on the board of trustees of the Paul Ehrlich Foundation and the Robert Koch Foundation and was a director of the American Chamber of Commerce in Germany representing healthcare companies. Until October 2019 he was chairman of Fertin Pharma, a Danish medicated chewing gum company.

Current external appointments
Thomas is chairman of the investment advisory committee of the Seventure (France) Health for Life capital investment fund. He is also vice chairman of Basilea Pharmaceutica Ltd.

Per-Olof Andersson
Non-Executive Director and workforce engagement representative

A N

Nationality Swedish

Appointment to the Board
Dr Per-Olof Andersson joined the Vectura Board in April 2015.

Experience and expertise
He holds a degree in medicine from Lund University, Sweden.

Per-Olof is an expert in international research and development within the pharmaceuticals, bio-pharmaceuticals and speciality pharmaceutical industries and has considerable experience in respiratory therapeutic development. In 2011, Per-Olof retired from Almirall where he was executive director for R&D and a member of the board of directors. Prior to joining Almirall in 2006, Per-Olof had a distinguished international career at Pharmacia and Pfizer over a period of nearly 20 years. Since 2011, Per-Olof has been an independent consultant advising biotech and pharma companies. To support the 2018 Corporate Governance Code, Per-Olof has been appointed as the nominated Non-Executive Director who oversees engagement between the Board and the workforce.

Current external appointments
Per-Olof does not currently hold any other directorships.

Juliet Thompson
Non-Executive Director

A N

Nationality British

Appointment to the Board
Juliet Thompson was appointed to the Board as a Non-Executive Director in December 2017.

Experience and expertise
Juliet has a BSc in economics and is a chartered accountant.

She has spent over 20 years actively involved in the life sciences sector working as an investment banker and strategic advisor to healthcare companies in Europe. She headed up the European healthcare team at Stifel (formerly Oriel) and prior to this was a founding partner of Code Securities, a healthcare investment banking boutique which was acquired by Nomura, later forming Nomura Code.

Current external appointments
Juliet sits on the board, and is the audit committee chair, of Novacyt S.A., a French diagnostic company whose shares are admitted to trade on AIM and Euronext. She is also a non-executive director of Organox Limited, a commercial medical technology company, spun out of Oxford University. Juliet is also a trustee of Leadership through Sport & Business, a social mobility-focused charity, trustee of the De Hann family trusts and director of their associated investment companies.

Kevin Matthews
Non-Executive Director
A R

Nationality British

Appointment to the Board
Dr Kevin Matthews joined the Board in March 2019.

Experience and expertise
Kevin has more than 20 years' experience in senior management roles in the chemical, technology and pharmaceutical sectors and has significant marketing, strategy and management expertise. Kevin is CEO of privately held speciality chemicals company Scott Bader Company Limited and was, until the end of 2018, executive chairman of Itaconix plc, an AIM-listed polymer business, having successfully led the organisation as chief executive officer. A Fellow of the Royal Society of Chemistry, Kevin has a strong technical background and has previously held CEO roles at technology companies including Isogenica, a privately held antibody drug discovery company, and Oxonica plc, an advanced materials business. Prior to this he held leadership roles in multinational chemical companies. He served as a non-executive director and remuneration committee chairman of Elementis plc, a FTSE 250 speciality chemicals business, from 2005 to 2014 and Low and Bonar, an advanced materials business from 2014 to 2019. He also served as a non-executive director of Cellectricon AB, a Swedish biotechnology company dedicated to drug discovery and research in the areas of chronic pain and neurodegenerative disease, from 2011 to 2014.

Current external appointments
Kevin is chief executive officer of the privately held speciality chemicals company Scott Bader Company Limited.

Jeanne Taylor Hecht
Non-Executive Director
N R

Nationality American

Appointment to the Board
Jeanne Taylor Hecht joined the Board in December 2020. She joined the Nomination and Remuneration Committees with effect from 31 March 2021.

Experience and expertise
Jeanne is a global business executive with over 20 years' experience leading successful teams across mature and emerging markets within the product development, pharma services and life sciences space.

Jeanne commands broad knowledge and deep expertise in the life sciences arena. She has dedicated much of her career to guiding international companies through healthy growth – thoughtfully, strategically, and with unyielding integrity.

Jeanne was most recently CEO of Ora, Inc., a full-service pre-clinical and clinical ophthalmic drug and device development firm. Previously she served as chief operating officer and was a board director of Median Technologies, a clinical services imaging business. Prior to this Jeanne had a substantial career with Quintiles (later IQVIA), the world's largest contract development services company, where she led global sales and strategic accounts.

Current external appointments
Jeanne does not currently hold any other directorships.

Jeanne Thoma
Non-Executive Director
A R

Nationality American

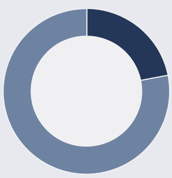
Appointment to the Board
Jeanne Thoma joined the Board in December 2020. She joined the Audit and Remuneration Committees with effect from 31 March 2021.

Experience and expertise
Jeanne was most recently CEO and president of SPI Pharma, which provides specialist formulation and ingredient services to the pharmaceutical and nutritional industries, and is part of Associated British Foods plc. Previously she served as a senior advisor to companies within the pharmaceutical industry, and has had successful careers with Lonza where, in her last role, she was division president and executive committee member, and BASF where she served in senior key commercial roles in its pharmaceutical solutions business.

Current external appointments
Jeanne is a member of the boards of directors of ANI Pharmaceuticals Inc., an integrated speciality pharmaceutical company, and Avid Bioservices Inc., a contract development and manufacturing organisation focused on the development and cGMP manufacturing of biopharmaceutical mammalian cell culture products.

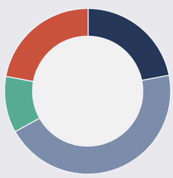
Board overview
As at 31 December 2020

Board composition



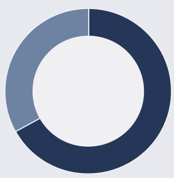
Executive	22%
Non-Executive	78%

Board tenure



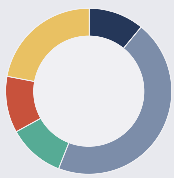
<1 year	22%
1–3 years	45%
4–5 years	11%
6+ years	22%

Board gender diversity



Male	66%
Female	34%

Board nationality diversity



French	11%
British	45%
German	11%
Swedish	11%
American	22%

+ More information on Board diversity can be found in the Nomination Committee report on page 65

A Audit Committee
N Nomination Committee
R Remuneration Committee
Committee Chair

Board leadership and Company purpose

Executive Leadership Team

1

2

3

4

5

6

7

8

9

1 Will Downie
Chief Executive Officer

Read Will Downie's experience and expertise on page 50.

2 Paul Fry
Chief Financial Officer

Read Paul Fry's experience and expertise on page 50.

3 John Murphy
General Counsel and Company Secretary

Appointment John Murphy joined Skyepharma as general counsel in March 2006 and was appointed as General Counsel and Company Secretary of Vectura in June 2016 following the merger.

Experience and expertise John is a lawyer with extensive experience in legal and company secretarial roles in listed pharmaceutical and biotechnology companies including Medeva PLC, Celltech Group PLC and Pharmagene PLC. He is chairman of the BIA Intellectual Property Advisory Committee and a member of the EuropaBio Intellectual Property Working Group. He holds a BSc in aeronautical engineering from Bristol University and is a qualified solicitor.

4 Mark Bridgewater
Chief Commercial Officer

Appointment Mark Bridgewater joined Vectura in March 2020.

Experience and expertise Mark has more than 25 years of experience in medical device and pharmaceutical B2B services. Prior to joining Vectura he was VP business development and account management for Europe and Asia at Flex in the Health Solutions business unit, a global design, engineering and manufacturing organisation. Prior to this, he was VP global business development, advanced delivery technologies at Catalent, and earlier in his career worked as head of global contract manufacturing services at Wockhardt and in various commercial roles at Patheon in Italy.

5 Geraldine Venthoye
Chief Scientific Officer and Executive Vice President – Product Development

Appointment Dr Geraldine Venthoye joined Vectura in June 2016 upon completion of the merger with Skyepharma PLC, where she had been executive vice president – pharmaceutical development since 2013. She joined Skyepharma as head of the inhalation business unit in September 2003.

Experience and expertise Geraldine is a UK registered pharmacist and holds a doctorate degree in pharmaceutics from the University of London and has spent 30 years in inhaled drug delivery R&D.

Geraldine previously held senior CMC leadership and scientific roles at Inhale/Nektar Therapeutics, San Carlos, California, US, and Vandsons Research and Norton Healthcare in the UK. She completed her pre-registration clinical training at the Brompton Heart and Lung Hospital in London.

6 Antony Fitzpatrick
Executive Vice President – Operations

Appointment Antony Fitzpatrick joined Vectura in August 2017.

Experience and expertise Antony has a first-class BSc in aeronautical engineering from Manchester University and an MSc in numerical computation from the University of Manchester Institute of Science and Technology.

Antony joined Vectura from Baxter where he had worked since 1999, having been responsible for global supply chain and also manufacturing across EMEA. His Baxter experience includes operating in both a pharma product environment and in product device and pure medical device operations. He sat on the board of GHX, the Global Healthcare Exchange, for four years prior to its sale to private equity. Before working at Baxter he worked in various manufacturing and logistics roles of increasing responsibility for Ingram Micro (IT technology), Exel Logistics, Coopers and Lybrand and Mobil Oil.

7 Joanne Hombal
Executive Vice President – Human Resources

Appointment Joanne Hombal joined Vectura in January 2015.

Experience and expertise Joanne has a BSc in psychology from the University of Birmingham and a postgraduate diploma in human resource management from the University of Glamorgan. She is a Chartered Member of the Institute of Personnel and Development.

Before joining Vectura, Joanne was vice president HR at Invensys Rail, with responsibility for setting and leading the people strategy for Northern Europe. She has held senior HR roles in the financial services and ICT industries and led a number of organisational development and transformation initiatives.

8 Christina Olsen
Executive Vice President – Corporate Strategy and Communications

Appointment Christina Olsen joined Vectura in November 2016 and was appointed to the Executive Leadership Team in August 2019.

Experience and expertise Christina graduated from the Stockholm School of Economics with a Master's in business and economics, majoring in finance and business strategy.

Before joining Vectura, Christina spent almost a decade in leadership roles at AstraZeneca, where her responsibilities included strategic insight to shape corporate strategy, as well as product strategy across therapeutic areas. Christina also led a corporate initiative delivering a step-change in payer capabilities. Her last role at AstraZeneca was as VP for competitive intelligence and forecasting for the global respiratory, inflammation and autoimmune portfolio.

She also worked for Chiron Corporation for three years, leading business development, and spent nine years at Boston Consulting Group, where she led and managed client projects, including biotech and top ten pharmaceutical company mergers.

9 Sharon Johnson
Executive Vice President – Delivery Management

Appointment Sharon Johnson joined Vectura in February 2020.

Experience and expertise Sharon holds a postgraduate diploma in industrial pharmaceutical studies with distinction from Brighton University and a BSc honours degree in applied biology/microbiology from North East Surrey College of Technology. She is a Fellow of the Royal Society of Biology and a registered Qualified Person.

Sharon has more than 30 years' experience in the pharmaceutical industry. Prior to joining Vectura she held a number of executive positions, most recently senior vice president, global quality and regulatory affairs, at Catalent, where her role was expanded to include responsibility for product development and the implementation of a project management organisation with strong governance and transparency, ensuring customer expectations of product development excellence were delivered. Earlier in her career she held the position of vice president of quality for GE Healthcare's medical diagnostic division, and worked in roles of increasing responsibility for Baxter Healthcare and Sanofi Aventis.

Board activities

Generating and preserving value over the long term

Board and Committee meeting attendance

Attendance below is in relation to members of the Board/Committees at scheduled meetings. Other Non-Executive Directors and senior executives attended by invitation.

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Bruno Angelici	6/6	—	5/5	7/7
Will Downie	6/6	—	—	—
Paul Fry	6/6	—	—	—
Dr Per-Olof Andersson	6/6	7/7	5/5	1/1[1]
Neil Warner (stepped down 27 May 2020)	3/3	3/3	—	4/4
Dr Thomas Werner[2]	6/6	3/3	3/3	4/4
Juliet Thompson	6/6	7/7	—	7/7
Anne Whitaker (stepped down 30 September 2020)	5/5	—	2/4[3]	6/6
Dr Kevin Matthews	6/6	4/4[4]	5/5	7/7
Jeanne Hecht (appointed 31 December 2020)	—	—	—	—
Jeanne Thoma (appointed 31 December 2020)	—	—	—	—

1 Dr Per-Olof Andersson joined the Remuneration Committee in December 2020.
2 Dr Thomas Werner stepped down from all Committees following the AGM.
3 Anne Whitaker was recused from two meetings due to a conflict of interest.
4 Dr Kevin Matthews joined the Audit Committee following the AGM.

Board and Committee meetings during the year

Ordinarily, the Board meets between six and eight times a year and on an ad hoc basis as required. In the year ended 31 December 2020, in addition to the six scheduled formal Board meetings which were held, there were eight ad hoc meetings held to discuss specific topics arising outside of the formal Board and Committee schedule including changes to the Board, M&A opportunities and grants of share awards. Attendance at scheduled Board and Committee meetings is set out in the table above.

Board activities

The Board is collectively responsible for the long-term success of the Company, its strategy, governance and internal controls and is accountable for its activities. To support this the Board considers reports on the key activities of the Group and reports from the Chairs of the Audit, Nomination and Remuneration Committees as appropriate at each scheduled Board meeting. It also receives information on important forthcoming events, reports on strategy, investor relations, legal affairs and environmental and health and safety matters.

The Chairman, with assistance from the General Counsel and Company Secretary, is responsible for the governance arrangements. This includes meeting agendas, timely information flows and facilitating dialogue between Executive and Non-Executive Directors, to encourage an open and supportive culture.

The Board agenda is set by the Chairman in conjunction with the CEO and Company Secretary. The Company Secretary is responsible for maintaining forward agendas for the Board and its Committees, ensuring that items are evenly distributed and scheduled at the appropriate times of the year for timely consideration. Agenda timings are proactively managed to enable sufficient time for consideration of items.

The Board regularly receives papers and presentations from senior management, which gives the Board the opportunity to meet executives below Board level. This helps to embed a positive attitude to good governance in the Company's culture and ensures that processes and procedures are adhered to by demonstrating the Board's desire to ensure they have robust information on which to make sound decisions and carry out their statutory duties.

The Chairman and the Non-Executive Directors held meetings without management being present after each Board meeting. The Directors provided input to the Senior Independent Director (SID) on the performance of the Chairman. On the basis of that feedback the SID reviews the performance of the Chairman, including his leadership of the Board and ensuring his effectiveness.

There is an annual two-day Board meeting to focus on strategic development, reviewing the Group's longer-term outlook. At this meeting members of the ELT present strategy papers for their business areas including financial, technology, organic and inorganic growth and stakeholder engagement.

The Group has a Whistleblowing Policy which enables employees to report any concerns related to unethical or illegal conduct within the business. The Board receives reports from the Company Secretary if any concerns have been raised via the policy. More information on the new portal can be found on page 56.

Board leadership and Company purpose

Board activities continued

Board activities in 2020

During the year the Board discussed various matters relating to strategy, performance, Environment, health and safety (EHS), risk, culture and governance. Examples of some of the activities covered include:

Strategy

- Group strategy and strategy execution, including the review of the Group's operational footprint
- Review and approval of budget and intermediate and long-term business plans

Audit and risk

- Approved recommendations from the Audit Committee relating to the appointment and fee of the external auditor
- Reviewed the Group's preparations for the UK's departure from the European Union
- Approved the updated Whistleblowing Policy including the introduction of an independent reporting portal

Performance

- Reports from the Executive Directors on performance, e.g. financial KPIs, CDMO KPIs, etc.
- Updates on litigation matters including US GSK litigation
- Updates on the impact of the COVID-19 pandemic on performance and strategy execution

Culture and people

- Received an annual update on HR strategy, culture, talent reviews and succession planning
- Reviewed and approved the Group's 2019/2020 Modern slavery statement
- Received regular feedback from employees on the Company's actions relating to the COVID-19 pandemic

Sustainability and Environment, health and safety

- Updates on EHS actions taken in relation to the COVID-19 pandemic
- Approved environmental, social and governance (ESG) strategy

Governance

- Externally facilitated evaluation of the Board and its Committees
- Reviewed Directors' Conflicts of Interest register
- Convened sub-committees of the Board to deal with specific matters such as inorganic growth opportunities

Promoting a positive culture

Maintaining successful and enduring relationships

Ambition

To create the market-leading company in the inhalation CDMO space to deliver long-term growth and sustained returns.

Values

1. Deliver for patients with pride
We are agile, efficient and deliver our commitments. We take pride in successfully developing medicines that transform lives.

2. Create a great customer experience
Our customer focus guides everything we do. We use our insight and capability to create a great experience for our customers.

3. Work together as one team
We collaborate to achieve shared goals, using our combined knowledge and expertise to enable success.

4. Do the right thing
Quality is at the heart of everything we do. We work with integrity, consistently delivering to high standards.

5. Innovate and improve
We thrive on learning and apply our expertise to continually innovate and be the best at what we do.

Strategy

1. Building a first-class business development and marketing function to diversify our customer base and grow our market share
2. Ensuring excellence in our execution at every stage of the customer experience
3. Enhancing our competitive position through industry-leading science and innovation to serve the future needs of our customers

Enhancing our positive culture

Successful and sustainable businesses underpin our economy and society by providing employment and creating prosperity. The Board takes its responsibility seriously for establishing the Company's ambition, values and strategy, and ensuring that its culture is aligned. The Board recognises that to succeed in the long term, the Company needs to build and maintain successful and enduring relationships based on respect, trust and mutual benefit with a wide range of stakeholders. In light of our strategy to transform Vectura into a leading inhalation CDMO, we undertook a review in 2019 of our culture and values to ensure alignment with our ambitions.

Founded on the rich heritage of the previous values, our revised values build on the innovation, collaboration, patient focus and achievement ethos which remain critical to our success. They also highlight the need for us to provide a great experience for our customers and to ensure quality is at the heart of everything we do.

The Board and senior management seek to lead by example in promoting our positive culture, for example, through regular personal blogs on myVectura covering topics from technical updates and quality reporting to tips on how to cope with home-schooling and working from home in a global pandemic.

The Board monitors culture in a number of ways, including regular pulse surveys and KPI data, site visits, where possible, and, in addition, taking account of feedback from the employee designated NED following his engagement with employees.

Board leadership and Company purpose

Promoting a positive culture continued

Supporting framework

As a responsible employer operating in our highly regulated industry, we have a comprehensive Code of Conduct and supporting policies, including Whistleblowing, Anti-Bribery and Anti-Slavery and Human Trafficking Policies, which set standards for ensuring that our business activities are conducted in a responsible manner for the benefit of our shareholders, clients, employees and suppliers. Vectura has zero tolerance to any form of bribery and corruption, both within our business and in any dealings with our customers, suppliers and other third parties we may deal with. Our Anti-Bribery Policy and Modern Slavery Statement can be found on our website (www.vectura.com).

All employees and Board members are expected to demonstrate and promote high standards of ethical business conduct and to know and follow our Code of Conduct with pride.

We operate a whistleblowing process for employees to use to make reports if they suspect anything inappropriate or experience any serious misconduct or wrongdoing in our business. During the year the service was enhanced with the provision of a whistleblowing portal hosted by an independent provider which allows employees to report concerns via a web portal or by telephone, anonymously if preferred.

We have a number of family friendly policies which are designed to help our employees balance their work and personal lives effectively. In 2020 we confirmed our commitment to sustain agile ways of working on a long-term basis in order to capitalise on the positive flexible working experiences which were necessitated by the pandemic and which are highly valued by our colleagues.

How the Board monitored culture in 2020

Approach	How it links to culture
Employee pulse surveys	These short surveys indicated levels of satisfaction about our internal communications and corporate support, enabling the Board to understand and reinforce our priority focus on employee wellbeing and safety in an unprecedented global pandemic.
Business updates	Regular all-employee business updates are hosted by the Executive Leadership Team (ELT) and Business Leadership Team (BLT) to ensure that corporate strategy is clearly communicated and well understood. During 2020 these were held virtually and with online live questions and answers enabling Executives to liaise directly with colleagues and to understand and respond on topics of interest or concern.
myVectura	myVectura, a new social intranet site launched in 2019, provides access to news and information, along with online spaces for collaboration. Real-time feedback, questions and comments can be posted by all colleagues and provide a helpful barometer of employee sentiment. ELT, BLT and senior managers regularly post articles and blogs and respond to questions and comments raised by employees.
Employee Representative Forum	Our Employee Representative Forum of elected representatives from across the Group allows colleagues to interact with members of the ELT and the designated workforce engagement Non-Executive Director to discuss a wide range of issues. Agendas and minutes are published and available to all employees.
Non-Executive Director – workforce engagement	In late 2019, we appointed Dr Per-Olof Andersson as the nominated Non-Executive Director who oversees engagement between the Board and the workforce. More information on Dr Andersson's activities during the year can be found on page 57.
Non financial KPIs	On an annual basis, as a minimum, the EVP HR and the nominated workforce engagement Non-Executive Director provide the Board with an overview of people-related topics and KPIs, for example trends in relation to talent management, attrition and absence data and employee sentiment. Looking forward and as part of our ESG strategy, additional KPIs are being developed that will further help the Board to understand and monitor our culture. More information on the ESG strategy can be found on pages 41 to 47.

Interview with Per-Olof on workforce engagement

Q The FRC has put forward a number of options to facilitate workforce engagement; why did the Vectura Board elect to appoint a designated Non-Executive Director (NED)?

As a Board, we debated these options thoughtfully. We concluded that for an organisation of our size and scale with an active Employee Representative Forum (ERF) and multiple other channels for two-way feedback and dialogue, having a designated NED who can leverage these existing mechanisms was the most efficient and effective way to enable strengthened Board engagement. I was delighted to have the opportunity to undertake this role on behalf of my Board colleagues.

Q What are your key responsibilities in this role and how do you ensure the rest of the Board are kept informed of your activities and observations?

We have a clear terms of reference document which I developed in partnership with the EVP HR and which was approved by the Board. This document clarifies my role and explains our approach. In summary, on a regular basis, I interact directly with members of the workforce, listening and clarifying matters alongside senior managers; I ensure visits or interactions with other Board members to our sites are well co-ordinated. We review the effectiveness of our engagement activities on an annual basis for continuous improvement. I also ensure all Board members feed back any observations arising from their personal interactions with Vectura employees as well as sharing my own observations with my Board colleagues. This feedback informs and shapes key Board decisions.

“This insight has informed regular Board discussions and progress updates with the ELT during the year.

Q You mention that there are a number of existing employee engagement mechanisms; which do you believe have produced the most valuable insights for you in 2020?

Normally the most valuable insight comes from my own face to face meetings or from other NEDs visiting the sites. This was, of course, not possible during 2020 and, therefore, this year I have attended two ERFs and met with site leaders and HR team members in a virtual capacity.

Q Can you describe a situation where your observations as the designated NED have influenced or catalysed a Board decision?

During 2020, understandably, a dominant topic at the ERFs and in discussions with the site leaders and HR has been keeping employees safe, whether on site or working from home, during the pandemic. This insight has informed regular Board discussions and progress updates with the ELT during the year. At the same time I have explained what the Board has done to secure the Company financially during this unprecedented time while at the same time ensuring employees' safety and wellbeing. Given we are also implementing our new strategy, I have also been able to feed back to my Board colleagues employee sentiment relating to our transformation, which has been helpful context for the Board to have in mind whilst discussing challenges and opportunities.

Q Going forward, what are your priorities and ambitions for further enhancing engagement between the Board and the workforce?

I very much hope that in 2021, we will be able to return to our normal practice of site visits. Whatever happens, I would like to focus next year on co-ordinating virtual or in-person site visits from all Board members in order to collect further insight. In parallel, I would like to collate feedback from the workforce, members of the ERF, site leads and HR so that towards the end of the year, this can inform a holistic Board discussion to further improve the Board's understanding and workforce interactions going forward.

Engaging with stakeholders

Effective engagement with our stakeholders

Investor events in 2020

January
- JPM Healthcare Conference

March
- Preliminary results and roadshows

May
- Annual General Meeting

June
- Citi European Healthcare Conference

September
- Interim results and roadshows

November
- Jefferies Healthcare Conference
- Investec Best Ideas Conference

The Board has direct engagement primarily with our employees and shareholders; however, it is kept fully apprised of the material issues of other stakeholders by the Executive Directors and reports from senior management and external advisors. This can include stakeholder insight ranging from investor conferences, pulse survey results, feedback from the designated workforce engagement NED and customer or supplier meetings. Our section 172 statement, found on pages 16 and 17, shows our key stakeholders, their priorities and examples of how we engage with them. A copy of the Directors' statutory duties is tabled at every Board meeting as a reminder to ensure that we comply with our duties.

In 2020, the COVID-19 pandemic overshadowed much of the usual engagement with stakeholders. The Board's attention was appropriately focused on maintaining the health, safety and welfare of our employees, whilst simultaneously monitoring the execution of our new corporate strategy. The interview with Dr Andersson on page 57 explains in more detail the effect the pandemic has had on employees and the influence this had on Board decisions.

Relations with shareholders

Executive management runs an extensive programme of roadshows and ad hoc meetings with both existing and potential new shareholders. In 2020, due to the COVID-19 pandemic, meetings were held predominantly via video calls. Executive management also presented regularly at investor and industry conferences. The previous Senior Independent Director (SID) met, via conference call, with investors independently of Executive Directors during the year. Both the Chairman and the SID are available for such meetings if requested.

The Company holds updates post results with analysts and institutional investors. The Board also receives regular updates from its brokers on the views of investors about the Company and its operating market to ensure that the NEDs, in particular, gain an understanding of the views of major shareholders about the Company.

Regrettably, it was decided that last year's AGM should be held behind closed doors due to the COVID-19 pandemic, a decision that was not taken lightly and a measure that many other companies also took. As a result of this shareholders were encouraged to submit their proxy votes appointing the Chairman of the AGM and were given the opportunity to submit questions to the Board in advance of the meeting, all of which were responded to directly. All of the resolutions put to shareholders were passed with over 90% of the votes cast in favour and the majority receiving over 97% support for which we are grateful.

Annual General Meeting

The 2021 AGM is scheduled to take place on 27 May 2021. As the pandemic continues, arrangements for the meeting are still being finalised and will be subject to government guidance in force at the time. This may mean that the Company will have to restrict the number of shareholders or prohibit them from attending as was the case in 2020.

The Company welcomes dialogue with investors, including retail investors, for which the AGM is an opportunity to meet with the Directors and put questions to the Board. Therefore, the Company is intending to allow shareholders and other stakeholders to view proceedings and ask questions via a webcast which will be available on our website. This will not constitute a hybrid meeting whereby shareholders can remotely attend and vote at the meeting; therefore, as in 2020, shareholders are encouraged to submit their proxy votes appointing the Chairman of the AGM and to submit questions for the Board in advance of the meeting. More information regarding the webcast and how to access it can be found in the AGM Notice of Meeting and on our website. As required by the Code the resolutions regarding each Director's appointment or reappointment will be accompanied by information on why their contribution is, and continues to be, important to the Company's long-term sustainable success.

The Company proactively encourages its shareholders to vote at general meetings by providing electronic proxy voting for those who wish to vote online, and personalised proxy cards to those electing to receive them, ensuring that all votes are clearly identifiable. The Company presently takes votes at general meetings on a poll, the results of which are reported after each resolution and published on the Company's website (www.vectura.com).

Proxy advisory firms

The Company Secretarial department engages with a number of proxy advisory firms ahead of publication of its notice of AGM and publication of their proxy reports in order to, where possible, align proposed resolutions with investor expectations.

Appropriate and consistent oversight

The role of the Board

The Board is collectively responsible for the long-term success of the Company, its governance and internal controls and is accountable for its activities. The Board reviews the operational performance of the Group on a regular basis and exercises a number of reserved powers as determined by applicable legislation and the Company's Articles. The Matters Reserved for the Board, including the division of responsibilities between the Chairman and the CEO, and the role of the senior independent director, are reviewed annually to ensure that they are appropriate for the Group and are available via the Company's website (www.vectura.com). Authority for taking certain decisions is formally delegated by the Board, where allowed, and flows through the Group ensuring appropriate and consistent oversight across the business.

Board Committees

There are three Committees, all of which operate within written terms of reference, which assist the Board in its execution of its duties. Activities carried out by the respective Committees are reported at the next Board meeting.

Each Committee's terms of reference are available on the Company website (www.vectura.com) or by request from the Company Secretary.

Each of the Committees are authorised, at the Company's expense, to obtain legal or other professional advice to assist in carrying out its duties. No person other than a Committee member is entitled to attend the meetings of these Committees. However, in order to facilitate good information flows and provide challenge where appropriate, the Committees may invite, for example, the Chief Executive Officer, the Chief Financial Officer, the General Counsel and Company Secretary, the Group Financial Controller and senior representatives of the external auditor to attend as required.

The work and activities undertaken in 2020 of the Committees are further described in their respective reports on pages 64 to 73. Details of membership and attendance at Committee meetings in 2020 can be found on page 53.

Executive Leadership Team

The ELT supports the CEO in delivering the Group's strategic objectives, and has responsibility for the day-to-day operations of the Group, including matters such as strategy execution, operational performance, financial management, risk management and governance, and safety, health and environmental matters. Biographies of the ELT can be found on page 52.

Delegated levels of authority

As part of a policy framework by which the Board promotes good corporate governance, risk management and internal control within the Group, the Company has a Statement of Delegated Authorities. This central point of reference ensures that decisions are taken at the right level within the Group by those best placed to take them, whilst simultaneously allowing the business to function efficiently.

The Group's delegated levels of authority across all levels of the business are reviewed annually to accommodate any adjustments required to ensure practical compliance.

Division of responsibilities

Corporate governance framework

Governance framework

Board of Directors

- Responsible for the long term success of the Company, setting the Group's strategy, and ensuring strategic objectives are met
- Assesses culture and promotes the long-term success of the Company
- Approves the Company's financial statements and performance expectations
- Ensures maintenance of a framework of prudent and effective controls
- Ensures effective engagement with shareholders and stakeholders including employees
- Approves matters relating to the composition of the Board and Committees

Chairman

- The Chairman is responsible for the leadership and effectiveness of the Board
- Sets the Board agenda, promotes debate and shapes the culture in Board meetings
- Meets Non-Executive Directors independently of Executive Directors
- Ensure that the Board listens to the views of shareholders, the workforce, customers and other key stakeholders

Senior Independent Director

- Provides a sounding board for the Chairman and support the Chairman in the delivery of his objectives
- Serves as an intermediary between the Chairman and the other Directors
- Ensures that the views of all Directors are conveyed to the Chairman
- Acts as an additional point of contact for shareholders to develop a balanced understanding of their issues and concerns
- Leads the search and appointment process for the role of Chairman

Chief Executive Officer

- Responsible for the leadership of the Group's business
- Develops the Group's strategic direction, for consideration and approval by the Board
- Leads the implementation of the Group's strategy, supported by the Executive Leadership Team
- Oversees and manages all business activities, operations and performance of the Group
- Maintains active dialogue with shareholders with respect to the performance of the Group

Designated Workforce Engagement NED

- Interacting with members of the workforce, listening and clarifying matters which are discussed, alongside senior managers
- Facilitating two-way dialogue between the Board and the workforce, flagging issues and feedback to the Board
- Reviewing progress in respect of the engagement framework

Non-Executive Directors

- Provide an independent view of the business
- Provide constructive challenge, strategic guidance, offer specialist advice and hold management to account
- Have a role in the appointment and removal of Executive Directors

Company Secretary

- Provides guidance and advice to the Board on all corporate governance matters
- Ensures Board procedures are followed and regularly reviewed
- Undertakes Board evaluations at the request of the Chairman
- Supports the Chairman in setting the annual Board agenda, and in training and induction for new Board members

Audit Committee

- Reviews the form, content and process for preparing financial statements
- Reviews principal risks and internal controls, and the risk management framework
- Selection and appointment of the external auditor, including setting remuneration and oversight of their work

Nomination Committee

- Reviews the structure, size and composition of the Board
- Evaluates the balance of skills, knowledge and experience on the Board
- Ensures plans are in place for an orderly succession for members of the Board

Remuneration Committee

- Reviews the remuneration policy for Directors and Executive Committee members
- Oversees the implementation of the remuneration policy
- Approves the remuneration of Directors and Executive Committee members

Board composition, development and information

Maintaining an engaged and effective Board

Board composition

The Board currently comprises the Chairman, the Chief Executive Officer, the Chief Financial Officer and six Non-Executive Directors. Biographical details of the Directors and Committee membership information are available on pages 50 and 51 and in the 2021 Annual General Meeting (AGM) notice of meeting.

The Board is supported in its role by the Audit, Nomination and Remuneration Committees, details of which are set out on page 59.

Board succession and tenure

The Nomination Committee continuously reviews succession plans in light of strategy, business requirements, tenure and diversity. For more information on succession planning please see the Nomination Committee report on pages 64 and 65.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association (the "Articles"), the UK Corporate Governance Code (the "Code"), the Companies Act 2006 (the "Act") and related legislation. The Articles themselves may be amended by special resolution of the shareholders.

The Articles provide that Directors may be appointed by an ordinary resolution of the Company's members or by a resolution of the Directors. All the Directors will retire at the 2021 AGM and all will stand for election or re-election as appropriate. The Board's recommendations concerning appointment or reappointment are contained in the Nomination Committee report on pages 64 and 65.

The Executive Directors have service contracts that can be terminated on twelve months' notice. The appointments of the Non-Executive Directors can be terminated on three months' notice. The Chairman's appointment can be terminated on six months' notice.

Board balance and independence

The Board considers that the balance achieved between Executive and Non-Executive Directors during the year was appropriate and effective for the business.

The Board considers that the Chairman and all of its Non-Executive Directors are independent in character and judgement, and their knowledge, diversity of experience and business interests continue to enable them to contribute significantly to the work of the Board, including developing strategy and challenging the executive management appropriately and constructively. The Code states that a tenure of more than nine years is likely to, or could appear to impair, a non-executive director's independence; however, the Board is satisfied that Dr Werner, who has been a Board member since 2009, continues to demonstrate independence and there is no evidence that his length of tenure has impacted on this. An external Board evaluation took place during 2019 and supported the Board's view regarding his independence. Nevertheless, as previously reported, it is the intention of Dr Werner to step down from the Board by the 2021 AGM.

Further information on the Board's succession plans can be found in the Nomination Committee report on pages 64 and 65.

Approval of Directors' external appointments and time commitments

The Board believes that Directors should be able to accept other appointments where no significant actual or potential conflicts of interest arise and provided that the Director is able to maintain sufficient time available to discharge their duties effectively. These other appointments enable Directors to develop further skills and experience from which the Company benefits, provided that such commitments do not impinge on their duties to the Company.

Existing commitments of Directors are carefully reviewed prior to appointment and on an ongoing basis to ensure they can continue to deal appropriately with the affairs of the Group. If a Board member wishes to accept an additional position this must be reviewed and approved by the Chairman. Significant changes in a Director's outside commitments are discussed with the Chairman prior to a Director accepting further appointments.

At each Board meeting and also on an annual basis, each Director confirms his or her external appointments and commitments to the Board as part of the conflicts of interest check.

In compliance with the Code, neither of the Executive Directors holds any non-executive board positions at a FTSE 100 company. In January 2020 Paul Fry became a non-executive director of Avacta Group plc, an AIM-listed company. Will Downie does not currently hold any external non-executive positions.

Details of Board member's significant commitments are set out in their biographies on pages 50 and 51.

Register of conflicts

The Board formally considers any potential conflicts between a Director and the Company. Any situational conflicts must be notified to the Board for authorisation as and when they arise, notwithstanding a Director's general duty to avoid such conflicts. Transactional conflicts must be notified to the Board in person or in writing at the next meeting, where the Board can decide, in the absence of the Director concerned, whether or not to authorise such conflict and how to manage the conflict if authorised.

Board composition, development and information continued

Board appointment process

Executive search company appointed

▼

Director profile agreed by Nomination Committee

▼

Long list presented to Nomination Committee

▼

Shortlist agreed by Nomination Committee

▼

Interview of candidate(s) with Nomination Committee and NEDs

▼

Preferred candidate(s) identified or search resumed

▼

Further interview with EDs

▼

Appointment(s) made or search resumed

Induction, development and information flows

New Directors receive formal induction training, including, when possible, site visits and meetings with the Company's advisors, brokers, auditor and, where appropriate, major shareholders. Ongoing training is encouraged and provided upon request and as appropriate. This training is customised for each Director and varies depending upon their skills, experience and background.

Directors also receive regular updates on changes and developments in the business, legislative and regulatory environments. The Anti-Bribery and Modern Slavery Policies were reviewed by the Board during the period. Each Board pack contains a copy of the Directors' statutory duties. Directors are encouraged to discuss with the Chairman any further training requirements which they feel are needed. This is included in the discussions held during the annual performance evaluation.

Good information flows between the Board and management are essential for effective governance. The Board, together with senior management, ensures:

- that the agendas are appropriate for the business and are forward looking as well as providing historical and current results data;
- that papers are of an appropriate length and content for the Non-Executive Directors to be able to understand and review; and
- that sufficient time is given for Directors to read and review the papers prior to meetings.

Board diversity policy

We believe in a diverse and gender-balanced workforce. Our Equal Opportunities Policy ensures the provision of equal opportunities in all aspects of employment and applies equally to the Board and the wider employee workforce. Further information on diversity and succession planning can be found in the Nomination Committee report on page 65.

Board evaluation

The evaluation process

The 2018 UK Corporate Governance Code requires a company to evaluate its performance annually with an independent external evaluation conducted at least every three years. In the intervening years the Board conducts an externally-facilitated self-evaluation. In addition to this, each Non-Executive Director, the CEO and the CFO met with the Chairman individually to discuss their personal performance and the Senior Independent Director met with the Chairman to evaluate his performance.

Full external evaluation	Externally facilitated evaluation
• A review of Board and Committee papers. • Interviews with all members of the Board and the Company Secretary. • Observation of Board and Committee meetings. • Using a questionnaire, gathering feedback from each Director on their colleagues, which was anonymised and given to the Chairman for use during his one-to-one sessions with each NED; similarly anonymised feedback on the Chairman was provided to the SID. • Analysis and report provided to the Board of what the external evaluation learnt.	• Self-assessment Board and Committee questionnaire prepared following consultation with the Chairman and Company Secretary. • Summary report, based solely on the information gathered through the questionnaire, makes recommendations and is reviewed by the Board. • Using a questionnaire, gathering feedback from each Director on the contribution of their colleagues, which was anonymised and given to the Chairman for use during his one-to-one sessions with each NED; similarly anonymised feedback on the Chairman was provided to the SID.

2019 Board evaluation follow up

Independent Audit Limited carried out a full external evaluation in 2019 with a focus on boardroom culture and constructive relationships, whether the Board has the right impact and value for the Executive Leadership Team, and if there were people and processes in place to enable effective Board oversight. The evaluation highlighted some key strengths and some key outcomes to make progress on. The table below details what the Board has done following the evaluation.

2019 evaluation and key outcomes	What we have done
Ensuring that Board time and energy are focused on significant issues (over and above business as usual) and risk management now that the strategy is focused on becoming a leading inhalation CDMO.	Revising agendas and presentations to focus on the most relevant matters.
For management to provide the Board with updates on the Company's principal operating frameworks and governance as appropriate.	Presentations of Board papers directed to highlight operating frameworks and governance including KPIs.
That the Board should continue to receive specific training on various aspects of running a CDMO business to increase its knowledge further.	A number of experts were scheduled to attend Board meetings in order to provide training or impart knowledge in respect of CDMO businesses. Due to the COVID-19 pandemic these were done virtually via video conferencing.

2020 Board evaluation

In 2020, the Board evaluation was externally-facilitated by Independent Audit Limited (IAL), using its online self-assessment service, Thinking Board®. The questionnaire was prepared by IAL after discussion with the Chairman and Company Secretary. It was then completed by the Board members. The resulting report synthesised the questionnaire results, highlighting key areas of strength and potential areas for further development. The report was discussed at a Board meeting and development actions were agreed.

The Directors also completed a questionnaire providing feedback to the Chairman regarding Board colleagues and to the SID in respect of the Chairman. It also directs the Board's attention to areas where there might be opportunities to improve its performance. The table below details the key outcomes for the Board as a whole and its Committees.

	Key outcomes
Board	The Board is fully engaged with Vectura's transformation and strategy implementation. Further definition of strategic KPIs and milestones will help the NEDs and the Executives to track progress of strategy execution. The Board has increasingly turned its attention to the integration of ESG considerations into the strategy and this will be an area of further focus for 2021.
Audit Committee	Following a smooth transition to a new Chair, the Audit Committee continues to function well.
Nomination Committee	The Nomination Committee continues to be well run by the Chairman. Following the appointment of two new NEDs in December 2020, the Committee will continue to develop the medium-term succession plan.
Remuneration Committee	Following a smooth transition to a new Chair in 2020, the Remuneration Committee continues to run effectively. The way targets are set and performance reviewed for Executives is considered to be working well. The Committee is keeping this under review as the strategy evolves.

2020 external Board evaluation – key strengths

- a clear consensus on the strategic direction;
- a constructive and positive atmosphere at Board meetings;
- good flow of information from the Executive Directors to the NEDs;
- good response to COVID-19 pandemic with a focus on the wellbeing and safety of employees whilst continuing to optimise the business;
- financial risks associated with the COVID-19 pandemic have been well assessed, and financial oversight continues to be a strength; and
- well-functioning committees.

Nomination Committee report

Matching skills, knowledge and expertise to strategy

> Appointments to the Board are based on merit and consideration of the different expertise required on the Board to help support the Group's strategic objectives.

Bruno Angelici, Chair

On behalf of the Board, I am pleased to take this opportunity to present the Nomination Committee's report for 2020 and detail its main activities during the year and its priorities for 2021.

Committee role and responsibilities

The role of the Nomination Committee is to optimise Board performance, enabling the Group to grow, compete and manage risk effectively as it seeks to become the leading inhalation contract development and manufacturing organisation (CDMO). It keeps the structure, size and composition of the Board and its Committees under review in order, primarily, to match the skills, knowledge and expertise of the individuals to those needed to support the strategy and business requirements of the Group. The full terms of reference of the Committee can be found on our website (www.vectura.com).

The Committee understands that diversity of gender, culture and social and ethnic backgrounds, as well as cognitive and personal attributes, can be a key driver of the generation and continuation of long-term value. Diversity of backgrounds not only ensures a more proportionate representation of wider society, but also places the Group in a stronger position to deliver for all its stakeholders. Diversity and inclusion matters are central considerations when succession plans are formulated or reviewed and whilst we believe we have a good balance of social, cultural and gender diversity we remain cognisant of the qualities ethnic diversity would bring to the Board and will bring further attention to this aspect in the future.

Activities undertaken in the year

The Committee met five times during the year (details on attendance can be found on page 53) and matters the Committee considered included:

- succession planning for the Board and Committees;
- reviewing potential conflicts of interest;
- undertaking two new NED searches and appointments;
- reviewing the balance of skills and expertise on the Board and its Committees;
- organising the transition of the Audit and Remuneration Committee Chair roles following the departure of Neil Warner in May 2020; and
- undertaking Board and individual Director evaluations including the Chairman, Senior Independent Director (SID) and Committee Chairs.

Membership

- Bruno Angelici (Chair)
- Dr Per-Olof Andersson
- Juliet Thompson
- Dr Kevin Matthews

Key actions from 2020

- Board and Committee composition
- Board succession planning
- NED searches and appointments
- Internal Board and Committee evaluation

Priorities for 2021

- Committee membership
- Appointment of new SID
- Internal Board and Committee evaluation
- Succession planning

New appointments

Following feedback from shareholders regarding Board tenure and size, we reported last year that Neil Warner would be not be standing for reappointment to the Board at the 2020 AGM. It was also reported that Dr Thomas Werner would stand down by the 2021 AGM.

During the year, the Nomination Committee engaged the services of Heidrick & Struggles, an international executive recruitment firm, that has no other connection to the Group or any of its Directors, to carry out Board level searches. Initially this was with a view to appointing a new NED ahead of Dr Werner's departure in 2021. However, with the unanticipated resignation of Anne Whitaker due to a potential conflict of interest situation in September 2020, the gender balance of the Board had also significantly fallen below the target in the Hampton-Alexander recommendations. Accordingly, the search remit was broadened to see if two NED candidates could be identified.

I am pleased to report that during the search process two strong candidates were identified and, as a result, both were recommended to the Board for appointment. We were delighted to announce the addition of Jeanne Taylor Hecht and Jeanne Thoma to the Board with effect from 31 December 2020. These two additional independent NEDs bring significant understanding and experience of the CDMO and Contract Research Organisation (CRO) sectors. This expands the Board's knowledge and expertise and assists them in challenging and supporting management to execute the Group's strategy, as well as bringing the recommended gender balance to the Board.

Further information on the Directors can be found in the biographies on pages 50 and 51.

Board evaluation and succession planning

Following the externally facilitated and comprehensive Board evaluation in 2019, the Committee conducted an externally facilitated questionnaire based Board evaluation in 2020. Full details of the evaluation process and outcomes can be found in the Corporate governance statement on page 49.

During 2020 the Committee reviewed succession plans for the Board ahead of the retirement of Dr Thomas Werner by the 2021 AGM and in light of the NED independence requirements under the Code.

During previous consultations with shareholders, comments were raised regarding the size of the Board which has consisted of nine Directors for a number of years. By no later than the 2021 AGM, at which Dr Werner will not be standing for reappointment, this will reduce to eight, which the Board considers to be proportionate to the current business. The Board felt that there should be a suitable period of overlap between the appointment of the new NEDs and the resignation of Dr Werner thereby ensuring a smooth transition and providing time to assess the appointment of a new SID in place of Dr Werner. The Board succession plans will continue to be monitored in light of current tenures and matters of diversity will continue to be a key consideration when making new appointments.

Board appointments and induction

Appointments to the Board are based on merit and consideration of the different expertise required on the Board to help support the Group's strategic objectives. The Nomination Committee has a formal and rigorous appointment process involving all Board members. It makes recommendations based on the capabilities of individual candidates, having due regard to the benefits of diversity and the need to ensure the effective functioning of the Board both now and in the future. Details of the general process followed in making new appointments can be found in the Corporate governance statement on page 61.

Following formal approval and appointment to the Board, a comprehensive induction programme is provided for each new Director, which consists of meetings with the Board, the Executive Leadership Team (ELT) and other key employees and advisors depending upon the specific requirements of the appointee. Access is provided to key documents through the Company's electronic Board portal and, when possible, site visits are arranged.

Diversity and inclusion: Board and senior leaders

We acknowledge that ideally members of the Board and senior management should collectively possess a diverse range of skills, expertise, gender, nationality and ethnic and societal backgrounds. The Group supports the principles of the Hampton-Alexander Review on gender and the recommendations of the Parker Review on ethnic diversity.

The Board now comprises one Swedish national, one French national, one German national, four British nationals and two United States nationals, demonstrating a diverse range of cultures and experiences.

The Group re-entered the FTSE 250 in September 2020 and therefore is included in the 2020 Hampton-Alexander report published in February 2021. The last time the Group was included in the report was in 2017 and at that time female representation was 12.5%. During 2018 and 2019, the Board continued to improve its female representation, and reached a 33.3% level in 2019. However, following the departures of Susan Foden in September 2019 and Anne Whitaker in September 2020 the Board female representation fell below the 33.3% level. With the recent appointments of Ms Hecht and Ms Thoma at the end of 2020, we are pleased to report 33.3% female Board representation once again, in line with our previous commitments to gender diversity. This will increase to 37.5% no later than the 2021 AGM.

In terms of the next level of management, our ELT (excluding Executive Directors) totals seven, of which there are four female members, resulting in 57.1% and thereby exceeding the Hampton-Alexander 33.3% target. In 2020 the ELT (excluding the Executive Directors) plus its senior direct reports who were part of our Business Leadership Team consisted of 46 individuals, of whom 18 were female, resulting in representation of 39.1%. As a Group, our strategy continues to be maintaining and improving on these levels. Further information on the gender breakdown across the group can be found on page 44.

Diversity and inclusion: employees

The Group is committed to encouraging equality and diversity among its workforce. We want to foster a culture where everyone has a sense of belonging and encourage fair treatment of all demographics. To that end, we are currently looking to better understand diversity matters across the business through an Employee Focus survey and the establishment of a Diversity and Inclusion (D&I) Committee, reporting into the ELT, so that, armed with insight into any concerns within our workforce, we can encourage the participation of colleagues in setting the equality and diversity agenda for the organisation, develop a D&I strategy and establish appropriate KPIs in order to measure our progress against them.

Bruno Angelici
Nomination Committee Chair
17 March 2021

Monitoring all aspects of financial reporting and risk

> The main focus of the Committee in 2020 has been ensuring that the financial statements accurately reflect the change in strategy, and that the risks relating to COVID-19 have been appropriately considered and challenged.

Juliet Thompson, Chair

I am delighted to have taken on the role of Audit Committee Chair in what has been a very full year for us all. The main focus of the Committee in 2020 has been ensuring that the financial statements accurately reflect the change in strategy, and that the risks relating to COVID-19 have been appropriately considered and challenged.

I succeeded Neil Warner as Chair of the Committee following him stepping down as Non-Executive Director at the end of the 2020 AGM. I had the benefit of working with Neil on the Committee since December 2017 and I would like to thank him for his leadership, wise counsel and support during the transition.

As Chair of the Audit Committee I present the 2020 report.

Composition and attendance at meetings

Under its terms of reference, the Audit Committee is constituted by at least three independent Non-Executive Directors. During the period the Audit Committee consisted of Juliet Thompson (Chair with effect from 28 May 2020), Neil Warner (resigned 27 May 2020), Dr Per-Olof Andersson and Dr Kevin Matthews. Other members of the Board and Executive Leadership Team (ELT) attended by invitation.

Members of the Committee are determined by the Board, on the recommendation of the Nomination Committee and in consultation with the Audit Committee Chair. All the members of the Audit Committee are Non-Executive Directors, all of whom are independent both from the external auditor and in accordance with provision 24 of the 2018 UK Corporate Governance Code (the "Code"). The Board determined that I as Chair had both recent and relevant financial experience as required by the Code due to my prior professional experience, other current non-executive directorships and by way of my Fellowship of the Institute of Chartered Accountants. The Board also determined that the Committee, as a whole, has sufficient competence in the pharmaceutical sector, within which the Group operates.

Biographies of the members of the Committee are set out on pages 50 and 51.

The Audit Committee met seven times during the year and the attendance at meetings is shown on page 53.

Membership

- Juliet Thompson (Chair)
- Dr Per-Olof Andersson
- Dr Kevin Matthews

Key actions from 2020

- Ensuring Financial statements accurately reflect the strategy
- Ensuring risks relating to COVID-19 have been appropriately challenged
- Reviewing and challenging management's judgements on significant accounting issues

Priorities for 2021

- Prepare for expected regulatory changes relating to internal control and financial reporting
- Continue to review and challenge management's judgements on significant accounting issues
- Challenge the independence and effectiveness of KPMG as external auditor

Responsibilities of the Committee

The main objective of the Audit Committee is to assist the Board in fulfilling its corporate governance responsibilities relating to financial reporting practices including the review of key accounting judgements and estimates; the Group's risk management and internal control framework; and the external audit process.

The Committee's primary activities relate to the responsibilities stated above. Full details of the Committee's responsibilities are set out in the terms of reference, which are available on the Vectura website (www.vectura.com/investors/governance) and are summarised below.

Financial reporting

- monitoring and reviewing the integrity of the financial reporting process and reviewing the financial statements and narrative reporting, including the Strategic report and Corporate governance statement relating to the audit and risk management;
- undertaking a fair, balanced and understandable review of the Annual Report;
- assessing the appropriateness of judgements and estimates taken in preparing the financial statements and in preparation for the introduction of new accounting standards; and
- reviewing the going concern and viability assessments.

Risk management and internal controls

- monitoring and reviewing the effectiveness of the Group's internal financial controls and risk management systems (including whistleblowing procedures and compliance with the Group's Anti-Bribery Policy); and
- assisting the Board with the definition and execution of a risk management strategy, risk policies and current risk exposures.

External auditor

- monitoring and reviewing the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- making recommendations to the Board for motions to put to the shareholders for their approval in a general meeting, in relation to the appointment, reappointment and removal of the external auditor and the approval of the remuneration and terms of engagement of the external auditor; and
- to review any proposal for the external auditor to supply non-audit services, in view of Group policy and relevant ethical guidance regarding the provision of non-audit services by the external audit firm.

Main activities of the Committee

During the period, and through to the finalisation of the Annual Report and Accounts for the year ended 31 December 2020, the main activities and principal issues considered by the Audit Committee were as detailed below.

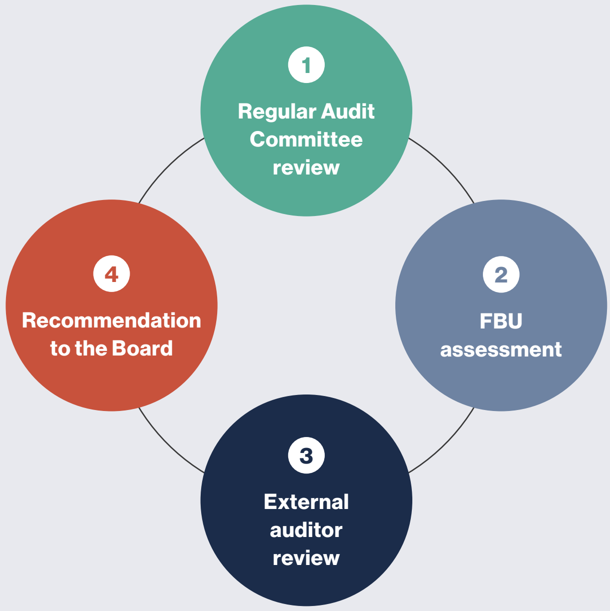
Financial reporting

The Directors are responsible for preparing the Annual Report and Accounts; the Committee's detailed review of the year-end accounts assisted the Board in making the Going concern statement set out on page 69.

Fair, balanced and understandable (FBU) assessment

At the request of the Board, the Committee has considered whether, in its opinion, this Annual Report, taken as a whole, is fair, balanced and understandable and whether it provides the information necessary for shareholders to assess the Company's position, performance, business model, and strategy (see the Strategic report on pages 2 to 47).

The following process was followed by the Committee in making its assessment:



1. Regular Audit Committee review

The Committee reviewed the Annual Report in a timely manner to enable sufficient time for comment and review and ensure overall balance and consistency. The Committee and the Board as a whole have access to all relevant information and, in particular, management's papers on critical accounting issues.

2. FBU assessment

The Committee reviewed the Annual Report to assess whether it is fair, balanced and understandable and also reviewed Management's process to ensure the same. We are satisfied that all the key events and issues reported to the Board by management (both positive and negative) have been adequately referenced or reflected within the report.

3. External auditor review

The Group's external auditor reviews the consistency between the narrative reporting of the Annual Report and the financial statements. The external auditor presents the results of its audit work. The significant issues considered as a Committee were consistent with those identified by the External Auditor in its report (see pages 100 to 109 for more detail).

4. Recommendation to the Board

The Board approved the Committee's recommendation that the FBU statement could be made, which can be found in the Director's Responsibilities Statement on page 98 of this Report.

Audit Committee report continued

Application of accounting policies, judgements and estimates

The Committee must also assess whether suitable accounting policies have been adopted and must challenge the robustness of significant judgements and estimates reflected in the financial results. This process involves reviewing the critical accounting issues paper prepared by management in support of the policies adopted and judgements and estimates made and confirming that they remain appropriate for the Group. The critical accounting issues included, but were not limited to, the following:

Reporting matter	Committee activity	Committee conclusion/actions taken
Change in accounting policy – ensuring the financial statements accurately reflect the change in strategy	The Committee reviewed Management's voluntary change in accounting policy for the classification of research and development expenses ("R&D") and general and administrative expenses ("G&A"). This change was made to better present the financial statements in the context of the new Contract Development and Manufacturing Organisation (CDMO) strategy.	Following its review, the Committee agreed with the voluntary change in accounting policy and the associated restatement of the 2019 Consolidated income statement.
Recognition of income relating to the GSK US litigation (critical judgement)	The Committee reviewed management's assessment of the proposed accounting treatment for the receipt of damages, associated interest and ongoing royalties following the United States Court of Appeals decision regarding the GSK litigation.	Following its review, the Committee agreed with management's proposed recognition and classification of income in 2020.
Revenue recognition-variable consideration (critical judgements and estimates)	The Committee reviewed management's assessment of variable consideration, specifically the constraint of and recognition of certain milestones related to the progression of the generic Ellipta® programme and the VR2081 programme which are considered to be critical judgements and estimates. The accounting for the FDA approval of generic Advair® Diskus® and the Kinaset licence was also reviewed by the Committee and whilst of interest, they are not considered to be critical accounting judgements or estimates.	Following its review, the Committee agreed with management that the achievement of the Ellipta® and VR2081 milestones was not yet highly probable and therefore should continue to be constrained. The Committee also agreed with management that recognition of the FDA approval milestones for generic Advair® Diskus® is appropriate and that the inclusion of two milestones in the revenue recognised in relation to the Kinaset licence and development services contract was appropriate as considered to be highly probable. The Committee recognised the close monitoring and control by management in its evaluation of variable consideration.
Impairment of goodwill acquired through business combinations (critical estimate)	The Committee challenged management's key assumptions used to calculate the recoverable amount of the Swiss group of CGUs.	Following its review and challenge, the Committee agreed that the assumptions were reasonable and an impairment is required. The sensitivities and the related content in note 14 to the consolidated financial statements were also reviewed by the Committee with the level of disclosure considered appropriate.
Restructuring provision	The Committee reviewed management's proposed accounting treatment for the recognition and measurement of a provision following the announcement of restructuring of the Muttenz site.	Following its review, the Committee concurred that the timing, recognition and measurement of a restructuring provision, and the related curtailment of the pension liability, is appropriate.
Useful economic lives of intangible assets (critical estimate)	The Committee considered the useful economic lives of the Group's on-market intangible assets.	Following its review the Committee concurred with the assessment of average patent lives in the applicable territories for each intangible asset.
Actuarial assumptions on Swiss pension benefits (critical estimate)	The Committee reviewed the actuarial assumptions used by management having received advice from a local pension expert.	The Committee agreed with the actuarial assumptions proposed.

Going concern and viability

The Audit Committee reviewed management's assessment of going concern and viability noting continued uncertainty arising from the COVID-19 pandemic. The Committee still considers the three-year viability period to be appropriate. The Group continues to be strongly cash generative before distributions to shareholders, and had cash and cash equivalents in excess of £78m at 31 December 2020. Additionally, the Group's £50m revolving credit facility was renewed in January 2021 and will now expire in August 2022.

Management's viability stress tests, including the termination of the generic *Ellipta*® development agreement and failure to grow revenues of the CDMO business in line with current projections, were reviewed by the Committee and considered to be reasonable.

The Committee recommends to the Board the adoption of the going concern basis of accounting and is satisfied that the Group has adequate resources to continue for the foreseeable future and for the three-year period assessed in the Viability statement on page 40.

Risk management and internal controls

Internal control and risk management systems

Whilst overall responsibility for risk management and internal controls systems resides with the Board, the Committee reviews the Group's principal risks and internal financial controls, including assessing the effectiveness of the systems for identifying, assessing, managing and monitoring financial risks. Management retains responsibility for day-to-day oversight of risk management processes and internal controls, and provides the Committee with reports on their effectiveness. For more information see the Risks section on page 32.

Review of the Group risk register

Following detailed reviews by the Executive Leadership Team the Committee conducted two formal reviews of the Group risk register during the year to the date of the Annual Report. This included a review of the process by which the risks were identified. The Committee noted an overall upward trend in risk scores. This primarily reflects the fact that the business is in a transitionary phase as it pivots towards the new CDMO business model, as well as the impact of a number of changes in the macro environment, most notably the COVID-19 pandemic and the increased frequency of cyber-attacks. The key changes or updates reviewed were as follows:

- **Risks from Brexit uncertainty:** The Committee agreed that following the UK exiting the EU on 31 December 2020 the remaining uncertainty is significantly reduced. As a result the Committee agreed separate Brexit-specific principal risks are no longer required, with any remaining Brexit-related risk considered within other principal risks.
- **COVID-19:** To date there have been no material adverse impacts of COVID-19 on the Group; however, as the situation is constantly evolving a new principal risk has been added and will be monitored as such. In addition, certain COVID-19-related downside scenarios have been included in the going concern and viability scenario testing. The Committee agreed to the addition of the new principal risk, reviewed the inclusion of the downside risk in the going concern and viability scenario testing, and agreed with management that Vectura remains resilient.
- **Partner risks:** The Committee agreed with the disaggregation of the previous principal risk "Failure of partners to deliver on their obligations" into "Co-development partner risks" and "*flutiform*® partner risk" as it more appropriately reflects how these risks are managed within the Group.
- **Climate change:** The Committee agreed with the incorporation of climate change impacts and risks within other principal risks rather than as a separate principal risk.

Internal audit

Considering the Group's scale, diversity, complexity, risk profile and controls within the Finance function, the Committee and Board have not historically believed that a separate internal audit function is required. Given the change in strategy and also the expected changes in the regulatory environment this remains under active review and the Committee will report on this again to shareholders in the next Annual Report.

Internal assurance is currently achieved through the reviews of financial information performed throughout the year, and associated reporting to both the Audit Committee and to the Board. The external auditor plans and performs its audit procedures taking into account the absence of an internal audit function.

External audit

Including 2020, KPMG LLP (KPMG) has been the Group's appointed external auditor for four years. The current audit partner is Adrian Wilcox, who has held the role since KPMG's appointment in 2016. UK legislation requires the tender of the external audit firm after ten years and rotation after 20 years. The audit partner should be rotated every five years.

The Committee is responsible for making recommendations to the Board in relation to the appointment, reappointment or removal of the external auditor. The Committee reviews and assesses the auditor annually including its effectiveness when proposing to the Board whether shareholders should be requested to reappoint the auditor.

The Committee considers that in the financial year 2020 the Company has complied with the Competition and Markets Authority's Statutory Audit Services Order 2014, on mandatory use of competitive tender processes and Audit Committee responsibility provisions.

The Committee has primary responsibility for overseeing the relationship with, and performance of, the external auditor, which is engaged to conduct a statutory audit and express an opinion on the financial statements. This includes determining the fee and scope of the audit and leading the tender process.

The terms of engagement and fees of the external auditor are determined by the Committee, and are reviewed and agreed prior to the start of the audit process. The scope and fee levels are considered such that an appropriate, effective audit can be carried out at the fee level proposed. The Committee reviews the plans in place for the annual audit including the work plan and resources, as well as the seniority and expertise of the audit team. The effectiveness of the annual audit is assessed by the Committee. This includes the quality of the audit, taking into account, for example, the auditor's quality control processes and the contribution of the auditor in relation to key judgements.

The review of effectiveness and quality of the external audit process is summarised in the chart below and the Committee concluded that the KPMG audit was effective for the financial year ended 31 December 2020 and in particular that it provided appropriate focus and challenge to management on the key areas of audit risk.

Audit Committee report continued

External audit continued

Auditor effectiveness review

Quality | **Qualification and expertise**

The Committee reviewed the quality of reporting from the external auditor and its recommendations. The Committee also considered whether the external auditor had appropriate expertise to conduct the audit.

The Committee's assessment was informed by senior management providing feedback on the external audit process and details of the challenges the auditor raised towards management's judgement over accounting issues with the most significant being GSK litigation revenue recognition. The Committee is satisfied that the auditor undertook an in-depth assessment and verification exercise and that the level of expertise and knowledge of Vectura's business is sufficiently high.

Non-audit services | **Independence and objectivity**

Non-audit services provided by KPMG were reviewed and, as described further below, are not considered to have affected the auditor's independence.

The Committee received comments from the CFO and management on the objectivity of the auditor, in addition to confirmation from KPMG themselves.

Planning and organisation | **Resources**

The Committee considered the effectiveness and organisation of the planning process for the audit and post-audit evaluation.

In addition, the Committee challenged whether there was availability of appropriate resources to conduct the audit, given the restrictions arising from COVID-19 pandemic and associated new ways of working. Appropriate and effective planning was in place to mitigate any potential issues. Unfortunately KPMG experienced unforeseen delays in completing its audit as a result of resourcing constraints arising from COVID-19 and the results announcement was delayed by nine days to allow KPMG to complete its audit procedures.

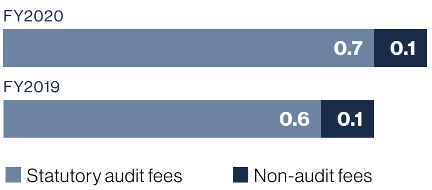
Independence, including non-audit services

The Committee, taking into consideration relevant laws and standards, reviews the independence and objectivity of the auditor. Any threats to independence, and appropriateness of safeguards, are considered with the auditor. The level of non-audit fees compared to audit fees is kept under review. The Committee agrees with the Board the Group's policy in relation to the provision of non-audit services by the auditor taking into account the relevant standard and legal requirements, keeping such policy under review.

The Committee is responsible for approving non-audit services with the objective that the provision of such services does not impair the auditor's independence or objectivity. In doing so it considers various factors relating to whether it is appropriate for the auditor to provide such services, including that the auditor's skills and experience make it the most suitable supplier.

Fees for non-audit services amounted to 12.5% of the fees paid to KPMG for audit, audit-related and other services in 2020 (2019: 14.3%).

Audit/non-audit fees



In 2020, the non-audit services performed by KPMG related to the review of the Group's interim financial report. KPMG was considered better placed than any alternative audit firm to provide these services in terms of its familiarity with the Group's business, skills, capability and experience.

At both the half year and the full year, KPMG confirmed that its independence and objectivity have been maintained.

Committee evaluation

Following the externally facilitated Board evaluation in 2019, the Committee conducted an internal, questionnaire-based Board evaluation in 2020. Full details of the evaluation process and outcomes can be found in the Corporate governance section on page 63.

Relationship with the Board and other stakeholders

The Committee Chair provides a verbal update to the Board following the Committee meetings. Any recommendations or further work required on major issues are reported in order to keep the Board appraised of matters within the Committee's remit. If there is a disagreement between the Committee and the Board, the Committee could report the matter to shareholders in this Audit Committee report.

Sufficient information to enable the Committee to discharge its responsibilities is made available from management and the Committee has access to the Company Secretary and to employees more widely if there are any matters for which the Committee requires further information.

Communication with shareholders

The Committee is keen to provide shareholders with the information required for them to understand the process that the Committee has been through to achieve effective oversight of the financial reporting and internal controls for the Group. It is intended that the Chair of the Committee will attend the AGM in order to meet with and answer questions from shareholders relating to the Committee's activities and matters within the Committee's remit.

Juliet Thompson
Audit Committee Chair
17 March 2021

Remuneration Committee report

Attracting the best talent in the market

The ability of the business to adapt and its financial resilience meant that the Group did not furlough any of its employees and did not utilise any government support schemes.

Kevin Matthews, Chair

On behalf of the Board, I am pleased to present the Remuneration Committee 2020 report (the "Report"). I took over as the Chair of the Committee from Juliet Thompson following the 2020 AGM. I would like to thank Juliet for her leadership of the Committee during a period of change at Vectura and on the development of our new Directors' remuneration policy (the "Policy").

Committee role and responsibilities

The Committee's principal function is to support Vectura's strategy by ensuring that those individuals responsible for delivering the strategy are appropriately incentivised and rewarded through the operation of the Policy. In determining the Policy, and in constructing the remuneration arrangements for Executive Directors and senior executives, the Committee aims to provide remuneration packages that are competitive and designed to attract, retain and motivate Executive Directors and senior executives of the highest calibre. The Committee has also put in place guidelines for the oversight of remuneration and remuneration policies for the wider workforce.

Remuneration Policy

At the 2020 AGM the Policy was submitted to a binding shareholder vote. The Committee is pleased that 94.55% of shareholders voted in favour of the Policy.

The Committee believes the overall structure supports our strategy and has operated as intended in its first year. The previous policy included a number of features that were already in line with the Code, including the two-year holding period for vested LTIP awards and the ability to apply malus and clawback to bonus and LTIP awards. The new deferral of 25% of any bonus earned into shares for two years will apply to the 2020 bonus, thereby increasing shareholder alignment and enabling Executive Directors to progress attainment of their shareholding requirement. As previously reported, it is intended that the CFO's pension contribution will be aligned with the wider workforce by the end of 2022.

This Report sets out the decisions taken by the Committee with regard to remuneration which will be subject to an advisory vote this year.

Membership

- Kevin Matthews (Chair from May 2020)
- Juliet Thompson (Chair until May 2020)
- Dr Per-Olof Andersson (joined September 2020)
- Bruno Angelici

Key actions from 2020

- Follow-up and consideration of shareholder feedback;
- Finalisation of the 2020 Policy;
- Review of the 2020 corporate goals, including personal goals for Executive Directors;
- Approval of the percentage of the Group bonus pool and consideration of the use of discretion in the bonus award;
- Determination of performance against the TSR and adjusted EBITDA conditions for awards under the LTIP;
- Approval of the grant of the 2020 LTIP awards and performance conditions;
- Approval of 2021 base salary increases for Executive Directors and Executive Leadership Team;
- Review of advisors to the Committee;
- Review of the Group's gender pay gap data; and
- Review of remuneration packages for the appointment of new senior executives and, where appropriate, confirming approval.

Priorities for 2021

- Onboarding of new Remuneration advisor;
- Review of LTIP metrics; and
- Review of long-term reward strategy.

Remuneration Committee report continued

Impact of COVID-19 pandemic

From the outset of the COVID-19 pandemic, our first priority was keeping our people and customers safe and healthy, with our focus not just on the physical wellbeing of colleagues but also their mental health and emotional resilience.

Our team responded commendably, embracing new ways of working and rigorously adhering to new health and safety protocols across all sites. All our operational sites remained open through national lockdowns and on average 98% of our team were available to work on site or remotely. Through our crisis management planning, we were able to avoid impacts on our supply chain and product supply and development services. In addition, the ability of the business to adapt and its financial resilience meant that the Group did not furlough any of its employees and did not utilise any government support schemes.

Despite a difficult and challenging year, we have maintained progress towards the business strategy and continued the important work of transforming our operations. We are confident the business will emerge from the COVID-19 crisis stronger, more agile and more resilient. Additional information on the effect the pandemic has had on the business and the Company's response to it can be found on pages 6 and 7.

Outcomes for the period under review

The Group delivered a strong financial performance in 2020. Revenue and adjusted EBITDA have shown annual improvements of +6.9% and +41.7% respectively, ahead of Board expectations. In addition, our closing cash and cash equivalents position stood at approximately £79m, following capital returns of approximately £16.4m made in 2020. Vectura made good progress on its CDMO strategy, co-development pipeline and operational transformation. The Company was also successful in its US patent litigation against GSK. Further details on the achievements of the year can be found in the Strategic report on pages 2 to 47.

During the year, the Committee reviewed the product development and delivery management element of the bonus scorecard. Originally, this element included an objective related to the installation of enhanced dry powder inhaler (DPI) manufacturing capability. In light of the Board's decision later in the period (following greater visibility of customer requirements) to prioritise the FOX® nebuliser platform and delivery, the Committee decided to exercise its discretion to remove this objective. This decision was taken to avoid incentivising a significant level of activity directed at achieving a goal that was no longer a priority for the business and which would have distracted management from prioritising other equally challenging activities that supported business development efforts. In light of this, the decision was made to reapportion the weighting on this goal across the other product development and delivery management goals which related to the nebuliser platform. The Committee confirms that following this change, the goals were no less stretching in the circumstances than the original goals. Following the year end, the Committee carefully considered the achievements of the scorecard to ensure the outcomes were reflective of the performance of the business. The Committee concluded that an overall annual bonus outcome for Executive Directors for the financial year to 31 December 2020 of 79.7% of the maximum was appropriate. A detailed breakdown of the targets set, the payments awarded, and how discretion was applied is set out on pages 76 to 94. Following the approval of the Policy at last year's AGM, 25% of the bonus will be deferred into shares.

In determining the level of LTIP awards granted in June 2020, the Committee considered carefully the share price performance of the Company over the prior twelve months, which had increased by more than 25% since the last awards were granted. The Committee also considered the impact of COVID-19 on the business which, at the time of grant, was minimal and continues to be. The Committee determined that awards at the normal percentage of salary should be granted to the two Executive Directors. The Committee also considered the level of the cumulative EBITDA targets for the 2020 period in light of the changes made to threshold vesting levels in the Policy and market expectations of Vectura's performance over the 2020–2022 period. The 2020 target levels are considered to be more stretching than the equivalent targets set for 2019, as these reflect the shift in the expected revenue and EBITDA profile in the periods 2019–2021 and 2020–2022 in line with consensus. Given the forecast change in EBITDA profile, a stretch intermediate performance goal was set representing exceptional performance, with the maximum target then set at a very significant stretch above that level and significantly above the previous maximum. Further details of LTIP targets are set out on page 87 of the Report.

The performance period of the 2018 LTIP ended on 31 December 2020. This award was subject to TSR and adjusted EBITDA performance conditions. Strong adjusted EBITDA and above median relative TSR performance resulted in 70.9% of this award vesting. Paul Fry had a buyout award which is subject to these performance conditions, with vesting of his award due in October 2021.

The Committee confirms that other than in relation to the minor amendment to the bonus scorecard made in the year no other exercise of discretion has occurred.

Remuneration for 2021

The salary for the CEO, Will Downie, and for the CFO, Paul Fry, will be increased by 1.8% in line with UK inflation and the workforce for 2021.

In-line with our commitment to align Executive Director pensions to the level of the workforce by the end of 2022, Paul Fry's pension contribution will again reduce by 5% in 2021 to 10% of salary. As previously disclosed this will be fully aligned with the majority of the workforce by the end of 2022. Will Downie's pension will remain in line with the level offered to the majority of the workforce and is unchanged as at 17 March 2021, being the latest practicable date prior to publication of this report.

The 2021 annual bonus and 2021 LTIP awards will be in line with the Policy. The annual bonus will increase the weighting on financial metrics to 80%, split 50% adjusted cumulative EBITDA and 30% CDMO revenue, with the remaining 20% using non-financial metrics. No change will be made to the performance measures for the LTIP, and although the Committee continues to review the use of adjusted EBITDA it has concluded that it remains the most appropriate financial LTIP metric for Vectura at the current time. The business has remained relatively unaffected by the COVID-19 pandemic; therefore, the Committee has determined that no adjustments need to be made to the awards for 2021.

Remuneration advisor

During the year the Committee received advice from Aon Rewards Solutions (Aon plc's executive remuneration consultancy). Following the decision by Aon to cease UK remuneration committee advisory services, the lead advisor moved to Alvarez & Marsal Taxand LLP (A&M) and, on 1 June 2020, the Committee appointed A&M as external advisor to the Committee. In line with developing corporate governance best practice, the Committee decided that it would be an appropriate time to conduct a formal review of its remuneration advisors in the second half of 2020. As a result of this review Deloitte LLP will be appointed as the Committee's advisor following the AGM on 27 May 2021. The Committee would like to thank Nic Stratford of A&M for his valued support and advice over the last ten years.

AGM

Our Report will be subject to an advisory vote at our forthcoming AGM. I very much hope that you will join me in supporting the resolution at the 2021 AGM.

Kevin Matthews
Remuneration Committee Chair
17 March 2021

Remuneration dashboard

Remuneration link to strategy

Our 2020 annual bonus incentive metrics are directly linked to the clear priorities set for the year and align to the cornerstones of our strategic focus to be a leading inhalation CDMO.

Ambition	Company strategy	2020 goals	2020 bonus metrics	2020 LTIP metrics
Creating the market leading company in the inhalation CDMO space to deliver long-term growth and sustained returns	First-class business development and marketing function	Transform the Company into a successful CDMO	Drive Vectura's presence in the CDMO market	Relative TSR and Cumulative adjusted EBITDA
		Financial accountability	Delivery of 2020 revenue and adjusted EBITDA targets	
	Industry leading science and innovation	Drive product development and delivery management excellence	Timely execution of key priorities within the technology roadmap	
	Excellence in execution and customer focus	Quality and operational excellence	Delivery of agreed customer requirements, further enhancement of quality culture	

Key strategic highlights

Revenue 2020

£190.6m

vs

Revenue 2019

£178.3m

(+6.9%)

Adjusted EBITDA 2020

£61.5m

vs

Adjusted EBITDA 2019

£43.4m

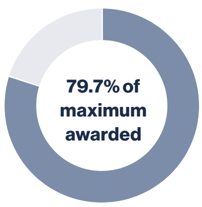
(+41.7%)

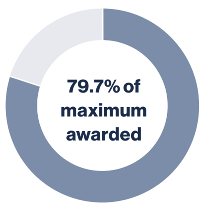
- Adjusted EBITDA and revenue targets exceeded.
- Established a new Business Development team with a presence in the East and West Coasts of the US, mainland Europe and the UK.
- Signing of 18 new CDMO deals with approximately £3m revenue recognised in H2 2020.
- Approval of VR315 triggering milestones of $11m.
- Approval of Enerzair® Breezhaler® in Japan and Europe triggering milestones of $6.25m.

Outcomes in 2020

Annual bonus

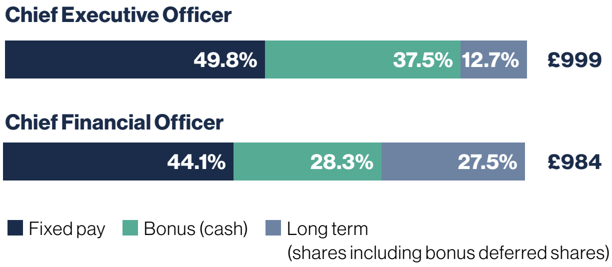
Bonus FY20	CEO	CFO
Revenue (37.5%)	27.2% of maximum	27.2% of maximum
Adjusted EBITDA (37.5%)	37.5% of maximum	37.5% of maximum
Revenue from new CDMO business (10%)	0% of maximum	0% of maximum
Drive product development and delivery management excellence (10%)	10% of maximum	10% of maximum
Drive quality and operational excellence (5%)	5% of maximum	5% of maximum



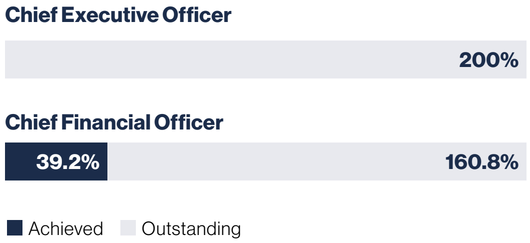


25% of any bonus achieved will be deferred into shares for a minimum of two years.

Single total remuneration figure £000



Actual shareholding – achievement against guideline



Full details of the single total remuneration figure can be found on page 84.

Package for 2021

Salary	• Base salaries increased by 1.8% for the Executive Directors, in line with the UK workforce: • CEO: £468,280 • CFO: £379,635
Pension and benefits	• CEO: 6% of base salary • CFO: reduced to 10% (from 15% in 2020 and 20% in 2019) of base salary and to be aligned with workforce by end of 2022
Annual bonus	• Maximum opportunity is unchanged at 135% of base salary for CEO and 125% for CFO The scorecard will be: • Adjusted EBITDA (50%) • Revenue from CDMO business (30%) • CDMO transformation (20%) 25% of any bonus achieved will be deferred into shares for a minimum of two years
LTIP	• Maximum opportunity up to 185% of base salary • Measures are unchanged, being relative TSR and cumulative adjusted EBITDA • Two-year holding period applies

Remuneration

Remuneration policy

The following section sets out the Remuneration Policy which was approved by shareholders in a binding vote at the 2020 AGM held on Wednesday 27 May 2020. There are minor updates to the text to reflect the passage of time and the fact that the Policy has been approved by shareholders.

This Policy can also be found as approved at the 2020 AGM on the Group's website (www.vectura.com). It has been prepared in accordance with the provisions of the Companies Act 2006 (the "Act") and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the "Regulations"). It also meets the requirements of the UK Listing Authority's Rules and the Disclosure Guidance and Transparency Rules.

Remuneration philosophy and Policy

The Policy is driven by the Group's strategy and business model and has been designed to reflect the Committee's remuneration philosophy to "support value creation for shareholders over the longer term and create alignment with shareholders", as summarised below.

Philosophy	Support value creation for shareholders over the longer term and create alignment with shareholders					
	Fixed remuneration			Variable remuneration		
Element	**Base salary**	**Benefits**	**Pension**	**Annual bonus**	**LTIP**	**Share ownership guidelines and holding periods**
How it is influenced by the remuneration philosophy	Broadly mid-market.			Set no higher than mid-market and is the least significant variable element. Has stretching financial and non-financial targets that support Vectura's annual goals and its overall strategy. Deferral of a proportion in shares increases alignment with shareholders.	The most significant element of the package. Has stretching targets that are clearly aligned with shareholder value. Performance measured over three years and subsequent holding requirement for a further two years to align with the long-term interests of the Group.	Significant personal holdings must be acquired and maintained and vested shares must be retained for a period.

Whilst the Committee does not consult directly with employees regarding its Policy, the Committee has regard to the policy for remuneration of employees across the Group in a number of respects:

- All employees are rewarded with a remuneration package that includes certain key benefits such as life assurance, permanent health insurance, private medical insurance, access to the pension scheme and participation in Vectura's all-employee share schemes and many employees are eligible to receive a bonus.
- The bonus scheme for Executive Directors and employees is designed to reward corporate and personal performance, and all individuals work towards challenging personal goals related to their roles.
- When determining the annual salary increases and remuneration packages for the Executive Directors, the Committee considers the general base salary increase for the wider employee workforce.

More information on wider employee conditions can be found on pages 44 to 45.

The following table and accompanying notes set out the main principles of reward for the Executive Directors as set out in the current Policy.

<table>
<tr><th colspan="4">Executive Directors</th></tr>
<tr><th>Purpose and link to strategy</th><th>Operation</th><th>Maximum opportunity</th><th>Performance metrics</th></tr>
<tr><td colspan="4">Base salary</td></tr>
<tr><td>To recruit and retain Executive Directors of the highest calibre who are capable of delivering the Group's strategic objectives, reflecting the individual's experience and role within the Group.

Base salary is designed to provide an appropriate level of fixed income to avoid an over-reliance on variable pay elements that could encourage excessive risk taking.</td><td>The Committee aims to set base salary at levels that are broadly aligned with the midpoints for equivalent roles in comparable companies in the UK, adjusted to reflect the Group's size and complexity.

Salaries are normally reviewed annually and changes are generally effective from 1 January.

The annual salary review of Executive Directors takes a number of factors into consideration, including:
• business performance;
• salary increases awarded to the overall employee population;
• skills and experience of the individual over time;
• scope of the individual's responsibilities;
• changes in the size and complexity of the Group;
• market competitiveness; and
• the underlying rate of inflation.</td><td>Base salary increases are awarded at the discretion of the Committee; however, salary increases will normally be considered in relation to the average pay rises awarded to the wider employee workforce.

Where a higher level of increase is appropriate given the performance and contribution of the incumbent, or where there has been a change in responsibilities, the Committee retains the discretion to award more significant base salary increases.</td><td>No formal metrics, although increases will take account of Group performance.</td></tr>
<tr><td colspan="4">Benefits</td></tr>
<tr><td>Benefits in kind offered to Executive Directors are provided on a market-competitive basis, to assist with the retention and recruitment of staff.</td><td>The Group aims to offer benefits that are in line with market practice.

The main benefits currently provided are life assurance, permanent health insurance and private medical and dental insurance.

Under certain circumstances, the Group will offer relocation allowances to employees.

Executive Directors are eligible for other benefits which are introduced for the wider workforce on broadly similar terms.</td><td>The value of each benefit is not predetermined and is based upon the cost to the Group.</td><td>Not performance related.</td></tr>
<tr><td colspan="4">Pensions</td></tr>
<tr><td>The Group aims to provide market-competitive retirement benefits, to reward sustained contribution.</td><td>The Group operates a money purchase scheme and all employees, including Executive Directors, are invited to participate.

For Executive Directors who are affected by the HMRC lifetime or annual allowances, the Group may provide cash supplements in respect of benefits above the allowance.</td><td>For new Executive Directors, the contribution level will be capped at appointment at the average contribution level for the workforce based in the United Kingdom.

For Executive Directors appointed before the 2020 AGM, pension will be brought in line with the average contribution level for the workforce based in the United Kingdom by the end of 2022.</td><td>Not performance related.</td></tr>
</table>

Remuneration policy continued

Remuneration philosophy and Policy continued

Executive Directors continued

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Annual performance bonus			
An annual bonus rewards the achievement of stretching objectives that support the Group's corporate goals and delivery of the business strategy together with goals in relation to personal performance. Delivery of a proportion in shares provides alignment with shareholders and facilitates the operation of clawback.	Objectives are agreed with the Committee, and the Board as a whole, at the start of each financial year. Different performance measures and weightings may be used each year, as agreed with the Committee, to take into account changes in the business strategy. Bonuses are paid at the discretion of the Committee. The Committee takes into account overall corporate performance and individual performance when determining the final bonus amount to be awarded. Bonuses are typically paid in April. 25% of any bonus is normally compulsorily deferred into shares for two years. Participants may also be entitled to receive dividend equivalents on vested shares. Under the rules of the scheme, the Committee can claw back up to 100% of the bonus awarded in the event of material misstatement of the Group's financial results, an error in assessing the performance conditions to which an award is subject or for any other matter which it deems relevant.	Bonuses are limited to a maximum of 135% of base salary for the CEO and 125% of base salary for the CFO.	Corporate goals typically include revenue generation, development of pipeline progress, partnering successes and control of cash expenditure, although the Committee has the discretion to set other targets. Goals set are specific, measurable and linked to the Group's long-term strategy. Up to 20% of the maximum is payable at threshold performance against each measure.
LTIP			
The Committee believes that a key component of the overall remuneration package is the provision of equity awards to senior executives through the LTIP, which is designed to incentivise growth in the longer term and align them with shareholders' interests.	Discretionary annual award of nil or nominal cost options that vest according to performance conditions normally measured over three financial years. Participants may also be entitled to receive dividend equivalents on vested shares. Awards granted to Executive Directors from 2017 onwards are subject to an additional two-year post-vesting holding requirement on the net of tax value of shares vesting. Awards will be subject to clawback where there has been a misstatement of the Group's financial results, an error in assessing the performance conditions to which an award is subject or for any other matter which the Committee deems relevant. Awards are subject to the discretions contained in the relevant plan rules.	Annual awards of up to 185% of salary may be granted.	Awards are normally based on key measures linked to achievement of Vectura's strategy such as relative total shareholder return (TSR) and/or financial metrics measured over three years. The Committee retains the discretion to vary the chosen relative TSR peer group or the weighting between the metrics and/or introduce new metrics aligned to the Group's strategy for awards in future years, providing they are not materially less challenging in the circumstances. The Committee would normally consult with its major shareholders before making significant changes to the performance conditions. 25% of the maximum award vests at the threshold/ median performance level, rising to 100% vesting at maximum/upper quartile. Awards are also subject to an underpin based on the Committee's assessment of the Group's underlying performance against a range of factors, including the Group's underlying financial performance, absolute shareholder returns and progress against milestones over the performance period. Any exercise of discretion will be fully disclosed to shareholders. The performance conditions for previous LTIP awards are described in the Report.

Executive Directors continued

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
All-employee share schemes			
All employees, including Executive Directors, are encouraged to become shareholders of the Group through participation in our all-employee share schemes. The Group currently offers UK employees the opportunity to participate in the Vectura Sharesave (SAYE) scheme and the Vectura Share Incentive Plan (SIP). Where possible, similar plans will operate for overseas employees.	Both of the schemes offered are HMRC-approved schemes and operate on standard terms.	Participation limits are set by the relevant tax authorities from time to time.	Not performance related and no performance conditions apply.
Share ownership guidelines			
Share ownership guidelines for Executive Directors and senior employees are designed to strengthen the alignment between the interests of senior management with those of Vectura's shareholders.	In accordance with best practice, share ownership requirements apply during and after employment. During employment, Executive Directors are required to retain at least half of any LTIP awards vesting as shares (after paying any tax due) until they have reached the required level of holding. After their employment, Executive Directors are required to maintain a holding in the Group's shares until the second anniversary of the date they ceased to be an Executive Director.	During their employment, Executive Directors are required to build and retain a holding of the Group's shares equivalent to at least 200% of their base salary. After their employment, Executive Directors are required to hold the lower of: (i) their holding on their date of resignation; and (ii) 100% of base salary.	Not performance related.

Chair and Non-Executive Directors

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Fees			
Set at a level that is sufficient to attract and retain a high-calibre Non-Executive Chair and Directors who have a broad range of skills and experience to oversee the implementation of the Group's strategy.	The Chair and the Non-Executive Directors receive fees paid in cash, with additional fees received for chairing Committees of the Board, for fulfilling the role of Senior Independent Director or the designated workforce engagement NED. Additional fees may also be paid in the event that a Director's normal annual time commitment is significantly exceeded in any year. Fees are normally paid monthly and reviewed annually. The Chair and the Non-Executive Directors do not participate in any performance-related incentive schemes, nor do they receive any benefits, other than limited travel (including transatlantic travel fee) and hospitality-related benefits, in connection with their roles.	When reviewing fee levels, account is taken of market movements in the fees of the Non-Executive Chair and Directors, Board Committee responsibilities and ongoing time commitments.	Not performance related.

Remuneration

Remuneration policy continued

Remuneration philosophy and Policy continued

Notes to the Policy table

For the avoidance of doubt, any commitments entered into by the Group prior to the approval and implementation of the Policy outlined above may be honoured, even if they are not consistent with the Policy prevailing at the time the commitment is fulfilled.

In operating the Policy, the Committee may exercise the discretion set out below and in accordance with the relevant sections of the various plan rules.

Performance conditions

The Committee selected the performance conditions outlined in the Policy because they are aligned with the Group's overall strategy and they are the key metrics used by the Executive Directors to oversee the operations of the business. The Committee considers that the performance targets for the LTIP and the bonus represent an appropriate balance between the long-term and short-term performance of the Group, as well as an appropriate balance between external and internal assessments of performance.

The targets for the bonus scheme for the forthcoming year will be set out in general terms in the Report, subject to limitations with regards to commercial sensitivity. The full details of the targets will be disclosed when they are in the public domain, usually following the end of the relevant financial year, in the Report.

Relative TSR has been chosen as a performance metric for 50% of the 2021 LTIP awards as it is aligned with shareholders' expectations and it reflects the returns that we generate for our shareholders relative to the returns of the general market. The FTSE 250 index (excluding financial services and real estate companies) has been chosen as it is a published index, is transparent for shareholders and provides a robust comparator group of similarly sized companies.

The Committee believes that a financial metric for the remaining 50% of the LTIP awards reflects the Group's growth ambitions and the increasing maturity of our business. Over the life of the Policy, the choice of financial metric and basis of measurement may be varied to reflect the Group's development and strategic priorities. For awards granted in 2021 cumulative adjusted EBITDA has been selected as the financial metric; however, the Committee intends to keep the choice of metric under review for future awards.

The proposed performance conditions for the LTIP awards to be granted in 2021 are outlined on page 87 of the Report.

Committee discretion

The Committee operates under the powers it has been delegated by the Board. In addition, it complies with rules that have either been approved by shareholders (LTIP and Deferred Share Bonus Plan (DSBP)) or by the Board (annual performance bonus scheme). These rules provide the Committee with certain discretions which serve to ensure that the implementation of the Policy is fair, both to the individual Directors and to the shareholders. The Committee also has discretion to set components of remuneration within a range, from time to time. The extent of such discretions is set out in the relevant rules and the Maximum opportunity or the Performance metrics sections of the Policy table set out on pages 77 to 79. To ensure the efficient administration of the variable incentive plans outlined above, the Committee will apply certain operational discretions.

These include the following:

- selecting the participants in the incentive plans on an annual basis;
- determining the timing of grants of awards and/or payments;
- determining the quantum of awards and/or payments (within the limits set out in the Policy table on pages 77 to 79.);
- reviewing performance against LTIP performance metrics;
- determining the extent of vesting based on the assessment of performance;
- making the appropriate adjustments required in certain circumstances, for instance for changes in capital structure;
- determining "good leaver" status for incentive plan purposes and applying the appropriate treatment; and
- undertaking the annual review of weighting of performance measures and setting targets for the incentive plans, where applicable, from year to year.

If an event occurs which results in the annual bonus plan or LTIP performance conditions and/or targets being deemed no longer appropriate (e.g. material acquisition or divestment), the Committee will have the ability to adjust appropriately the measures and/or targets and alter weightings, provided that the revised conditions are not materially less challenging than the original conditions.

Remuneration scenarios for Executive Directors

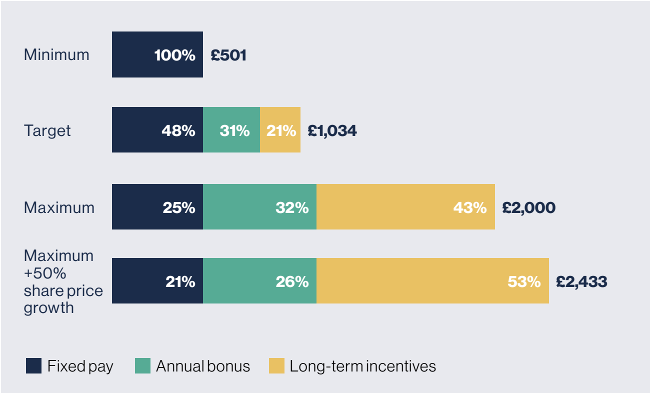
The charts on page 81 show hypothetical values of the 2021 remuneration package for each Executive Director under four assumed performance scenarios and these scenarios are based upon the Policy set out on pages 76 to 82. The information presented below uses the level of salary, benefits and pension entitlements for each of the Executive Directors as at 1 January 2021.

Base salaries for 2021: CEO – £468,280 and CFO –£379,635. 2020 benefits of £5,047 and £6,021, respectively, and a pension allowance of 6% of salary for the CEO and 10% of salary for the CFO have been assumed.

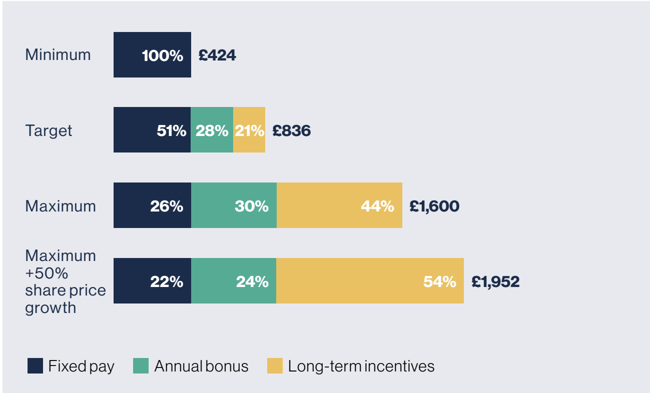
Below target remuneration receivable – this scenario assumes that there is no annual bonus payment and no awards under the LTIP vest.

On-target remuneration receivable – this scenario assumes that the Executive Directors receive a bonus payout of 67.5% (CEO) or 62.5% (CFO) of salary (i.e. 50% of maximum award) and that LTIP awards worth 46.25% of salary at grant would ultimately vest.

CEO (£000)



CFO (£000)



Stretch remuneration receivable – this scenario assumes that the Executive Directors receive a maximum bonus payout of 135%/125% (CEO/CFO) of their salary and that a maximum LTIP award of 185% of salary would ultimately vest.

Stretch remuneration receivable plus 50% share price growth – this scenario assumes that the Executive Directors receive a maximum bonus payout and that a maximum LTIP award of 185% of salary would ultimately vest with a 50% share price growth.

The actual amounts earned by Executive Directors under these scenarios will depend on actual Group and share price performance over the vesting period. For simplicity, the value of participating in the Group's all-employee share schemes has also been ignored.

Other remuneration policies

Termination and loss of office payments

The Group's policy on remuneration for Executive Directors who leave the Group is consistent with general market practice and is set out below. The Committee will exercise its discretion when determining amounts that should be paid to leavers, taking into account the facts and circumstances of each case. When calculating termination payments, the Committee will take into account a variety of factors, including individual and Group performance, the length of service of the Executive Director in question and, where appropriate, the obligation for the Executive Director to mitigate loss.

In the case of a "good leaver", the following policy will normally apply:

- notice period of twelve months and pension and contractual benefits, or payment in lieu of notice;
- statutory redundancy payments will be made, as appropriate;
- Executive Directors have no entitlement to a bonus payment in the event that they cease to be employed by the Group; however, they may be considered for a pro-rated cash award by the Committee in good leaver circumstances;
- the rules of the LTIP and DSBP contain provisions setting out the treatment of awards where a participant ceases to be employed by the Group. Other than in good leaver circumstances, awards will normally lapse. In the event of a participant's death, retirement, ill health, injury, disability, redundancy, the sale of the employing company or business out of the Group or for any other reason, at the discretion of the Committee, awards will not be forfeited but will instead normally vest on the original vesting date. Vesting in these circumstances will be subject to the satisfaction of the relevant performance conditions measured at that time and time pro-rating in the case of LTIP awards. DSBP awards will normally vest in full at the original vesting date. In exceptional circumstances, the Committee may allow the awards to vest on cessation of the participant's employment, subject to the satisfaction of the performance conditions measured at that time and time pro-rating in the case of LTIP awards. In either case, the Committee can decide to disapply time pro-rating, if it thinks it is appropriate to do so in the particular circumstances;
- any other share-based entitlements granted to an Executive Director under the Group's share and share option plans will be determined based upon the relevant plan rules; and
- the Committee may also provide for the leaver to be reimbursed for a reasonable level of legal fees in connection with a settlement agreement and may make a contribution towards outplacement costs.

In circumstances in which a leaving Director may be entitled to pursue a legal claim, the Group may negotiate settlement terms if it considers this to be in the best interests of the Group and, with the approval of the Committee on the remuneration elements therein, enter into a settlement agreement.

Executive Directors' service contracts

It is the Group's policy that Executive Directors should have contracts with an indefinite term and which provide for a maximum period of twelve months' notice. The Executive Directors may accept outside appointments, with prior Board approval, provided that these opportunities do not negatively impact on their ability to fulfil their duties to the Group. Whether any related fees are retained by the individual or are remitted to the Group will be considered on a case-by-case basis. In accordance with the Code all Executive Directors are subject to annual re-election at each AGM.

Remuneration policy continued

Remuneration philosophy and Policy continued

Other remuneration policies continued

Non-Executive Directors' terms of engagement

All Non-Executive Directors have specific terms of engagement which are terminable on not less than three months' notice by either party and not less than six months' notice in the case of the Chair. The remuneration of Non-Executive Directors is determined by the Board within the limits set by the Articles of Association and based on a review of fees paid to non-executive directors of similar companies. In accordance with the Code all non-executive directors are subject to annual re-election at each AGM.

The dates of appointment of each of the Directors serving at 31 December 2020 are summarised in the table below.

	Date of contract or date of appointment
Executive Directors	
W Downie	7 November 2019
P Fry	22 October 2018
Non-Executive Directors	
P-O Andersson	1 April 2015
B F J Angelici	1 December 2013
J Hecht	31 December 2020
K Matthews	29 March 2019
J Thoma	31 December 2020
J Thompson	1 December 2017
T Werner	10 June 2016

The Code requires that boards undertake regular externally facilitated evaluations and, as a minimum, no less than every three years. In 2020 the Board undertook an external independent Board evaluation performed by Independent Audit Limited (IAL), following which the Board determined that all Non-Executive Directors were regarded as independent, including Dr Thomas Werner, who was previously a non-executive director of Skyepharma plc and who has service greater than nine years. Notwithstanding his length of service, Dr Werner is considered by the Board to be independent in both character and judgement and there has been significant Board refreshment during his tenure. As reported in the Nomination Committee report on page 65, Dr Werner will be stepping down from the Board by the 2021 AGM. Further details of the evaluation are contained in the Corporate governance statement on page 62.

Remuneration for new appointments

Where it is necessary to recruit or replace an Executive Director, the Committee has determined that the new Executive Director will receive a compensation package in accordance with the provisions of the prevailing Policy.

In setting base salaries for new Executive Directors, the Committee will consider the existing salary package of the new Executive Director and the individual's level of experience. Where it is appropriate to offer a below-median salary on initial appointment, the Committee will have the discretion to allow phased salary increases over a period of time for a newly appointed Executive Director, even though this may involve increases in excess of inflation and the increases awarded to the wider workforce.

In setting the annual bonus, the Committee may wish to set different performance metrics (to those of other Executive Directors) in the first year of appointment.

The Committee wishes to retain the ability to make buyout awards to a new Executive Director to facilitate the recruitment process. The amount of any such award would not exceed the expected value being forfeited and, to the extent possible, would mirror the form of payment, timing and degree of conditionality, etc. Where awards are granted subject to performance conditions, these would be relevant to the Group.

Any such award would only be made in exceptional circumstances and shareholders would be informed of any such payments at the time of appointment. Share-based awards would be made using the existing share plans, where possible, although the Committee may also use the flexibility provided under the Listing Rules to make awards without prior shareholder approval.

In respect of internal appointments, any commitments entered into in respect of a prior role, including variable pay elements, may be allowed to pay out according to the relevant prior terms.

For external and internal appointments, the Committee may consider it appropriate to pay reasonable relocation or incidental expenses, including payment of reasonable legal expenses. Tax equalisation may be considered if an Executive Director is adversely affected by taxation due to their employment with the Group.

The terms of appointment for a Non-Executive Director will be in accordance with the Policy for Non-Executive Directors as set out in the Policy table on page 79. This was the case with the appointment of Jeanne Hecht and Jeanne Thoma in December 2020.

Consideration of employment conditions elsewhere in the Group

Whilst the Committee did not consult directly with employees regarding the Policy, the Committee considered the general base salary increase for the wider employee workforce when determining the annual salary increases and remuneration packages for the Executive Directors. Accordingly, the Committee confirms that the Policy has been designed with due regard to the policy for remuneration of employees across the Group.

The remuneration of senior executives below Board level is reviewed by the Committee on an annual basis. The remuneration packages of these senior executives are consistent with the Policy outlined earlier, save that lower bonus percentages ranging from 50% to 75% of salary and lower LTIP opportunities are made, in part as nil-cost options and in part as restricted stock vesting after three years. Variable pay elements for senior executives are driven principally by market comparatives and the overall impact of the role the individual holds at Vectura. Long-term incentives are provided to those individuals identified as having significant potential to influence Group performance.

All employees are rewarded with a remuneration package that includes certain key benefits such as life assurance, permanent health insurance, private medical insurance, access to the pension scheme and participation in Vectura's all-employee share schemes and many have eligibility to receive a bonus. The bonus scheme for Executive Directors and employees is designed to reward performance, and all individuals are required to achieve challenging personal goals.

How shareholders' views are taken into account

The Committee takes seriously shareholders' views and voting on the Report. In developing the Policy, the Committee engaged directly with major shareholders and their representative bodies and was grateful for the 95.44% support received in support of the Policy at the 2020 AGM. The Committee will continue to engage directly with major shareholders and their representative bodies should any material changes to the Policy be proposed.

Annual report on remuneration

Annual remuneration report

Governance

The Committee met seven times during the year ended 31 December 2020. Full details of attendance can be found on page 53.

The Committee consists entirely of independent Non-Executive Directors, details of which can be found on page 71. Following the AGM on 27 May 2020, Dr Kevin Matthews took over from Juliet Thompson as Chair, Dr Thomas Werner stepped down from all Board Committees and Neil Warner stepped down as a Non-Executive Director.

In September, Dr Per-Olof Andersson joined the Committee and Anne Whitaker stepped down as a Non-Executive Director on 30 September 2020.

In accordance with the requirements of the Code, the Board has confirmed that Bruno Angelici was independent upon his appointment to the Board. No conflicts of interest with respect to the work of the Committee have arisen during the period and none of the members of the Committee have any personal financial interest in the matters discussed, other than as shareholders. The fees of the Non-Executive Directors are determined by the Board on the joint recommendation of the Chair and the CEO. The fees of the Chair are determined by the Committee.

The Committee is formally constituted and operates on written terms of reference, which are modelled on the Code and are available on Vectura's website (www.vectura.com). These were reviewed and supplemented with an internal authority matrix, in order to maintain good oversight of the remuneration practices within the business. This also enabled the business to become more efficient when managing remuneration matters, particularly below ELT level, such as the administration of all employee share awards and joiner and leaver packages.

Advice to the Committee

The Committee takes account of information from both internal and independent sources. During the year it received advice from Aon Rewards Solutions (Aon plc's executive remuneration consultancy). Following the decision by Aon to cease UK remuneration committee advisory services, the lead advisor moved to Alvarez & Marsal Taxand LLP (A&M) and, on 1 June 2020, the Committee appointed A&M as external advisor to the Committee. A&M advises on all aspects of Vectura's Policy and review Vectura's remuneration structures against corporate governance best practice. Aon continues to provide support to the Company with the monitoring of TSR performance for the LTIP, non-Board benchmarking and salary surveys. As reported on page 73 the Committee conducted a formal review of its remuneration advisor in the second-half of 2020. As a result of this review Deloitte LLP will be appointed as the Committee's advisor following the AGM on 27 May 2021.

Aon and A&M are members of the Remuneration Consultants Group and comply with its Code of Conduct, which sets out guidelines to ensure that its advice is independent and objective. The Committee reviews the performance and independence of its advisor on an annual basis. During the period, Vectura incurred fees of £108,818 (plus VAT) from Aon, which included £76,856 of fees in support of the Committee's annual agenda and £9,870 of ad hoc project-based work. In addition to its support to the Committee, Aon provided support in relation to share plans and IFRS 2 and CEO pay ratio calculations to the Committee, the fees for which amounted to £22,092. During the period, it incurred fees of £8,708 from A&M.

The Group's Executive Vice President – Human Resources provides updates to the Committee, as required, to ensure that the Committee is fully informed about pay and performance issues throughout the Group. The Committee takes these factors into account when determining the remuneration of the Executive Directors and senior executives. The CEO and CFO also attend at the Committee's request but do not participate in discussions regarding their own individual remuneration.

Annual report on remuneration continued

Audited information

Directors' remuneration – financial year ended 31 December 2020

The total remuneration of the individual Directors who served during the period is shown below. Total remuneration is the sum of emoluments plus Group pension contributions, and the value of long-term incentive awards vesting by reference to performance in the twelve months to 31 December 2020.

	Year	Basic salary[a] £000	Benefits[b] £000	Bonus[c] £000	LTIP[d] £000	Pension entitlements[e] £000	Other[f] £000	SIP awards[g] £000	Total fixed remuneration £000	Total variable remuneration £000	**Total remuneration £000**
Executive Directors											
W Downie[1]	**2020**	**460**	**5**	**495**	**—**	**28**	**—**	**2**	**493**	**497**	**990**
	2019	68	1	71	—	5	—	—	74	71	145
P Fry[2]	**2020**	**373**	**6**	**372**	**174**	**56**	**—**	**4**	**434**	**550**	**984**
	2019	367	6	366	—	68	—	2	441	368	809
Non-Executive Directors											
B F J Angelici	**2020**	**158**	**11**	**—**	**—**	**—**	**—**	**—**	**169**	**—**	**169**
	2019	150	60	—	—	—	—	—	210	—	210
P-O Andersson[3, 4]	**2020**	**57**	**3**	**—**	**—**	**—**	**4**	**—**	**64**	**—**	**64**
	2019	54	12	—	—	—	6	—	72	—	72
T Werner[5]	**2020**	**61**	**4**	**—**	**—**	**—**	**—**	**—**	**65**	**—**	**65**
	2019	52	11	—	—	—	—	—	63	—	63
J Thompson	**2020**	**61**	**1**	**—**	**—**	**—**	**—**	**—**	**62**	**—**	**62**
	2019	58	5	—	—	—	—	—	63	—	63
K Matthews[6]	**2020**	**58**	**1**	**—**	**—**	**—**	**—**	**—**	**59**	**—**	**59**
	2019	38	2	—	—	—	—	—	40	—	40
J Hecht[7]	**2020**	**0**	**—**	**—**	**—**	**—**	**—**	**—**	**0**	**—**	**0**
	2019	—	—	—	—	—	—	—	—	—	—
J Thoma[8]	**2020**	**0**	**—**	**—**	**—**	**—**	**—**	**—**	**0**	**—**	**0**
	2019	—	—	—	—	—	—	—	—	—	—
N W Warner[9]	**2020**	**25**	**2**	**—**	**—**	**—**	**—**	**—**	**27**	**—**	**27**
	2019	58	5	—	—	—	—	—	63	—	63
A Whitaker[3, 10]	**2020**	**39**	**2**	**—**	**—**	**—**	**—**	**—**	**41**	**—**	**41**
	2019	50	8	—	—	—	4	—	62	—	62
Total	**2020**	**1,292**	**35**	**867**	**174**	**83**	**4**	**5**	**1,414**	**1,047**	**2,461**
	2019	895	111	438	—	72	10	2	1,089	440	1,528

1 W Downie joined the Board on 7 November 2019.

2 P Fry was Interim CEO from 1 July 2019 until 6 November 2019. At that time, his base salary was temporarily increased from £339,020 to £420,000 before it returned to £339,020 when he resumed his role as CFO. For 2019, his bonus maximum as CFO was 125% of his base salary (pro-rated for time served as CFO) and his bonus maximum as Interim CEO was 135% of his base salary (pro-rated for time served as Interim CEO).

3 US based NEDs received a £2,000 allowance for each Board meeting that requires transatlantic travel and these amounts are shown as "Other" in the table above.

4 P-O Andersson receives an additional £4,000 a year in relation to his role as designated workforce engagement NED.

5 T Werner became Senior Independent Director on 1 October 2019.

6 K Matthews joined the Board on 29 March 2019.

7 J Hecht joined the Board on 31 December 2020.

8 J Thoma joined the Board on 31 December 2020.

9 N Warner stepped down on 27 May 2020.

10 A Whitaker stepped down on 30 September 2020.

Notes to the remuneration table

(a) This is the amount earned in respect of the financial period.

(b) This is the taxable value of benefits paid or payable in respect of the financial period. These benefits typically relate to death, disability and medical insurance.

(c) This is the total bonus earned under the annual bonus scheme in respect of the financial year.

(d) The amount shown relates to the market value of LTIP awards whose performance period ended during 2020. Refer to page 87 for details of 2020 LTIP awards. Over the performance period the share price increased, from £0.742 at grant on 22 October 2018 to £1.09, which was the average share price over October, November and December 2020; this has resulted in an increase in value of the vesting shares of around £55,644. As the award will not vest before the publication of this Report and therefore the value at vesting will not be known, the value will be restated next year in the single figure table when the share price at vesting is known.

(e) UK tax legislation imposes penalty taxes on annual pension contributions where prescribed maximum amounts are exceeded. The Committee has previously determined that impacted Executive Directors would receive pension benefits limited to the prescribed maximum amounts and an additional taxable supplementary cash payment equal to the cost to the Group of the pension benefit forgone. The amount of the allowance awarded to any Executive Director so impacted has been set by the Committee so that there is no additional cost to the Group resulting from this arrangement.

(f) This relates to transatlantic travel allowances; refer to note 3.

(g) The benefit of the SIP awards is calculated as the number of shares awarded multiplied by the share price on the date of the award.

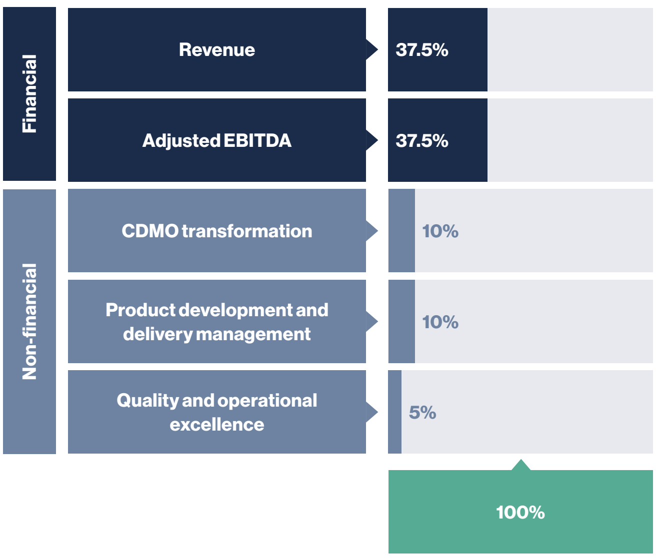
Additional requirements in respect of the single total figure table of remuneration (audited information)

Performance-related pay earned in the year to 31 December 2020

Annual bonus

Performance objectives are established at the beginning of the financial period by reference to suitably challenging corporate and personal goals. The scheme is offered to many staff below Board level and maximum bonus opportunities range from 10% to 75% of salary, depending on grade. Bonus payments are not pensionable. The Committee has consistently sought to set stretching corporate goals, including financial measures, development pipeline progress, partnering successes and control of cash expenditure, which are weighted towards goals with the highest corporate significance. In addition, a significant percentage of the bonus potential is set against challenging personal objectives which are linked to the overall business strategy.

For 2020, the Executive Directors were measured against a scorecard of financial and non-financial objectives, as follows:



The maximum bonus opportunity was 135% of base salary for Will Downie and 125% of base salary for Paul Fry.

Annual report on remuneration continued

Additional requirements in respect of the single total figure table of remuneration (audited information) continued

The Committee assessed the metrics as follows:

Financial metrics

Each year, the Committee sets targets for the bonus which are considered stretching in the context of the business plan for the year. Revenue and Adjusted EBITDA in 2020 have continued to show good growth. The targets for 2020 were again based on the business plan with reference to broker consensus forecasts. Actual performance for revenue was above the mid-point of the target range and Adjusted EBITDA was at maximum.

		Threshold								Maximum	Actual
Revenue (37.5% weighting)	Revenue (£m)	166.9	171.4	175.9	180.4	184.9	189.4	193.9	198.4	203.0	190.6
	% of bonus	20%	30%	40%	50%	60%	70%	80%	90%	100%	72.7%
Adjusted EBITDA (37.5% weighting)	Adjusted EBITDA (£m)	39.4	41.8	44.3	46.7	49.2	51.7	54.1	56.6	59.04	61.6
	% of bonus	20%	30%	40%	50%	60%	70%	80%	90%	100%	100%
Total		**16%**	**23%**	**30%**	**38%**	**45%**	**53%**	**60%**	**68%**	**75%**	**64.7%**

Payouts for performance between each point are determined by straight line interpolation.

Non-financial metrics

Performance measure	Weighting	Targets	Level of bonus awarded as a % of metric (% of full bonus)	Commentary
Company transformation into a successful CDMO organisation	10%	Revenue from new CDMO business: ≥£5m = 10% ≥£4m = 7.5% ≥£3m = 5% <£3m = 0%	0%	During the first six-months of 2020, the Group signed four new CDMO contracts, with a further 14 contracts signed in the second half of the year. These contracts began to contribute to revenues during the second half of the financial year, delivering just under £3.0m revenue in total.
Drive product development and delivery management excellence	10%	Timely execution of key priorities within the technology roadmap: Targets here focused on the development and production of FOX® Generation 1 units to be able to meet actual and emerging customer demand as the CDMO model builds.	10%	The Group made a number of important developments in its FOX® platform allowing it to meet the needs of customers in 2020, including beginning work on a number of new CDMO customer contracts and a ramp up in the number of devices manufactured. These developments had an important impact on securing and delivering new revenues in 2020, and will have an increased impact in 2021.
Drive quality and operational excellence	5%	80% of deliveries which are On Time In Full (OTIF).	5%	Target exceeded.
		85% corrective and preventive actions (CAPAs) closed on time.		Target met.
		Zero critical quality audit findings.		Target met.
Total	**25%**		**15%**	

As described in the Committee Chair's opening statement, the Committee reviewed the product development and delivery management element of the scorecard during the course of the year and exercised its discretion to remove an objective related to the installation of an enhanced DPI manufacturing capability to reflect the Board's decision to prioritise the FOX® nebuliser platform and delivery. This decision was taken to avoid incentivising a significant level of activity directed at achieving a goal that was no longer a priority for the business and which would have distracted management from prioritising other equally challenging activities that supported the business development efforts. The weighting assigned to this goal was reapportioned between the two other product development and delivery management goals which related to the nebuliser platform. The Committee confirms that following this change, the goals were no less stretching in the circumstances than the original goals.

Non-financial metrics continued

The Committee also reviewed the formulaic outcome of the scorecard particularly in light of the COVID-19 pandemic and concluded that the scorecard outcome, as shown on the previous page, reflected the performance of the Executive Directors in the year. The Committee did not exercise discretion in determining the annual bonus outcome.

The resulting annual bonus awards under the Policy, i.e. 75% of bonus awards payable in cash and 25% of any bonus deferred into shares for two years, are as follows:

	Bonus scorecard outcome	Actual % of maximum	Maximum opportunity % of salary	Actual % of salary	Total cash % of salary	Total value of shares % of salary
W Downie	£495,185	79.7	135.0	107.6	80.7	26.9
P Fry	£371,710	79.7	125.0	99.7	74.8	24.9

It is intended that the awards under the Deferred Bonus Scheme will be granted at the same time as bonus payments for the wider workforce.

LTIP scheme

Scheme interests vested during the period

An award of LTIP options was granted to Paul Fry on 22 October 2018 in respect of forfeiture of awards from his former employment and linked to Vectura performance. This award has a performance period of three years ending 31 December 2020 and is due to vest on 22 October 2021. The performance conditions were the same as LTIP awards granted to Executive Directors in office on 22 March 2018. Performance has been assessed by the Committee as set out below:

Measure	Threshold[1] 15%	Maximum[1] 100%	Actual	Vesting
TSR against constituents of the FTSE 250 companies (excluding real estate and financial services) (50% of award)	Median (12.2%)	Upper quartile 21.5%	8.8%	68.8%
Cumulative adjusted growth in Adjusted EBITDA (50% of award)	£120m	£155m	£143.9m	73.0%

1 Linear vesting between these points.

As a result of this vesting outcome, the Committee has determined that 70.9% of the total LTIP award will vest to Paul Fry, as set out below:

Director	Type of award	Vesting date	Number of options awarded	Percentage of award vested	Exercise price p	Value of LTIP awards vesting[1] £
P Fry	Buyout of Immunocore award (2018 LTIP award)	22 October 2021	225,741	70.9%	nil	174,287
Total						**174,287**

1 As the award will not vest before the publication of this Report and therefore the value at vesting is not known, these awards have been valued using the average share price over the last three months of 2020 of £1.09. The value will be restated next year in the single figure table when the share price at vesting is known.

On 1 August 2016, an award of LTIP options was made to the Executive Directors who were in office at that time. The awards are subject to relative TSR, measured over three tranches over three or five years, against two comparator groups (each representing 50% of the total award).The first tranche comprised 40% of the award and lapsed on 1 August 2019 (with performance measured up to 31 December 2018). The second and third tranches comprise the remaining 60% of the award (40% for the standard five-year award and 20% for the "kicker" award) and are due to vest on 1 August 2021 (with performance measured up to 31 December 2020). Vesting of the second tranche of this award was calculated as follows:

Measure	Threshold[1] 15%	Maximum[1] 100%	Actual	Vesting
TSR against constituents of the FTSE 250 companies (excluding real estate and financial services) (50% of award)	Median 19.2%	Upper decile 227.4%	(34.5%)	0%
TSR against selected European pharmaceutical companies (50% of award)[2]	Median 52.5%	Upper decile 418.4%	(34.5%)	0%

1 Linear vesting between these points.

2 The full European pharmaceutical comparator group used for these awards is Ablynx NV., ALK-Abelló A/S, Almirall SA, arGEN-X N.V, Basilea Pharmaceutica AG, BTG plc, Circassia Limited, Clinigen Group Plc, Consort Medical, Cosmo Pharmaceuticals S.p.A., DBV Technologies S.A., Evotec AG, Faes Farma, Genmab A/S, Hikma Pharmaceuticals PLC, Indivior PLC, Molecular Partners AG, Morphosys AG, Orion Oyj, Pharma Mar, Recipharm AB (publ), Recordati SpA, Stada-Arzneimittel AG, Stallergenes Swedish Orphan Biovitrum AB, Vernalis plc and Zealand Pharma.

The vesting of the third tranche of this award required Vectura TSR to exceed the upper decile of the two comparator groups set out above. However, as shown in the table above, Vectura's TSR over the performance period was below the median level and vesting is therefore 0%.

No current Executive Directors have a 2016 LTIP award. For good leavers, awards were pro-rated and remained subject to the above performance conditions and will therefore lapse as a result of the above.

Remuneration

Annual report on remuneration continued

Additional requirements in respect of the single total figure table of remuneration (audited information) continued

Scheme interests awarded during the period (audited)

Long-Term Incentive Plan (LTIP)

In determining the level of awards to be granted in 2020, the Committee considered carefully the share price performance of the Company over the prior twelve months, which has increased by more than 25% since the 2019 awards were granted. Awards of nominal cost options at the normal maximum level permitted by the Policy were therefore granted to the Executive Directors under the LTIP on 1 June 2020:

Director	Date of grant	Number of options awarded	Value of award % of salary	Share price used to determine level of award p per share[1]	Face value £	Exercise price p per share	% that vests at threshold	End of performance period[2]
W Downie	1 June 2020	933,421	185.0%	91.17	851,000	0.0271	25	31 December 2022
P Fry	1 June 2020	756,724	185.0%	91.17	689,906	0.0271	25	31 December 2022
Total		**1,690,145**			**1, 540,906**			

1 The share price used for awards made on 1 June 2020 was the average price of the three business days preceding the award date.

2 Details of the relevant performance conditions are set out below.

The awards set out above, which were granted on 1 June 2020, are subject to relative TSR and cumulative growth in Adjusted EBITDA, measured over three years (each representing 50% of the total award), as set out in the table below:

Proportion of total award	Performance period	Measure	Threshold[1] 25%	Intermediate goal[1] 80%	Maximum[1] 100%
50%	3 years	Relative TSR against FTSE 250 companies (excluding real estate and financial services)	Median	n/a	Upper quartile
50%	3 years	Cumulative growth in Adjusted EBITDA	£115m	£126m	£160m

1 Linear vesting between these points.

Performance against the TSR condition will be measured by the Committee's independent advisor.

The Committee carefully considered the level of the cumulative EBITDA targets in light of the market expectations of Vectura performance over the 2020–2022 period. The 2020 EBITDA target levels are considered to have been made more stretching than the equivalent targets set for 2019, as the 2020 targets reflect the shift in the expected revenue and EBITDA profile in the periods 2019–2021 and 2020–2022 in line with consensus. Given that change in the EBITDA profile of the business, a stretch intermediate goal was set representing exceptional performance, with maximum set at a further significant stretch above that goal.

Irrespective of the extent to which the conditions have been met, the Committee may decrease the percentage vesting based on a range of factors, including the Group's performance, absolute shareholder returns and progress against milestones. Any exercise of this discretion by the Committee will be fully disclosed to shareholders with an explanation of the Committee's reasoning in the report for the relevant year.

To the extent that performance conditions are not met in full at the end of the three-year performance period, awards lapse.

The Committee has the power to claw back and/or apply a malus mechanism in respect of all or part of the awards/payments for one year following vesting as set out in our Policy.

Deferred annual bonus

As reported in last year's report, Will Downie received a bonus equivalent of 104% of salary for 2019. As required under the previous policy any award over 100% is deferred into shares with a two year vesting period. This was awarded on 24 April 2020 in line with bonus payments to the wider workforce.

Director	Date of grant	Number of options awarded	Value of award % of salary	Share price used to determine level of award p per share[1]	Face value £	Exercise price p per share	% that vests at threshold	Vesting date
W Downie	24 April 2020	4,263	4.4%	69.88	2,979	nil	100	24 April 2022
Total		**4,263**			**2,979**			

1 The share price used for award was the average MMQ for the five days commencing the dealing date immediately following the announcement of the Company's 2020 results.

Buyout of entitlements at previous employer for new joiners

No buyout awards were made in 2020.

SIP – free share awards

An award of free shares was made to all employees on 29 May 2020 under the SIP. The awards are pro-rated for service under one year at the date of award, are subject to a three-year holding period and no performance conditions are attached, except for continued employment. The awards made to Executive Directors are shown in the table below:

Director	Number of shares awarded	Closing share price on day before grant p	Face value £	% that vests at threshold	Vesting date
W Downie	1,975	91.1	1,800	100	29 May 2023
P Fry	3,951	91.1	3,600	100	29 May 2023
Total	**5,926**		**5,400**		

SAYE

The SAYE is open to employees including Executive Directors. Under this scheme all eligible employees are invited to subscribe for options, which may be granted at a discount of up to 20% to market value and which vest after three or five years. The SAYE is an HMRC-approved all-employee plan to which performance conditions do not apply. No SAYE options vested for Executive Directors during the year.

Total pension entitlements

As stated in the notes to the single figure remuneration table, UK tax legislation imposes penalty taxes on annual pension contributions where prescribed maximum amounts are exceeded. Impacted Executive Directors receive an additional taxable supplementary cash payment in lieu of pension contributions in excess of any limits.

	Received in cash £000	Received as pension £000
Executive Directors		
W Downie	28	—
P Fry	56	—
Total	**84**	**—**

Outside directorships

Will Downie did not hold an outside directorship during 2020. Paul Fry is a non-executive director of AIM-listed Avacta Group plc, a developer of Affimer® biotherapeutics and reagents. He is also its audit committee chair.

Payments made for loss of office and payments to past Directors (audited information)

As disclosed last year, James Ward-Lilley stepped down as CEO in June 2019 and in accordance with his service contract and the Policy received payment in lieu of notice in three equal tranches. The final payment was made in February 2020. Further details can be found in last year's report. There were no other payments to past Directors.

Statement of Directors' shareholdings and share interests (audited information)

As a direct link between Executive Director remuneration and the interests of shareholders, the Committee has shareholding guidelines for Executive Directors. Executive Directors are required to build up and maintain an interest in Vectura shares of 200% of base salary. The value of the shareholding shown on page 90 is assessed using the share price on 31 December 2020, being 124.6p. Base salary is as at 1 January 2021.

Executive Directors are required to retain at least half of any share awards exercised (after the sale of shares to cover any tax due and subject to the two-year holding requirements) until they reach the guideline level. During the year, Paul Fry exercised his option in respect of a buyout award of forfeitable shares, with the appropriate number of shares sold to cover the tax and national insurance liability. 100% of the remaining shares have been retained. No further exercise of options took place in the year or in the previous year by the Executive Directors.

The CEO currently holds 0% as a percentage of salary (excluding unvested options) and the CFO holds 39.2%. The Committee will keep under review a plan for building the Executive Directors' shareholdings in the Group to ensure that they meet the 200% requirement within, or close to, five years from the date of their appointment.

Annual report on remuneration continued

Additional requirements in respect of the single total figure table of remuneration (audited information) continued

The Directors who have held office during the year ended 31 December 2020 and their interests (in respect of which transactions are notifiable to the Group under the Financial Conduct Authority's rules) in the share capital of Vectura at 31 December 2020 are shown in the following tables.

As at 17 March 2021 (the latest practicable date prior to publication of this report), the serving Directors of the Company had a beneficial interest in an aggregate of 557,221 ordinary shares, representing 0.1% of the Company's total voting rights.

	31 December 2020 ordinary shares of £0.0271 each	Value of shares (excluding unvested shares) as a % of salary[5]	Unvested and subject to continued employment only[6]	Unvested and subject to performance conditions
Executive Directors				
W Downie	**—**	—	6,238	933,421
P Fry	**119,429**	39.2%	6,614	1,847,431
Non-Executive Directors				
B F J Angelici	**219,602**	—	—	—
P-O Andersson	**46,153**	—	—	—
T Werner	**114,776**	—	—	—
K Matthews	**12,000**	—	—	—
J Thompson	**45,261**	—	—	—
J Hecht[1]	**—**	—	—	—
J Thoma[2]	**—**	—	—	—
N W Warner[3]	**28,132**	—	—	—
A Whitaker[4]	**—**	—	—	—

1 J Hecht joined the Board on 31 December 2020.

2 J Thoma joined the Board on 31 December 2020.

3 N Warner stepped down in May 2020. Shareholding shown as at this date.

4 A Whitaker stepped down in September 2020. Shareholding shown as at this date.

5 The share price used to calculate share value was 124.6p per share as at close of business on 31 December 2020.

6 DSBP and SIP options.

	LTIP awards subject to performance conditions			Deferred bonus awards	Share option awards not subject to performance conditions	
	Unvested			Unvested	Unvested	Vested
	2018 award[1]	2019 award[2]	**2020 award[3]**	**2020 award[4]**	SIP[5]	SIP
W Downie	—	—	**933,421**	**4,263**	1,975	—
P Fry	225,741	864,966	**756,724**	**—**	6,614	—

1 The 2018 awards are subject to performance conditions measured over three years from 1 January 2018. Vesting of 50% of the awards is dependent on relative TSR performance against FTSE 250 (excluding financial services and real estate sector companies) and the remaining 50% based on cumulative three-year growth in adjusted EBITDA. For P Fry, this is the award granted under the LTIP on 22 October 2018, which is subject to the same performance conditions as the 2018 LTIP award. In accordance with the outcome of the performance conditions as outlined on page 87, 70.9% of the 2018 option will vest.

2 The 2019 awards are subject to performance conditions measured over three years from 1 January 2019. Vesting of 50% of the awards is dependent on relative TSR performance against the FTSE 250 (excluding financial services and real estate sector companies) and the remaining 50% based on cumulative three-year growth in adjusted EBITDA.

3 The 2020 awards are subject to performance conditions measured over three years from 1 January 2020. Vesting of 50% of the awards is dependent on relative TSR performance against the FTSE 250 (excluding financial services and real estate sector companies) and the remaining 50% based on cumulative three-year growth in adjusted EBITDA.

4 For W Downie, awards were granted on 24 April 2020. The award will vest two years from grant, subject to continued employment.

5 For W Downie, a SIP award was granted on 29 May 2020. For P Fry, SIP awards were granted on 30 May 2019 and 29 May 2020. The awards are subject to a three-year holding period with no performance conditions. Details of the 2020 awards can be found on page 89.

Unaudited information

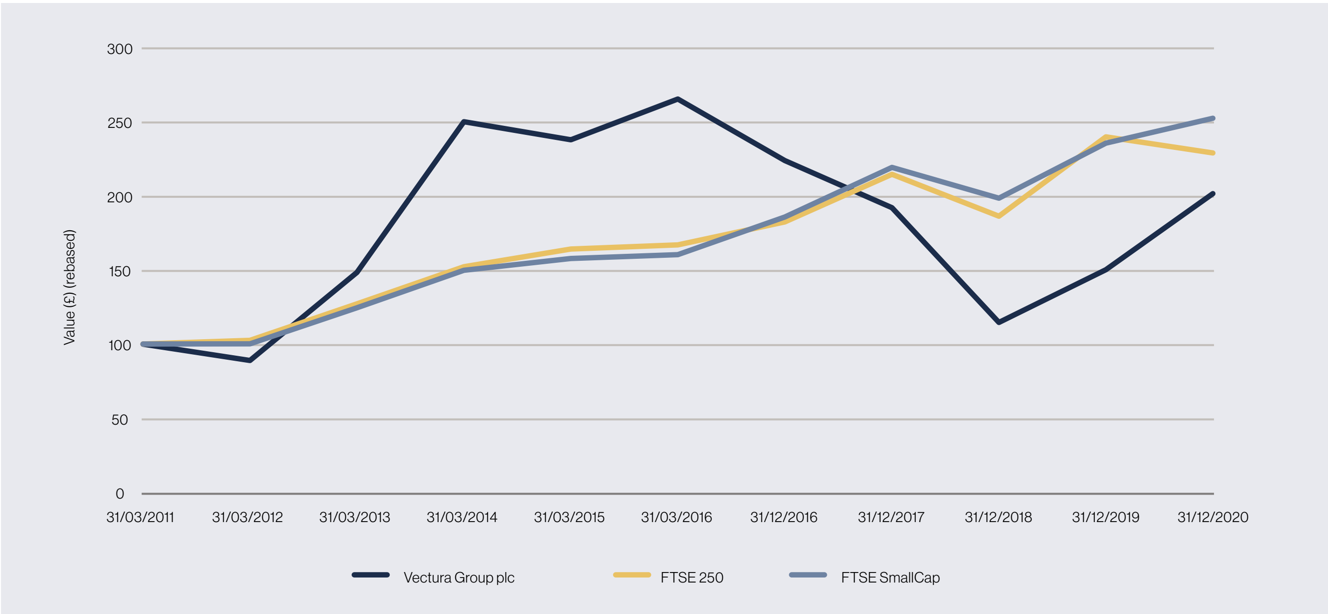
Performance graph and table

The following graph shows Vectura's cumulative TSR over the last ten financial years relative to the FTSE 250 index and the FTSE SmallCap index. These indices were chosen as Vectura is or was recently one of the constituent companies and the Committee considers that they remain the most appropriate against which to measure performance.

TSR is defined as the return on investment obtained from holding a company's shares over a period. It includes dividends paid, the change in the capital value of the shares and any other payments made to or by shareholders within the period.

Total shareholder return

Source: Datastream



Aligning pay with performance

CEO remuneration compared with annual growth in TSR:

					C Blackwell	J Ward-Lilley				J Ward-Lilley[2]	P Fry[2]	W Downie[2]	
	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2015/16 £000	2016[1] £000	2017 £000	2018 £000	2019 £000	2019 £000	2019 £000	**2020 £000**
CEO total remuneration	971	594	748	1,951	1,110	1,178	1,409	1,041	1,119	776	326	145	**990**
Actual bonus as a % of the maximum	53.0	59.0	100.0	80.0	—	92.0	99.5	60.0	70.0	77.3	77.3	77.3	**79.7**
Actual share award vesting as a % of the maximum[3,4]	100.0	—	—	100.0	50.0	100.0	75.0	—	—	24.1	—	—	**—**

1 Nine-month period.

2 Shows amounts for the three incumbents during 2019, namely J Ward-Lilley from 1 January to 30 June, P Fry from 1 July to 6 November, and W Downie from 7 November to 31 December 2019. The figure for J Ward-Lilley is restated to reflect the actual share price at vesting of his LTIP award (which was £0.8825, compared to an assumed share price of £0.8593).

3 No LTIP awards vested during FY 2012/13, FY 2013/14, FY 2017, FY 2018 or FY 2020 in respect of the CEO.

4 Upon appointment, J Ward-Lilley received nil-cost options, certain of which vested immediately and certain of which vested on the first anniversary of appointment subject to performance conditions. Refer to pages 98 and 99 of the Annual Report and Accounts for the financial year ended 31 December 2017 for further details.

Annual report on remuneration continued

Unaudited information continued

Percentage change in remuneration of the Directors and employees

Set out below is the change over the prior period in base salary, benefits, pension and annual performance bonus of the Directors and the Group's employees.

	Percentage change in:		
	Base salary/fees	**Benefits**	**Bonus**
Executive Directors			
W Downie[1]	**-4%**	**-37%**	**-1%**
P Fry	**+2%**	**+1%**	**+2%**
Non-Executive Directors			
B F J Angelici	**+5%**	—	—
P-O Andersson	**+5%**	—	—
T Werner	**+17%**	—	—
J Thompson	**+5%**	—	—
K Matthews	**+16%**	—	—
J Hecht[2]	—	—	—
J Thoma[2]	—	—	—
N Warner[3]	**+5%**	—	—
A Whitaker[4]	**+5%**	—	—
Employees of the parent company[5]	—	—	—
Employees of the Group	**+1.91%**	**+13%**	**+47.1%**

1 W Downie percentage change calculation uses the 2019 aggregated CEO single figure to ensure comparability.

2 J Hecht and J Thoma joined the Board on 31 December 2020.

3 N Warner stepped down in May 2020.

4 A Whitaker stepped down in September 2020.

5 The regulations require disclosure of the change in remuneration of the employees of the parent company. As the parent company did not employ any of the workforce in 2020, the percentage change in remuneration of all employees in the Group is shown.

Relative importance of Executive Director remuneration

Total revenue, research and development expenditure and adjusted EBITDA have been selected as comparators for the employee costs as these three financial measures are strong indicators of the activity within the Group and of its performance.

	FY 2019 £m	**FY 2020 £m**	Change £m
Total employee remuneration	42.9	**46.1**	3.2
Revenue	178.3	**190.6**	12.3
Research and development expenditure[1]	36.6	**23.8**	(13.1)
Adjusted EBITDA	43.4	**61.5**	18.1
Distributions to shareholders	39.9	**—**	(39.9)
Employee headcount as at 31 December 2020 (no. of heads)	480	**502**	22

1 The 2019 figure has been restated following a change in accounting policy. See note 30 of the financial statements.

CEO pay ratio

The following table shows the ratio between the total remuneration of the CEO and the median total remuneration of our UK employees. Employee total remuneration has been calculated using "Option A" of the published methodology.

Financial year ending	Methodology	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2020	Option A	25:1	17:1	11:1
2019[1]	Option A	31:1	23:1	14:1

1 The 2019 ratio has not been updated to reflect the restatement of the former CEO's LTIP award for the actual share price on vesting.

The above ratios have been calculated using the single figure for the CEO and the following statistics for our UK employees:

	CEO	25th percentile	50th percentile	75th percentile
Total salary	£460,000	£33,245	£44,659	£73,000
Total remuneration (single figure)	£989,632	£40,241	£56,801	£89,607

The above table sets out the ratios of the CEO single total figure of remuneration to the equivalent pay for the lower quartile, median and upper quartile UK employees (calculated on a full- time equivalent basis). The ratios have been calculated in accordance with the Companies (Miscellaneous Reporting) Requirements 2018 (the "Regulations"), which applied for the first time for Vectura's financial year beginning 1 January 2019 and are calculated for a second year. These pay ratios form part of the information that is provided to the Committee on broader employee pay policies and practices.

The Regulations provide flexibility to adopt one of three methods of calculation; the ratio has been calculated using Option A which is a calculation based on all UK employees on a full-time equivalent basis. To calculate the ratio, the total remuneration figure; comprising base salary, benefits, pension, bonus and long-term incentives and any one-off payments such as recognition awards or sign-on bonuses; for all UK employees was calculated for the year ending 31 December 2020, in line with the same reporting regulations that apply to the Executive Directors. Full-time equivalent figures are calculated on a pro-rated basis. All UK employees were ranked by their total remuneration as at 31 December 2020. From this the three individuals at the 25th, 50th and 75th percentiles (known as P25, P50 and P75, respectively) were identified. The single figures for the P25, P50 and P75 employees are known as Y25, Y50 and Y75, respectively. The CEO pay is as shown in the single total figure of remuneration table, on page 84.

Annual bonus has not been calculated using the statutory method for single-figure pay. Instead, it was calculated using target annual bonus values multiplied by the anticipated company performance for 2020 (and disregarding personal performance).

The reason for this is that the annual bonus results were not finalised in time to calculate the ratio. Based on a sample, the impact of estimated bonus figures rather than actual is expected to be limited.

The median ratio is consistent with Vectura's pay, reward and progression policies for employees which relate pay levels to performance and market benchmarks. All of our employees participate in bonus and share-based longer-term incentives in order to incentivise performance and create alignment with shareholders. Under our policy, in-line with practice in our sector the extent to which total pay is dependent on performance is linked to seniority, with more senior roles having higher levels of variable remuneration ensuring their pay is more dependent on company performance and has the greatest alignment with shareholders.

In 2020, 50% of the single figure for the position of Chief Executive was delivered through performance-related pay. The performance-related pay is directly linked to the Company's financial and operational performance. Each of the P25, P50 and P75 employees are eligible to receive an annual bonus and shares that are subject to service conditions and are invited to participate in the SIP and SAYE share schemes on the same terms as the CEO.

The decrease in the ratio is due a decrease in the remuneration of the CEO. The CEO was appointed in November at a lower salary than his predecessor. In addition, the CEO's total pay for 2020 does not include any vested LTIPs.

Statement of shareholder voting at 2020 AGM

At last year's AGM held on 27 May 2020, votes cast by proxy and at the meeting in respect of the Directors' remuneration were as follows:

	For (including discretionary votes)	Against	Total votes cast (excluding votes withheld)	Votes withheld[1]	Total votes cast (including votes withheld)
To approve the Directors' remuneration report	409,539,368	40,350,130	449,889,498	11,287,796	461,177,294
% of votes cast	91.03%	8.97%			
To approve the Directors' remuneration policy	425,327,027	24,521,735	449,878,762	11,298,334	461,177,096
% of votes cast	94.55%	5.54%			

1 A vote that is withheld does not constitute a vote in law and has not therefore been included in the totals above.

Annual report on remuneration continued

Unaudited information continued

Statement of implementation of Policy in 2021

Base salary

Base salaries increased by 1.8% for the Executive Directors, in line with the UK workforce:

- CEO: £468,280
- CFO: £379,635

Pension

- CEO: 6% of base salary
- CFO: reduced to 10% (from 15% in 2020 and 20% in 2019) of base salary and to be aligned with workforce by end of 2022

Annual bonus

The annual bonus maximum is 135% of salary for the CEO and 125% of salary for the CFO.

Performance measures for Executive Directors will include targets relating financial performance, growing the CDMO business and delivery of the CDMO transformation plan, with the following weightings:

- Adjusted EBITDA (50%)
- Revenue from CDMO business (30%)
- CDMO transformation objectives (20%)

The performance targets set for the above measures will be disclosed in Vectura's 2021 Annual Report and Accounts in accordance with the Policy set out on pages 76 to 82 of this Report.

LTIP

Awards granted in 2021 will normally consist of:

- a grant of performance shares, at a level to be determined by the Committee, taking into account the Group's recent share price performance and historical levels of grant;
- to be measured over three financial years based against the two following performance conditions:
  - 50% against relative TSR; and
  - 50% against growth in cumulative adjusted EBITDA.

Targets will be as follows:

Proportion of total award	Measure	Threshold[1] 25%	Maximum[1] 100%
50%	Relative TSR against FTSE 250 companies (excluding real estate and financial services)	Median	Upper Quartile
50%	Cumulative growth in adjusted EBITDA	£150m	£190m

1 Linear vesting between each point.

- 25% of the total award vesting at threshold/median performance, increasing to 100% vesting at stretch/upper quartile performance;
- on vesting, these awards will be subject to a further two-year holding period; and
- recovery and withholding conditions continue to apply.

Any changes to the metrics will be subject to consultation with major shareholders and disclosed at the time of grant.

Non-Executive Directors' fees

With effect from 1 January 2021, the Chair and Non-Executive Director fees have been increased by 1.6% in line with UK inflation and the average global workforce increase. This increase is also applied to the additional fees received by the designated workforce engagement NED, Dr Per-Olof Andersson.

	Fee
Chairman	£160,020
Designated workforce engagement NED	£57,607
Committee Chairs/SID[1]	£61,874
Other NEDs	£53,340

1 In the event that an individual holds a Committee chairmanship and holds the position of Senior Independent Director, they will receive an additional fee of £2,134, bringing the total maximum fee level to £64,008.

In addition, where a Non-Executive Director is required to undertake transatlantic travel to attend a Board meeting, an allowance of £2,000 is provided per trip.

On behalf of the Board

Kevin Matthews
Remuneration Committee Chair
17 March 2021

Directors' report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2020. The following additional disclosures are made in compliance with the Companies Act 2006 (the "Act"), the Disclosure Guidance and Transparency Rules (DTR) and the 2018 UK Corporate Governance Code (the "Code").

The Directors' report (the "Report") comprises these pages and the sections of the Annual Report detailed in the table on page 97, which are incorporated into this Report by reference.

Strategic report

The Act requires the Strategic report to be a balanced and comprehensive analysis of the development and performance of the Company's business during the financial year and the position of the Company's business at the end of that year, consistent with the size and complexity of the business. The Strategic report of the business of the Company and its subsidiaries is given on pages 2 to 47.

The Board has taken advantage of section 414C(11) of the Act to include disclosures in the Strategic report on those items indicated in the table at the end of this Report.

For the purposes of DTR 4.1, the required content of the management report can be found in the Strategic report and this Report, including the sections of the Annual Report incorporated by reference.

Corporate governance statement

DTR 7.2 requires certain information to be included in a corporate governance statement in the Directors' report. Information that fulfils these requirements can be found in the Corporate governance statement on pages 48 to 63 and are incorporated into this Report by reference.

Directors

The Directors who served during the period were Bruno Angelici, Will Downie, Paul Fry, Dr Thomas Werner, Neil Warner (resigned 29 May 2020), Dr Per-Olof Andersson, Juliet Thompson, Anne Whitaker (resigned 30 September 2020) and Dr Kevin Matthews. Jeanne Taylor Hecht and Jeanne Thoma were appointed to the Board on 31 December 2020. Biographies of the current Directors can be found on pages 50 and 51.

Capital structure

The Company has two classes of shares. Ordinary shares of 0.0271p, representing 99.99% of the total share capital (as at 17 March 2021, being the latest practicable date prior to publication) of the Company. Each ordinary share carries no right to fixed income and the right to one vote at general meetings of the Company. The ordinary shares are listed on the London Stock Exchange.

The Company also has redeemable preference shares of £1.00 each, representing 0.01% of the total share capital (as at 17 March 2021, being the latest practicable date prior to publication) of the Company. These shares are not listed on any exchange and carry no rights to dividend or other distribution. Holders have the right to receive notice of meetings and to attend, but not to vote at the same. The preference shares are held by Merlin General Partner II Limited.

Movements in the Company's issued share capital, listed on the London Stock Exchange, during the year are shown in note 26 "Ordinary share capital" on page 136.

Details of employee share schemes are set out in note 27 "Share-based payments" on page 136. Shares were issued and allotted during the period only in relation to the administration of the employee share plans. Shares held by the employee benefit trusts are not voted by the Trustees of each Trust.

The Directors have been authorised to issue and allot ordinary shares, pursuant to the Articles. These powers are referred to shareholders at each AGM for renewal.

Share capital – special rights and restrictions

Pursuant to the general provisions of the Articles and prevailing legislation, there are no specific restrictions on the size of a shareholding or on voting rights of holders of ordinary shares. The Directors are not aware of any restrictions on the transfer of ordinary shares in the Company other than certain restrictions which may from time to time be imposed by law and regulations, e.g. insider trading laws, and pursuant to the Listing Rules of the FCA whereby certain employees of the Company require the prior approval from the Company to deal in the Company's securities.

The Company is not aware of any agreements between shareholders that may result in restrictions on voting rights and the transfer of securities. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Substantial shareholdings

Other than as stated below, as far as we are aware, there are no persons with significant direct or indirect holdings in the Company. Information provided to the company pursuant to the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR 5) is published on a Regulatory Information Service and on the Company's website, www.vectura.com. The Company has received notifications in accordance with DTR 5 of the following notifiable interests in the voting rights in the Company's issued share capital:

	As at 31 December 2020		As at 12 March being the latest practicable date prior to publication	
	Number of ordinary shares	Percentage of voting rights and issued share capital[1]	Number of ordinary shares	Percentage of voting rights and issued share capital[1]
Ameriprise Financial, Inc. and its group	31,358,384	5.26	31,358,384	5.26
BlackRock Inc.	30,405,558	5.09	30,405,558	5.09
AXA Investment Managers[2]	33,770,412	5.07	33,770,412	5.07
Polygon Global Partners LLP[3]		Below 5%	29,988,816	5.03
Norges Bank	24,433,265	4.1	23,670,864	3.97

1 Percentage of total voting rights at the date of notification to the Company.

2 Notification received prior to 1 January 2020.

3 Notification received since 31 December 2020.

Directors' report continued

Results and dividends

The Group made a profit after tax for the year ended 31 December 2020 of £122.4m (2019: £22.1m loss). The Directors do not recommend payment of a final dividend (2019: final dividend £nil, payment of a special dividend of £40.0m was paid in October 2019).

Acquisition of the Company's own shares

The Company began a buyback programme in October 2019 and authority was given to purchase shares up to a value of £20m in two tranches, each of £10m. The first tranche was completed in March 2020. The second tranche began in June 2020 following a resolution proposed and passed at the 2020 AGM giving the Company authority to acquire ordinary shares, replacing the previous authority given in October 2019. The Directors used these authorities for the buyback only, and only after careful consideration, taking into account market conditions prevailing at the time, other investment opportunities, appropriate gearing levels and the overall position of Vectura.

The Company purchased 16,966,795 of its own ordinary shares at a total cost (excluding all expenses) of £16,462,116.69 in the year under review. The shares purchased between January and March were done so under the authority granted on 19 October 2019 and represented 1.18% of the issued share capital at the date of that authority. The shares purchased between June and September were done so under the authority granted on 27 May 2020 and represented 1.61% of the issued share capital at the date of that authority. The nominal value of the shares was 0.0271p per share and the weighted average price paid per share was 97.0255p. The purpose of the buyback was to reduce the share capital of the Company and all shares purchased were immediately cancelled.

Shares held in trust

As at 31 December 2020, there were 2,092,093 ordinary 0.0271p shares held by the Vectura Group Employee Benefit Trusts (EBTs) for the benefit of Group employees. These shares had a nominal value at 31 December 2020 of £567 and a market value of £2,352,768. The shares held by the EBTs may be used to satisfy share-based incentives for the Group's employee share plans. Of the shares currently held in the EBTs, 1,487,261 shares were purchased by the EBTs during the year to meet the award requirements of the Employee Share Incentive Plan and options granted under the Long-Term Incentive Plan.

Political donations

The Company made no political donations during the period. The Group has a policy of not making donations to any UK or EU political party and will continue to adhere to this policy.

Human rights

While Vectura does not have a specific human rights policy, a copy of the Company's Modern slavery statement, which has been adopted by the Board, is available on the Company's website (www.vectura.com) and sets out the steps we have taken to ensure that slavery and human trafficking are not present in our supply chains or business. The Company also has a number of other internal policies including the Code of Conduct and the Anti-Slavery and Human Trafficking Policy which support human rights principles.

Directors' indemnities and Directors' and Officers' liability insurance

A qualifying third-party indemnity provision (but not a qualifying pension scheme indemnity provision) for the benefit of the Directors was in force during the period. The Company and the Group maintain insurance policies for their Directors and Officers in respect of liabilities which could arise in the discharge of their duties.

Post balance sheet events

There were no disclosable post balance sheet events.

Change of control

The Company, and its various subsidiaries, are party to a number of agreements, which have change of control clauses. If triggered, these could require repayment of any outstanding facilities or termination of revenue generating CDMO agreements or lead to delays in product development programmes and/or product commercialisation. In the event of a takeover bid, there are no specific agreements between the Company and its Directors providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise).

Disclosure of audit information

The Directors who held office at the date of approval of this Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent auditor

A resolution to reappoint KPMG LLP as auditor will be proposed at the forthcoming AGM. Details are provided in the Notice of AGM.

Additional information

Disclosure	Page(s)	Location in Annual Report
Risk management and principal risks	32–39	Strategic report[1]
Financial instruments and financial risk management	134–136	Note 25, financial statements
Appointment, removal and powers of Directors	59-62	Corporate governance statement
Future developments of the Group's business	3, 13 and 18	Strategic report[1]
Employee culture and engagement (includes employee investment and reward)	44-47 and 55-58	Strategic report: Doing business responsibly[1] and Corporate governance statement
Employee share schemes (includes Long-Term Incentive Plans)	79-79 and 136	Directors' remuneration report and note 27, financial statements
Health and safety and employee-related policies including diversity and disability	44-47 and 62	Strategic report: Doing business responsibly[1] and Corporate governance statement
Movements in share capital	136	Note 26, financial statements
Greenhouse gas emissions	43	Strategic report: Doing business responsibly[1]
Fair, balanced and understandable	67 and 98	Audit Committee report and Directors' statement of responsibilities
Research and development	25 and 120	Strategic report: Financial review and note 5, financial statements
Directors' responsibility statement	98	Directors' statement of responsibilities
Directors' interests	90	Directors' remuneration report
Stakeholder consideration and engagement	16-17 and 58	Strategic report: Section 172 statement and Corporate governance statement[1]

1 The Board has taken advantage of section 414C(11) of the Act to include disclosures in the Strategic report on these items.

Going concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis in preparing the financial statements.

Annual General Meeting

The 2021 AGM of the Company is currently expected to take place at our London office, Manning House, 22 Carlisle Place, Westminster, London, SW1P 1JA, at 10.30 a.m. on Thursday 27 May 2021. Please refer to the Notice of AGM for details of the business to be transacted at the meeting and further information regarding the arrangements in light of the COVID-19 pandemic.

The Directors' report was approved by the Board on 17 March 2021.

By order of the Board

John Murphy
General Counsel and Company Secretary
17 March 2021

Vectura Group plc
One Prospect West
Chippenham
Wiltshire SN14 6FH
United Kingdom

Registered Number: 3418970

Statement of Directors' responsibilities

In respect of the Annual Report and Accounts

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the parent company financial statements on the same basis. In addition the Group financial statements are required under the UK Disclosure Guidance and Transparency Rules to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("IFRSs as adopted by the EU").

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("IFRSs as adopted by the EU");
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report, Directors' report, Directors' remuneration report and Corporate governance statement that comply with that law and those regulations.

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

Responsibility statement of the Directors in respect of the Annual Report and Accounts

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Signed on behalf of the Board on 17 March 2021.

Will Downie
Chief Executive Officer
17 March 2021

Paul Fry
Chief Financial Officer
17 March 2021

Financial statements

Independent auditor's report

To the members of Vectura Group plc

1. Our opinion is unmodified

We have audited the financial statements of Vectura Group plc ("the Company") for the year ended 31 December 2020 which comprise the Consolidated Income Statement, Consolidated Statement of Other Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Balance Sheet, Company Statement of Changes in Equity, and the related notes, including the accounting policies in note 29.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation to the extent applicable.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 25 May 2017. The period of total uninterrupted engagement is for the 4 financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: group financial statements as a whole	£1.7m (2019: £1.5m) 0.9% (2019: 0.8%) of Revenue	
Coverage	96% (2019: 99%) of Revenue	
Key audit matters		**vs 2019**
Recurring risks	Impairment of goodwill allocated to the Swiss group of CGUs	▲
	The recoverability of inhaled in-market assets	▲
	Recoverability of parent Company's investment in subsidiary	◄►
Event driven	GSK litigation (GSK Ellipta legacy Vectura patent)	

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and our findings from those procedures in order that the Company's members, as a body, may better understand the process by which we arrived at our audit opinion. These matters were addressed, and our findings are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
GSK litigation (GSK Ellipta legacy Vectura patent) (Exceptional income £121.1 million; 2019: £nil) Refer to pages 66-70 (Audit Committee report), page 117 (accounting policy) and page 122 (financial disclosures).	**Accounting treatment:** A positive judgment in favour of Vectura was received from the US Court of Appeal in respect of GSK litigation (GSK Ellipta legacy Vectura patent). Whilst a mandate was issued by the Court of Appeals to hand back control of the proceedings to the District Court so that the original award can be implemented, an avenue of appeal remains open to GSK through the US Supreme Court at year-end. Management have exercised judgment when determining the appropriate accounting treatment of the litigation award including determining whether the realisation of income was virtually certain and therefore no provision for the repayment of the award is required. **Presentation appropriateness** The income arising from the award, which included damages, associated interest and ongoing royalties, has required management to exercise significant judgment when determining the appropriate classification of these items within the consolidated income statement, in particular the extent to which each of these items should be included within the exceptional items caption and whether associated interest should be classified as finance income.	Our procedures included: **Accounting treatment** — **Accounting analysis**: We have examined the judgments taken in respect of the award by examining the court decision and correspondence with GSK. We challenged the conclusion made by the Group that the realisation of income is virtually certain. We have considered alternative accounting treatments and whether these would lead to a more appropriate treatment than that proposed by management; — **Test of detail:** We have inspected bank statements to obtain evidence of subsequent receipt of the award from GSK; — **Enquiry of lawyers:** We obtained confirmation from the Group's external counsel on their advice to management in respect of the likelihood of a US supreme court appeal hearing; — **Assessing transparency:** We have assessed the adequacy of the Group's disclosures in respect of the accounting treatment. **Presentation appropriateness** — **Accounting analysis**: We have examined the judgments taken in respect of the consolidated income statement presentation of the award. We challenged the Group's conclusion that the award for damages should be included within the exceptional items classification by comparing it with the definition of exceptional items within the Group's accounting policy and the consistency with past classifications. In relation to associated interest, we challenged whether this formed part of the award or should be considered as finance income by comparing the nature of the associated interest with the definition of a finance income and the consistency of management's presentation in accordance to the accounting policy;

FINANCIAL STATEMENTS

Independent auditor's report continued

to the members of Vectura Group plc

2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
GSK litigation (GSK Ellipta legacy Vectura patent) continued		We have considered alternative presentations and whether these would lead to a more appropriate presentation than that proposed by management. We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described; — **Assessing transparency:** We have assessed the adequacy of the Group's disclosures in respect of the presentation of the damages, associated interests and ongoing royalties within the consolidated income statement. **Our findings** — We found the judgments applied in respect of GSK litigation outcome to be balanced (2019: Not applicable). We found the resulting disclosures to be proportionate (2019: Not applicable). — We found the presentation of the award within the consolidated income statement to be balanced (2019: Not applicable). We found the resulting disclosures to be proportionate (2019: Not applicable).
Impairment of goodwill allocated to the Swiss group of CGUs (Goodwill balance £49.5 million (2019: £62.4 million); Impairment charge £15.6 million (2019: £nil) Refer to pages 66-70 (Audit Committee report), page 117 (accounting policy) and page 125 (financial disclosures).	**Subjective valuation:** Historic acquisitions have led to the recognition of goodwill with a significant value. There is a risk that the carrying amount of the Swiss group of CGUs may become impaired if financial performance or other events, such as regulatory approvals, are not in line with initial expectations. We have assessed the recoverability of goodwill allocated to the Swiss group of CGUs as one of the most significant risks in our current year audit. Vectura shifted its corporate strategy towards that of a contract development and manufacturing organisation (CDMO). As a result of this business decision, Vectura is not expecting to replace existing products that are in maturity stage with new products of a similar nature, thereby scaling down the Swiss operations, and will channel efforts towards the focus on pursuing new development revenues. Consequentially, there have been changes to key assumptions applied by management to estimate the recoverable amount of the Swiss group of CGUs, which include gross profit margins on product supply, terminal growth rate and potential savings from scaling down existing operations in Switzerland. These led to an impairment identified by management, which means that the Swiss group of CGUs is held at its recoverable amount and any changes in this recoverable amount directly affect the financial statements.	Our procedures included: — **Our sector experience:** Assessing whether key assumptions applied, in particular those relating to gross profit margins on product supply, net sales forecasts and related royalty inflows, time to develop and launch pipeline products , discount rate, the terminal growth rate and R&D expenditure in the near term reflect our knowledge of the business and industry, including known or probable changes in the business environment. — **Evaluating reasonableness of key assumptions:** We challenged sales assumptions applied to expected volumes, pricings and erosion curves, based on industry publications and publicly available external sources, terminal growth rates applied based on management's long range plan, probability of forecasted savings from plans of scaling down existing operations, and benchmarked discount rate applied against comparable companies within the industry; — **Historical comparisons:** Assessing the reasonableness of the cash flow forecasts by comparing the historical accuracy of previous forecasts to actual results; — **Assessing transparency:** Assessing whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflect the risks inherent in the valuation of the Swiss group of CGUs goodwill.

2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
Impairment of goodwill allocated to the Swiss group of CGUs continued	The estimated recoverable amount is subjective due to the inherent uncertainty in forecasting and discounting future cash flows. The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 14) disclose the sensitivity estimated by the Group.	**Our findings** — We found the estimated post-impairment carrying amount for the Goodwill allocated to the Swiss group of CGUs to be slightly cautious, with proportionate disclosure of related assumptions and sensitivities (2019: recoverable amount slightly optimistic resulting in greater headroom than might otherwise have been the case, and we found the disclosures to be proportionate)
The recoverability of inhaled in-market assets (£141.8 million; 2019: £153.7 million) Refer to pages 66-70 (Audit Committee report), page 117 (accounting policy) and page 126 (financial disclosures).	**Subjective assessment:** Historic acquisitions have led to the recognition of intangible assets with a significant value. There is a risk that the carrying amount of the inhaled in-market assets may become impaired due to the predicted decline in sales in future years based on management's forecast. The Group's estimated future cash flows for each asset are used to support their recoverability. The cash flow forecasts rely on several critical assumptions and estimates including volume forecasts, costs of sales, discount rates and associated pricing. The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 15) disclose the sensitivity estimated by the Group.	Our procedures included: — **Our sector experience:** Assessing whether key assumptions applied, in particular those relating to volume forecasts, costs of sales, discount rates and associated pricing reflect our knowledge of the business and industry, including known or probable changes in the business environment. — **Evaluating reasonableness of key assumptions:** We challenged management's forecast sales volumes based on analysts' reports and commercial partners' forecast, compared historical forecast sales volume levels against actuals, compared forecast pricing against partner's price list and signed agreements, benchmarked discount rate used against comparable companies within the industry; — **Historical comparisons:** Assessing the reasonableness of the cash flow forecasts by comparing the historical accuracy of previous forecasts to actual results; — **Sensitivity analysis**: Performing sensitivities on the key assumptions noted above; — **Assessing transparency:** Assessing whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflect the risks inherent in the valuation of the intangible assets. **Our findings** — We found the estimated recoverable amount for the inhaled in-market assets to be slightly optimistic resulting in greater headroom than might otherwise have been the case, with proportionate disclosure of related assumptions and sensitivities. (2019: estimated recoverable amount balanced and we found the disclosures to be proportionate)

Independent auditor's report continued

to the members of Vectura Group plc

2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
Recoverability of parent Company's investment in subsidiary (£393.9 million; 2019: £393.9 million) Refer to pages 66-70 (Audit Committee report), page 147 (accounting policy) and page 147 (financial disclosures).	**Low risk, high value** The carrying amount of the parent Company's investment in subsidiary represents 81% (2019: 78%) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall audit.	Our procedures included: — **Tests of detail:** Comparing the carrying amount of the investment to identify whether the Group's market capitalisation, being an approximation of the recoverable amount, was in excess of the carrying amount; — **Assessing transparency:** Assessing the adequacy of the parent Company's disclosures in respect of the parent Company's investment in subsidiary. **Our findings** — We found the Group's assessment of the recoverability of the parent Company's investment in subsidiary to be balanced (2019: balanced). We found the resulting disclosures to be proportionate (2019: proportionate).

In the prior year we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. Following the trade agreement between the UK and the EU, and the end of the EU-exit implementation period, the nature of these uncertainties has changed. We continue to perform procedures over material assumptions in forward looking assessments such as going concern and impairment tests however we no longer consider the effect of the UK's departure from the EU to be a separate key audit matter.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £1.7m (2019: £1.5m), determined with reference to a benchmark of Group revenue of £190.6m of which it represents 0.9% (2019: 0.8%). We consider total revenue to be the most appropriate benchmark as it provides a more stable measure year on year than the Group's profit before tax.

Materiality for the parent Company financial statements as a whole was set at £1.1m (2019: £1.1m) determined with reference to a benchmark of Company total assets of which it represents 0.2% (2019: 0.2%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2019: 65%) of materiality for the Group financial statements as a whole, which equates to £1.1m (2019: £0.975m). We applied this percentage in our determination of performance materiality based on the level of identified misstatements during the prior year.

Performance materiality for the parent company was also set at 65% (2019: 65%) of materiality which equates to £0.715m (2019: £0.715m).

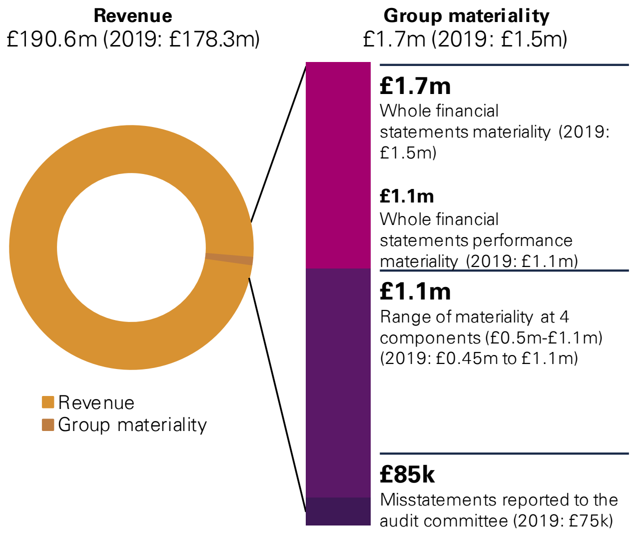
We reported to the Audit Committee any corrected or uncorrected misstatements exceeding £85k (2019: £75k) and any other identified misstatements that warranted reporting on qualitative grounds. Four of the Group's eight reporting components were subject to full scope audits for Group purposes.

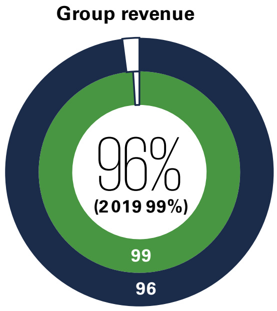
For the remaining four components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these components.

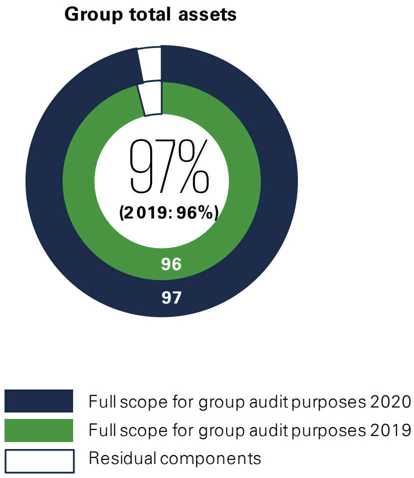
The components within the scope of our work accounted for the percentages illustrated opposite.

The work on one of the four components (2019: one of four) was performed by a component auditor and the rest, including the audit of the parent Company, was performed by the Group team. The Group audit team instructed the component auditor as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved component materiality of £1.1m for the component audit team, having regard to the mix of size and risk profile of the Group across the components.

Due to travel restrictions imposed as a result of the COVID-19 pandemic, the Group team did not visit any component locations. Video and telephone conferences were held with the component auditor throughout the course of the audit to assess the audit risk, strategy and findings. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.







Independent auditor's report continued

to the members of Vectura Group plc

4. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period.

The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- Failure to deliver new CDMO revenue and achieve the desired level of profitability
- Supply chain disruption, including disruption caused by COVID-19 and Brexit

We considered whether these risks could plausibly affect the liquidity in the going concern period by assessing the degree of downside assumption that, individually and collectively, could result in a liquidity issue, taking into account the Group's current and projected cash and revolving credit facility (a reverse stress test).

We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks, dependencies and related sensitivities.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in note 1 to be acceptable; and
- the related statement under the Listing Rules set out on page 115 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and the audit committee as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading board meeting and audit committee minutes.
- Considering remuneration incentive schemes and performance targets for employees, including the annual performance bonus and LTIP for the executive directors, which is dependent on a number of key metrics, some of which are non-GAAP measures such as adjusted EBITDA, and in the year CDMO revenues.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group to the component audit team of relevant fraud risks identified at the Group level and a request to the component audit team to report to the Group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular, the risk that variable consideration included within revenue contracts associated with the development revenue stream is inappropriately accounted for. We also perform procedures to address the risk that Group and component management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as impairment assumptions.

We performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.
- Assessing significant accounting estimates for bias.

5. *Fraud and breaches of laws and regulations – ability to detect (continued)*

We also identified a fraud risk related to inappropriate recognition of the GSK litigation proceeds as income in response to possible pressures to meet profit and share price targets. Further details in respect of GSK litigation income is set out in the key audit matter disclosures in Section 2 of this report.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: regulations relating to the manufacture and research of pharmaceuticals, intellectual property, health and safety, anti-bribery, employment law, and certain aspects of company legislation recognising the nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Independent auditor's report continued

to the members of Vectura Group plc

6. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

— we have not identified material misstatements in the strategic report and the directors' report;

— in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

— the directors' confirmation within the Viability Statement page 40 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;

— the Principal Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and

— the directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the Viability Statement, set out on page 40 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

— the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;

— the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and

— the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

7. We have nothing to report on the other matters on which we are required to report by exception

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

— adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

— the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 98, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the terms of our engagement by the company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report, and the further matters we are required to state to them in accordance with the terms agreed with the company, 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.

Adrian Wilcox (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
Canary Wharf
London
E14 5GL

17 March 2021

Consolidated income statement

For the year ended 31 December 2020

	Note	2020 £m	2019 Restated* £m
Revenue	3	**190.6**	178.3
Cost of sales		**(89.2)**	(83.0)
Gross profit		**101.4**	95.3
Selling and marketing expenses		**(4.1)**	(3.0)
Research and development expenses	5	**(23.8)**	(36.6)
General and administrative expenses		**(28.7)**	(27.3)
Other operating income	7	**3.4**	1.7
Operating profit before exceptional items, amortisation and impairment		**48.2**	30.1
Amortisation and impairment	9	**(40.3)**	(53.6)
Exceptional items	10	**124.9**	(3.5)
Operating profit/(loss)		**132.8**	(27.0)
Finance income	11	**0.1**	1.5
Finance expense	11	**(1.6)**	(0.6)
Profit/(loss) before tax		**131.3**	(26.1)
Net tax (charge)/credit	12	**(8.9)**	4.0
Profit/(loss) for the financial year		**122.4**	(22.1)
Adjusted EBITDA**	9	**61.5**	43.4
Earnings/(loss) per share			
Basic	13	**20.5p**	(3.4p)
Diluted	13	**20.1p**	(3.4p)

All results are attributable to shareholders of Vectura Group plc and are derived from continuing operations.

* Comparative expenses have been restated due to a voluntary change in accounting policies, to reclassify certain costs from research and development expenses to general and administrative expenses. There was no impact from the voluntary change on gross profit or operating profit before exceptional items, amortisation and impairment. Refer to note 30 "Voluntary change in accounting policy" for further details.

** Adjusted EBITDA is a non-IFRS measure comprising operating profit/(loss), adding back amortisation and impairment, depreciation, share-based payments and exceptional items. Refer to note 9 "Adjusted EBITDA".

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of other comprehensive income

For the year ended 31 December 2020

	2020 £m	2019 £m
Profit/(loss) for the financial year	**122.4**	(22.1)
Items that are or may be reclassified subsequently to the income statement:		
Net exchange difference on translation of foreign operations	**16.2**	(7.9)
Tax on items recognised directly in equity that may be reclassified	**–**	0.4
Increase in deferred tax rate on overseas permanent funding	**–**	(2.5)
Items that will not be reclassified to the income statement:		
Remeasurement of net retirement benefit obligations	**(0.2)**	(1.4)
Other comprehensive income/(loss)	**16.0**	(11.4)
Total comprehensive income/(loss) for the year	**138.4**	(33.5)

All results are attributable to shareholders of Vectura Group plc and are derived from continuing operations.

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated balance sheet

As at 31 December 2020

	Note	2020 £m	2019 £m
ASSETS			
Non-current assets			
Goodwill	14	**149.6**	162.2
Intangible assets	15	**150.1**	164.1
Property, plant and equipment	16	**56.4**	55.1
Deferred tax assets	24	**3.8**	2.7
Other non-current assets		**0.5**	0.5
Total non-current assets		**360.4**	384.6
Current assets			
Inventories	17	**28.8**	27.7
Trade and other receivables	18	**198.2**	44.3
Cash and cash equivalents	19	**78.6**	74.1
Total current assets		**305.6**	146.1
Total assets		**666.0**	530.7
LIABILITIES			
Current liabilities			
Trade and other payables	20	**(64.6)**	(48.8)
Corporation tax payable		**(16.6)**	(12.5)
Borrowings	21	**(1.2)**	(1.2)
Provisions	22	**(2.8)**	(1.6)
Total current liabilities		**(85.2)**	(64.1)
Non-current liabilities			
Borrowings	21	**(3.0)**	(6.4)
Provisions	22	**(4.1)**	(7.9)
Retirement benefit obligations	23	**(2.1)**	(4.5)
Deferred tax liabilities	24	**(27.2)**	(28.4)
Total non-current liabilities		**(36.4)**	(47.2)
Total liabilities		**(121.6)**	(111.3)
Net assets		**544.4**	419.4
SHAREHOLDERS' EQUITY			
Share capital	26	**0.2**	0.2
Share premium		**61.7**	61.6
Translation reserve		**46.2**	30.0
Other reserves		**320.4**	320.2
Retained earnings		**115.9**	7.4
Total shareholders' equity		**544.4**	419.4

The accompanying notes form an integral part of these consolidated financial statements. The consolidated financial statements of Vectura Group plc were approved by the Board of Directors on 17 March 2021 and were signed on its behalf by:

W Downie
Chief Executive Officer

P Fry
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 December 2020

	Note	Share capital £m	Share premium £m	Other reserves: Merger reserve £m	Other reserves: Own shares reserve £m	Other reserves: Share-based payment reserve £m	Translation reserve £m	Retained (losses)/ earnings £m	Total equity £m
At 1 January 2019		0.2	61.6	441.2	(2.2)	8.3	40.0	(55.2)	493.9
Loss for the financial year		—	—	—	—	—	—	(22.1)	(22.1)
Other comprehensive loss		—	—	—	—	—	(10.0)	(1.4)	(11.4)
Total comprehensive loss for the year		—	—	—	—	—	(10.0)	(23.5)	(33.5)
Share buyback programmes		—	—	—	—	—	—	(3.6)	(3.6)
Dividends paid		—	—	—	—	—	—	(40.1)	(40.1)
Share-based payments		—	—	—	—	3.2	—	—	3.2
Employee share schemes		—	—	—	(0.1)	(5.1)	—	4.7	(0.5)
Merger reserve release		—	—	(125.1)	—	—	—	125.1	—
At 31 December 2019		0.2	61.6	316.1	(2.3)	6.4	30.0	7.4	419.4
Profit for the financial year		—	—	—	—	—	—	122.4	122.4
Other comprehensive income/(loss)		—	—	—	—	—	16.2	(0.2)	16.0
Total comprehensive income for the year		—	—	—	—	—	16.2	122.2	138.4
Share buyback programmes	26	—	—	—	—	—	—	(16.6)	(16.6)
Share-based payments	27	—	—	—	—	4.4	—	—	4.4
Employee share schemes	27	—	0.1	—	(0.1)	(4.1)	—	2.9	(1.2)
At 31 December 2020		**0.2**	**61.7**	**316.1**	**(2.4)**	**6.7**	**46.2**	**115.9**	**544.4**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated cash flow statement

For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Profit/(loss) for the financial year		**122.4**	(22.1)
Adjustments reconciling profit/(loss) after tax to operating cash flows	28	**(90.9)**	41.4
Cash generated from operating activities		**31.5**	19.3
Research and development tax credits received		**1.2**	2.4
Corporation tax paid		**(7.9)**	(1.3)
Net cash inflow from operating activities		**24.8**	20.4
Cash flows from investing activities			
Purchase of intangible assets		**(1.2)**	(1.4)
Purchase of property, plant and equipment		**(11.8)**	(5.8)
Proceeds from sale of property, plant and equipment		**5.3**	—
Receipt from sale of long-term asset	28	**8.0**	—
Interest received		**0.1**	0.4
Net cash inflow/(outflow) from investing activities		**0.4**	(6.8)
Cash flows from financing activities			
Share buyback programmes	26	**(16.6)**	(3.6)
Special dividend paid		**—**	(40.1)
Funding relating to share issue and employees' share schemes		**(1.2)**	(0.5)
Repayment of lease liabilities	28	**(1.1)**	(1.1)
Repayment of property mortgages	28	**(4.3)**	(0.1)
Other finance charges		**(0.4)**	(0.4)
Net cash outflow from financing activities		**(23.6)**	(45.8)
Effects of foreign exchange fluctuations on cash held		**2.9**	(1.9)
Increase/(decrease) in cash and cash equivalents		**4.5**	(34.1)
Cash and cash equivalents at the beginning of the year		**74.1**	108.2
Cash and cash equivalents at the end of the year		**78.6**	74.1

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2020

1. Presentation of the consolidated financial statements

Corporate information

Vectura Group plc (the "Company") is a public limited company incorporated and domiciled in the United Kingdom. The registered office is One Prospect West, Chippenham, Wiltshire SN14 6FH. The "Group" is defined as the Company, its subsidiaries and equity-accounted associates. The Group's operations and principal activities are described in the Strategic report. Previously issued financial information and other relevant resources are made available on our website: www.vectura.com.

Basis of preparation

The consolidated financial statements have been prepared in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRS") and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The financial statements have been prepared on a historical cost basis modified to include revaluation to fair value of certain financial instruments and the recognition of net assets acquired including contingent liabilities assumed through business combinations at their fair value on the acquisition date modified by the revaluation of certain items, as stated in the accounting policies. All financial information is presented in sterling, and is rounded to the nearest £0.1m unless otherwise stated.

The Consolidated income statement is presented by function, with the exception of amortisation and impairment of intangible assets which are presented in accordance with the nature of the expense. If amortisation and impairment were to be presented by function, £23.8m (2019: £42.8m) would have been classified as cost of sales, £nil (2019: £10.4m) as research and development expenses and £15.8m (2019: £0.4m) as general and administrative expenses.

Going concern

The Group has made a profit of £122.4m for the year and continues to be cash generative before distributions to shareholders. A summary of the Group's financial position, cash generated in the year and accounting profit made is included within the Financial review. The Group has considerable financial resources together with long-term contracts with a number of customers across different geographic areas and jurisdictions. The Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook due, primarily, to the COVID-19 outbreak.

The transition period of the UK leaving the European Union (EU), under the Withdrawal Agreement Act 2020, completed on 31 December 2020. The UK has reached a trading agreement with the EU and non-EU countries. Management put in place a series of mitigation plans to ensure that ongoing EU regulatory requirements for medicinal products and devices were maintained. The Group experienced no material impact of the UK leaving the EU in 2020 and does not foresee significant ongoing impact.

As part of the going concern review, the Directors have considered severe, but plausible, downside scenarios to stress test the viability of the business. The scenarios included modifying cash flow assumptions to include significant reductions in future royalty revenues, supply chain disruptions, termination of the Group's co-development programmes and failure to grow the revenues of the CDMO business in line with current projections.

In addition, whilst COVID-19 has not to date had any significant impact on the Group's performance, it has been considered as part of the stress testing scenarios, as mentioned above, of the going concern model. This included a potential COVID-19-related reduction in inhalation and other products for which the Group receives royalties. This stress testing showed that the Group is able to continue trading without taking significant mitigating actions. The Group held £78.6m in cash and cash equivalents as at 31 December 2020, and has no material debt. Furthermore, the Group has access to a £50.0m multi-currency revolving credit facility with Barclays Bank PLC and HSBC Bank PLC. This facility expires in August 2022 and remains undrawn. No events have taken place since the balance sheet date which have had a significant negative impact on the Group's liquidity. The Group continues to operate robust cash management stewardship and regularly assesses the cash needs of the Group.

Consequently, the Directors are confident that the Group and Company will have sufficient funds to continue to meet their liabilities as they fall due for at least twelve months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Changes in accounting policies and disclosures

The accounting policies applied are consistent with those adopted and disclosed in the consolidated financial statements for the year ended 31 December 2019 except for those otherwise stated in the voluntary change in accounting policy as detailed in note 30 "Voluntary change in accounting policy".

There are a number of amendments to accounting standards that became applicable for annual reporting periods commencing on or after 1 January 2020, but they do not currently have a material effect on the Group's financial statements:

(a) Definition of Material – Amendments to IAS 1 and IAS 8

(b) Definition of a Business – Amendments to IFRS 3

(c) Revised Conceptual Framework for Financial Reporting

(d) Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7

(e) COVID-19-Related Rent Concessions – Amendments to IFRS 16

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

1. Presentation of the consolidated financial statements continued

1.1 Alternative performance measures (APMs)

When assessing and discussing the Group's reported financial performance, management makes reference to alternative performance measures. These measures are also used in discussions with the investment community. APMs are not displayed with more prominence, emphasis or authority than IFRS measures.

Adjusted EBITDA is defined as operating profit/(loss) adding back amortisation and impairment, depreciation, share-based payments and exceptional items. Refer to note 9 "Adjusted EBITDA".

Exceptional items are presented whenever significant expenses are incurred or income is received as a result of events considered to be outside the normal course of business, where the unusual nature and expected infrequency merit separate presentation to assist comparisons with previous years. Items which are included within the exceptional category include:

- significant litigation awards;
- costs associated with major corporate transactions;
- Board-approved spend on the integration of major corporate transactions; and
- other major transformation programmes.

Furthermore, significant and unusual items of restructuring and significant and unusual items which individually distort the underlying performance of the business and therefore warrant highlighting separately to the users of the accounts are also included within exceptional items. Refer to note 10 "Exceptional items".

Free cash flow is defined as net cash flow from operating and investing activities, less repayment of lease liabilities. It is a non-statutory measure used by the Board and the senior management team to measure of the ability of the Group to support future business expansion, distributions or financing.

2. Critical accounting areas of judgement and estimation

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported figures. Moreover, any changes in critical estimates and assumptions made could materially impact the amounts of assets, liabilities, revenue and expenses reported next year as actual amounts and results could differ from those estimates or those estimates could change in the future. The impact of COVID-19 on all accounting areas of judgement and estimation has been considered and no additional critical areas have been identified as a result of the ongoing pandemic.

Critical judgements

The following critical judgements are those which have the most significant effect on the amounts recognised in the financial statements:

Applying IFRS 15 – Revenue from Contracts with Customers to long-term collaborative agreements

Collaborative development and marketing agreements which license the Group's technology and intellectual property (IP) can and do have unique terms spanning multiple reporting periods. Consequently, the accounting judgements required to apply IFRS 15 to each such agreement can differ significantly.

The critical accounting judgements relate to all collaborative development agreements that constitute contracts with customers. At present, the agreements relevant to the IFRS 15 judgements outlined below are with Sandoz (VR2081) entered into in June 2017 and Hikma (generic of GSK Ellipta® products) entered in November 2018. These judgements were made at contract inception. Two contracts containing out-licence agreements were entered into during the year; whilst the revenue recognised in the year is not material, the future potential income arising from royalties and milestone payments could be significant.

(a) Assessment of contract existence criteria

A contract with a customer is in the scope of the standard when it is legally enforceable, it has commercial substance, payment terms can be identified, the contract is approved and both parties are committed to their obligations.

An agreement often provides a customer with an option to acquire additional services on the basis of success-based fees. Judgement is required to determine the extent to which the Group or the customer is committed to these services throughout the service period, before a successful outcome is assured.

This has been applied to the agreement with Hikma to develop generic versions of GSK's Ellipta® portfolio. It has been judged that the licence to use Vectura's intellectual property and the provision of services for development of Vectura's Open-Inhale-Close (OIC) device are considered committed as the initial $15.0m milestone received on signing the agreement in 2018 is non-refundable.

Hikma also has the option to acquire future formulation and process development services for up to five products on success-based terms specified in the agreement. The threshold for these five products to be considered as revenue contracts under IFRS 15, that is, receipts of revenue being considered as being probable, has not yet been reached and therefore no revenue has been recognised, to date. The associated expenses under the agreement have been treated as co-development R&D expenses.

(b) Whether a licence to the Group's intellectual property is a separate distinct performance obligation

A licence granted by the Group usually provides the partner with a right to use, but not to own, the IP related to a development. A licence is capable of being distinct from development services if, regardless of contractual terms, it could be sold separately, in which case revenue is recognised at the grant date (point in time) as applicable to the OIC device licence for the generic GSK Ellipta® portfolio with Hikma.

If the licence provided was not capable of being separately sold at the grant date then the revenue for the licence is recognised over time as required development services accrue. This treatment applies to the development of VR2081 with Sandoz.

2. Critical accounting areas of judgement and estimation continued

Critical judgements continued

Applying IFRS 15 – Revenue from Contracts with Customers to long-term collaborative agreements continued

(c) Allocation of the transaction price based on standalone selling prices at contract inception

For collaborative agreements containing multiple performance obligations, the Group must determine the standalone selling price identified on inception of the contract. Once these have been determined, these are not subsequently amended. The key assumptions used to determine the standalone selling price include forecast revenues, the cost of satisfying the obligation, development timelines and probabilities of technical, regulatory and commercial success.

GSK litigation outcome (GSK Ellipta® legacy Vectura product)

As announced on 19 November 2020, the United States Court of Appeals for the Federal Circuit denied GlaxoSmithKline's (GSK) motions for judgement as a matter of law, a new trial on infringement and for a new trial on damages in litigation concerning Vectura's US patent 8303991, which is infringed by GlaxoSmithKline's (GSK) US sales of three Ellipta® products. On 28 December 2020 the Court issued a mandate obligating GSK to pay Vectura the damages for patent infringement, associated interest and ongoing royalties. GSK has the right to petition the US Supreme Court to review the decisions. This is the final option available to GSK to challenge the award.

In Management's view, the likelihood of the US Supreme Court overturning the previous decisions is remote, based on the average acceptance rate of cases petitioned to the US Supreme Court and the merits of the case. Further elements of significant judgement are whether the realisation of income is virtually certain and therefore the recognition of an asset arising from the current court ruling is appropriate (previously disclosed as contingent as at the prior year's balance sheet date) and the classification of the income in the income statement.

The Group has determined that the realisation of income is virtually certain based on the issuance of a court mandate on 28 December 2020 obligating GSK to pay the Group damages for patent infringement, associated interest and ongoing royalties. This resulted in the recognition of a receivable in the amount of £121.1m, which was subsequently paid after the balance sheet date. The Group also applied significant judgement regarding the nature of the income received. Management concluded that amounts attributable up to and including the third quarter of 2020 were, by nature, damages for patent infringement. Management also determined that the associated interest is, from an accounting perspective, similar in nature to the damages in that it is additional compensation for late payment of the damages themselves. Management has considered whether the associated interest would meet the definition of finance income, and has concluded that the prerequisites are not met as no relevant financial asset had been recognised over the related period.

As such, both the damages and the associated interest, have been recognised as exceptional income because the income relates to a one-off event, is sufficiently significant to merit separate presentation for purposes of comparison and otherwise meets the criteria in the Group's accounting policy on exceptional items.

Payments relating to royalties earned in the fourth quarter 2020 have been assessed as meeting the IFRS 15 requirements for revenue recognition, as will any future similar payments. This is because a normal commercial royalty relationship is considered to be in place from an accounting perspective following the Court of Appeal decision on 19 November 2020 which enforced the payment terms of the ongoing royalties, resulting in the first royalty statement and payment due under this relationship covering the fourth quarter in full.

Critical estimates

The following critical estimates, if changed in 2021, would materially impact reported performance:

Revenue – variable consideration included in revenue contracts

Variable consideration includes the estimate of payments in the form of contingent development-related and regulatory approval milestones. These milestones are included in the transaction price when the most likely outcome is that they will be received. Once this is established, the variable consideration is constrained to the extent that it is highly probable that a significant reversal of revenue will not occur in future periods. The estimate is reassessed for each reporting period.

The consideration for the development of the generic GSK Ellipta® portfolio with Hikma was assessed at contract inception in 2018 as $20.0m. This includes an upfront $15.0m non-refundable milestone on signing of the agreement which was recognised in 2018, and a second $5.0m milestone due on completion of the device development services. As at the 2020 balance sheet date, the second milestone has been excluded from the transaction price and continues to be constrained (i.e. not recognised) until completion is considered highly probable. If the $5.0m milestone constraint had been released in 2020, the full amount would have been recognised in revenue in 2020. The constraint is expected to be released in 2021.

The Group has reassessed the transaction price for the VR2081 project with Sandoz. A $1.0m milestone payment due on completion of the formulation technology transfer has been constrained and therefore excluded from the transaction price as, during 2020, it was no longer considered highly probable that this milestone would be achieved. The constraint is expected to be released in 2021. The remaining milestone payments of $4.0m are associated with regulatory approval and have been constrained until the Group believes it is highly probable that a significant reversal of revenue will not occur. If the $5.0m associated with milestone payments had not been constrained as at 31 December 2020, $0.9m additional revenue would have been recognised in 2020.

Impairment of goodwill and intangible assets acquired through business combinations

Goodwill arising on a business combination is not amortised, but is tested annually for impairment. This testing requires judgement as to the fair value less costs of disposal of the cash-generating units (CGUs) to which goodwill has been allocated. The actual performance of CGUs may differ from the valuations derived through this exercise.

The sensitivity to changes in estimates and details of the goodwill impairment assessment are disclosed in note 14 "Goodwill".

Intangible assets are reviewed for indicators of impairment and where such indicators exist a full impairment test is performed to ensure the recoverable amount is higher than the carrying value. Impairment tests are based on internal risk-adjusted future cash flows discounted to present value. Some of the more significant assumptions include the product supply volume forecast, associated margin (depending on pricing assumptions, raw material costs and cost of manufacture) and the appropriate discount rate to measure the inherent risks in the cash flows.

These valuations are inherently subjective. The sensitivity of the *flutiform®* intangible, being the Group's largest intangible asset, to downside scenarios is presented within note 15 "Intangible assets".

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

2. Critical accounting areas of judgement and estimation continued

Critical estimates continued

Useful economic lives of intangible assets acquired through business combinations

Intangible assets relating to in-market products are predominantly amortised with reference to average patent lives in the most applicable territories. The key estimate is which patent or midpoint of the patents to use, due to the varying strength of the patents and different time periods for different territories. Given the quantum of the intangible assets, any change in assumptions would have a significant impact on the amortisation charge. No significant change has been to this estimate in the current year.

The sensitivity to changes in the useful economic lives is presented within note 15 "Intangible assets".

Actuarial assumptions applied to the Swiss pension benefits in the application of accounting policies

The Group operates a pension scheme in respect of its employees in Switzerland. As some of the risks of the scheme match the criteria under IAS 19 -Employee Benefits for a defined benefit plan, the scheme is accounted for as such. Application of IAS 19 involves estimates around uncertain future events based on independent actuarial valuation reports. The defined benefit obligation is sensitive to the actuarial assumptions and the redundancy assumptions associated with the decision to significantly reduce the R&D operations in Muttenz by 2022. Details of the pension curtailment and actuarial assumptions are presented in note 23 "Retirement benefit obligations".

3. Revenue

	2020 £m	2019 £m
Product supply revenues	**109.9**	115.0
Royalty and other marketed revenues	**68.8**	51.9
Development revenues	**11.9**	11.4
Total revenues	**190.6**	178.3

Detailed analysis and commentary on revenue are provided in the Financial review.

(a) Product supply revenues

The Group generates significant revenues from the supply of finished or semi-finished products, largely manufactured by third-party suppliers, to commercial distribution partners.

	2020 £m	2019 £m
flutiform®	**95.8**	101.4
Other inhaled products	**3.6**	3.2
Non-inhaled products	**10.5**	10.4
Product supply revenues	**109.9**	115.0

(b) Royalty and other marketed revenues

The Group generates revenues from products marketed by partners which incorporate Vectura's intellectual property. These revenues typically comprise royalties, sales-based milestones, and product approval and launch milestones. These revenues reflect financial returns from historical R&D investments in partnered programmes and are earned without further material costs being incurred by the Group.

	2020 £m	2019 £m
Novartis Breezhaler® products	**17.3**	18.4
GSK Ellipta® (Skyepharma)	**9.0**	9.0
GSK Ellipta® (Vectura)	**6.5**	—
flutiform®	**6.3**	6.3
AirFluSal® Forspiro®	**2.7**	2.3
Other inhaled royalties	**0.1**	0.3
Non-inhaled royalties	**12.2**	14.2
Royalty revenues	**54.1**	50.5
Other marketed revenues	**14.7**	1.4
Royalty and other marketed revenues	**68.8**	51.9

3. Revenue continued

(c) Development revenues

The Group earns revenue from contracted development activities provided to customers and partners. These activities draw on the Group's device and formulation capabilities to help deliver commercially attractive inhalation products. The contracts with customers for development services are categorised as co-development arrangements or CDMO services arrangements. Under these agreements, during the development phase Vectura typically receives a series of cash flows in consideration for a variety of activities, which may comprise an upfront fee as consideration for the licence to access intellectual property, milestone payments for specific clinical or other development-based outcomes, or fees billed directly for work performed.

	2020 £m	2019 £m
Development revenues from co-development contracts		
Inhaled development services	**5.7**	6.9
Licensing milestones	**—**	2.4
Revenues from co-development contracts	**5.7**	9.3
Development revenues from CDMO contracts		
Inhaled development services	**2.4**	—
Licensing milestones	**0.6**	—
Revenues from CDMO contracts	**3.0**	—
Revenues from non-inhaled development services	**3.2**	2.1
Development revenues	**11.9**	11.4

Disaggregation of revenues

In the following table revenue from contracts with customers is disaggregated by primary geographical market, major product and service line and timing of revenue recognition.

	Product supply		Royalties and other marketed		Development services		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Primary geographical markets								
United Kingdom	**50.6**	53.7	**16.2**	10.1	**0.6**	0.5	**67.4**	64.3
Japan	**45.2**	47.8	**6.3**	6.3	**—**	—	**51.5**	54.1
Switzerland	**4.1**	5.3	**25.9**	22.6	**0.3**	4.0	**30.3**	31.9
Rest of Europe	**9.3**	7.3	**9.9**	8.5	**5.2**	2.3	**24.4**	18.1
United States of America	**0.7**	0.9	**8.1**	0.2	**4.6**	4.6	**13.4**	5.7
Rest of World	**—**	—	**2.4**	4.2	**1.2**	—	**3.6**	4.2
Total	**109.9**	115.0	**68.8**	51.9	**11.9**	11.4	**190.6**	178.3
Timing of revenue recognition								
Point in time	**109.9**	115.0	**68.8**	51.9	**1.1**	7.1	**179.8**	174.0
Over time	**—**	—	**—**	—	**10.8**	4.3	**10.8**	4.3
Total revenues	**109.9**	115.0	**68.8**	51.9	**11.9**	11.4	**190.6**	178.3

Geographical market is derived from customer invoicing points as opposed to the location of patients receiving treatment from the Group's licensed products.

Point in time development services revenue includes £13.2m (2019: £1.9m) in relation to performance obligations satisfied in prior years. The outstanding transaction price on unsatisfied performance obligations as at 31 December 2020 is £1.9m (2019: £6.8m), which is expected to be recognised in full in 2021.

Revenue from major customers

Three major customers contributed individually in excess of 10% of total Group revenues: Customer A – £51.5m (2019: £54.1m), Customer B – £47.5m (2019: £55.1m) and Customer C – £22.4m (2019: £21.7m).

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

3. Revenue continued

Customer contract balances

Trade receivables are recognised when there is an unconditional right to payment except for the passage of time. The Group's unbilled trade receivables relate to accrued royalty income and are transferred to trade receivables when the right to payment becomes unconditional upon receipt of royalty statements. The royalty statements and subsequent payments are typically received in the following quarter. Unbilled trade receivables as at 31 December 2019 of £12.0m related to Q4 2019 royalty statements, which were subsequently received in full in 2020. Unbilled trade receivables as at 31 December 2020 of £17.0m relate primarily to Q4 2020 royalty statements and are expected to be received in full in the first half of 2021.

Contract assets represent the Group's right to consideration from a customer for work performed on partially completed contracts. Contract assets are transferred to receivables when the Group's right to consideration is unconditional. Contract assets are assessed for impairment in line with IFRS 9.

Contract liabilities consist of advance payments from customers for early-stage development services, with revenues being recognised over time.

The following table provides information about contract assets and contract liabilities from contracts with customers:

	2020 £m	2019 £m
Contract liabilities at 1 January	**(2.3)**	(6.5)
Advance payments received from customers	**(1.2)**	—
Foreign exchange	**—**	(0.1)
Recognised as development services revenue	**3.3**	4.3
Net contract assets/(liabilities)	**(0.2)**	(2.3)

4. Segmental information

The Group is managed on the basis of a single operating reportable segment, being the development and supply of pharmaceutical products and as such no separate segmental information is provided as it would not be different from the Consolidated income statement. The Chief Operating Decision Maker, represented by the Board, allocates resources on the basis of integrated management information, which focuses on adjusted EBITDA as detailed in note 9 "Adjusted EBITDA".

Non-current assets at 31 December by geographical location are as follows:

	2020 £m	2019 £m
Switzerland	**211.0**	241.4
United Kingdom	**133.5**	126.9
France	**15.9**	16.2
Germany	**—**	0.1
Total non-current assets	**360.4**	384.6

5. Research and development (R&D) expenses

	2020 £m	2019 Restated* £m
Co-development R&D and technology platforms	**23.8**	22.8
Proprietary product pipeline programmes	**—**	13.8
Total R&D expenses	**23.8**	36.6

* Following the voluntary change in accounting policy, support function costs including HR, Finance and IT that were previously supporting R&D are now included within general and administrative expenses reflecting that these functions are now supporting all activities of the Group. Refer to note 30 "Voluntary change in accounting policy" for further details.

Due to the shift in strategy the 2019 restated R&D expenses have reduced from £36.6m in 2019 to £23.8m in 2020 as the focus of the Group has moved towards generating revenues from service-based contracts, where the material risks, costs and rewards of development remain with the client, and investment in own proprietary product pipeline of respiratory therapies has ceased.

Historically the Group's R&D expenses have been presented under two distinct categories: partnered which represents expenditure to progress partner programmes and is funded by development revenues earned from the partner, and pre-partnered which reflects investments funded by the Group on programmes yet to be partnered, as well as investments in its own innovative proprietary technology platforms.

Following the shift in strategy, the Group will incur the following types of R&D expenses:

(a) Co-development R&D – this category is the equivalent to the previously reported "Partnered" category and represents R&D expenses related to co-development agreements. These expenses are principally funded by development milestone payments from partners, which may be contingent upon programme progression.

(b) Technology platform – this category represents development and improvement of the Group's own proprietary device and formulation technologies. This investment provides the basis for generating future partnering and licensing revenue opportunities.

6. Employees

The average number and aggregate remuneration of employees was as follows:

Average number of people employed by the Group	2020 Number	2019 Number
R&D services	**227**	225
Business development and support services	**94**	86
Manufacturing and supply chain	**181**	169
Total average number of employees	**502**	480

Aggregate remuneration	2020 £m	2019 £m
Wages and salaries	**38.4**	35.7
Social security costs	**5.8**	5.4
Payments to post-employment defined benefit pension plans	**0.5**	0.5
Payments to defined contribution pension plans	**1.4**	1.3
Total aggregate remuneration	**46.1**	42.9

In line with the voluntary change in accounting policy, support function employees supporting the R&D function that were previously reported along with R&D are now reported separately and within business development and support services as applicable. Refer to note 30 "Voluntary change in accounting policy" for further details on the change of the accounting policy.

In addition, costs of £2.9m (2019: £3.7m) were incurred for individuals not directly employed by the Group.

Directors' remuneration is detailed in the Remuneration report. In accordance with Schedule 5 (11.1) of the Companies Act 2006, employee benefits accruing under the Vectura Long-Term Incentive Share Plan are excluded from this disclosure as they do not solely relate to payments made for 2020 employment services.

7. Other operating income

The Group will claim R&D expenditure credits (RDEC) of £2.4m (2019: £1.7m) in the year ended 31 December 2020 alongside the tax return filing process. As these credits are subject to corporation tax, they are presented as other income. Other than the tax authorities' acceptance of the tax return, there are no other unfulfilled conditions or contingencies attached to this income.

In 2020, the Group also recognised £1.0m of other income in relation to the transfer of control of an asset from a customer to Group, following the termination of the development agreement.

8. Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2020 £m	2019 £m
Audit of the Group's annual accounts	**0.6**	0.5
Audit of the Group's subsidiaries	**0.1**	0.1
Total audit fees	**0.7**	0.6
Other services	**0.1**	0.1
Total non-audit fees	**0.1**	0.1
Total fees payable to the Group's auditor	**0.8**	0.7

Included in the audit fees for the Group's annual accounts is £35,000 (2019: £35,000) payable for the audit of the parent company.

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

9. Adjusted EBITDA

Adjusted EBITDA is a non-statutory alternative performance measure used by management and the Board to monitor the Group's performance. See note 1.1 "Alternative performance measures".

	Note	2020 £m	2019 £m
Operating profit/(loss)		**132.8**	(27.0)
Exceptional items	10	**(124.9)**	3.5
Amortisation and impairment of intangible assets	15	**40.3**	53.6
Depreciation and impairment of property, plant and equipment	16	**9.1**	10.6
Share-based payments	27	**4.2**	2.7
Adjusted EBITDA		**61.5**	43.4

10. Exceptional items

Exceptional items are presented whenever significant expenses are incurred or income is received as a result of events considered to be outside the normal course of business, where the unusual nature and expected infrequency merit separate presentation to assist comparisons with previous years.

	2020 £m	2019 £m
Litigation award[1]	**121.1**	—
Site footprint rationalisation – gain on pension curtailment[2]	**2.8**	—
Release of commercial provisions[3]	**3.5**	—
Gain on disposal of property, plant and equipment[3]	**1.4**	—
Total exceptional income	**128.8**	—
Legal fees in relation to litigation award[4]	**(0.9)**	(3.0)
Site footprint rationalisation costs[2]	**(3.0)**	(0.3)
Other exceptional items[4]	**—**	(0.2)
Total exceptional costs	**(3.9)**	(3.5)
Total exceptional items	**124.9**	(3.5)

If the exceptional items were not presented as exceptional, the classification would be as follows:

1, 3 classified as other operating income;

2 classified separately as net restructuring charges and

4 classified as general and administrative expenses.

Litigation award

As announced on 19 November 2020, the United States Court of Appeals for the Federal Circuit denied GlaxoSmithKline's (GSK) motions for judgement as a matter of law, a new trial on infringement and for a new trial on damages in litigation concerning Vectura's US patent 8303991, which is infringed by GlaxoSmithKline's (GSK) US sales of three Ellipta® products. On 28 December 2020 the Court issued a mandate obligating GSK to pay Vectura the damages for patent infringement, associated interest and ongoing royalties. An amount of £121.1m relating to damages and associated interest thereon has been recognised as exceptional income in 2020. Payments relating to royalties earned in the fourth quarter 2020 have been assessed as meeting the IFRS 15 requirements for revenue recognition, as will any future similar payments. This revenue has been earned pursuant the decision of the United States District Court for the District of Delaware and was upheld by the US Court of Appeals, which, amongst other damages, awarded Vectura ongoing royalties of 3% on US sales of three infringing GSK Ellipta® products.

Legal fees of £0.9m (2019: £3.0m) relate to the costs associated with these legal proceedings.

Site footprint rationalisation

In November 2020, the Board announced its decision to significantly reduce the R&D operations in Muttenz, Switzerland, by 2022. Associated costs of £2.4m, which primarily include redundancies and retention packages, have been recognised as exceptional costs. A corresponding provision has been recognised on the balance sheet.

A further £0.2m (2019: £0.3m) of site rationalisation costs relates to the final share-based payment charges for the retention of staff and £0.4m for the final redundancy costs associated with the closure of the Group's operating site in Gauting, Germany.

A pension curtailment gain of £2.8m has been recognised due to the employees leaving the pension scheme as a result of the Muttenz site rationalisation. A corresponding reduction in the retirement benefit obligation has been recognised on the balance sheet.

Release of commercial provisions

During the year, the Group signed an amendment with a commercial partner to formally cancel £3.5m of an obligation, which was released to the income statement. This obligation had previously been recognised as a provision, as it arose from the business combination with Skyepharma in 2016. Refer to note 22 "Provisions".

10. Exceptional items continued

Gain on disposal of property, plant and equipment

The gain on disposal of property, plant and equipment of £1.4m (2019: £nil) relates to the sale of office property and a warehouse at the Group's Swiss site, outside the normal course of business of the Group.

Other exceptional items

Other exceptional items of £0.2m in the comparative period relate to final IFRS 2 charges for retention shares that were issued post the 2016 merger and vested on 22 September 2019.

11. Finance income and expense

	2020 £m	2019 £m
Bank interest income	0.1	0.4
Unwinding of financial assets	—	0.3
Foreign exchange gains	—	0.8
Finance income	**0.1**	1.5
Bank interest expense	—	(0.1)
RCF commitment fees	(0.2)	(0.2)
Interest on lease liabilities	(0.1)	(0.1)
Other financing items	(0.2)	(0.2)
Foreign exchange losses	(1.1)	—
Finance expense	**(1.6)**	(0.6)

Foreign exchange relates to foreign currency cash on deposits in Switzerland and the UK, and the revaluation of royalty, milestone and other receivables in foreign currency in Switzerland and the UK.

12. Tax

	2020 £m	2019 £m
Current income tax	(13.2)	(4.4)
Prior year adjustments	0.4	0.3
Total current income tax charge	**(12.8)**	(4.1)
Deferred tax credit	4.0	8.1
Prior year adjustments	(0.1)	—
Total deferred tax credit	**3.9**	8.1
Net tax (charge)/credit reported in the income statement	**(8.9)**	4.0

No deferred tax (2019: £2.1m charge) was recognised in other comprehensive income.

Current tax arises from profits generated in the UK and Switzerland (2019: Switzerland). Deferred tax relates predominantly to credits arising on the unwinding of tax liabilities on acquired intangible assets and the recognition of deferred tax assets in respect of brought forward tax losses that can reduce future corporation tax in the UK.

The Group's effective tax rate (ETR) before other comprehensive income (OCI) is a 6.8% charge (2019: 15.3% credit). This equates to the applicable UK tax rate of 19%, adjusted for a number of factors discussed below.

UK tax

The UK sub-group is tax paying in this period as a result of the GSK litigation income recognised which has only been partially offset by corporation tax losses brought forward. The UK sub-group will continue to benefit from the R&D expenditure credit (RDEC). The RDEC is subject to UK corporation tax and therefore is included within the Consolidated income statement and presented as other operating income (refer to note 7 "Other operating income"). In addition, certain UK companies are able to participate in the UK Patent Box regime.

Swiss tax

The Group continues to be tax paying in Switzerland. The effective date of the Swiss tax reform was 1 January 2020. This will increase the ETR for the Swiss group to approximately 13.45% in 2025 after the transitional period has concluded. During this time the Group will mitigate this increase through applying for temporary transitional reliefs which are anticipated to reduce the Swiss group ETR to approximately 10.43%.

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

12. Tax continued

Effective tax rate (ETR)

The receipt of significant income in the UK relating to the GSK litigation has resulted in significant profits in the UK in 2020. These profits are sheltered significantly by brought forward corporation tax losses previously not recognised for deferred tax. In Switzerland (2019: Switzerland), the Group is profitable and subject to tax at the local rates (Swiss ETR 10.19% charge (2019: 9.5% charge)). In 2020, the US corporate rate applied was 21% (2019: 21%). The uncertain tax position disclosed has decreased by £2.6m in the year due to the expiry of the statute of limitation in respect to this element of the uncertain tax position.

These charges are offset slightly by a deferred tax credit relating to deferred tax assets recognised in the period in respect of brought forward corporation tax losses in the UK that may be used in future accounting periods and deferred tax liabilities on intangible assets. Together these attributes contribute to a Group's ETR charge of 6.8% (2019: 15.3% credit).

	2020 £m	2019 £m
Profit/(loss) before tax	**131.3**	(26.1)
Profit/(loss) before tax calculated at the UK corporation tax of 19% (2019: 19%)	**(24.9)**	5.0
Tax effects of:		
Expenses not deductible for tax purposes	**(1.7)**	(0.1)
Unrecognised deferred tax*	**—**	(5.6)
Prior year deferred tax	**—**	0.1
Tax losses utilised, not previously recognised for deferred tax	**12.1**	—
Recognition of deferred tax on prior year losses	**1.4**	0.2
Differences arising from prior period computations	**3.0**	0.3
Differences in effective overseas tax rates	**1.2**	3.0
Impact of deferred tax rate change	**—**	1.1
Total tax (charge)/credit for the year	**(8.9)**	4.0

* Unrecognised deferred tax mainly relates to losses incurred for which no deferred tax assets have been recognised as future recovery, or timing of recovery, cannot be supported.

The ETR (excluding the future release of the uncertain tax position) is expected to be in the range of a 10–15% charge for 2021, as a result of taxable Swiss and UK profits being offset by significant credits in respect of deferred tax liabilities on acquired intangibles.

The March 2020 Budget announced that the previously enacted UK corporation tax rate reduction to 17% would no longer come into effect and that the 19% UK corporation tax rate would be maintained. The March 2021 Budget announced the intention to increase the rate of UK corporation tax to 25% from April 2023 from the current corporation tax rate of 19%. The corporation tax rate change has not been substantively enacted at the reporting date and is not expected to materially impact the financial statements.

13. Earnings per share

	2020	2019
Basic earnings/(loss) per share	**20.5p**	(3.4p)
Diluted earnings/(loss) per share	**20.1p**	(3.4p)

Basic earnings per share has been calculated by dividing the profit attributable to shareholders by the weighted average number of shares in issue during the period after deducting shares held by the ESOP Trusts.

Diluted earnings per share has been calculated after adjusting the weighted average number of shares used in the basic calculation to assume the conversion of all potentially dilutive shares. These potentially dilutive shares are options granted under employee share plans, where the exercise price is below the market price of Vectura. For the purposes of diluted earnings per share it is assumed that any performance conditions attached to the schemes have been met at the balance sheet date.

The numbers of shares used in calculating basic and diluted earnings per share are presented in the below table:

	2020	2019
Profit/(loss) after tax (£m)	**122.4**	(22.1)
Weighted average number of shares in issue (m) – basic	**596.6**	651.9
Dilution for share options and awards (m)	**11.8**	n/a
Diluted (m)	**608.4**	651.9

14. Goodwill

	2020 £m	2019 £m
At the beginning of the year	**162.2**	163.4
Foreign exchange	**3.0**	(1.2)
Impairment charge	**(15.6)**	—
At the end of the year	**149.6**	162.2
Allocation to cash-generating units (CGUs)		
UK and Germany	**100.1**	99.8
Switzerland	**49.5**	62.4
At the end of the year	**149.6**	162.2

Goodwill has been allocated to cash-generating units (CGUs), being the Group's geographic locations for operations and intellectual property. The recoverable amount of each CGU is assessed using a fair value less costs of disposal model. This is calculated using a discounted cash flow approach, with a post-tax discount rate applied to the projected post-tax cash flows and terminal value.

The Group's weighted average cost of capital (WACC) of 8.75% (2019: 10.25%) is used in the calculation to discount the cash flows to reflect the impact of risks relevant to the Group and the time value of money. The Group rate is then adjusted for risks specific to each CGU.

Cash flows relating to the Swiss Group of CGUs are discounted at 8% (2019: 8%). The discount rate used for UK and Germany CGU cash flows is 9.5% (2019: 12%). Whilst no specific COVID-19 adjustment is made to the discount rates, market volatility caused by the COVID-19 outbreak is incorporated into risk-free rates, equity market returns and economic expectations.

The Group uses the budget and the five-year Long Range Plan (LRP) as approved by the Board as the basis for the discounted cash flow models. These cash flows are expanded upon in order to model the future multi-period earnings of the CGU and to evaluate its fair value less cost of disposal. Details relating to the discounted cash flow models used in the impairment tests of the cash-generating units are as follows:

Valuation basis	Fair value less cost of disposal
Key assumptions	Time to develop and launch pipeline products Net sales forecasts and related royalty inflows Gross profit margins on product supply Future cash-flows related to Oral operations Level of R&D expenditure in near term to support the growth of the new business Terminal growth rate Discount rate COVID-19 impact
Determination of assumptions	Forecast development plans Net sales forecasts are determined from partner forecasts and external market data Milestone amounts and royalty rates reflect past experience and forecast sales from market data Margins reflect past experience, adjusted for expected future changes Discount rates based on Group WACC, adjusted for country-specific risks Taxation rates based on appropriate rates for each region
Projected cash flow years	Various; based on patent expiry dates and thereafter the projected period until reaching steady state
Terminal growth rate	UK and Germany: nil (2019: nil) Switzerland: nil (2019: decline of 10.0%) The variation in the decline rate assumptions of the Swiss Group of CGUs as compared to the prior year is explained by the application of a more granular approach to decline rates in cash flows in future periods than in the previous year. In light of the updated methodology, removing a decline rate from the terminal values is appropriate as the terminal value is now applied at a later point, being when a steady state is assumed to be reached
Discount rate	UK and Germany: 9.5% (2019: 12%) Switzerland: 8% (2019: 8%)

The decrease of £12.6m in goodwill to £149.6m at 31 December 2020 is due to a £15.6m impairment of the goodwill allocated to Switzerland. The impairment charge recognised in respect of the Swiss Group of CGUs is the result of an assumed restructuring of operations, including the transition of R&D activities to the UK. As a consequence, future revenue expectations for the Swiss Group of CGUs have reduced materially, with a corresponding increase in the future revenue expectations for the UK and Germany CGU.

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

14. Goodwill continued

Given that the Swiss Group of CGUs has no headroom, as the goodwill allocated to it has been impaired, any reasonable adverse change in key assumptions or cash flow forecast items will likely result in an increase of the impairment charge. The Group has carried out a range of sensitivity analyses on key assumptions in the impairment model that are subject to areas of significant judgement and estimate. The Group views the discount rate and terminal value factors as relevant to the impairment testing model because the valuation methodology accepts a range of inputs to these factors. Additionally, the Group regards margins as a key quantitative input and recognises that a reasonably possible decline in margins can have a significant impact on the fair value. If the Group applied a 10% decline rate to terminal value calculations an impairment charge of £23.5m would arise. A 2% reduction in margins would lead to a £21.7m impairment charge, while a 0.5% increase to the discount rate would give rise to an impairment charge of £23.9m. The Group view these sensitivities as reasonably possible. They have been stated individually and assume all other factors remain equal.

The Group's UK and Germany CGU has significant headroom. The Group conducted a sensitivity analysis on the impairment test of the UK and Germany CGU's carrying value. The UK and Germany CGU valuation indicates significant headroom such that a plausible change in any key assumption is unlikely to result in an impairment of the related goodwill. The forecast cash flows would need to reduce in excess of 60% (2019: 50%) before impairment arises. This is primarily because this CGU comprises a significant number of internally generated intangible assets.

The potential impact of the COVID-19 outbreak was also considered, but management assessed that no further downside scenarios are appropriate.

15. Intangible assets

	Inhaled in-market assets £m	Smart nebuliser technology £m	Non-inhaled in-market assets £m	Other £m	Total £m
Cost					
At 1 January 2019	324.9	139.9	81.0	17.8	563.6
Additions	—	—	—	1.3	1.3
Foreign exchange	(5.8)	(7.5)	(2.1)	(0.3)	(15.7)
At 31 December 2019	319.1	132.4	78.9	18.8	549.2
Additions	—	—	—	1.0	1.0
Disposal	—	—	—	(0.1)	(0.1)
Foreign exchange	19.1	7.5	1.1	1.1	28.8
At 31 December 2020	**338.2**	**139.9**	**80.0**	**20.8**	**578.9**
Amortisation					
At 1 January 2019	(127.8)	(129.4)	(69.8)	(16.7)	(343.7)
Amortisation	(40.1)	(2.2)	(2.7)	(0.4)	(45.4)
Impairment	—	(8.2)	—	—	(8.2)
Foreign exchange	2.5	7.4	1.8	0.5	12.2
At 31 December 2019	(165.4)	(132.4)	(70.7)	(16.6)	(385.1)
Amortisation	(20.9)	—	(2.9)	(0.9)	(24.7)
Disposal	—	—	—	0.1	0.1
Foreign exchange	(10.1)	(7.5)	(0.6)	(0.9)	(19.1)
At 31 December 2020	**(196.4)**	**(139.9)**	**(74.2)**	**(18.3)**	**(428.8)**
Net book value					
At 31 December 2020	**141.8**	**—**	**5.8**	**2.5**	**150.1**
At 31 December 2019	153.7	—	8.2	2.2	164.1

Non-inhaled in-market assets include several near end of life licences, patents, know-how agreements and marketing rights recognised on the Skyepharma merger, which are in use and from which the Group continues to receive royalties.

Impairment tests on intangible assets are undertaken if events occur which call into question the carrying values of the assets. The assumptions relating to future cash flows, estimated useful lives and discount rates are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these impairment tests to change with a consequent adverse effect on the future results of the Group.

15. Intangible assets continued

For the purposes of impairment testing, a value in use approach is applied. The *flutiform*® intangible asset does not generate independent cash inflows and therefore it has been tested for impairment with the ancillary assets required to generate cash inflows. Details relating to the value in use calculations used for the impairment testing are as follows:

Intangible type	Inhaled in-market assets
Specific asset	*flutiform*®
Key assumptions	• Product supply volume forecast • Margin (depending on pricing assumptions, raw material costs and cost of manufacture) • Discount rate
Determination of key assumptions	• Internal forecasts with input from partners and external market data • Margins reflect past experience, adjusted for expected changes in pricing, raw material costs and cost of manufacture • Discount rate based on Group WACC, adjusted for country-specific risks
Discount rate	• 8% (2019: 8%)

No impairment charge is required in 2020. A sensitivity analysis has been performed as follows: (1) an increase in the discount rate by 2.5% would result in impairment; (2) a decrease in product supply volumes by more than 6% gives rise to an impairment charge; and (3) a 2% annual reduction in margin does not result in an impairment of the intangible asset.

The potential impact of the COVID-19 outbreak to *flutiform*® demand was also considered. No reduction in demand has been observed and as such no further downside scenarios were considered.

The risk of future impairment of the *flutiform*® intangible is mitigated by further amortisation of the asset.

The Group's intangibles are amortised on a straight-line basis using the following useful economic lives (UELs):

	Acquisition date	Useful economic life from acquisition date
Inhaled in-market assets	June 2016	10.5 years
Non-inhaled in-market assets	June 2016	6.5 years

The Group's sensitivity analysis shows that, had UELs been extended for 2020 by one year, then the amortisation charge would be £2.9m lower. Had UELs been reduced for 2020 by one year, then the amortisation charge would be £3.9m higher.

On 9 August 2019, certain Japanese patent extensions were granted. As a result, the UEL of the *flutiform*® inhaled in-market asset was extended by an additional four and a half years.

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

16. Property, plant and equipment

	Land and buildings £m	Laboratory and supply chain equipment £m	Assets under construction £m	Total £m
Cost				
At 1 January 2019	19.6	56.3	6.1	82.0
Recognition of right-of-use assets upon initial application of IFRS 16	3.6	—	—	3.6
Adjusted balance at 1 January 2019	23.2	56.3	6.1	85.6
Additions	0.8	3.1	2.2	6.1
Reclassification	—	2.6	(3.0)	(0.4)
Impairment	—	(0.3)	(1.6)	(1.9)
Disposals	—	(1.3)	—	(1.3)
Foreign exchange	(0.6)	(1.0)	(0.1)	(1.7)
At 1 January 2020	**23.4**	**59.4**	**3.6**	**86.4**
Additions	2.5	2.9	6.5	11.9
Reclassification	1.8	1.2	(3.0)	—
Disposals	(5.1)	(22.6)	—	(27.7)
Foreign exchange	1.1	2.7	0.1	3.9
At 31 December 2020	**23.7**	**43.6**	**7.2**	**74.5**
Depreciation				
At 1 January 2019	(1.8)	(22.4)	—	(24.2)
Charge for the period	(1.7)	(7.0)	—	(8.7)
Disposals	—	1.2	—	1.2
Foreign exchange	0.1	0.3	—	0.4
At 1 January 2020	**(3.4)**	**(27.9)**	**—**	**(31.3)**
Charge for the period	(1.9)	(7.2)	—	(9.1)
Disposals	1.2	22.5	—	23.7
Foreign exchange	(0.1)	(1.3)	—	(1.4)
At 31 December 2020	**(4.2)**	**(13.9)**	**—**	**(18.1)**
Net book value				
At 31 December 2020	**19.5**	**29.7**	**7.2**	**56.4**
At 31 December 2019	20.0	31.5	3.6	55.1

Land valued at £3.9m (2019: £5.0m) is not depreciated.

During the year, the Group completed the sale of a building at the Swiss site with carrying value of £3.9m. The gain on disposal of asset was recognised in exceptional items. Refer to note 10 “Exceptional items”.

At 31 December 2020, the Group had no significant capital commitments for purchase of property, plant and equipment.

Right-of-use assets

Within the property, plant and equipment are included the right-of-use assets, related to leased properties that do not meet the definition of investment property.

	Land and buildings	
	2020 £m	2019 £m
Right-of-use assets at 1 January	**2.7**	3.6
Depreciation charge for the year	**(1.0)**	(0.9)
Additions	**1.7**	—
Reclassification	**0.1**	—
Right-of-use assets at 31 December	**3.5**	2.7

17. Inventories

	2020 £m	2019 £m
Raw materials	**16.9**	8.8
Work in progress	**7.2**	13.1
Finished goods	**6.8**	7.6
Less provision for impairment	**(2.1)**	(1.8)
Total inventories	**28.8**	27.7

Inventories of £87.4m were recognised as an expense during the year and included in cost of sales (2019: £80.5m).

18. Trade and other receivables

	2020 £m	2019 £m
Trade receivables	**174.6**	17.2
Unbilled trade receivables	**17.0**	12.0
Less provision for impairment	**(0.2)**	—
Net trade receivables	**191.4**	29.2
Contract assets	**0.3**	—
Prepayments and other receivables	**3.9**	4.9
Customer reimbursement of equipment	**—**	7.6
R&D tax credits	**2.6**	2.6
Total trade and other receivables	**198.2**	44.3

The carrying values of trade receivables approximate their fair values because these balances are expected to be cash settled in the near future unless a provision is made. Trade receivables have increased significantly in 2020 due to the inclusion of £145.0m gross receivables from GSK Ellipta® litigation award. Refer to note 10 "Exceptional items".

Unbilled trade receivables contain accrued royalties and licence and development milestones.

Contract assets represent the Group's right to consideration from a customer for work performed on partially completed contracts. Contract assets are transferred to receivables when the Group's right to consideration is unconditional. Contract assets are assessed for impairment in line with IFRS 9. See note 3 "Revenue" for more details.

Customer reimbursement of equipment relates to amounts receivable from partners for manufacturing equipment which the Group has funded. During the year, the Group has received the outstanding amount; therefore, the corresponding receivable has been released.

Expected credit losses

The Group applies the IFRS 9 simplified approach to providing for expected credit losses in accordance with applicable guidance for non-banking entities. Under the simplified approach the Group is required to measure lifetime expected credit losses for all trade receivables.

The expected credit loss allowance provision is determined below as follows, and incorporates forward-looking information:

		Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total £m
	Expected loss rate	—	—	100%	100%	
2020	Gross carrying amount	165.3	7.9	0.9	0.5	**174.6**
	Loss allowance provision	—	(0.1)	—	(0.1)	**(0.2)**
2019	Gross carrying amount	27.3	1.7	—	0.2	**29.2**
	Loss allowance provision	—	—	—	—	**—**

The Group's expected credit loss policy is to reassess all trade receivables over 60 days past due, and provide in full if the balance is deemed to be at risk. As at 31 December 2020 £0.2m of trade receivables were considered at risk and were provided in full.

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

19. Cash and cash equivalents

Cash and cash equivalents at 31 December are denominated in the following currencies:

	2020 £m	2019 £m
Sterling	**29.2**	14.8
Euro	**20.5**	23.4
US dollars	**19.8**	21.8
Swiss francs	**9.1**	14.1
Cash and cash equivalents	**78.6**	74.1

The Group invests its funds in short-term overnight bank deposits, with access at a maximum of 24 hours' notice. The Group has access to a £50m unsecured committed multi-currency revolving credit facility (RCF) with Barclays Bank PLC and HSBC UK Bank PLC. The facility expires in August 2022 and remains undrawn.

20. Trade and other payables

	2020 £m	2019 £m
Trade payables	**19.2**	23.2
Accruals	**19.6**	20.9
Contract liabilities	**0.5**	2.3
Other payables	**25.3**	2.4
Trade and other payables	**64.6**	48.8

Trade and other payables are unsecured unless otherwise indicated; due to the short-term nature of current payables, their carrying values approximate their fair value.

Accruals principally relate to manufacturing fees payable for *flutiform*® semi-finished products, external R&D project costs, employee benefits and related taxes, legal fees and other costs accrued but not invoiced. Contract liabilities consist of advance payments from customers for early-stage development services, with revenues being recognised over time. See note 3 "Revenue" for more details.

Other payables mainly comprise the VAT liability (£23.8m) recognised on GSK Ellipta® (VEC) litigation award, following the positive ruling in favour of Vectura from the US Court of Appeal in November 2020. Refer to note 10 "Exceptional items".

21. Borrowings

	2020 £m	2019 £m
Current		
Lease liabilities	**1.2**	1.0
Property mortgage	**—**	0.2
Total current borrowings	**1.2**	1.2
Non-current		
Lease liabilities	**3.0**	2.6
Property mortgage	**—**	3.8
Total non-current borrowings	**3.0**	6.4
Total borrowings	**4.2**	7.6

As at 31 December 2020, the lease liabilities are £4.2m (2019: £3.6m), of which £3.2m (2019: £2.6m) is denominated in sterling and relates to the expected terms remaining on UK property site leases discounted at between 2% and 3%. The remaining lease liability of £1.0m (2019: £1.0m) is denominated in Swiss francs and expires in 2024.

During the year, the property mortgage related to the Group's Swiss R&D facility was fully repaid and the respective liability was released.

The Group has extension options in the Chippenham and the London leases, which have not been exercised as at 31 December 2020. The potential future lease payments, should the Group exercise the extension options, would result in an increase in the lease liability of £3.1m.

22. Provisions

	Employee £m	Property £m	Commercial £m	Other restructuring £m	Total £m
At 1 January 2020	3.1	1.7	4.7	—	9.5
Charged/(released) during the year	2.6	(0.1)	(5.0)	0.6	(1.9)
Utilised during the year	(1.2)	(0.1)	—	—	(1.3)
Foreign exchange	0.3	—	0.3	—	0.6
At 31 December 2020	**4.8**	**1.5**	**—**	**0.6**	**6.9**
Current	2.5	—	—	0.3	2.8
Non-current	2.3	1.5	—	0.3	4.1

Employee provisions include £1.3m for employer contributions on Employee Stock Ownership Plan (ESOP) and £1.7m for French statutory lump sum payments, payable upon the retirement of the employees at the Lyon facility.

Additionally, a provision of £1.8m has been made for redundancy payments and an additional £0.6m related to the site rationalisation, following the decision to significantly reduce the R&D operations in Muttenz, Switzerland, by 2022. Refer to note 10 "Exceptional items".

Property provisions are recognised in respect of the commitment to restore the Group's leased R&D facilities in Chippenham, Cambridge and London to their original conditions at the end of the leasing period in 2023, 2027, 2025 respectively.

Commercial provisions as at 1 January 2020 related to constructive obligations arising from the business combination with Skyepharma in 2016 in regard to historical costs incurred by a commercial partner, which the Group expected to reimburse. During the year, the Group signed an amendment to formally cancel part of this obligation, which was released to the income statement; refer to note 10 "Exceptional items". Following the contractual formalisation, the remaining liability of £0.8m remains outstanding and is classified as a current financial liability, in other payables.

23. Retirement benefit obligations

Swiss defined benefit pension plan

During the year, upon communication of the restructuring plans to the affected employees regarding the Group's decision to reduce the R&D operations in Muttenz, Switzerland, by 2022, the existing pension obligation liability has been partially released resulting in a curtailment gain. Refer to note 10 "Exceptional items".

For the affected employees, the savings capital is projected until their individual leaving dates and then valued. The total curtailment gain is calculated as the difference between the derecognition of the related defined benefit obligation and the related plan assets.

The amounts recognised in the balance sheet for the Swiss scheme are as follows:

	2020 £m	2019 £m
Present value of defined benefit obligation	**(15.6)**	(18.7)
Fair value of plan assets	**13.5**	14.2
Balance sheet liability	**(2.1)**	(4.5)

The Swiss sub-group has affiliated itself with PKG Pensionskasse for the provision of its occupational pension provision for its employees and pension recipients. The pension scheme provides benefits in the case of disability, death, old age and termination. The risk benefits are defined in relation to the pensionable salary. The retirement pension is calculated based on the projected savings capital with interest and a conversion rate.

The highest corporate body of the foundation is the Board of Trustees. It handles the general management of the pension scheme, ensures compliance with the statutory requirements, defines the strategic objectives and policies of the pension scheme and identifies the resources for their implementation. It determines the objectives and principles of the asset management and the implementation and monitoring of the investment process.

The Board of Trustees of the PKG pension fund announced in 2020 the further reduction in the relevant pension conversion (into an annuity) rates to 5.0% by 2026, from 5.4% in 2022. Furthermore, the active policy holders' retirement assets will earn 1% interest as of 31 December 2020 (2019: 2.4%).

Vectura, as employer, matches employees' contributions to the scheme on a monthly basis. The amount of contributions to be paid by the employer and employee are determined by the Board of Trustees or the pension fund commission such that on retirement participants can choose to receive a cash lump sum or convert their savings capital into an annuity to be paid monthly over the course of their retirement.

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

23. Retirement benefit obligations continued

Swiss defined benefit pension plan continued

The law (Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans and its associated ordinances) provides for minimum pension benefits and also a minimum amount for the savings contributions. The amount of the contributions to be paid by the employer and the employee is determined by the highest corporate body and/or the pension fund commission. These can exceed the statutory minimum. The employer contribution must be at least as high as the employee contributions.

The movement in the present value of the defined benefit obligation is as follows:

	2020 £m	2019 £m
Opening present value of the defined benefit obligation	**(18.7)**	(16.2)
Current service cost	**(0.7)**	(0.7)
Gain on curtailment*	**2.8**	0.2
Net interest (including expected return on net assets and plan amendments)	**0.2**	—
Recognised in the income statement	**2.3**	(0.5)
Benefits paid and withdrawals	**2.8**	(0.1)
Employee contributions	**(0.4)**	(0.4)
Balance sheet cash movements	**2.4**	(0.5)
Foreign exchange translation	**(1.2)**	0.1
Actuarial loss	**(0.4)**	(1.6)
Recognised through OCI	**(1.6)**	(1.5)
Present value of the defined benefit obligation	**(15.6)**	(18.7)

* The gain on curtailment is arising from the Group's decision to reduce the R&D operations in Muttenz and is reported as exceptional gain in 2020. Refer to note 10 "Exceptional items".

The movement in the fair value of the plan assets is as follows:

	2020 £m	2019 £m
Fair value of the plan assets at the beginning of the year	**14.2**	13.1
Foreign exchange	**1.0**	(0.1)
Benefits paid and withdrawals	**(2.8)**	0.1
Actuarial gains recognised on plan assets through OCI	**0.2**	0.2
Employer contributions	**0.5**	0.5
Employee contributions	**0.4**	0.4
Fair value of the plan assets	**13.5**	14.2

Remeasurements	Present value of the defined benefit obligation £m	Fair value of the plan assets £m	Net amount £m
Actuarial changes arising from changes in financial assumptions	(0.5)	0.2	(0.3)
Experience adjustments	0.1	—	0.1
Total amount recognised in other comprehensive income	**(0.4)**	**0.2**	**(0.2)**

23. Retirement benefit obligations continued

Swiss defined benefit pension plan continued

Plan assets comprise:

	2020 £m	2020 %	2019 £m	2019 %
Equity	**4.2**	**31.4**	4.4	31.0
Bonds	**5.6**	**41.8**	5.9	41.6
Property	**2.6**	**19.2**	2.7	19.0
Cash	**0.2**	**1.0**	0.2	1.4
Other	**0.9**	**6.6**	1.0	7.0
Total plan assets	**13.5**	**100.0**	14.2	100.0

"Other" plan assets include higher risk investments such as commodities or emerging market investments. Despite the IAS 19 requirement to recognise these assets, they are not controlled by the Group, but by the Swiss pension fund. The pension fund manages these in accordance with Swiss pension regulations to generate a higher return on the fund, but does not provide any further details as to the composition of the assets or, for example, the quoted prices of equity held in the fund (as such Vectura is unable to disclose quoted equity prices as required by IAS 19.142).

The latest asset coverage ratio of 109.9% (2019: 113.1%) published by the fund, to which the asset prices relate, is not currently recognised by Vectura, which caps Vectura's share of assets in the fund at the level of participant savings contribution. Under IAS 19, when accounting for Swiss pensions, an accounting policy choice exists as to whether the investment returns are recognised and it is the intention of management to review this assumption in the context of future negative rates. Expected employer contributions to post-employment benefit plans for the year ending 31 December 2021 are £0.4m (2020: £0.5m). The Group is exposed only to its proportion of the funding for the employees of the Group enrolled in the pension scheme. The Group can be required to make additional contributions to post-employment benefits by the pension regulator; however, no such additional requirements have been imposed. In terms of the nature, timing and extent of the cash flow risk associated with additional funding impositions, the Group views this as minimal because the pension plan as a whole is in a net surplus position.

The cumulative actuarial gain recognised in other comprehensive income is as follows:

	31 December 2020 £m	31 December 2019 £m
Actuarial loss recognised in OCI	**(0.2)**	(1.4)
Cumulative actuarial gains recognised within retained earnings	**1.0**	1.2

The principal actuarial assumptions made by the actuaries were:		
Salary growth	**1.25%**	1.25%
Pension increase	**Nil**	Nil
Discount rate	**0.10%**	0.20%
Male life expectancy from retirement age (years)	**22.83**	22.72
Female life expectancy from retirement age (years)	**25.85**	22.75

The average service period to retirement for scheme participants is approximately ten years (2019: ten years).

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Change in assumption	Monetary effect of increase in assumption £m	Monetary effect of decrease in assumption £m
Discount rate	+/-1%	(1.2)	1.6
Pension increases	+1%	1.1	n/a
Salary growth	+/-1%	0.1	(0.1)
Life expectancy	+1 year	0.3	n/a

The above sensitivity analyses are based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sole exception is the variation of the discount rate with simultaneous variation of the interest rate for projection of savings capital.

Defined contribution plans – UK and Germany

In addition, the Group operates various defined contribution plans for its employees outside of Switzerland. The Group's contributions to these plans are charged to the Consolidated income statement in the year to which they relate, and the assets are held in separate trustee-administered funds. The charge to the Consolidated income statement in relation to defined contribution plans is £1.4m as disclosed in note 6 "Employees".

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

24. Deferred tax liabilities

The principal deferred tax assets and liabilities relate to differences between the tax and accounting base; these are shown in the table below:

	Deferred tax liability			Deferred tax asset		Deferred tax liability	Deferred tax asset
	Intangible assets £m	Foreign exchange gains £m	Tangible assets £m	Tax losses £m	Others £m	Total £m	Total £m
At 31 December 2018	(27.7)	(6.7)	(1.3)	2.0	1.3	(35.7)	3.3
Credited/(charged) to income statement	8.5	—	0.4	(0.8)	0.2	8.9	(0.6)
Charged to OCI	—	(2.1)	—	—	—	(2.1)	—
Foreign exchange	0.5	—	—	—	—	0.5	—
At 31 December 2019	**(18.7)**	**(8.8)**	**(0.9)**	**1.2**	**1.5**	**(28.4)**	**2.7**
Credited to income statement	2.6	0.2	0.1	2.2	(1.2)	2.9	1.0
Foreign exchange	(1.0)	(0.4)	(0.3)	—	0.1	(1.7)	0.1
At 31 December 2020	**(17.1)**	**(9.0)**	**(1.1)**	**3.4**	**0.4**	**(27.2)**	**3.8**

The Group recognised additional deferred tax assets in respect to non-trade loan relationship losses, against which future intercompany interest income is expected to offset following the repayment of intercompany loans.

The Group did not recognise deferred tax assets on tax losses amounting to £216.1m (2019: £292.5m). The majority of these losses are unlikely to offset taxable profits as they mostly relate to non-trading losses in investment holding companies. There are no current plans to recover these losses in the foreseeable future. As at 31 December 2020, the deductible temporary differences and unused tax credits for which no deferred tax asset is recognised in the statement of financial position are £14.2m (2019: £16.8m).

25. Financial instruments

The Group has exposure to credit, liquidity and currency risks from its use of financial instruments. This note sets out the Group's key policies and processes for managing these risks.

	Fair value through profit and loss		Amortised cost		Total	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Cash and cash equivalents	**—**	—	**78.6**	74.1	**78.6**	74.1
Trade receivables and unbilled trade receivables	**—**	—	**191.7**	29.2	**191.7**	29.2
Other current assets	**0.2**	—	**—**	7.6	**0.2**	7.6
Other non-current assets	**0.4**	0.5	**—**	—	**0.4**	0.5
Non-derivative financial assets	**0.6**	0.5	**270.3**	110.9	**270.9**	111.4
Trade and other payables	**—**	—	**(38.8)**	(46.5)	**(38.8)**	(46.5)
Mortgage borrowings	**—**	—	**—**	(4.0)	**—**	(4.0)
Lease liabilities	**—**	—	**(4.2)**	(3.6)	**(4.2)**	(3.6)
Non-derivative financial liabilities	**—**	—	**(43.0)**	(54.1)	**(43.0)**	(54.1)
Financial instruments	**0.6**	0.5	**227.3**	56.8	**227.9**	57.3

The Group's financial instruments are measured at amortised cost unless consideration is contingent. Where consideration is contingent the financial instruments are held at fair value through profit and loss (FVTPL) on the basis of their expected discounted cash flows, being the present value of expected payments discounted using a risk-free discount rate adjusted as appropriate. Therefore no separate fair value analysis is presented.

The Group has no external debt, except for lease liabilities, and therefore does not consider the impact of interest rate risk to be material to its results or operations and accordingly no sensitivity analysis is shown.

(a) Credit risk

The impairment provisions for financial assets disclosed in note 18 "Trade and other receivables" are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Group's past history and existing market conditions as well as forward-looking estimates at the end of each reporting period.

There were no impairment losses recognised in the year and the expected credit losses are immaterial.

25. Financial instruments continued

(b) Capital management

The Group manages its capital to ensure that all entities in the Group will be able to continue as a going concern while maximising the return to stakeholders. The capital structure of the Group consists of:

	2020 £m	2019 £m
Cash and cash equivalents	**78.6**	74.1
Swiss property mortgage	**—**	(4.0)
Lease liabilities	**(4.2)**	(3.6)
Net cash	**74.4**	66.5
Equity	**544.4**	419.4
Net cash to equity ratio	**14%**	16%

In addition, the Group has access to a £50m RCF and no funds were drawn against this as at 31 December 2020. The facility expires in August 2022. Refer to note 19 "Cash and cash equivalents".

(c) Financial risk management

The primary risks that the Group is exposed to through its use of financial instruments are liquidity risk, foreign currency risk and credit risk. Board authorisation is required for all significant agreements that may affect the Group risk structure. It is, and has been throughout the year, the Group's policy that no speculative trading in financial instruments is undertaken.

(d) Liquidity risk management

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due. The Group manages liquidity risk by maintaining adequate reserves and by continually monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group's policy is to maintain continuity of funding through available cash and cash equivalents, the RCF and the issue of shares where appropriate.

The following are the remaining contractual maturities of the financial liabilities at the reporting date.

The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting arrangements.

		Contractual cash flows				
31 December 2020	**Carrying amount £m**	**Total £m**	**2 months or less £m**	**2–12 months £m**	**1–2 years £m**	**More than 2 years £m**
Non-derivative financial liabilities						
Trade and other payables	**38.8**	**38.8**	**18.9**	**19.9**	**—**	**—**
Mortgage borrowings	**—**	**—**	**—**	**—**	**—**	**—**
Lease liabilities	**4.2**	**4.4**	**—**	**1.3**	**1.0**	**2.1**
	43.0	**43.2**	**18.9**	**21.2**	**1.0**	**2.1**

		Contractual cash flows				
31 December 2019	Carrying amount £m	Total £m	2 months or less £m	2–12 months £m	1–2 years £m	More than 2 years £m
Non-derivative financial liabilities						
Trade and other payables	46.5	46.5	27.0	19.5	—	—
Mortgage borrowings	4.0	4.0	0.2	—	0.3	3.5
Lease liabilities	3.6	3.8	—	1.1	1.3	1.4
	54.1	54.3	27.2	20.6	1.6	4.9

(e) Currency risk management

The Group's presentation currency is sterling. The Group is subject to exposure on the translation of the assets and liabilities of foreign subsidiaries whose functional currencies differ from that of the Group. The Group's primary balance sheet translation exposures are to the Swiss franc, Euro and US dollar. The Group aims to minimise balance sheet translation exposures, where it is practical to do so, by funding subsidiaries with long-term loans, on which exchange differences are taken to reserves.

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

25. Financial instruments continued

(e) Currency risk management continued

The Group faces currency exposures arising from the translation of profits and losses earned in foreign currencies. These exposures are not hedged. Exposures also arise from foreign currency-denominated trading transactions undertaken by subsidiaries. The Group's policy is to offset such currency exposure by matching foreign currency revenues with expenditure in the same foreign currency. Where there are no imminent foreign currency-denominated transactions, the surplus foreign currency cash balances are exchanged for the functional currency of the subsidiary. Where it has not been possible to use natural hedges, currency options and forward currency contracts may be used.

A 10% strengthening of the Euro, Sterling, US dollar and Swiss franc functional currencies within the Group against non-functional currencies of its subsidiaries would result in the profit before tax being £10.7m higher (2019: loss before tax being £8.1m lower) and items recognised directly in other comprehensive income being £1.6m higher (2019: other comprehensive loss being £1.2m higher). A 10% weakening would have an equal but opposite effect on profit before tax and other comprehensive income. The Group considers a 10% strengthening or weakening of the functional currency against the non-functional currency of its subsidiaries as a reasonably possible change in foreign exchange rates.

26. Ordinary share capital

Allotted, called up and fully paid	£m	Number of shares
Ordinary shares of 0.0271p each at 1 January 2020	0.2	611,496,773
Issued to satisfy Vectura employee share plans		1,429,503
Share buyback programmes – cancellations		(16,966,795)
Ordinary shares of 0.0271p each at 31 December 2020	**0.2**	**595,959,481**

Redeemable preference shares of 34,000 at £1 par value have no associated voting, dividend or coupon rights but are eligible to be repaid before any distribution to shareholders; the shares can be repaid by the Group at any time.

In October 2019, the Group announced that the Board had approved a share buyback programme to return up to £10m to shareholders, which concluded in March 2020. A second share buyback was announced in May 2020 for a further £10m which concluded in September 2020. In total during the year, £16.4m of capital was returned to shareholders at a weighted average price of 97.0p per share. Directly attributable costs of £0.2m have been expensed to equity.

The Group has not made a distribution to shareholders in the period (2019: special dividend of c.£40m).

During the year, the Group allotted 1,429,503 (2019: 1,512,754) ordinary shares related to employee share option awards.

27. Share-based payments

The Group operates various share-based compensation plans as described within the Remuneration report. All share-based payments are for the purposes of employee share incentivisation and are equity settled for shares within Vectura Group plc in accordance with the vesting conditions.

	2020 £m	2019 £m
Equity-settled LTIP and RSA plans	**4.2**	2.7
Exceptional share-based payments – merger and site closure	**0.2**	0.5
Total share-based payments	**4.4**	3.2

The employee share award plans are designed to support a strong culture of long-term shareholder value creation. Details of the Long-Term Incentive Plan (LTIP), the Group's main plan, are set out below. The Group also operates a Share Incentive Plan (SIP) and a Save-As-You-Earn (SAYE) plan. The disclosures relevant for these plans are made in the Remuneration report as they are not considered material.

Exceptional share-based payments include £0.2m (2019: £0.3m) related to share-based payment charges specifically for the retention of staff following the decision to close the Group's operational site in Gauting.

During the year £4.1m (2019: £5.1m) of share-based payments were exercised, forfeited or vested and were recycled to retained earnings.

27. Share-based payments continued

Equity-settled Long-Term Incentive Plan (LTIP) including restricted stock awards (RSA)

Under the Group's approved Remuneration policy, equity awards are a key component of the overall remuneration package for senior management and executives.

Transactions on the LTIP share plan for executives, senior management and key professionals during the year were as follows:

	2020 Number of awards	2019 Number of awards
Beginning of the year	**18,488,862**	16,282,705
Granted	**6,139,947**	5,943,754
Exercised	**(1,751,123)**	(1,226,782)
Forfeited	**(6,102,245)**	(2,510,815)
End of the year	**16,775,441**	18,488,862

The options outstanding at 31 December 2020 had an exercise price in the range of nil to 95.8p (2019: nil to 95.8p) and a weighted average contractual life of 7.9 years (2019: 7.8 years).

The weighted average share price at the date of exercise for share options exercised in 2020 was 97.5p (2019: 85.0p).

In 2020, LTIPs granted to Executive Directors were 185% of salary (2019: 185%) subject to performance over three years. The performance condition is subject to two measures, being:

(a) performance is measured subject to a relative TSR metric against the FTSE 250 (excluding real estate and financial services companies) (2019: against the FTSE 250 (excluding real estate and financial services companies)); and

(b) a relevant three-year cumulative adjusted EBITDA target as set by the Remuneration Committee.

LTIPs are subject to service conditions, i.e. the requirement for recipients of awards to remain in employment with Vectura over a three-year vesting period and subject to a personal performance underpin. On vesting, these awards will be subject to a further two-year holding period.

Employees at the Executive Leadership Team (ELT) level were granted LTIPs at 105% of salary (2019: 105%). 70% (2019: 70%) of these awards are subject to the same TSR and adjusted EBITDA as the Executive Directors, with the remaining 35% (2019: 35%) classified as restricted stock awards.

Restricted stock option awards are subject to service conditions, i.e. the requirement for recipients of awards to remain in employment with Vectura over a three-year vesting period and subject to a personal performance underpin. Any vested shares granted to the Executive Directors and Executive Leadership Team must be held for two years after vesting.

Other key management personnel below ELT level receive awards entirely of restricted stock options.

Valuation of share awards

The treatment of vesting and non-vesting conditions attached to awards in the valuation process varies in accordance with the requirements of IFRS 2.

LTIPs for Executive Directors and ELT

For the year ended 31 December 2020, the calculation of the grant date fair value for those awards with a total shareholder return condition was as follows:

	2020	2019
Number of TSR awards granted	**1,547,442**	1,875,672
Service condition	**3 years**	3 years
Holding condition	**2 years**	2 years
Nominal share value	**0.0271p**	0.0271p
Share price on grant date	**91.1p**	72.5p

The TSR condition is a market-based performance condition; this has been incorporated into the fair value calculation and no subsequent adjustments may be made.

For awards subject to a TSR condition, volatility is calculated over the period of time commensurate with the remainder of the performance period immediately prior to the date of grant being 46.35% (2019: 9.68%). The risk-free interest rate obtainable from government securities (i.e. gilts in the UK) over a period commensurate with the expected term was 0.01% (2019: 0.825%) and there was no dividend yield expected (2019: £nil).

The adjusted EBITDA condition is a non-market condition and the vesting outcome assumption is adjusted at each reporting period for the likelihood of the number of shares that will ultimately vest. For the LTIP and restricted stock awards that will be subject to a holding period, the Chaffe model (an at-market put option variant of the Black-Scholes model) has been used to determine a discount for the lack of marketability.

LTIPs for key management personnel below ELT

For the below ELT restricted stock awards, the probability of the non-market-based (holding) condition being achieved does not need to be incorporated into the fair value at date of grant, but is evaluated periodically to true up the estimate for the number of awards expected to vest.

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

27. Share-based payments continued

Exceptional share-based awards

Share-based payment retention schemes related to restructuring are accounted for in exceptional items. For the year ended 31 December 2020 the share-based payment charge within exceptional items was £0.2m (2019: £0.5m).

A total of 1,026,568 retention awards with a two-year vesting period were issued to German employees critical to the knowledge transfer of the Vectura enhanced therapy programmes associated with the German site closure. These awards had an IFRS 2 grant date fair value of £0.7m which was spread evenly over the associated 24-month vesting period from their grant date on 27 June 2018 until 28 June 2020, when the award vested; therefore, a partial charge is included in the 2020 accounts.

On 21 December 2020, a total of 715,196 retention awards with a two-year vesting period were issued to key Swiss employees, considered critical to the knowledge transfer process associated with the decision to significantly reduce the R&D operations in Muttenz, Switzerland. The expenditure of these awards will be spread evenly over the associated 24-month vesting period from their grant date on 21 December 2020 until 20 December 2022, when the award vests.

Share trusts

The Group consolidates three share trusts. The Group's own share reserve represents the weighted average cost of shares in the Vectura Group Employee Benefit Trust (Ocorian), the Vectura Employee Benefit Trust (Computershare) and Vectura Employee Benefit Trust (LINK), which are held for the purposes of fulfilling obligations in respect of the Group's share awards.

28. Cash flow information

Cash generated from operating activities

	2020 £m	2019 £m
Cash flows from operating activities		
Profit/(loss) after taxation	**122.4**	(22.1)
Adjustments		
Net tax credit	**8.9**	(4.0)
Amortisation and intangible asset impairment	**40.3**	53.6
Depreciation and fixed asset impairment	**9.1**	10.6
Net finance income	**1.5**	(0.9)
Share-based payments (including those in exceptional items)	**4.3**	3.2
Decrease/(increase) in inventories	**0.7**	(1.3)
Increase in trade and other receivables	**(163.4)**	(6.0)
Increase/(decrease) in trade and other payables	**10.9**	(13.9)
Reclassification of gain on sale of PPE	**(1.4)**	—
Non-cash gain on receipt of PPE	**(1.0)**	—
Other non-cash items	**(0.8)**	0.1
Total adjustments	**(90.9)**	41.4
Cash generated from operating activities	**31.5**	19.3

Analysis of movement in financial liabilities

	2020		2019	
	£m	**£m**	£m	£m
At the beginning of the period		**7.6**		4.0
Adoption of IFRS 16		**—**		4.7
Repayments of property mortgage	**(4.3)**		(0.1)	
Net repayment of obligations under leases	**(1.1)**		(1.1)	
Total changes from financing cash flows		**(5.4)**		(1.2)
New lease liabilities		**1.5**		—
Interest expense		**0.1**		0.2
Foreign exchange movements		**0.2**		(0.1)
At the end of the period		**4.0**		7.6

Financial liabilities as at 31 December 2020 relate to lease liabilities recognised under IFRS 16.

As at 31 December 2019, the Group also had recognised financial liabilities related to Swiss property mortgage secured on the Swiss R&D facility that was fully repaid during the year.

28. Cash flow information continued

Cash flows from investing activities

In 2020, the Group has received an amount of £8.0m (2019: £nil) for the sale of a long-term asset to a partner. This amount was previously recognised on the balance sheet as a receivable.

29. Significant accounting policies

29.1 Basis of consolidation

The financial statements comprise the consolidated financial statements of Vectura Group plc and its subsidiaries as at 31 December 2020.

Subsidiaries are all entities over which the Group has direct or indirect control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are consolidated from the date on which control is obtained by the Group and are deconsolidated from the date that control ceases. All of the Group's material trading entities are wholly owned subsidiaries, where the Group holds 100% of the share capital.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Group accounting policies are consistently applied to all entities and transactions.

29.2 Foreign currency translation and transactions

Results of the Group's overseas entities are translated into the UK sterling presentational currency of the Group using monthly average exchange rates. On consolidation, exchange differences arising from the translation of overseas net assets are recognised in the translation reserve and recycled to the Consolidated income statement upon any full disposal.

Goodwill is denominated in the currency of the original cash-generating unit (CGU) to which it was allocated on acquisition. Fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities denominated in the currency of the overseas operation. Any exchange differences on intercompany funding loans are deferred to equity, to the extent that these are considered permanent in accordance with IAS 21 – Foreign Exchange.

Trading entities have a functional currency consistent with the denomination of cash inflows and outflows being also consistent with the primary currency of their location. Local market transactions in a different currency to each local functional currency are translated using average exchange rates provided these are materially similar to the spot rate on the transaction date. These foreign exchange differences are recognised in the same category in the Consolidated income statement as the underlying transaction, except for milestone and royalty customer contract assets (trade receivables and accrued royalty revenues) denominated in a foreign currency where foreign exchange is presented within net finance (expense)/income.

29.3 Revenue from contracts with customers

The Group sells products and services directly to pharmaceutical customers and commercial distribution partners. The revenue is derived from product supply, royalties and other development services.

Revenue is measured at the fair value of the consideration which is expected to be received in exchange for the goods and services provided, net of applicable taxes.

Product supply revenues

Product supply revenues are generated from the supply of finished or semi-finished products to commercial distribution partners. Whilst these products are primarily manufactured by third-party suppliers contracted by the Group, the Group is contractually obliged to supply these products and, therefore, the Group acts as the principal in these transactions. Control is transferred and revenue is recognised at the point in time when the product is invoiced to the commercial distribution partner and is made available for collection at a designated area specified in the framework agreement.

The Group has applied the practical expedient to not disclose the transaction price allocated to supply performance obligations unsatisfied (or partially unsatisfied) at the reporting date as all purchase orders for finished or semi-finished products have an expected duration of less than twelve months.

Other than for out of specification products the Group does not provide customers with a general right of product return but typically permits returns if the product is damaged or defective or otherwise cannot be used when received by the customers. Estimates for expected returns are based primarily on an analysis of historical returns.

Royalties and other marketed revenues

Royalties and other marketed revenues are generated from partners licensing the Group's products in return for a share of the partner net product sales. Where a licence of intellectual property is the predominant item to which a royalty relates, revenues are recognised at the point in time the partner makes a sale. Other marketed revenues primarily include sales or usage-based milestones for which revenue is recognised consistently with royalties as stated above.

Whilst the performance obligation to provide the licences was completed several periods ago, such revenue is only recognised as the underlying partner net sales occur thereby reflecting returns on historical R&D investment programmes.

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

29. Significant accounting policies continued

29.3 Revenue from contracts with customers continued

Development revenues

Development services revenues are derived from the licensing of intellectual property and/or the provision of services through a collaborative agreement over a period of time which can involve milestone payments typically linked to specific obligations.

Determination of the performance obligations, transaction price and allocation of the transaction price to the performance obligations requires judgement. Where revenue is recognised over a period of time, it is recognised in line with the number of hours worked. Development hours are typically the service provided under these types of agreements.

Development revenues include revenue from CDMO contracts. Under these contracts, revenues to the Group will normally be derived from fees billed directly for work performed, including a profit margin, rather than milestone payments which are contingent on specific clinical or development-based outcomes. The costs to generate these "fee-for-service" based revenues are reported under cost of sales in the Consolidated income statement.

Contracts may still involve a customer paying to access the Group's device and/or formulation intellectual property. This may result in upfront licence fees, milestones and royalty payments. These licensing revenues will be reported under development revenues where they relate to the development phase. Any subsequent approval, launch or sales milestones, or royalty payments, relating to this licence will be reported as Royalty and marketed revenues.

(a) Assessment of contract existence criteria

A contract with a customer is in the scope of the standard when it is legally enforceable, it has commercial substance, payment terms can be identified, the contract is approved and both parties are committed to their obligations.

An agreement often provides a customer with an option to acquire additional services on the basis of success-based fees. Judgement is required to determine the extent to which the Group or the customer is committed to these services throughout the service period, before a successful outcome is assured.

(b) Licence to the Group's intellectual property

If a licence granted by the Group is capable of being sold separately from development services, it is considered to be a right-to-use licence and the revenue for the licence is recognised at the grant date.

If the licence provided was not capable of being sold separately from development services at the grant date, it is considered to be a right-to-access licence and the revenue for the licence is recognised over time as the services accrue.

(c) Determining transaction price

The transaction price is the amount of consideration expected to be received in exchange for providing goods and services to a customer. This price will often contain both fixed and variable amounts and is determined as the ultimate most likely amount expected to be received upon contract inception (ignoring any future customer options).

(d) Allocating the transaction price

The transaction price is allocated to performance obligations on the basis of relative standalone selling prices. For collaborative agreements containing multiple performance obligations, the Group must determine the standalone selling price identified on the inception of the contract and allocate this transaction price to each performance obligation based on their individual and relative standalone prices (i.e. so any discounts to one performance obligation are spread evenly across all obligations). Once these have been determined, these are not subsequently amended. The key assumptions used to determine the standalone selling price include forecast revenues, the cost of satisfying the obligation, development timelines and probabilities of technical, regulatory and commercial success.

(e) Determining variable consideration

Variable consideration includes the estimate of payments in the form of contingent development-related and regulatory approval milestones. Variable consideration, dependent on the achievement of a milestone, is included in the transaction price when it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The estimate is reassessed for each reporting period.

29.4 Segmental reporting

The Group is managed on the basis of a single reportable segment, being the development and supply of pharmaceutical products. This is consistent with the internal reporting provided to, and regularly reviewed by, the Chief Operating Decision Maker (CODM). The CODM is responsible for allocating resources and assessing performance of the operating segment and has been identified as the Board.

29.5 R&D expenses

R&D comprises activities performed in relation to the Group's own intellectual property (IP) and technology platforms, or as part of a co-development programme where the risks, costs and rewards are materially shared with a third party. The expenses include internal employee costs, indirectly attributable labour costs and external costs, for example procurement and facilities allocations, depreciation of R&D facilities, including R&D sites, and applicable third-party service costs. With the change in strategy, R&D is no longer the primary activity of the Group.

These expenses are recognised on an accruals basis in the year in which they are incurred.

29.6 General and administrative expenses (previously corporate and administrative)

General and administrative expenses represent shared costs incurred in managing the activities of the Group; these include indirect overhead costs, administrative support costs for the Group including employee costs and external costs of HR, IT, Legal (including the registration and maintenance of intellectual property), Finance, Head Office costs, and associated depreciation and utility costs. This category also includes share-based payment charges in accordance with IFRS 2.

These expenses are recognised on an accruals basis in the period in which they are incurred.

29. Significant accounting policies continued

29.7 Other operating income

Other operating income relates to government grants for qualifying R&D and customer contributions for contributions to property, plant and equipment required for the supply chain process.

Government grants recognised in other operating income relate to qualifying UK R&D under the research and development expenditure credit (RDEC) scheme for large companies and the French R&D tax credit regime. Such grants are taxable and are presented as other operating income in the Consolidated income statement.

29.8 Current taxation

The net tax credit on the profit for the year includes current and deferred tax. Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received using tax rates enacted at the reporting date.

29.9 Deferred taxation

Deferred taxation is recognised on all temporary differences arising between the local tax bases of assets and liabilities and their carrying amounts in the Group's consolidated financial statements. 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 is not discounted and is measured at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on legislation enacted or substantively enacted at the balance sheet date.

29.10 Earnings per share

Basic earnings per share amounts are calculated by dividing the profit after taxation of the Group by the weighted average number of shares outstanding during the year.

29.11 Goodwill

On acquisition of a subsidiary or associate, the fair value of the consideration in excess of the identifiable net assets and liabilities is recognised as goodwill. Goodwill is not amortised, but is reviewed for impairment at least annually, or more frequently where there is an indication of possible impairment.

29.12 Intangible assets

Intangible assets predominantly relate to on-market licences, patents and marketing rights separately acquired as part of the Skyepharma merger on 10 June 2016. The fair values of patents and licences relating to on-market products acquired were aggregated by product and initially measured at fair value. This fair value is subsequently amortised over estimated useful economic lives (UEL). Intangible assets relating to on-market products are amortised with reference to average patent lives in the most applicable territories.

Amortisation is applied on a straight-line basis. Intangible assets are reviewed at each reporting period for indicators of impairment and, where such indicators exist, a full impairment test is performed to ensure the recoverable amount is higher than the carrying value.

29.13 Property, plant and equipment (PP&E)

PP&E is initially recognised at cost with depreciation subsequently applied evenly over its estimated useful life less any residual value. PP&E is depreciated on a straight-line basis over the estimated useful lives, as follows:

Land and buildings – 20 to 50 years
Laboratory and supply chain equipment – 3 to 10 years
Right-of-use assets – 5 to 10 years

PP&E for the *flutiform*® supply chain is depreciated using the units-of-production method. No depreciation is provided on freehold land or assets under construction. On disposal of PP&E, the carrying value, less any proceeds, is recognised in the Consolidated income statement.

Right of use assets relate primarily to leased buildings. Right of use assets are depreciated from the commencement date to the earlier of the lease term and the end of the economic useful life of the right of use asset.

29.14 Impairment of non-current assets

Impairment of goodwill is assessed by measuring the future cash flows of the CGU to which the goodwill relates versus the carrying value of the CGU. An impairment loss is recognised for goodwill in the Consolidated income statement when the carrying value of the CGU is less than its future cash flows. Impairments of goodwill are not reversed in subsequent years.

The carrying values of all other non-current assets are reviewed for impairment, either on a standalone basis or as part of a larger cash-generating unit, when there is an indication that the assets might be impaired.

29.15 Inventory

Inventories are stated at the lower of cost and net realisable value. Costs include the direct costs and, where applicable, an allocation of overheads incurred in bringing inventories to their current location and condition. Net realisable value is based on estimated selling price, less any further costs expected to complete the sale of goods.

29.16 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand, if used, form an integral part of the Group's cash management and are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

29. Significant accounting policies continued

29.17 Financial instruments

For the purposes of recognition and measurement, financial assets are classified into one of the following categories:

Trading activities: Assets that are held for collection of contractual trading cash flows are measured at amortised cost. A gain or loss is recognised in the Consolidated income statement only when the asset is derecognised or impaired. Interest income is included in finance income using the effective interest rate method if applicable.

Financial assets held for future sale: Assets that are held for collection of contractual cash flows and for selling the financial assets are measured at fair value through other comprehensive income (FVOCI).

In instances where the financial assets meet neither category, they are measured at fair value through profit and loss (FVTPL). Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their invoice amount as interest is not applicable to the contract.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Financial liabilities are initially measured at fair value and subsequently measured at amortised cost.

29.18 Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether: an identified physically distinct asset can be identified; the Group has the right to obtain substantially all of the economic benefits from the asset throughout the period of use; and has the ability to direct the use of the asset over the lease term, being able to restrict the usage of third parties as applicable.

Where lease agreements are for less than a year or for low value assets, the Group applies the practical expedient in IFRS 16.6 which allows the cost of these lease arrangements to be expensed directly in profit and loss, rather than recognised as right-of-use assets and lease liabilities.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. These are calculated as follows:

Lease liabilities

Lease liabilities are measured at the present value of the remaining lease payments, discounted at an applicable incremental borrowing rate. The interest rate implicit in the lease cannot be readily determined and as a result the incremental borrowing rate has been used which has been obtained from a financial institution privy to the facts, circumstances, location, security and term of each lease liability. This incremental borrowing rate, individually tailored to each lease, is in the range of 2–3%.

Non-lease service charges are combined into property leases, which are treated as a single lease component. The effective interest method will be used for calculating the amortised cost of a finance lease and allocating interest income over the relevant period on a lease by lease basis.

Under IFRS 16, liabilities for future periods that can be cancelled by exercising a break clause are not to be included in the lease liability unless it is reasonably certain at the reporting date that the Group will extend the committed lease term and not exercise the break clause.

Right-of-use assets

Right-of-use assets will be measured at an amount equal to the lease liability, except where there is considered to be a significant difference between the lease liability and the asset value calculated as though IFRS 16 had always been applied.

Extension options

At the reporting date, the Group is exposed to future cash outflows that are not reflected in the measurement of lease liabilities. This includes exposure arising from extension options. The Group has included extension options in the Chippenham lease to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses whether it is reasonably certain to exercise the extension options if there is a significant event or significant changes in circumstances within its control. It is currently assumed that the extension option is not exercised.

29.19 Provisions

Provisions are liabilities where the exact timing and amount of the obligation are uncertain. Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, when an outflow of resources is probable to settle the obligation and when an amount can be reliably estimated.

Where the time value of money is material, provisions are discounted to current values using appropriate rates of interest. The unwinding of the discounts is recorded in net finance income or expense.

29.20 Retirement benefit obligations

The Group's obligations for its Swiss pension scheme are to pay defined contributions. However, in accordance with the Swiss law "LPP/BVG", the pension scheme incorporates certain guarantees, and has therefore been reported as a defined benefit pension plan in accordance with IFRS.

Pension obligations are measured as the present value of estimated future cash flows discounted at rates reflecting the yields of high quality corporate bonds. Pension scheme assets are measured at fair value at the balance sheet date. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, and the return on plan assets (excluding interest) are recognised immediately in OCI. When the benefits of a plan are changed or when a participant is curtailed, the resulting gain or loss on curtailment is recognised immediately in the Consolidated income statement.

29. Significant accounting policies continued

29.21 Share-based payments

The Group operates a number of employee equity-settled share-based compensation plans as part of its reward strategy. Equity-settled share-based payments are measured at fair value at the date of grant. In the case of awards with a non-market performance, their fair value is adjusted each reporting period for the likelihood of the number of shares that will ultimately vest.

The fair value is determined at the grant date of the awards expensed over the vesting period based on the Group's estimate of awards that will eventually vest. The cost of equity-settled share transactions is recognised, together with a corresponding increase in equity, over the vesting period.

29.22 Employee share trusts

The Group provides finance to Employee Share Ownership Plan (ESOP) Trusts to either purchase Company shares on the open market, or to subscribe for newly issued share capital, to meet the Group's obligation to provide shares when employees exercise their options or awards. Costs of running the ESOP Trusts are charged to the Consolidated income statement. Shares held by the ESOP Trusts are deducted from reserves and presented in equity as own shares until such time that an employee exercises their award.

29.23 Share buyback and cancellation programme

As repurchased shares are cancelled immediately after being bought back, the amount of the consideration paid and directly attributable costs are booked to retained earnings.

29.24 Special dividend

Dividends payable to shareholders are recognised as a reduction from distributable retained earnings when appropriately authorised and payment is no longer at the discretion of the Group as follows:

- special and final dividends become binding upon shareholders' approval at a general meeting and cannot be cancelled; and
- interim dividends become binding once authorised and if not then cancelled by shareholders before payment.

Share buyback programmes within the rolling Annual General Meeting 10% share repurchase authority limit can be approved by the Board, but only represent a liability contingent upon an investor deciding to sell, which is effective once trades are made. Associated costs directly attributable and incremental to distributions are recorded within equity.

29.25 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

- IFRS 17 – Insurance Contracts
- COVID-19-Related Rent Concessions – Amendments to IFRS 16
- Classification of Liabilities as Current or Non-Current – Amendments to IAS 1
- Property, Plant and Equipment: Proceeds Before Intended Use – Amendments to IAS 16
- Reference to the Conceptual Framework – Amendments to IFRS 3
- Onerous Contracts: Cost of Fulfilling a Contract – Amendments to IAS 37
- Annual Improvements to IFRS Standards 2018–2020
- Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

30. Voluntary change in accounting policy

Reclassification of expenses from R&D to general and administrative

In the context of the new Contract Development and Manufacturing Organisation (CDMO) strategy, management has reviewed the presentation of the income statement and considered whether it continues to provide relevant and reliable information to stakeholders. It was concluded that there should be an update to how certain expenses were classified and therefore the Group is voluntarily changing its accounting policy for expense classifications for research and development (R&D) expenses and general and administrative (G&A) expenses (previously referred to as corporate and administrative expenses).

Under the prior year accounting policy, expenses which were considered to be dedicated to progressing or supporting R&D activities were reported as R&D expenses. Under this definition support costs, including for example those Finance, HR or IT costs that were considered dedicated to R&D, were reported as R&D expenses. This approach was consistent with the primary activity of the Group, which was the R&D of proprietary therapies or the co-development of pharmaceutical products, where the risks, costs and rewards of development were materially shared with partners. With the change in strategy, R&D is no longer the primary activity of the Group and therefore the expense classifications should more accurately reflect the change towards a CDMO model.

These changes are intended to improve the relevance of the Group's financial statements in the context of the change in strategy, enabling users of the accounts to better interpret performance versus CDMO peers. The definitions of key metrics, for example R&D as a proportion of revenue and G&A as a proportion of revenue, are more closely aligned to CDMO peer definitions and will therefore reflect more accurately the activities of the Group and enable more relevant peer comparison.

30. Voluntary change in accounting policy continued

Reclassification of expenses from R&D to general and administrative continued

This change in accounting policy has been accounted for retrospectively and the comparative information has been restated. The restatement has no overall impact on gross profit, operating profit or adjusted EBITDA. The effect of the change is shown in the table below for 2019:

	2019 As reported £m	Change in accounting policy £m	2019 Restated £m
Revenue	**178.3**	**—**	**178.3**
Cost of sales	(83.0)	—	(83.0)
Gross profit	**95.3**	**—**	**95.3**
Selling and marketing expenses	(3.0)	—	(3.0)
R&D expenses	(50.2)	13.6	(36.6)
General and administrative expenses	(13.7)	(13.6)	(27.3)
Other operating income	1.7	—	1.7
Operating profit before exceptional items, amortisation and impairment	**30.1**	**—**	**30.1**
Amortisation and impairment	(53.6)	—	(53.6)
Exceptional items	(3.5)	—	(3.5)
Operating loss	**(27.0)**	**—**	**(27.0)**

The new accounting policies are as follows:

R&D expenses

R&D comprises activities performed in relation to the Group's own intellectual property (IP) and technology platforms, or as part of a co-development programme where the risks, costs and rewards are materially shared with a third party. The expenses include internal employee costs, indirectly attributable labour costs and external costs, for example procurement and facilities allocations, depreciation of R&D facilities, including R&D sites, and applicable third-party service costs.

These expenses are recognised on an accruals basis in the year in which they are incurred.

General and administrative expenses (previously corporate and administrative)

General and administrative expenses represent shared costs incurred in managing the activities of the Group; these include indirect overhead costs, administrative support costs for the Group including employee costs and external costs of HR, IT, Legal (including the registration and maintenance of intellectual property) and Finance, Head Office costs, and associated depreciation and utility costs. This category also includes share-based payment charges in accordance with IFRS 2.

These expenses are recognised on an accruals basis in the period in which they are incurred.

31. Related party transactions

During the year, the Group has signed two agreements with Aerami Therapeutics Inc ("Aerami"). Anne Whitaker, a former Non-Executive Director of Vectura, is the CEO of Aerami. The Directors concluded that this was not a related party transaction in accordance with IAS 24 paragraph 11, which specifies that two entities are not considered to be related parties simply because they have a Director in common. Anne resigned as a Non-Executive Director of Vectura in September 2020.

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, was £2.5m and is set out below:

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Short-term employee benefits	**0.8**	1.4
Annual incentive plan	**0.9**	0.7
Non-Executive Directors' fees	**0.5**	0.6
Post-employment benefits	**0.1**	0.1
Other	**0.2**	0.2
Total remuneration of key management personnel	**2.5**	3.0

Please refer to the Remuneration report for the remuneration of each Director. The Remuneration report only includes Directors who held office in 2020.

Company balance sheet

At 31 December 2020

	Note	2020 £m	2019 £m
ASSETS			
Non-current assets			
Investments in subsidiary undertakings	4	**393.9**	393.9
Intercompany long-term loan	5	**88.4**	98.4
Total non-current assets		**482.3**	492.3
Current assets			
Amounts due from subsidiary undertakings		**1.4**	5.2
Cash and cash equivalents		**0.3**	6.7
Total current assets		**1.7**	11.9
Total assets and net assets		**484.0**	504.2
SHAREHOLDERS' EQUITY			
Share capital	6	**0.2**	0.2
Share premium		**61.7**	61.6
Share-based payment reserve		**6.7**	6.4
Merger reserve	7	**316.1**	316.1
Retained earnings		**99.3**	119.9
Total shareholders' equity		**484.0**	504.2

Company registered number: 03418970

The accompanying notes form an integral part of these individual financial statements.

The Company financial statements of Vectura Group plc were approved and authorised for issue by the Board of Directors on 17 March 2021 and were signed on its behalf by:

W Downie
Director

P Fry
Director

Company statement of changes in equity

For the year ended 31 December 2020

	Note	Share capital £m	Share premium £m	Merger reserve £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
At 1 January 2019		0.2	61.6	441.0	8.3	42.0	553.1
Loss for the year		—	—	—	—	(8.4)	(8.4)
Share buyback programme		—	—	—	—	(3.6)	(3.6)
Dividends paid		—	—	—	—	(40.1)	(40.1)
Share-based payments		—	—	—	3.2	—	3.2
Employee share schemes		—	—	—	(5.1)	5.1	—
Merger reserve release	7	—	—	(124.9)	—	124.9	—
At 31 December 2019		0.2	61.6	316.1	6.4	119.9	504.2
Loss for the year		—	—	—	—	(6.8)	(6.8)
Share buyback programmes		—	—	—	—	(16.6)	(16.6)
Share-based payments	9	—	—	—	4.4	—	4.4
Employee share schemes		—	0.1	—	(4.1)	2.8	(1.2)
At 31 December 2020		**0.2**	**61.7**	**316.1**	**6.7**	**99.3**	**484.0**

The loss for the year ended 31 December 2020 was £6.8m (2019: loss of £8.4m including £3.5m of dividend income).

The accompanying notes form an integral part of these Company financial statements prepared under FRS 101 – Reduced Disclosure Framework.

Notes to the Company financial statements

For the year ended 31 December 2020

1. Presentation of the financial statements

1.1 Critical accounting areas of judgement and estimation

In preparing these financial statements, critical judgements in the application of accounting policies can have a significant effect on the financial results; moreover, any changes in critical estimates and assumptions made could materially impact the amounts of assets, liabilities, revenue and expenses reported next year as actual amounts and results could differ from those estimates or those estimates could in future change.

Management has concluded that there are no critical accounting areas of judgement and estimation.

2. Basis of preparation – accounting policies for the Company financial statements

The Company prepares its financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRS") but has excluded certain information as permitted by FRS 101-Reduced Disclosure Framework. Details of Directors' remuneration, share options and retirement benefits are given in the Remuneration report.

These financial statements, which are prepared using the historical cost convention and on a going concern basis, are prepared in accordance with FRS 101 – Reduced Disclosure Framework and with UK accounting presentation under the Companies Act 2006 as at 31 December 2020, with comparative figures as at 31 December 2019.

As permitted by section 408 of the Companies Act 2006, the Company's income statement and related notes have not been presented in these financial statements. The loss for the year ended 31 December 2020 was £6.8m (2019: loss of £8.4m inclusive of £3.5m of dividend income).

The Company also takes exemptions in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement and certain related-party transactions including remuneration of key management personnel, on the basis that equivalent disclosures are given in the Group's consolidated financial statements.

Key accounting policies and judgements relate to investments in subsidiary undertakings. Investments in subsidiaries are stated at historical cost less any provision for impairment. The carrying amounts of the Company's investments are reviewed at each reporting date to determine whether there is an indication of impairment. If such an indication exists, then the recoverable amount of the asset is estimated to ensure that the carrying value remains supportable.

Any impairment charges are recognised in the income statement and are reflected in an allowance against the carrying value. The distributable reserves of Vectura Group plc are protected from the impact of any decrease in the valuations of investments to the extent of the available merger reserves. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Company income statement.

3. Dividend income

The Company did not receive dividend income from subsidiary undertakings during the year (2019: £3.5m).

4. Investments in subsidiary undertakings

The Company holds an investment of £393.9m in Vectura Group Services Limited (VGSL). Vectura Inc is a non-trading entity and therefore has a carrying value of £nil. There was no movement in the subsidiary undertakings during the year.

The Company's direct investments at 31 December 2020 are as follows:

Name of undertaking	Country of incorporation	Holding	Proportion	Nature	Investment value £m
Vectura Group Services Limited	United Kingdom	Ordinary	100%	Holding	393.9
Vectura Inc	United States	Ordinary	100%	Non-trading	—

The investment in subsidiary undertakings reflects historical cost less any provision for impairment. Following the goodwill impairment in the consolidated financial statements and the decision to significantly reduce the R&D operations in Muttenz, the carrying value of the investment in VGSL has been reviewed for impairment.

The carrying value of the investment in VGSL is compared to its recoverable amount, which is assessed with reference to the discounted cash flow forecasts generated by the underlying operations of the subsidiaries represented by the investment. VGSL contains both the UK and Swiss cash-generating units (CGUs) and as such their recoverable amounts are used for the investment impairment review, after ensuring that the cash flows are appropriate and the restrictions of IAS 36-Impairment of Non-Current Assets have been properly applied. Details relating to the valuation of the CGUs and the key assumptions are provided in note 14 "Goodwill" of the Group's consolidated financial statements.

The aggregate fair value less costs to disposal (FVLCD) of the underlying CGUs is sufficiently higher than the carrying value of the investment to VGSL.

Notes to the Company financial statements continued

For the year ended 31 December 2020

5. Intercompany term loan

The Company has a receivable loan with VGSL recognised on transferring the Company's investment in Vectura Group Investments Limited (VGIL) to VGSL in June 2019. During the year, an amount of £10.0m was repaid. The loan is considered to be non-current because the Company does not have the right to call repayment on demand until the loan expiry date of 30 June 2029. The applicable interest rate on the loan is 1.778%.

Intercompany term loan with VGSL	£m
At 31 December 2019	98.4
Payments received	(10.0)
At 31 December 2020	**88.4**

6. Ordinary share capital

Allotted, called up and fully paid	£m	Number of shares
Ordinary shares of 0.0271p each at 1 January 2020	0.2	611,496,773
Issued to satisfy Vectura employee share plans		1,429,503
Share buyback programmes – cancellations		(16,966,795)
Ordinary shares of 0.0271p each at 31 December 2020	**0.2**	**595,959,481**

Redeemable preference shares of 34,000 at £1 par value have no associated voting, dividend or coupon rights but are eligible to be repaid before any distribution to shareholders; the shares can be repaid by the Company at any time.

7. Merger reserves

On the acquisition of a business, fair values reflecting conditions at the date of acquisition are attributed to the net assets acquired. Where merger relief is applicable under the UK Companies Act, the difference between the fair value of the business acquired and the nominal value of shares issued as purchase consideration is treated as a merger reserve.

The merger reserves are non-distributable reserves but become distributable to offset any future diminution in the investment value, or where that investment is disposed of for qualifying consideration.

As disclosed in the 2019 Annual Report, on disposal of the investment in Vectura Group Investments Limited, associated merger reserves of £124.9m were released to retained earnings, one-third (£49.3m) being considered realised as settled for cash (qualifying consideration) and two-thirds (£75.6m) considered unrealised until such time in the future that the debtor is repaid.

During the year an amount of £10.0m was repaid in cash (refer to note 4 "Investments in subsidiary undertakings"), resulting in a further £10.0m becoming distributable realised retained earnings. Refer to note 8 "Distribution capacity".

8. Distribution capacity

The capacity of the Company to make dividend or distribution payments is primarily determined by the availability of distributable reserves (realised retained earnings) and cash resources. As at 31 December 2020, following the completion of the second share buyback programme (refer to note 9 "Distributions to shareholders") and the partial repayment of the intercompany term loan with VGSL which resulted in the increase of realised retained earnings (refer to note 7 "Merger reserves"), the Company had distributable reserves of £11.7m (2019: £22.3m):

Allotted, called up and fully paid	Realised £m	Unrealised £m	Total £m
At 1 January 2020	22.3	97.6	119.9
Loss for the year	(6.8)	—	(6.8)
Share buyback programmes	(16.6)	—	(16.6)
Employee share transactions	4.1	—	4.1
Funding of employee share schemes	(1.3)	—	(1.3)
Partial repayment of intercompany term loan	10.0	(10.0)	—
At 31 December 2020	**11.7**	**87.6**	**99.3**

9. Distributions to shareholders

Share buyback programme

In October 2019, the Group announced that the Board had approved a share buyback programme to return up to £10m to shareholders, which concluded in March 2020. A second share buyback was announced in May 2020 for a further £10m which concluded in September 2020. In total during the year, £16.4m of capital was returned to shareholders at a weighted average price of 97.0p per share. Directly attributable costs of £0.2m have been expensed to equity.

Dividends

The Directors do not propose the payment of an ordinary dividend for 31 December 2020 (2019: payment of special dividend of £40.0m).

Notes to the Company financial statements continued

For the year ended 31 December 2020

10. Other statutory information

In accordance with section 409 of the Companies Act 2006 a full list of subsidiaries and associates, the country of incorporation and the effective percentage of equity owned, at 31 December 2020 is disclosed below. Unless otherwise stated the share capital disclosed comprises ordinary shares which are indirectly held by Vectura Group plc.

All subsidiary companies are resident for tax purposes in their country of incorporation unless otherwise stated.

	Country/region of incorporation	Ordinary shareholding	
Vectura Limited	United Kingdom	100%	One Prospect West, Chippenham, Wiltshire SN14 6FH
Innovata Limited	United Kingdom	100%	One Prospect West, Chippenham, Wiltshire SN14 6FH
Vectura Delivery Devices Limited	United Kingdom	100%	One Prospect West, Chippenham, Wiltshire SN14 6FH
Innovata Biomed Limited	United Kingdom	100%	2nd Floor North, Saltire Court 20, Castle Terrace, Edinburgh EH1 2EN
Quadrant Drug Delivery Limited	United Kingdom	100%	One Prospect West, Chippenham, Wiltshire SN14 6FH
Vectura Group Services Limited*	United Kingdom	100%	Manning House, 22 Carlisle Place, Westminster, London SW1P 1JA
Vectura Group Investments Limited	United Kingdom	100%	One Prospect West, Chippenham, Wiltshire SN14 6FH
Jagotec AG	Switzerland	100%	Wildensteinerstrasse 1, 4132 Muttenz, Switzerland
Skyepharma AG	Switzerland	100%	Wildensteinerstrasse 1, 4132 Muttenz, Switzerland
Skyepharma Holding AG	Switzerland	100%	c/o A+Z Treuhand und Beratung AG, Chollerstrasse 3, 6300 Zug
Skyepharma Production SAS	France	100%	38291 Saint-Quentin-Fallavier, France
Vectura Inc*	United States	100%	20 William Street, Suite 130, Wellesley MA 02481
Vectura Ireland Limited	Republic of Ireland	100%	The Brickhouse, Clanwilliam Court, Block 1, Lower Mount Street, Dublin 2 D02 CF97
Skyepharma Holding Inc	United States	100%	1209 Orange Street, Wilmington, New Castle, Delaware 19801, USA
Skyepharma US Inc	United States	100%	2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, USA
Vectura GmbH	Germany	100%	Dingolfinger Strasse 15, Munich, 81673, Germany
Ventaleon GmbH	Germany	30.66%	Wohraer Str. 37, 35285, Gemünden/Wohra, Germany
Innovata HK Limited	Hong Kong	82.35%	Unit 1802, 79 Lei Muk Road, Kwai Chung, N.T., Hong Kong
Tianjin Kinnovata Pharmaceutical Co. Ltd	China	45.95%	Eleventh Street, Tianjin Economic-Technological Development PRC
Quadrant Healthcare Limited	United Kingdom	100%	One Prospect West, Chippenham, Wiltshire SN14 6FH
Quadrant Technologies Limited	United Kingdom	100%	One Prospect West, Chippenham, Wiltshire SN14 6FH
QDose Limited	United Kingdom	50%	One Prospect West, Chippenham, Wiltshire SN14 6FH
Krypton Limited	Gibraltar	100%	19 Town Range, Gibraltar
Skyepharma Management AG	Switzerland	100%	Wildensteinerstrasse 1, 4132 Muttenz, Switzerland
Genta Jago Technologies B.V.	Netherlands	50%	Herikerbergweg 238, 1101 CM Amsterdam, NL

* Directly held by the Company

Glossary

The following abbreviations are used throughout these financial statements:

CGU	Cash-generating unit
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
Notes	Notes to the consolidated financial statements
OCI	Other comprehensive income
IAS 1	Presentation of Financial Statements
IAS 7	Statement of Cash Flows
IAS 16	Property, Plant and Equipment
IAS 17	Leases (superseded in 2019)
IAS 18	Revenue (superseded in 2018)
IAS 19	Employee Benefits
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 28	Investments in Associates and Joint Ventures
IAS 33	Earnings per Share
IAS 36	Impairment of Non-Current Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IFRIC 23	Uncertainty over Income Tax Treatments
IFRS 2	Share-Based Payments
IFRS 3	Business Combinations
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases

Shareholder information

Directors

Bruno Angelici
Non-Executive Chairman

Will Downie
Chief Executive Officer

Paul Fry
Chief Financial Officer

Thomas Werner
Non-Executive Director and Senior Independent Director

Per-Olof Andersson
Non-Executive Director and Designated Workforce Engagement Director

Juliet Thompson
Non-Executive Director

Kevin Matthews
Non-Executive Director

Jeanne Taylor Hecht
Non-Executive Director

Jeanne Thoma
Non-Executive Director

Company Secretary

John Murphy

Corporate broker

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25 Bank Street
Canary Wharf
London
E14 5JP, UK

Corporate broker

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10 Paternoster Square
London
EC4M 7LT, UK

Public relations

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London
EC2R 7HG, UK

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BS99 7NH, UK

Auditor

KPMG LLP
15 Canada Square
London
E14 5GL, UK

Bankers

Barclays Bank plc
1 Churchill Place
Canary Wharf
London
E14 5HP, UK

Legal advisors

Clifford Chance
10 Upper Bank Street
Canary Wharf
London
E14 5JJ, UK

Vectura Group plc

(Registered office)
One Prospect West
Chippenham
Wiltshire
SN14 6FH, UK

Vectura trademarks

flutiform® is a registered trade mark of Jagotec AG (some territories are owned by Mundipharma AG).

GyroHaler® is a registered trade mark of Vectura Delivery Devices Limited.

Vectura® is a registered trade mark of Vectura Limited.

Third-party trademarks

Advair®, Diskus®, Anoro® Ellipta®, Relvar® Ellipta®/Breo® Ellipta® Incruse® Ellipta®, Arnuity® Ellipta® and Trelegy® Ellipta® are registered trade marks of Glaxo Group Ltd.

Breelib™ is a registered trade mark of Bayer Intellectual Property GmbH.

Breezhaler®, Seebri® Breezhaler®, Ultibro® Breezhaler®, Enerzair® Breezhaler®, Airbufo® Forspiro® and AirFluSal® Forspiro® are registered trade marks of Novartis.

AG Bluetooth® is a registered trade mark of Bluetooth SIG.

EXPAREL® is a registered trade mark of Pacira Pharmaceuticals Inc.

k-haler® is a registered trade mark of Mundipharma AG.

RAYOS® is a registered trade mark of Horizon Pharma.

Forward-looking statement

This Annual Report and Accounts contains forward-looking statements, including statements about the commercialisation of products and the successful execution of the Group's strategy to win new customer contracts for development services. Various risks may cause Vectura's actual results to differ materially from those expressed or implied by the forward looking statements, including: failure to develop a strong pipeline of new CDMO opportunities and to successfully convert these opportunities into new revenues with an acceptable margin profile; the requirement for substantial funding to conduct research and development to maintain a competitive service offering; commercial limitations imposed by patents owned or controlled by third parties; dependence upon strategic alliance partners to develop and commercialise products and services; difficulties or delays in obtaining regulatory approvals to market products and services resulting from development efforts; and product initiatives by competitors. As a result of these factors, prospective investors are cautioned not to rely on any forward-looking statements. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Nothing in this Annual Report and Accounts should be construed as a profit forecast.

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