CIRCASSIA

Delivery time

Circassia Pharmaceuticals plc
Annual report and accounts 2015

Contents

Circassia in brief

Circassia is a world-class specialty biopharmaceutical business focused on allergy and respiratory disease. The Company has an established commercial infrastructure, marketed products, a pipeline of near-term therapies and a portfolio of next generation treatments targeting multi-billion dollar market opportunities. Circassia sells its novel, market-leading products for asthma management directly to allergy/asthma specialists in the United States and Germany. Its products are also promoted in a number of other countries by the Company's international network of partners.

Circassia's broad-based development pipeline includes a range of treatments for allergy and respiratory disease. Circassia's most advanced next-generation immunotherapy is currently in phase III testing for cat allergy, and is the first in a new class of treatments, Synthetic Peptide Immuno-Regulatory Epitopes (SPIREs). Three other SPIREs, targeting house dust mite, ragweed and grass allergies, have completed clinical proof-of-concept phase IIb studies. Circassia's lead asthma treatment, which targets substitution of GSK's Flixotide® pMDI, is approved in the UK, and the Company is developing therapies targeting direct substitution of Seretide® pMDI and Serevent® pMDI. The Company is also developing a number of novel treatments, including a fixed dose 'triple' combination containing an inhaled corticosteroid, long-acting beta agonist and long-acting muscarinic antagonist.

CIRCASSIA

We think globally
Because our target diseases know no borders

See page 02

Determined to deliver
Improving health is a major opportunity

See page 06

Delivery time
We're delivering on our potential

See page 10

We think globally
Because our target diseases know no borders

Allergies, asthma, chronic obstructive pulmonary disease. All cause misery. All are global. We're targeting each with our unique technologies.

ToleroMune® technology for innovative allergy treatments

Our next generation immunotherapies have the potential to revolutionise allergy treatment. They are based on ToleroMune® technology that identifies unique combinations of synthetic peptide T-cell epitopes capable of rapidly inducing immune tolerance. As a result, our allergy products are the first in a new class of treatments, Synthetic Peptide Immuno-Regulatory Epitopes (SPIREs).

3 sec

Half of Americans with asthma had an attack during the year. That's more than 11 million asthma attacks annually. That's one every three seconds.

235m people

Asthma is one of the world's major non-communicable diseases. WHO estimates it affects 235 million people globally. And it's the most common chronic disease in children.

3rd biggest killer

Chronic obstructive pulmonary disease (COPD) is a major killer. It was responsible for over three million deaths in 2012. WHO predicts it will become the third biggest cause of death by 2030.

We think globally
Because our target diseases know no borders

COPD is a major cause of disability. It is the third biggest cause of death in the United States, where millions of people have been diagnosed. COPD develops slowly, with the symptoms often worsening over time.

Asthma is a common disease, and affects people of all ages. In Europe about 30 million aged under 45 have the disease.

Allergies cause chronic misery

Allergies are an overreaction of the immune system to substances that wouldn't normally be harmful. They are extremely common, affecting over one billion people worldwide, and allergic rhinitis is the world's most prevalent chronic non-communicable disease. It is characterised by sneezing, blocked nose and itching and burning eyes, and allergies can cause skin rashes and itching as well as wheezing or chest constriction. As a result, allergy can cause chronic misery, greatly impacting quality of life by causing sleep problems and fatigue, reducing concentration and limiting social functioning.

Asthma has no cure

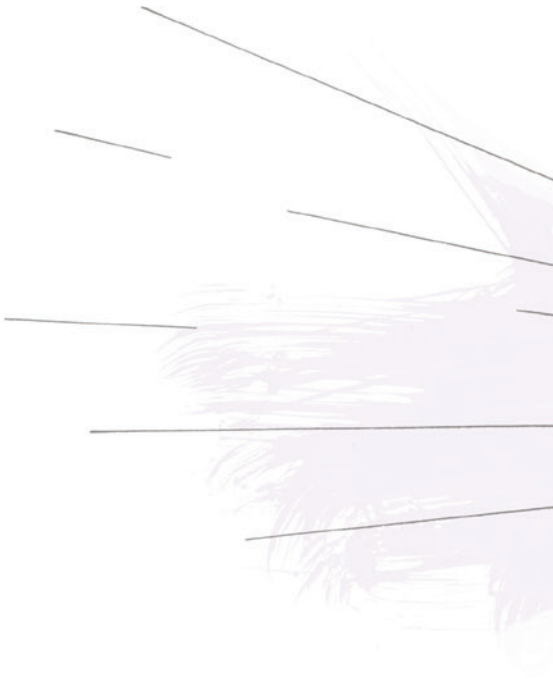
Asthma is a common lung disease. It is the world's most frequent chronic disease in children, and WHO estimates that the number of people with asthma will increase by more than 100 million in the next 10 years. Asthma is characterised by chronically inflamed airways, which can be irritated by external triggers, such as allergens, tobacco smoke, cold air, chest infections and certain chemicals. This can cause airway contraction and secretion of mucus into the airways, making breathing more difficult. Consequently, asthma can result in symptoms such as coughing, wheezing, breathlessness and chest tightness. Asthma exacerbations occur when the number and/or level of symptoms increase and become more intense. Severe asthma exacerbations can require emergency care, and can even be fatal.

COPD is under-diagnosed and life-threatening

Chronic obstructive pulmonary disease (COPD) is an umbrella term, which incorporates chronic lung diseases that limit the lungs' airflow, and includes the previously used diagnoses of 'emphysema' and 'chronic bronchitis'. The primary cause is tobacco smoke and the most common symptoms are breathlessness, excessive sputum and chronic cough. However, rather than just 'smoker's cough', COPD is under-diagnosed and life-threatening and can progressively lead to death. WHO estimates that COPD is responsible for over three million deaths annually, accounting for six percent of global mortality.

Determined to deliver
Improving health is a major opportunity

We plan to revolutionise allergy therapy. We're transforming the management of asthma. We intend to boost COPD treatment. We want to improve the lives of sufferers worldwide.



Particle-engineering technology for asthma and COPD treatments

We are developing particle-engineered products to substitute for successful asthma therapies and improve COPD treatment. Respiratory medicines are notoriously difficult to produce, and we use focused radial ultrasound to control particle properties to overcome these challenges. Our unique approach is broadly applicable across product and device types, giving us a major advantage.

24m

Cat allergy is common. 24 million Americans are cat-allergic, and over one million of them consult a specialist each year. Of these, few accept currently-available immunotherapy, and fewer still finish it. This large majority are our target market.

$190m

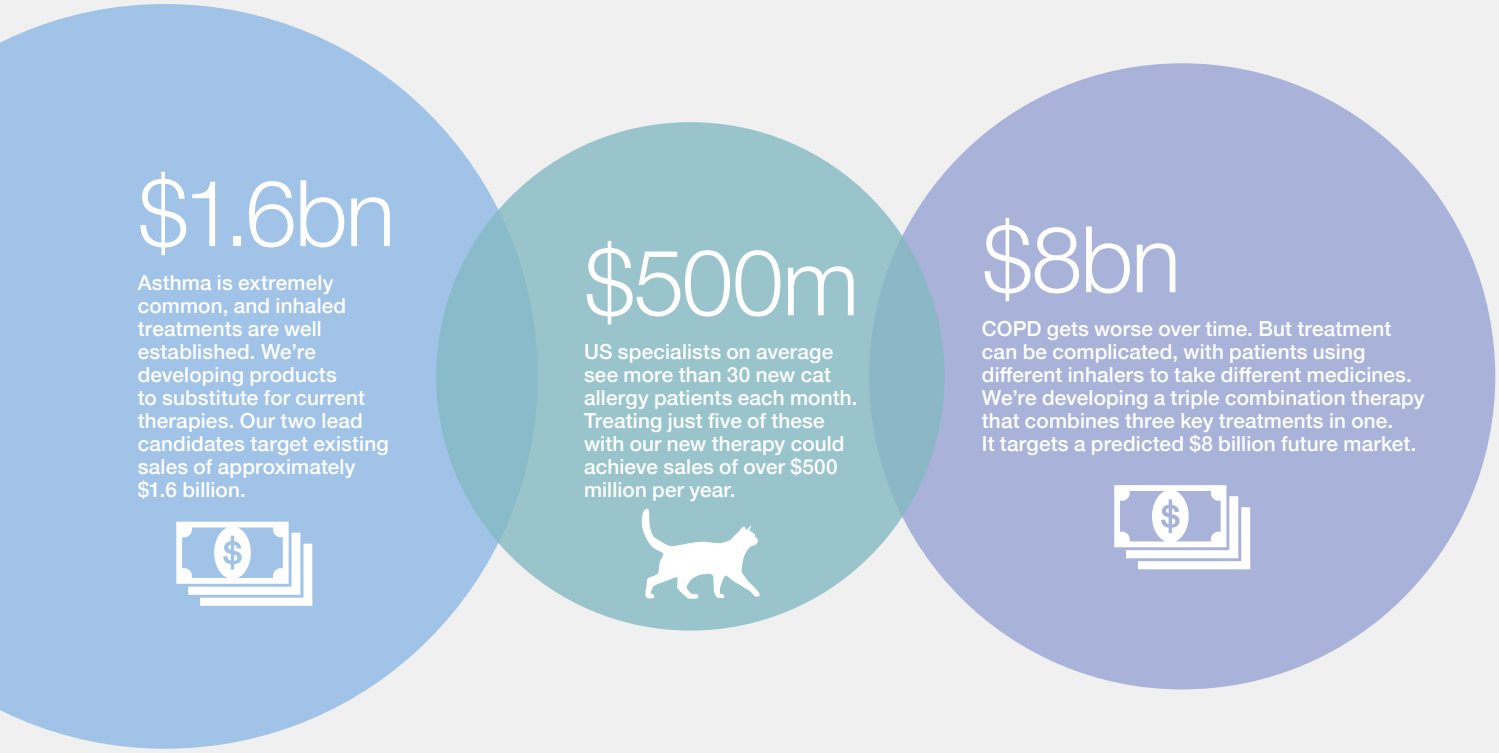
Our NIOX® products are market leaders. They're used to improve the diagnosis and management of asthma. And they're currently targeted at specialists. In the US alone, this opportunity is about $190 million.

Determined to deliver

Improving health is a major opportunity

Significant numbers of people are affected by cat allergy. In Europe and the US, between 80 million and 90 million people are sensitised to the cat proteins that are responsible for allergic reactions.

Current immunotherapies have inherent problems. Requiring lengthy treatment, and with adverse reactions common, patient compliance is poor.



Our products have significant market opportunities

Our business is based on three separate franchises, built on three different technologies. Each has a significant market opportunity. Each is sufficient to drive our success. And we're determined to deliver across all three.

We already sell our NIOX® products direct to specialists in the US and Germany, and our partners market them elsewhere. NIOX® is the market leader, and the only product of its type available across major markets. This gives us a huge advantage. In the US alone, we're targeting a specialist opportunity of $190 million.

Our allergy treatments also have a significant commercial potential. Third-party research suggests our cat allergy treatment has the potential to achieve peak sales of over $500 million, and our other products have major market opportunities.

Our asthma treatments are designed to substitute for existing products. This requires little promotion, with the prospect of significant sales, and our two lead candidates target existing revenues of approximately $1.6 billion. Our COPD treatments also target major markets, which are predicted to reach over $11 billion per year.

An allergy revolution

We use our unique ToleroMune® technology to develop next-generation allergy therapies with the potential to revolutionise current treatment. In contrast with existing therapies, we design our products to deliver strong and long-lasting treatment effects with a positive safety profile from just a short course of therapy. And we're making good progress. Our most advanced product is in the final phase of testing, and we're expecting to deliver the results in the coming months.

NIOX® delivery

NIOX® is unique. It delivers highly accurate measurements of nitric oxide in asthma patients' breath in an easy-to-use device. Physicians can use this to improve asthma management, and the approach is recommended by leading asthma societies. Our improved next-generation product is now available in many markets, and we are starting to deliver on NIOX®'s potential. Sales grew more than 30% last year.

Delivering respiratory medicines

We are developing our asthma and COPD medicines in easy-to-use pMDI inhalers. These are well established with patients and have been used for decades. They also give us an important opportunity. Other companies are developing asthma substitute products, but few in pMDIs, and this limited competition boosts our target opportunity. We are making good progress. Our lead product is now approved in the UK, and we are advancing others too. Our COPD treatments are also progressing. They have significant benefits over existing treatments, and both are in clinical development.

Delivery time
We're delivering on our potential

We've had a year of achievements across each area of our business. And 2016 promises to be exciting. We're planning a year of delivery.

NIOX® technology for asthma management

Allergic airway inflammation is the major underlying cause of asthma, and patients generally have higher than normal levels of nitric oxide in their exhaled breath. Our unique NIOX® technology measures its concentration, and clinicians can use this to evaluate patients' allergic airway inflammation and improve asthma management.

Q2 2016

Our lead allergy treatment is on track. The last phase III subject has completed treatment. We're on schedule to deliver results in Q2 2016.

2 marketed products

We sell NIOX® direct in the US and Germany. Partners sell it elsewhere. Recently, we launched the next generation NIOX® in China. And we're planning to go direct in additional EU countries.

NIOX

Delivery time
We're delivering on our potential

Our NIOX® products are the only point-of-care devices available across major markets for the measurement of FeNO to assist asthma diagnosis and management.

We are advancing our clinical portfolio with clinical studies ongoing in each of our allergy, respiratory and NIOX® portfolios.

6 clinical studies

We've got a broad pipeline of 12 allergy, asthma and COPD treatments. And we plan to extend our NIOX® indication. We've got six clinical studies underway and several others planned.

UK approval

Our lead asthma treatment is now approved. This was achieved with *in vitro* data only. Reaching this hurdle is highly challenging, and we believe we're the first to do so.

£203.8m

We raised £275 million to fund our acquisitions. Our balance sheet remains strong. With £203.8 million of cash at the end of 2015, we're funded to deliver.

Delivering our strategy

Our strategy is clear. We aim to build a world-class and self-sustaining biopharmaceutical company, with novel products sold direct in key markets and a broad and balanced pipeline. During the last year, we accelerated our progress towards this goal. We advanced our allergy treatments, and completed two acquisitions that gave us marketed products, direct sales capabilities and an enlarged portfolio.

Delivering our pipeline

Our allergy pipeline has great potential, and during 2015 we continued to move our treatments towards the market. We dosed the last patient in our cat allergy phase III study and remain on track to deliver results in Q2 this year. We completed recruitment into our house dust mite allergy study, moved our birch allergy treatment into the clinic and are planning large-scale field studies of our grass and ragweed allergy therapies.

Marketing our products

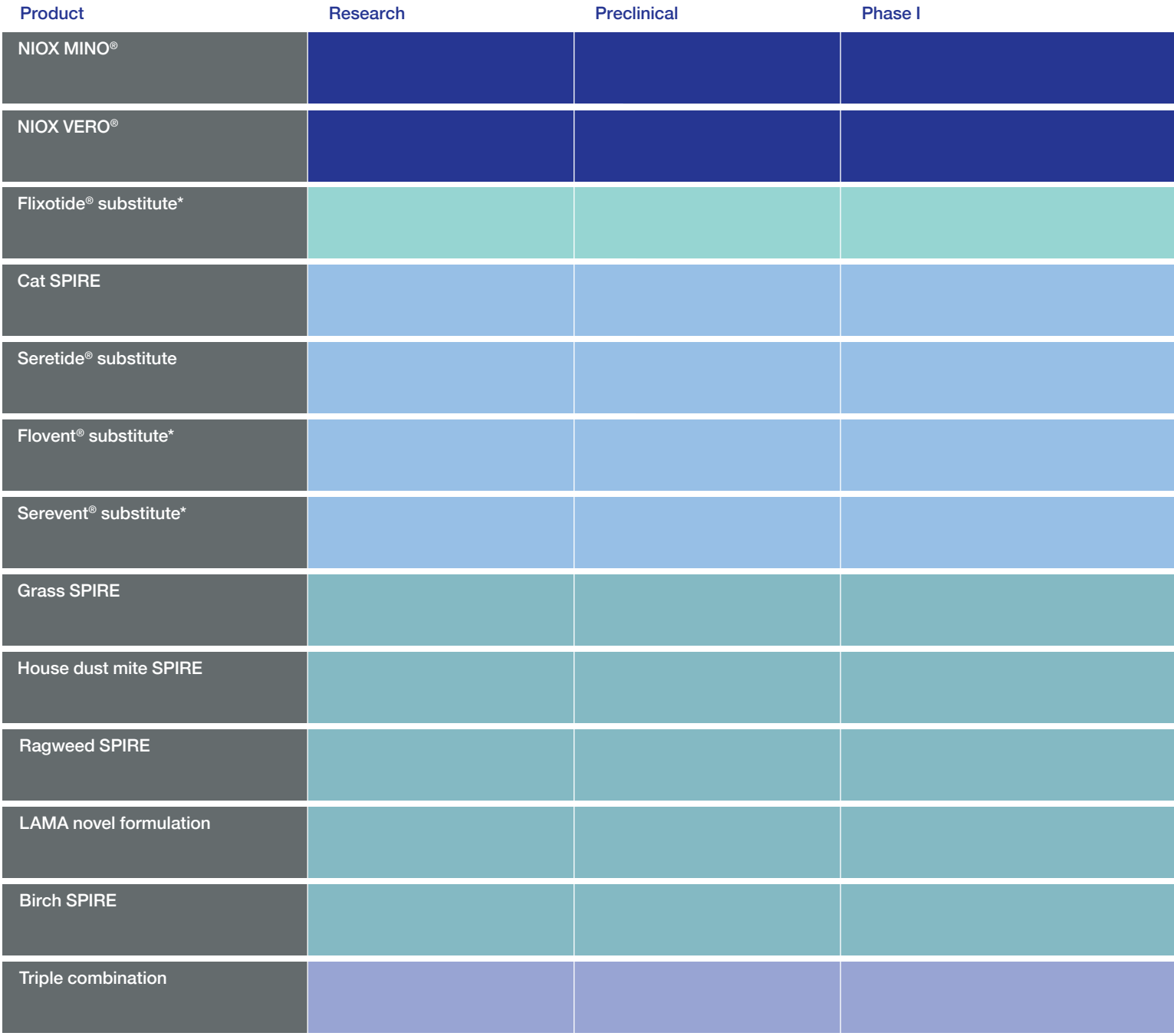
In June, we acquired two marketed products and teams to sell them to allergy and asthma specialists in the US and Germany. We then expanded this capability, boosting the sales force and adding marketing, market access and reimbursement expertise. We intend to extend this further in 2016, in our existing countries and further afield too. We then plan to use these capabilities to launch our cat allergy treatment once approved. Preparing early lets us target faster uptake and higher sales.

Broadening our pipeline

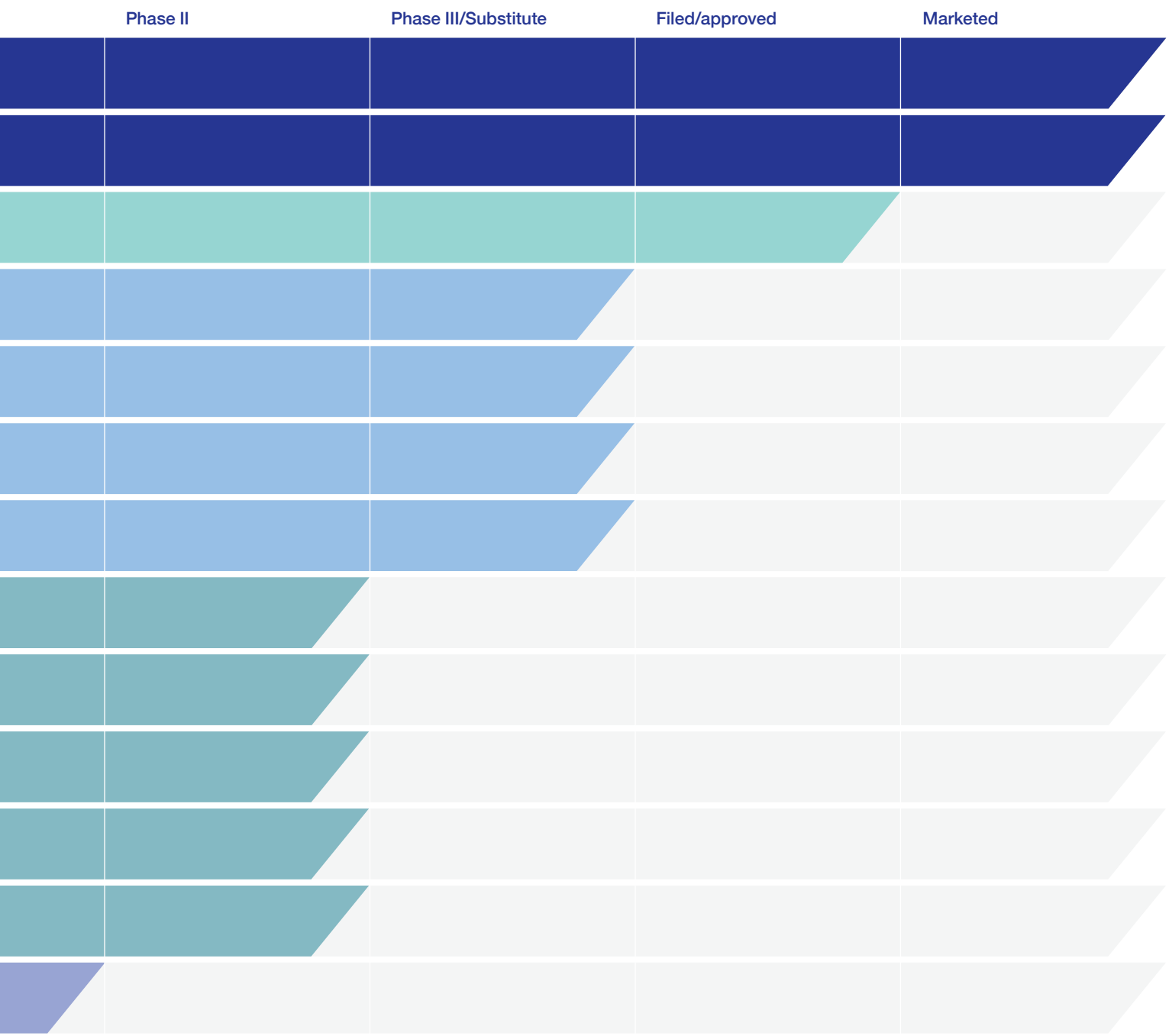
At the same time we broadened our pipeline. As well as progressing our earlier-stage allergy products, we acquired a portfolio of asthma and COPD treatments. The lead asthma therapy is now approved, and we moved a novel combination treatment for COPD into clinical development. We now have a broad and balanced portfolio, with marketed products, near-term allergy and asthma treatments and longer-term COPD therapies.

Delivering a broad and balanced portfolio

We're making good progress developing our innovative allergy immunotherapies. We've broadened our pipeline with asthma treatment substitutes and COPD therapies. And we're pursuing new indications for NIOX®.



* Partnered
Pipeline does not include earlier stage programmes: Japanese cedar SPIRE, Alternaria SPIRE, NIOX® home device


Phase II
Phase III/Substitute
Filed/approved
Marketed

Chairman's statement

The last year has been a period of significant progress for Circassia. We advanced our pipeline of innovative allergy therapies and the successful acquisitions of Aerocrine and Prosonix accelerated our strategy to commercialise these products independently in key markets, while also building a broad and balanced pipeline of specialty treatments. With a successful £275 million fundraising completed to support the acquisitions, the Company remains well funded to deliver across the newly-expanded business.

Three franchises; one common infrastructure

Our strategy to transform Circassia into a self-sustaining leader in the specialty pharmaceutical sector took a significant leap forward in 2015. The business now has three separate specialty franchises based on three innovative technologies, which come together under a single therapeutic focus and leverage a common commercial 'backbone' and out-sourced business model. While the Company remains centred around its revolutionary allergy products, it is also building significant additional value from its broader asthma and respiratory portfolio that can leverage its newly-established commercial infrastructure.

These acquisitions represent an important strategic milestone for Circassia. Crucially, they 'leapfrog' the requirement to build a commercial presence from scratch prior to our first product approval, thereby avoiding the major challenges associated with recruiting and retaining talented sales teams before they have products to sell and having to commit resources to major infrastructure ramp up before a revenue stream is established.

The acquisition of Aerocrine brings commercial operations in the world's two largest allergy markets, the US and Germany, and a network of distribution channels in other territories that we can bring in-house to expand our capabilities. Most importantly, the field forces already target our future core customers: the allergy specialists who will be responsible for the success of our immunotherapy portfolio. This established infrastructure provides an ideal foundation for our ambitious growth plans, while also providing an immediate and growing revenue stream from sales of its market-leading NIOX® products.

Circassia's commercial progress was complemented by the concurrent acquisition of Prosonix, which broadens and balances our pipeline. Its products fall into the same respiratory focus as Aerocrine, with a number of near-term asthma treatments. These are complemented by longer-term novel formulations targeting chronic obstructive pulmonary disease (COPD). These products can leverage our common commercial infrastructure, with late-stage asthma substitute treatments not requiring significant promotion but using our supply chain, reimbursement, compliance and analytic capabilities, while the success of the longer-term novel formulations can be greatly enhanced by directly targeting key opinion leaders and specialists.

Building momentum

Since completing these acquisitions in June 2015, we have made good progress advancing all three franchises of our business. In our immunotherapy franchise we are on track to complete our cat allergy pivotal trial in the near future and to initiate a registration study in grass allergy. Our commercial progress is underlined by solid sales growth in our acquired NIOX® franchise, while our most advanced acquired asthma treatment has now been approved by the UK regulator. Overall, we have continued the momentum created by our acquisitions, and have ambitious plans to build on this in the coming year.

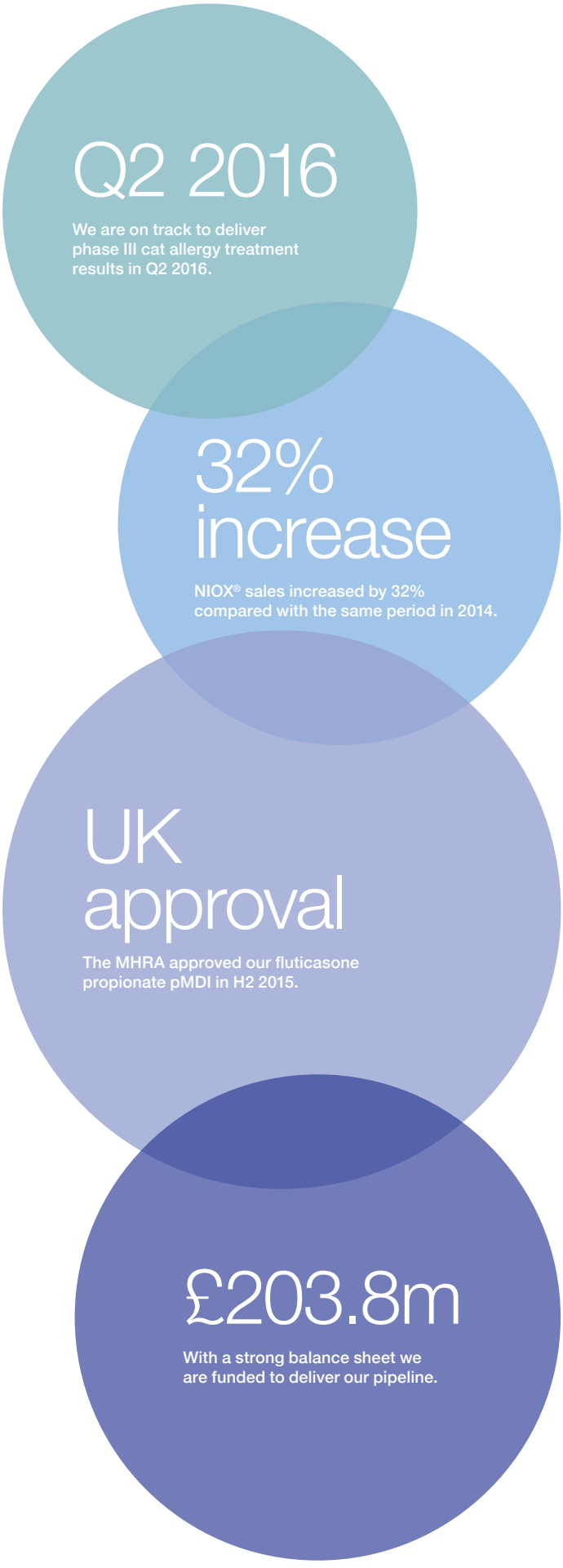
Positive outlook

Circassia's future looks highly encouraging as our ambition to bring our portfolio to market is increasingly matched by our capability to do so. In the near-term, we look forward to completing our cat allergy phase III study, while expanding our commercialisation capabilities in preparation for its launch. With the allergy sector continuing to attract attention, and current therapies that target the underlying disease remaining highly inadequate, we are well placed to exploit the commercial potential of this previously poorly-served market.

Looking to the longer-term, the future is equally positive. With three franchises, any of which has the potential to drive long-term success, we have the prospect of ongoing substantial sales growth, complemented by three potential product filings by the end of next year and eight potential product launches by the end of 2021. With a robust balance sheet to support our ambitious plans, we are well placed to achieve our goal of becoming a self-sustaining, world-class specialty biopharmaceutical business.

Dr Francesco Granata
Chairman

Operational and financial highlights



Allergy clinical programmes progressing

- Cat allergy phase III pivotal study (CATALYST) completed last patient dosing; results expected Q2 2016; pre-BLA meeting scheduled with FDA
- Cat allergy two-to-five year follow-up (CP007A) continuing enrolment; 424 subjects enrolled to date
- Cat allergy paediatric safety study (CP009) completed
- Grass allergy registration study on track to start H1 2016
- House dust mite allergy phase IIb field study (TH005) completed enrolment (n=715 subjects)
- Ragweed allergy phase IIb follow-up (TR006A) completed; treatment effect demonstrated for all regimens with 21% improvement in change in combined score across season for highest dose
- Ragweed allergy phase IIb dose-ranging study on track to begin recruitment in 2016 season
- Birch allergy first-in-human clinical study fully recruited and dosing complete; data expected Q3 2016

Asthma management products achieved strong growth

- NIOX® sales increased 32% to £10.3 million since acquisition (same period 2014 at CER: £7.8 million)[1]
- NIOX VERO® launched in China in August
- Study initiated to extend US indication to children aged four to six years old

Respiratory programmes advancing with lead product approved

- Lead asthma product targeting substitution of GSK's Flixotide® pMDI approved in UK under European Decentralised Procedure
- Seretide® pMDI substitute targeting filing 2017
- Triple combination first-in-human clinical study on track to report Q2 2016

Commercialisation on track with commercial organisation increased to over 100

- Direct specialty sales established in US and Germany; broad distribution network in additional territories
- Significant US sales team expansion; increased by 65% to 48 currently with further doubling planned by Q1 2017
- Expansion of European direct sales presence into key European markets underway
- Regional Medical Affairs team established in US and key European markets
- Market access, supply chain, marketing and sales operations teams in place
- New global NIOX® promotional campaign launched
- Cat allergy market research completed; proposed brand and scientific names finalised

Financial highlights

- Placing and Open Offer successfully completed in June raising £275.0 million (gross) to fund strategic acquisitions
- Robust revenue growth since acquisitions to £10.8 million (2014: £nil)
- Research and development investment increased to £46.8 million (2014: £38.6 million)
- Loss for the year £50.0 million (2014: £35.1 million)
- Funded to deliver portfolio; £203.8 million cash[2] at 31 December 2015 (31 December 2014: £186.6 million)

[1] Acquisition completed 18 June; revenues recorded by Circassia 19 June – 31 December

[2] Cash, cash equivalents and short-term deposits; £30 million paid to Prosonix ex-shareholders January 2016 following lead product approval

Chief Executive's review

Circassia is in a period of exciting transformation as we accelerate our strategy to become a self-sustaining specialty biopharmaceutical company. Our innovative allergy treatments continue to make good progress, and we remain on track to deliver our phase III results in the coming months. During the year, we successfully completed two strategic acquisitions, which give us established specialty commercial infrastructure targeting the key customers for our next-generation allergy immunotherapies, while also significantly broadening our pipeline. Importantly, these acquisitions have been validated by the significant sales growth of our acquired NIOX® products and the approval of our lead asthma treatment.

In the coming year, we intend to build on this progress, expanding our commercial presence in preparation for the launch of our first allergy treatment, while further increasing sales of our approved products. We also plan to deliver on our wider pipeline, including moving our grass allergy treatment into a registration study. As a result, 2016 will be an important year for Circassia as we move towards our goal of building a leading specialty biopharmaceutical business.

Building a successful specialty biopharmaceutical company

Our franchise of novel allergy immunotherapies offers the potential of significant improvements over currently available treatments, and in 2015 we made good progress in advancing our products towards the market. As part of our commercialisation strategy, we acquired Aerocrine with its established commercial infrastructure in the US and Germany that is already targeting the allergy / asthma specialists we need to educate on our novel allergy technology in order to generate faster and greater product uptake following launch. We are now well positioned in the world's two most important allergy markets to identify key accounts, train our sales force and prepare the marketplace well in advance of product approval. The acquisition also brought market-leading NIOX® asthma management products, providing us with a rapidly growing revenue stream and the opportunity to expand our direct presence into additional countries currently served by distributors. Concurrent with this acquisition, we purchased Prosonix, which broadened the asthma portfolio and brought novel formulations for the treatment of chronic obstructive pulmonary disease (COPD). Consequently, we have made good progress in building a world-class specialty business that is centred on our pipeline of innovative allergy therapeutics, and complemented by a wider portfolio of products we can promote directly to specialists in North America and key European markets, or substitute directly.

Delivering our lead allergy product

Throughout this period of transition, we have maintained the focus on our allergy portfolio, and our cat allergy programme remains on track to report pivotal phase III results in the next quarter. Our preparations to submit the data to the regulators in North America and Europe, dependent on the outcome, are also on schedule, with filings planned before the end of the year. In preparation for launch, we have entered a commercial manufacturing supply agreement with Bachem, completed market research in the US and key European markets and finalised our brand and proposed scientific names. We have also established Regional Medical Affairs expertise in our key territories to establish links throughout the allergy community, and complemented the commercial team with market access and reimbursement expertise.

Advancing our business

During 2015, we made advances across our business, both before and following our acquisitions. Our four late-stage allergy treatments all moved forward, and we moved our birch allergy therapy into clinical development. In addition, we progressed our new asthma and COPD products, with the lead treatment receiving regulatory approval following a filing to the UK authorities in 2014, and our earlier-stage fixed dose triple combination product entered the clinic. We also achieved a number of successes in our new NIOX® franchise, launching the next-generation VERO® product in China and growing worldwide revenues by 32% during the six months of our ownership, compared with the same period the year before. As a result, we have transformed our Company into a business that now has a broad pipeline of allergy and respiratory products in development, six clinical trials underway, further studies planned for the coming months, the potential for eight product launches over the next six years and market-leading products sold around the world.

Strong financial position

The last year has been a period of significant investment across our entire business, and in June we completed a successful £275 million Placing and Open Offer to fund our strategic acquisitions. During the year, we increased investment in our clinical programmes, commercial infrastructure and broader pipeline. With a significant number of clinical trials underway, and preparations ongoing for further large-scale field studies to begin in 2016, our R&D investment increased to £46.8 million in 2015, up from £38.6 million the previous year. To support the increased workload, we expanded our R&D organisation by 75%, in particular growing our clinical, regulatory, quality and CMC teams. In parallel, we increased our commercial investment to prepare for our first allergy product launch and to continue the sales growth of our marketed products, and we have increased the size of our US field force by 65%. Following these significant investments we remain well financed, with £203.8 million of cash at the end of 2015, and consequently we are funded to deliver our allergy products and wider pipeline.

Encouraging outlook

Building on the achievements of 2015, the coming year promises to be an exciting period for Circassia. We look forward to the results from our lead allergy product's pivotal trial, the initiation of our grass allergy treatment's registration study and ongoing progress in our house dust mite, ragweed, birch and Japanese cedar allergy programmes. Our allergy products have the potential to revolutionise treatment, and with our launch preparations well underway and market research indicating the potential for robust pricing it is clear we have a major commercial opportunity. This significant potential is also mirrored across our asthma management and respiratory businesses. We anticipate ongoing growth in the sales of our NIOX® products, with revenues supporting the continued expansion of our commercial infrastructure. During the coming year, we also plan to move our Seretide® pMDI substitute towards filing, and report clinical results from our fixed dose triple combination study. As a result, the outlook for 2016 is extremely encouraging, with good progress anticipated in each area of our newly-enlarged business.

Steven Harris
Chief Executive Officer

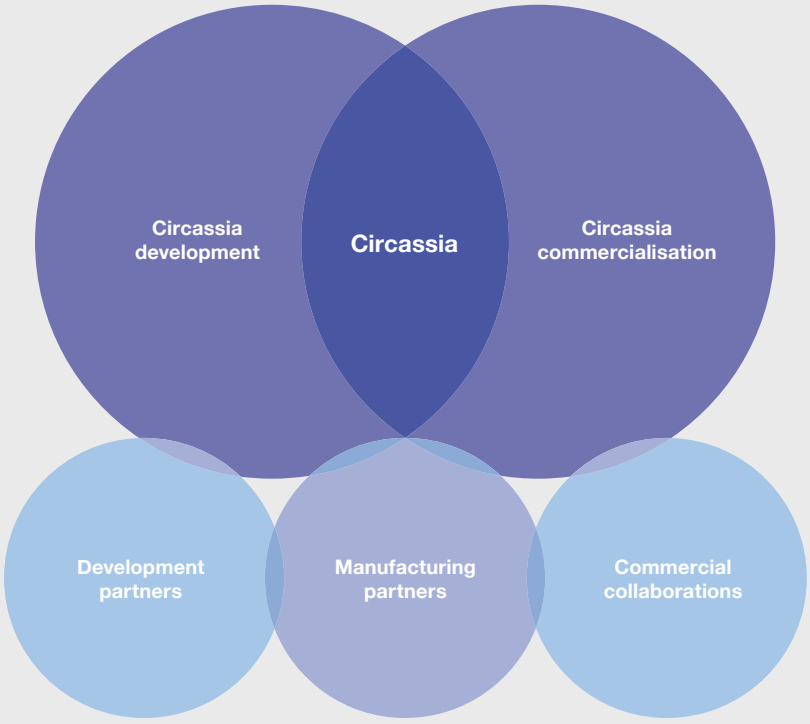
Business model

Circassia's business follows a focused and efficient outsourced model. We retain key functions in-house notably strategy, intellectual property, clinical study design, regulatory affairs and commercialisation, which we leverage across our allergy, NIOX® and particle-engineered respiratory product franchises. To complement these in-house skills we draw on third-party experts, outsourcing non-core activities to well-established contract research organisations, manufacturers and commercial partners in territories beyond our core markets.

Our global partnership network

- InVentiv Health, Quintiles and Inflamax for clinical studies
- Adiga Life Sciences (joint venture with McMaster University) for epitope discovery and mechanistic clinical studies for allergy products
- Bachem and Polypeptide for pharmaceutical ingredient production for allergy products and Patheon for lyophilisation fill-finish
- NanoPass for supply and license of the MicronJet delivery device for allergy products
- Panasonic Healthcare for NIOX® device supply and ITG for sensor manufacture
- Various commercialisation partners for NIOX® products outside the US and Germany
- Contract manufacturing organisations, including Sterling, for production of particle-engineered respiratory products and third-party manufacturers for pMDI fill-finish
- Mylan for commercialisation of lead particle-engineered asthma treatment in specific territories*

*US, Canada, Australia, New Zealand, India, the EU, Iceland, Liechtenstein, Norway, Switzerland, Turkey, Russian Federation and the Commonwealth of Independent States



Circassia development
- Study design
- Regulatory
- CMC

Circassia
- Strategy
- Technology
- IP

Circassia commercialisation
- USA
- Key EU markets

Development partners
- CROs
- Pre-clinical testing

Manufacturing partners
- Clinical supplies
- Commercial production

Commercial partners
- License/partner in rest of world

Strategy and progress against objectives

Circassia's strategy is to build a self-sustaining specialty biopharmaceutical company based on a broad portfolio of innovative therapies, commercialised independently in the US and key European markets and partnered in other regions, complemented by a strong and balanced pipeline of product candidates.

Expanding our established commercial infrastructure will give us the opportunity to license or acquire additional complementary products that we can commercialise directly, as we move towards our goal of becoming a leading specialty biopharmaceutical business.

Strategic objectives

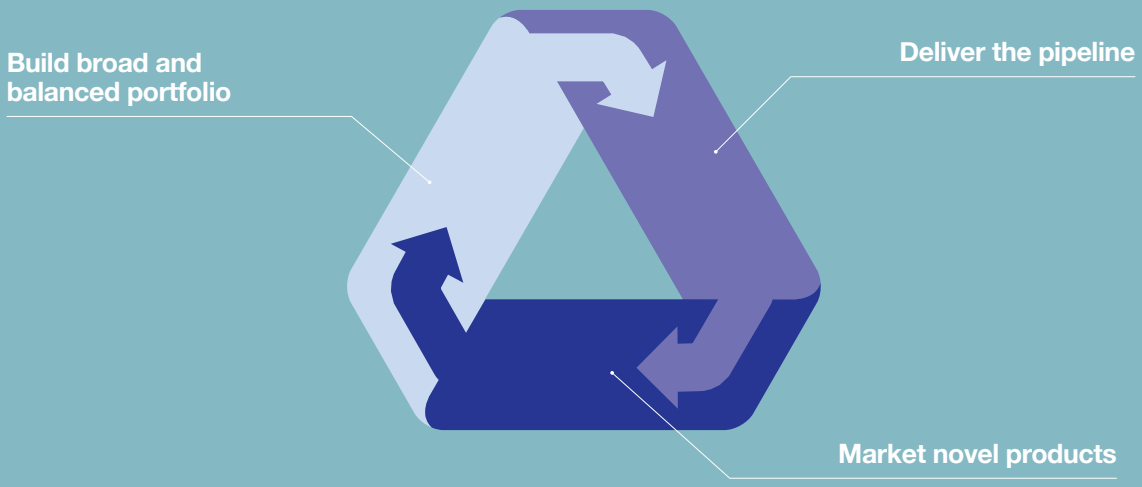
Deliver the pipeline: complete the development of our innovative product candidates
We are focused on completing the development of our next generation allergy treatments and our particle-engineered respiratory products. Our lead allergy therapy, targeting cat allergy, continues on track to report results from its phase III registration study in Q2 2016. During 2016, we also plan to initiate the registration study for our grass allergy treatment, as well as progressing our house dust mite, ragweed, birch and Japanese cedar allergy programmes. Additionally, we plan to complete the first clinical study of our fixed dose triple combination treatment for chronic obstructive pulmonary disease (COPD) and to advance our Seretide® pMDI substitute product in preparation for planned UK filing in 2017.

Market novel products: independently commercialise our products in North America and major EU markets, and partner elsewhere
We have commercial infrastructure in place in the US and Germany promoting our NIOX® asthma management products direct to allergy / asthma specialists. We are significantly expanding this commercial presence to grow our current product sales and prepare for the launch of our first allergy product, once approved. In addition, we are planning to expand our commercial organisation into additional key European territories to sell our NIOX® products directly to specialists and build market awareness in advance of the launch of our cat allergy therapy. We can also use this infrastructure to commercialise our asthma treatment substitute products, which do not require significant promotion but need regulatory, market access and supply chain support, as well as additional products we may bring into our pipeline through acquisition or in-licensing.

In territories outside our key markets, we intend to distribute our products through partners. We have an international network of distributors in place for our NIOX® products, and have further potential partnership options for our allergy and respiratory products, including out-licensing commercialisation rights or collaborating with major pharmaceutical companies.

Build a broad and balanced portfolio: expand our development pipeline
We are developing a wide range of allergy, asthma and COPD products based on our innovative ToleroMune®, NIOX® and particle-engineering technologies. As a result, we have a portfolio of 12 products currently in development, and have the opportunity to leverage our technologies to further expand our pipeline of candidates, targeting other common allergies and developing additional respiratory medicines. We also have the opportunity to further enhance our portfolio by in-licensing complementary product candidates and/or technologies and seeking further acquisitions. Additionally, as our commercial infrastructure expansion advances, we should become increasingly well placed to attract collaborators seeking to partner the commercialisation of their specialty products or to add further specialty products of our own.

Achieving our strategic objectives involves risks and uncertainties, which are detailed in the section entitled 'Risks and risk management' on pages 34 to 37.



Progress in 2015

During 2015, we made good progress implementing all three areas of our strategy. We advanced the clinical development programmes for our lead allergy treatments, and moved an additional product into the clinic. We complemented this progress with the completion of two strategic acquisitions that brought us established commercial infrastructure targeting allergy / asthma specialists in the world's two largest allergy markets, an international network of distributors, marketed specialty products and a broad portfolio of product candidates.

Progress marketing novel products
During 2015, we dramatically accelerated our strategy to promote our products directly to specialists in our target territories through the acquisition of Aerocrine. This brought us established commercial infrastructure in the key US and German markets and market-leading NIOX® asthma management products. Following the completion of the acquisition in June 2015, we significantly expanded the commercial team, increased the US field force and began the process of establishing direct sales capabilities in additional European markets. This gives us the platform on which to prepare the market for the launch of our allergy products while growing the existing sales of our NIOX® products.

Progress building a broad and balanced portfolio
In June 2015, we completed the acquisition of Prosonix, accelerating our strategy to build a broad and balanced portfolio. This brought a pipeline of respiratory products based on novel particle-engineering technology, which complements our existing innovative allergy immunotherapies. The products include near-term asthma treatments, targeting direct substitution of currently marketed therapies, and longer-term novel formulations for the treatment of COPD.

During the year, we also made progress expanding our allergy pipeline. We completed the pre-clinical development of our birch allergy product and moved it into the clinic, as well as advancing our immunotherapy for Japanese cedar allergy. We also completed the planning for a clinical study with our novel NIOX® technology, exploring the potential to expand its use to include the diagnosis of primary ciliary dyskinesia.

Progress delivering the pipeline
During 2015, we made advances across our newly-broadened allergy and respiratory portfolio. We completed the treatment of the last patient in our cat allergy phase III study, and remain on track to deliver the trial's results in Q2 2016. We also completed a paediatric safety study to support a European Marketing Authorisation Application. At the end of the year, we finished recruitment into our house dust mite allergy large-scale field study, completed a two-season follow-up of our ragweed allergy product and progressed our plans to begin the registration study for our grass allergy immunotherapy. In our respiratory portfolio, our lead asthma product, which is partnered with Mylan, has now received approval from the UK regulatory authority, and we moved our novel fixed dose triple combination treatment for COPD into its first clinical study.

During 2015, we significantly accelerated our strategy to build a world-class, self-sustaining specialty biopharmaceutical business. In June, with our allergy portfolio continuing to make progress and our lead programme on track to deliver phase III results in the coming year, we acquired Aerocrine and its market-leading NIOX® asthma management products and established commercialisation infrastructure that was already targeting the key allergy / asthma specialists who will drive the successful launch of our first allergy treatment. At the same time, the acquisition of Prosonix broadened the Company's pipeline with a number of asthma and chronic obstructive pulmonary disease products, which offer the prospect of near-term revenues and longer-term high value novel formulations. We also completed a successful £275 million Placing and Open Offer to fund the acquisitions, and ensure the Company remains funded to deliver its pipeline.

Progressing our strategy

Following the completion of the acquisitions, Circassia has made good progress across all three areas of its expanded business. Our allergy portfolio has continued to advance in the clinic, we have substantially increased NIOX® sales and the approval of the lead asthma treatment validates the acquisition strategy. As a result, our business is well positioned, combining marketed products, an exciting pipeline of next generation treatments and a strong balance sheet.

Allergy portfolio clinical progress

Cat allergy

Circassia's lead allergy programme continues on track to deliver phase III results in Q2 2016. The pivotal registration study (CATALYST) completed dosing of the final subject in the second half of 2015, and the primary endpoint will measure the combined improvement in allergy symptoms and rescue medication use one year after treatment initiation. A total of 1,409 cat allergy sufferers were randomised into the study, exceeding the target by 19%, and the study is fully powered for the primary efficacy analysis. As part of its preparations to ensure efficient regulatory filings following receipt of the phase III data, Circassia has scheduled a pre-BLA meeting with the FDA and also intends to meet with the European Medicines Agency prior to submission.

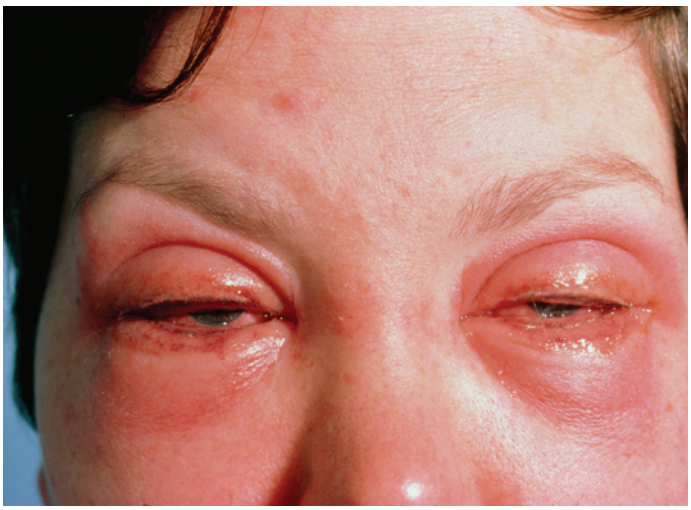
CATALYST's long-term follow-up (CP007A) also continues to make progress, with 424 subjects enrolled after completing the phase III study. The two-to-five year extension study is designed to confirm the ongoing efficacy of the cat allergy immunotherapy without further dosing, and offers the potential to extend the product's licence following initial approval.

During 2015, we undertook a number of activities to support licence applications for our lead allergy therapy. Preparation of the US and European regulatory filings is underway, and we have signed an agreement with long-term partner Bachem for commercial supply of the active pharmaceutical ingredient. In addition, we completed a pilot paediatric safety study (CP009) at the end of the year, which was required by the regulators to progress the product filing in Europe. We recently received preliminary results from the study conducted in 15 children aged 5 to 11 years old, which will support our filing and allow us to move to a larger paediatric study following a Marketing Authorisation Application. In the US, we will finalise the Pediatric Study Plan following product approval in line with the usual regulatory process.

Grass allergy

Grass pollen is the most common cause of hay fever. Circassia's grass allergy immunotherapy has previously demonstrated successful proof-of-concept in a phase IIb study, with symptom improvements maintained in subjects tested after each pollen season over three years, despite only a short course of treatment before the first season.

In preparation for the clinical programme to support the product's registration, the Company has now met with regulators in Europe and the US. Based on these discussions, the Company is initiating a single innovative adaptive-design registration study, which is designed to meet regulators' requirements on both sides of the Atlantic. The first stage of the study will recruit approximately 400 subjects, who will receive a course of 8 x 6nmol doses over 14 weeks, or placebo. The subjects will report on their allergy symptoms and use of rescue medications during the pollen season, and following favourable results, the second stage will include a pre-recruited expansion cohort. This will permit sizing of the study based on first-stage performance to achieve appropriate powering, and currently the Company anticipates including a further 1,100 subjects. The study remains on track to begin in H1 2016, with results anticipated in H2 2018.



Allergy is the medical condition with the greatest impact on US work productivity

H1 2016

We are on track to initiate our grass allergy treatment registration study in H1 2016.

During 2015, we also completed a successful safety study in controlled asthmatics with grass allergy (TG004). The product was well tolerated and no safety concerns were identified. Consequently, this important patient group can be included in the planned registration study.

House dust mite allergy

House dust mite proteins are the most common cause of allergy in Europe and the USA. Circassia's house dust mite allergy treatment achieved successful results in an earlier proof-of-concept phase IIb study, with subjects receiving 4 x 12nmol doses over 12 weeks experiencing a significant (p=0.02) reduction in symptoms when challenged one year after the start of treatment. In long-term follow-up, symptom improvements were maintained at the same level in patients assessed two years after the start of treatment, despite receiving no further dosing.

Following these encouraging results, we started a large field study (TH005) comparing the best performing regimen from the proof of concept study (4 x 12nmol) with an 8 x 12nmol regimen, and a higher dose. The study is ongoing in North America, Europe and South Africa, and at the end of 2015 we closed recruitment. As a result, randomisation into the study is now complete with 715 subjects enrolled, an increase of 8% over the initial target of 660. The study will assess the combined improvement in symptoms and rescue medication use one year after the start of treatment, and results are expected in H1 2017.

Ragweed allergy

Ragweed allergy is highly prevalent in North America where it is a common cause of hay fever. In Europe, the allergy is less common, but is affecting a growing proportion of the population. In 2015, Circassia conducted a follow-up field study (TR006A) of its ragweed allergy immunotherapy in subjects who completed the TR006 phase IIb trial in 2014. The follow-up study assessed the subjects' allergy symptoms and use of rescue medication two pollen seasons after the completion of treatment, despite no further dosing. The results show that all of the regimens demonstrated a treatment effect at the peak and across the whole season.

These recent results follow a successful 2011 proof-of-concept study, which indicated that higher doses of the ragweed allergy treatment have a greater clinical effect in an environmental exposure chamber challenge. In this study, the highest dose achieved significant improvements in subjects with more severe symptoms (p=0.04). Similarly, the TR006 study results showed evidence of a dose response, with the higher dose regimen achieving the best reduction in symptoms, despite a marked placebo effect. TR006 also assessed the combined improvement in symptoms and rescue medication use during a natural ragweed pollen season, and also showed that the highest dose had the greatest treatment effect. These conclusions are now supported by the TR006A follow-up study, in which the highest dose had the greatest effect in the field across the pollen season, achieving an improvement in the change in combined symptom and rescue medication score of 21% vs placebo.

Consequently, we are now planning to initiate a phase IIb dose-ranging study to identify the optimal dose to progress to phase III. The study will compare the best performing dose regimen from the earlier trials (8 x 12nmol) and a higher dose regimen (8 x 24nmol) in approximately 450 subjects. The study is on track to begin in 2016, with dosing planned for completion before the 2017 pollen season, and results anticipated in H1 2018.

Birch allergy

We moved our birch allergy treatment into the clinic in July 2015.

Chinese launch

We launched NIOX VERO® in China in August 2015.

NIOX VERO® offers important improvements over the previous generation product

Birch and Japanese cedar allergies
Tree pollens are a common cause of allergy and pollen released by birch and Japanese cedar can cause allergic reactions. Circassia is developing immunotherapies for these allergies and both programmes made good progress in 2015.

In the second half of the year, we moved our birch allergy treatment into clinical development, with a first-in-human study beginning in July. The study is now fully recruited (n=64) with dosing complete, and the trial is anticipated to report in the second half of the year following the end of the natural birch pollen season. Our treatment for Japanese cedar allergy also advanced during the year. The programme has completed pre-clinical development, and we have recently agreed the design of a first-in-human clinical study with the Japanese regulatory authorities.

NIOX® commercial progress

Strong sales growth
Following the acquisition of Aerocrine in June 2015, we have sold its unique NIOX® asthma products direct to allergy / asthma specialists in the US and Germany and through a network of partners internationally. NIOX MINO® and the next-generation NIOX VERO® are used to improve asthma diagnosis and management through monitoring of patients' fractional exhaled nitric oxide (FeNO) and are the only point-of-care devices available across major markets. FeNO measurement is recommended by the National Institute for Health and Care Excellence (NICE) to help guide asthma diagnosis and management and is included in the American Thoracic Society treatment guidelines, which are endorsed by the leading allergy / asthma professional societies. During 2015, the NIOX® franchise made impressive progress, with revenues growing strongly, and since our acquisition of the products in June sales have increased by 32% to £10.3 million at constant exchange rates compared with the same period the year before.

Chinese approval and launch
Asia is an important market for NIOX®, and in China the products are distributed by a network of local partners managed by Circassia's team of sales managers based in Beijing. During the summer, the China Food and Drug Administration issued regulatory clearance for the next-generation NIOX® product, NIOX VERO®, and at the end of August our Chinese commercial team held a launch meeting in Guangzhou. The launch included a scientific meeting chaired by asthma expert Professor Jiang-Tao Lin and attended by over 100 opinion leaders, and a separate session for distributors in preparation for the roll out of NIOX VERO® across China.

Label extension studies
During the year, we have reviewed development opportunities to continue the growth of the NIOX® franchise and subsequently planned two clinical studies to support label extensions.

The first study, which is currently ongoing, is designed to support the use of NIOX VERO® in children aged four to six years old in the US. Currently, the product is indicated for use in those aged four years and older in Europe, with the option of using a six second test for children unable to perform the normal ten second mode. However, the US approval does not include children aged under seven years or the use of the six second test. The study, which will include approximately 100 subjects, is designed to demonstrate the accuracy of the shorter test mode in children aged four, five and six years old. The results are anticipated in H2 2016.

Our fluticasone propionate pMDI targeting direct substitution of Flixotide® pMDI is approved in the UK for the prophylactic treatment of asthma

> "We have started a study to support the use of NIOX VERO® in children aged four to six years old in the US"

The second study, which is currently awaiting local ethics approval before initiation, is designed to explore the potential to extend NIOX VERO®'s licence to include the diagnosis of primary ciliary dyskinesia. This disorder, which affects approximately 20,000 people in the US, is characterised by chronic respiratory tract infections, as well as abnormally positioned internal organs and infertility, and sufferers have year-round nasal congestion and a chronic cough. Diagnosis can be complex and include the use of genetic testing and electron microscopy of airway cilia samples. As a result, there is an opportunity for more straightforward diagnostic methods. Consequently, we have adapted our easy-to-use NIOX® device to sample nasal nitric oxide and designed the clinical study to determine the threshold for the diagnosis of primary ciliary dyskinesia. The study, which we plan to conduct in the US and Europe, will include approximately 50 subjects with confirmed primary ciliary dyskinesia and 100 healthy controls.

Respiratory portfolio progress

Flixotide® pMDI substitute approval

At the end of 2015, the UK's Medicines and Healthcare products Regulatory Agency (MHRA) confirmed the successful outcome of the European Decentralised Procedure for Circassia's fluticasone propionate pressurised metered dose inhaler (pMDI) for the prophylactic treatment of asthma. The product, which is part of a previously announced global licensing agreement with Mylan, targets direct substitution of GlaxoSmithKline's Flixotide® pMDI. The MHRA has now issued the Marketing Authorisation for the product, which covers all three strengths in which the originator is available (50µg, 125µg and 250µg).

Our fluticasone propionate pMDI was developed under the European regulatory guidelines on orally inhaled products that permit approval based on an *in vitro* demonstration of equivalence only, without the need for clinical data. This regulatory standard is extremely challenging to achieve, and we believe this is the first time it has been accomplished for a range of product strengths. This achievement is an important validation of our proprietary particle-engineering technology, which is designed to overcome the production and formulation challenges associated with traditionally produced respiratory pharmaceuticals.

Seretide® substitute filing

We are also using our particle-engineering technology to develop a wholly-owned fluticasone propionate / salmeterol xinafoate combination asthma treatment targeting direct substitution of GSK's Seretide® / Advair® pMDI. The market opportunity for the product is significant, with originator sales accounting for approximately $1.5 billion in 2015.

As a result, we progressed our *in vitro* development programme alongside parallel pharmacokinetic studies, which were set up in South Africa prior to the product's acquisition, to inform the clinical work required for a US filing and act as a contingency measure if required for a European submission. Recently, we received headline results from these studies, which indicate that the fluticasone component of the product is similar to the originator. The results also show that the total absorption of salmeterol was similar to the originator, although the peak plasma concentration did not match. These data suggest the formulation may contain insufficient fine particles of salmeterol. As a result, we have initiated a corrective plan to optimise the product and we anticipate the initial Marketing Authorisation Application will be filed in the second half of 2017.

We received over 2,000 applications to join our US sales force

Triple fixed dose combination clinical programme
Our 'triple' combination therapy for moderate-to-severe chronic obstructive pulmonary disease (COPD) contains an inhaled corticosteroid, long-acting beta agonist and long-acting muscarinic antagonist delivered via an easy-to-use pMDI. Currently, there are no triple therapies available, and consequently COPD patients require at least two devices with potentially different operating procedures and inhalation techniques to receive the equivalent medication. As a result, the 'triple' market has significant commercial potential, with independent forecasts predicting sales of nearly $8 billion in 2025.

In September 2015, we completed pre-clinical development for our novel 'triple' formulation and progressed the product into the clinic. The first-in-human clinical study is ongoing in Berlin, and the initial single-dose component in 20 healthy subjects is now complete. The results show that the product was well tolerated with a favourable safety profile and therefore the local ethics committee has approved the initiation of the repeat dose component, which is now fully recruited and nearing completion. Results from the full study are anticipated in the coming months.

Commercial strategy progress

Commercial infrastructure acceleration
During the first half of 2015, we made significant progress in expanding our nascent commercialisation capabilities in preparation for the launch of our first allergy immunotherapy. Having appointed our Chief Commercial Officer and incorporated our US subsidiary in 2014, we appointed Regional Medical Affairs Directors in the United States and Europe and established analytics, marketing and distribution management capabilities during the first half of 2015. We also finalised and submitted brand names for our cat allergy immunotherapy to EU regulators and completed market research to inform our launch positioning. The regulators have now approved both brand names and we have finalised our proposed scientific name.

During the second half of the year, we significantly accelerated our strategy to sell our products directly in key territories through the acquisition of Aerocrine. This brought established commercial infrastructure and sales forces targeting allergy / asthma specialists in the two most significant markets, the US and Germany. We have subsequently integrated the Aerocrine commercial organisation and significantly expanded our capabilities. This will enable us to continue the growth of NIOX® sales and build broad market understanding of our revolutionary allergy technology ahead of our first product launch, in order to target accelerated uptake and higher peak sales. As a result, we have now increased our US sales force by 65% to 48, added managed markets expertise and at the end of the year we convened our first national sales conference. Our recruitment campaign had an extremely highly positive response, receiving over 2,000 applications for our 28 open positions. At the same time, we have expanded our marketing and market access team, who have completed the development and roll out of a compelling new NIOX® promotional campaign, commissioned specialists to target increased product reimbursement in the US and undertaken further market research to support the launch of our cat allergy treatment.

Expanding direct sales
In H2 2015, we initiated a territory review to determine the priority countries in which to establish direct sales organisations, complementing our growing presence in the US and Germany. These local teams will leverage our global marketing and supply chain capabilities and enable us to promote our NIOX® products more widely in the short-term while also broadening links with opinion leaders, educating specialists and mapping key accounts well in advance of the anticipated launch our cat allergy immunotherapy. We have now concluded the initial review in key European territories where we have distributors in place and have begun discussions to establish a direct presence in France. We anticipate concluding the process during the coming year.

> We have now increased our US sales force by 65% to 48, added managed markets expertise and at the end of the year we convened our first national sales conference

Building our team

R&D and commercial team expansion

During the year, we continued to progress our allergy and respiratory product portfolio and explored options to expand the indications for our NIOX® products. As a result, we have initiated a number of clinical studies and put in place preparations to begin others. To support this work, we have expanded our R&D organisation, recruiting additional experts to our clinical, regulatory, quality and CMC teams, and during 2015 our R&D group increased by 75% to 77 employees.

We also made good progress accelerating the build of our commercial organisation, expanding the team dramatically during 2015. We now have in place the range of specialists required to commercialise products, including sales, medical affairs, compliance, distribution, regulatory and commercial administration. As a result, we now have over 100 employees in our commercial team, and much of our infrastructure can be leveraged across additional markets as we expand our direct sales territories.

Board expansion

During 2015, we strengthened our Board, with Lota S Zoth and Marvin S Samson joining as Non-Executive Directors. Ms Zoth, who now chairs the Company's Audit and Risk Committee, has significant financial experience gained in a number of global public companies, including as CFO at MedImmune. She also held senior positions at PSINet, Sodexho Marriott, PepsiCo and Ernst & Young. Mr Samson brings 50 years' experience of the specialty pharmaceutical industry, having established and led a number of successful companies. He is currently Founder and CEO of Samson Medical Technologies LLC, and was previously CEO of several specialty pharmaceutical companies, as well as Group Vice President of Injectables at Teva.

At the end of 2015, Paul R Edick informed the Company that he will retire from the Board on 17 May 2016 following several years as a Non-Executive Director. We thank Paul for his highly valuable contribution and strategic guidance during his time on the Board, and we look forward to his continued input over the coming months.

Intellectual property progress

During 2015, we continued to invest in our intellectual property to protect our ToleroMune® technology and allergy product portfolio. This investment was extended during the second half of the year, to cover our acquired NIOX® products and particle-engineering technology.

We have successfully upheld two European patents relating to our cat allergy therapy, and we were also successful at a European Patent Office hearing in November at which the Opposition Division upheld the validity of a patent relating to our cat allergy treatment's formulation. During 2015, we also created additional layers of protection, with 22 new patents relating to our allergy, NIOX® and particle-engineering technologies granted in the US, Europe, China and Japan. Of these, four relate to our cat allergy treatment, three to our grass allergy therapy, three to our house dust mite allergy product and three to our ragweed allergy immunotherapy. In addition, we succeeded in extending a key US patent relating to our house dust mite allergy treatment by 21 months.

Over 100

We plan to increase our US sales force to over 100 by Q1 2017.

"During 2015, we dramatically accelerated our strategy to sell our products independently in key territories, build a broad and balanced portfolio complementing our innovative allergy immunotherapies and deliver our pipeline"

Outlook

Delivering our allergy franchise

We anticipate that the coming year will be a period of significant progress across our entire business. In our allergy franchise, we plan to deliver results from our pivotal phase III cat allergy study, initiate the registration study for our grass allergy treatment and advance our house dust mite, ragweed, birch and Japanese cedar allergy programmes.

In parallel, we plan to continue the expansion of our commercial infrastructure in preparation for the launch of our revolutionary cat allergy therapy, targeting more rapid product penetration and higher peak sales. To achieve this, we plan to double our US field team to over 100 by Q1 2017, building on the highly successful recruitment campaign we conducted in the second half of 2015. This will ensure the team is in place with the training, supply chain and commercial preparations complete well in advance of the product launch. We also plan to expand our European presence in 2016 to support the launch in our target markets, extending our direct presence to additional key territories and growing our field force in Europe.

Progressing our NIOX® and respiratory franchises

In our NIOX® franchise, we plan to leverage our expanding commercial infrastructure to continue sales growth, and expand our direct sales to further territories. With the next-generation NIOX VERO® now launched in the key American, European, Japanese and Chinese markets, a strengthened market access team in place, a renewed focus on reimbursement and a refreshed promotional campaign underway, we are well placed to increase revenues in the coming years. The potential of NIOX® was further highlighted recently by the launch of an implementation project by NICE that includes the use of FeNO in primary care. The project is designed to ensure the effective and efficient introduction of NICE's forthcoming proposed asthma guideline, which recommends use of FeNO measurement in different diagnosis algorithms. Since the completion of our acquisition of NIOX®, the franchise's revenues have grown by 32%, well ahead of the 18% CAGR achieved over the previous five years, and as a result of our ongoing investment we anticipate continued strong growth in 2016.

In our respiratory portfolio, we also expect good progress in 2016. We plan to advance the development of our triple fixed dose combination COPD therapy and the first clinical trial is on track to complete in the coming months. We also plan to finalise the optimisation work for our Seretide® pMDI substitute product and complete manufacture of the registration batches in the coming months, as we move toward filing in 2017.

Positioned to deliver

During 2015, we dramatically accelerated our strategy to sell our products independently in key territories, build a broad and balanced portfolio complementing our innovative allergy immunotherapies and deliver our pipeline. As a result of this progress, we are now well positioned to bring our cat allergy product to market, and with sales teams in place selling to our core allergy / asthma specialist customers we are well placed to capture the full value of this revolutionary new therapy. With a strong balance sheet, we are also funded to deliver across our broader business, and anticipate reporting clinical results in our respiratory and NIOX® franchises, as well as continuing robust sales growth of currently marketed products and investment in our commercial infrastructure. With the recent acceleration in our strategy, 2016 is going to be an important year for Circassia as we continue to advance towards our ultimate objective of becoming a self-financing, world-class specialty biopharmaceutical company.

Financial review

Financially, the most significant event during the last year was the completion of a successful £275 million Placing and Open Offer to fund two acquisitions, both of which completed in June. The acquisition of Prosonix Limited completed on 15 June 2015 and Aerocrine AB on 18 June 2015.

The table on page 30 sets out the results for the Circassia Group, including the contribution from the acquired companies during the period of ownership and the acquisition costs.

Revenue

Revenue of £10.8 million, of which £10.3 million were sales of NIOX® from 19 June to 31 December, account for the Group's turnover for the period (2014: £nil). These revenues include sales of NIOX VERO® and NIOX MINO® for clinical use in the US, Europe and rest of world, and for use in pharmaceutical companies' clinical studies. The remaining £0.5 million relates to licence fee and milestone revenues from the respiratory business.

Gross profit

Gross profit on NIOX® sales was £6.1 million (2014: £nil), with a gross margin of 59%. This reflects the introduction of the NIOX VERO® in the US with pricing options to drive conversion from the previous MINO model.

Sales and marketing

During the period, sales and marketing expenditure was £13.5 million (2014: £nil). Of this, £8.3 million related to Aerocrine and the remainder reflects the build of Circassia's commercial management in the US, and in particular recruitment of nine medical affairs specialists of whom six are based in the United States. In addition the Aerocrine US sales force has increased from 29 to 48.

Research and development

Investment in research and development increased to £46.8 million (2014: £38.6 million). Of this, £37.4 million relates to the portfolio of allergy product candidates. This is similar to last year, however there have been changes in expenditure on the following allergy programmes:

- Cat allergy programme has decreased by £2.9 million from £12.7 million in 2014 to £9.8 million in 2015. This is because the cat allergy treatment phase III study (CATALYST) has now completed the last patient last dosing; also the two-to-five year follow-up (CP007A) was initiated in 2014 incurring a number of start-up costs, which have not recurred in 2015.
- House dust mite allergy programme has increased by £2.6 million from £11.6 million to £14.2 million. This is mainly because the phase IIb field study (TH005) completed enrolment in 2015 incurring costs of £12.3 million compared to £6.4 million the previous year; this was partially offset by much lower expenditure on CMC related activity, which was substantially completed in 2014 in preparation for TH005.
- Ragweed allergy programme has decreased by £3.2 million from £4.8 million to £1.6 million. The higher costs in 2014 were related to the 280 subject phase IIb chamber and field study (TR006), which completed that year.
- Birch allergy programme has increased by £0.7 million from £0.4 million to £1.1 million mainly driven by the initiation of a first-in-human clinical study, which is now fully recruited.

A further £6.1 million has been invested in development of the respiratory portfolio and in particular a clinical study for the triple fixed dose combination, the first stage of which is now complete, and on pharmacokinetic testing for a Seretide® pMDI substitute.

Administrative expenditure

Administrative expenses, which include overheads specific to corporate functions, centrally managed support functions and corporate costs, increased to £13.7 million (2014: £7.2 million). The increase reflects one-off deal costs of £4.0 million relating to the Aerocrine and Prosonix acquisitions (total deal costs for the acquisitions were £12.8 million, with the remaining £8.8 million offset against the Share Premium Account). Underlying administrative expenditure decreased by £0.6 million to £6.6 million. This was mainly because commercial infrastructure build costs of £0.8 million were included in administrative expenditure in 2014. Commercial costs such as these which were incurred in 2015 are disclosed as sales and marketing costs.

Other gains

Other gains totalled £1.1 million (2014: £Nil). A gain of £1.1 million was made on forward contracts for Swedish krona and US dollars that were taken out to hedge against the purchase of Aerocrine and the associated repayment of a USD35 million loan that became due on change of control. The gain reflects the weakening of GBP Sterling against Swedish krona during the term of the contracts.

Finance income

Included in finance income is bank interest receivable of £1.7 million (2014: £1.7 million) and a net gain on foreign exchange of £1.8 million (2014: £0.2 million).

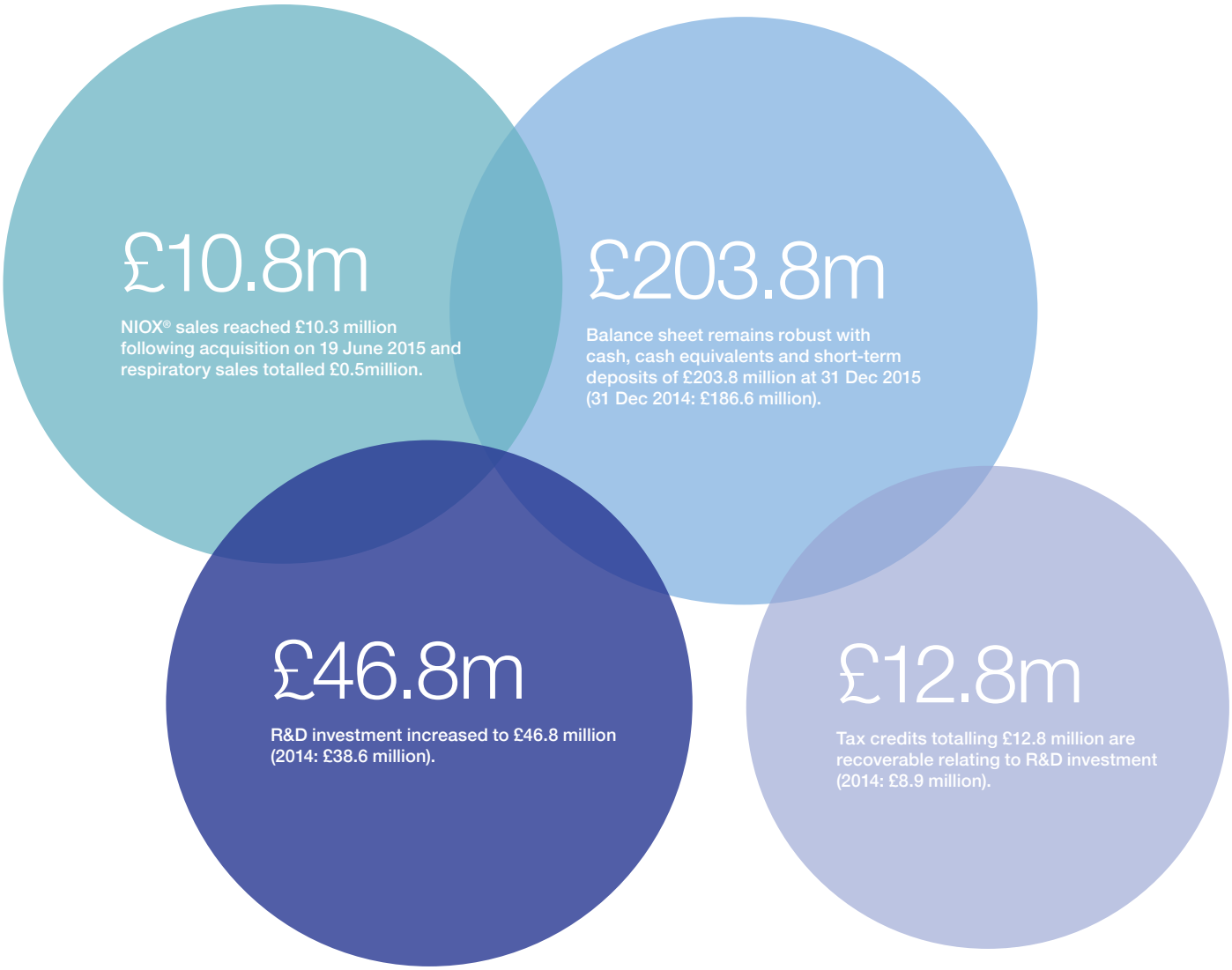
R&D tax credits on qualifying expenditure

A tax credit of £12.8 million (2014: £8.9 million) is recoverable under current legislation relating to R&D expenditure. The increase over the previous year reflects greater R&D investment following the acquisition of Prosonix and a lower tax credit rate for the first quarter of the 2014 period, before it increased from 11% to 14.5% on 1 April 2014.

Financial review continued

	Circassia £m	Acquisitions £m	Acquisition Costs £m	Group 2015 £m	Circassia 2014 £m
Revenue	–	10.8	–	**10.8**	–
Cost of goods sold	–	(4.3)	–	**(4.3)**	–
Gross profit	–	6.5	–	**6.5**	–
Sales and marketing	(5.2)	(8.3)	–	**(13.5)**	–
Research & development	(37.4)	(9.4)	–	**(46.8)**	(38.6)
Administrative expenditure	(6.6)	(3.1)	(4.0)	**(13.7)**	(7.2)
Other gains	1.1	–	–	**1.1**	–
Operating loss	(48.1)	(14.3)	(4.0)	**(66.4)**	(45.8)
Finance income/(costs) net	3.6	(0.1)	–	**3.5**	1.9
Share of profit/(loss) of joint venture	0.1	–	–	**0.1**	(0.1)
Loss before tax	(44.4)	(14.4)	(4.0)	**(62.8)**	(44.0)
Taxation	9.3	3.5	–	**12.8**	8.9
Loss for the financial year	(35.1)	(10.9)	(4.0)	**(50.0)**	(35.1)
Cash[1]	200.5	3.3	–	**203.8**	186.6

[1] Includes cash, cash equivalents and short-term deposits as at 31 December 2015 and 31 December 2014



Loss after tax and loss per share

Loss for the financial year was £50.0 million (2014: £35.1 million), of which £49.9 million (2014: £35.1 million) was attributable to the owners of Circassia Pharmaceuticals plc. Basic loss per share attributable to the owners of Circassia Pharmaceuticals plc was 20p (2014: 21p). Although there has been an increase in the Company's Ordinary Share capital following the issue of 95.5 million shares under the Placing and Open Offer in June 2015, there has been little change in the basic loss per share because the loss for the financial year has increased proportionately.

Acquisition of Aerocrine and Prosonix

On 11 June 2015, the Company issued 95,469,537 Ordinary Shares, which funded the acquisitions of Aerocrine and Prosonix. The shares were offered at 288.05p each, raising gross proceeds of £275.0 million.

The consideration for Aerocrine's entire outstanding ordinary share capital and employee share options that vested on change of control, was £138.3 million. At 30 June 2015, 92.6% of the share capital had been purchased, and by 2 July 2015, following an extension of the initial offer period, this increased to 97.2%. By 31 December 2015 this had increased to 97.9%. The remaining 2.1% of the share capital will be purchased as part of the arbitration process. The arbitrator is expected to issue a decision within the next month on the amount which needs to be placed in escrow in order to allow the company to take advance title to the outstanding shares. On 29 June 2015, Circassia paid USD45.1 million (£28.7 million) to OrbiMed and Novo in settlement of Aerocrine's USD35 million loan that became due on change of control together with repayment costs and interest.

The purchase price for Prosonix' entire outstanding share capital was £100.0 million. Of this, £30.0 million was deferred and contingent upon receipt of UK marketing authorisation for Prosonix' lead product. This approval was received in December and payment of the deferred consideration was made in January 2016.

Deal costs relating to the acquisitions and the share issue were £12.8 million, of which £8.8 million was offset against the Share Premium Account and £4.0 million of indirect admission costs were included in the income statement.

Statement of financial position

The Group's net assets were £409.7 million at 31 December 2015 (2014: £190.8 million). The increase reflects the acquisition of Aerocrine and Prosonix, which has been included in the balance sheet at fair value. The detailed fair values for each company together with goodwill arising are set out in note 33. Deferred consideration of £30.0 million for the purchase of Prosonix has also been recorded. Following receipt of UK marketing authorisation for its lead product in December 2015, the deferred consideration was paid in January 2016 to the former shareholders of Prosonix.

Current tax assets were £11.8 million at 31 December 2015 (2014: £8.8 million), representing the R&D tax credit due from H M Revenue and Customs. A payment of £9.0 million was received in H2 2015 from HMRC. Of the £11.8 million, £9.0 million relates to expenditure on the allergy programmes and £2.8 million on the respiratory programmes.

Cash flow

The Group's cash position (including short-term deposits) increased from £186.6 million at 31 December 2014 to £203.8 million at 31 December 2015. Main cash flows were:

- Gross proceeds of £275.0 million from the Placing and Open Offer (2014: gross proceeds of £202.0 million from the IPO). Of the £8.8 million share issue costs offset against the Share Premium Account, all of these have been paid.
- Loan repayment of USD45.1 million that became due on the acquisition of Aerocrine. This comprised the USD35 million (£22.3 million) principal, repayment costs of USD9.0 million (£5.7 million), pre-acquisition interest of USD1.0 million (£0.6 million) and post-acquisition interest of USD0.1 million (£64,000).
- Cash paid to date for the acquisitions of Aerocrine and Prosonix, net of cash acquired, is £169.1 million, which is made up of the acquisition of the companies net of cash totalling £161.9 million, and transactions with non-controlling interests of £7.2 million. This total includes a payment of £70.0 million in respect of Prosonix and £136.8 million in respect of Aerocrine, offset in part by cash received on acquisition of £5.3 million and £32.4 million respectively.

Summary and outlook

During the next 12 months, the Company intends to ensure the allergy programmes remain on track. In addition, we plan to commit significant investment to our commercial infrastructure to prepare for the launch of our first allergy product and boost sales of our existing NIOX® products.

We continue to have a robust balance sheet, with cash of £203.8 million as at 31 December 2015. Consequently, we are funded to deliver our wider portfolio and bring our next generation allergy products to market.

Julien Cotta
Chief Financial Officer

Corporate social responsibility

The Board has responsibility for all matters relating to corporate social responsibility. Directors recognise the importance of corporate social responsibility, and seek to take account of the interests of all the Group's stakeholders, including its investors, customers, suppliers, partners, and employees when operating the business. The Board believes that fostering an environment in which employees act in an ethical and socially responsible fashion is critical to its long-term success. The Group strives to be a good corporate citizen and respects the laws of the countries in which it operates.

People

Attracting, motivating and retaining a highly skilled workforce is key to the Group's long-term success. The policies put in place by the Group accord with best practice, and stipulate that there should be equal opportunities and an absence of discrimination for all employees.

Values

Our values, and the behaviours that underpin them, describe the culture of our business.

Passion

- We are passionate and committed about what we do
- We are excited about our products and technology and the impact they will have on patients' lives
- We take our responsibilities seriously and ensure everything we do is delivered to the appropriate quality
- We thrive on demanding and challenging timelines and seek to exceed expectations and attain our goals
- We are energized to take action, despite obstacles and setbacks

Recognition

- We identify and acknowledge the contribution that individuals make
- We recognise and reward success internally and with our partners
- We understand mistakes are made; our ability to identify them, correct them, and learn from them makes the difference
- We promote the value of the team above that of the individual to achieve positive outcomes

Integrity

- We trust, respect and listen to each other
- We act with honesty, integrity and fairness at all times, we always strive to do the right thing
- We believe in constructively challenging each other and expect to be challenged
- We are not afraid to say "I don't know" and go and find out
- We promote open communication and collaboration, encouraging, honest, direct, and respectful feedback
- We take ownership for our actions

Drive

- We set ambitious goals and go for them, believing this drives extraordinary behaviour
- We persist, despite setbacks, to achieve goals
- We always convey a strong sense of urgency recognising saving time creates value
- We seek to achieve success even in complex and changing circumstances
- We always aim to meet or exceed our commitments

Effectiveness

- We understand key business drivers and manage our costs effectively
- We continuously seek to improve our performance and develop more effective ways of working
- We always strive to get the best value for money for our requirements and maximise the return on our investment
- We make informed decisions about the levels of expense needed for the business
- We are clear about roles and responsibilities

Diversity

The importance of diversity within the Group is also reflected in its policies and procedures. The Group does not have formal diversity quotas but recognises that a diverse employee profile is of significant benefit. The table below shows the gender profile at different levels of the Group as at 31 December 2015.

Member	Male	Female	Total	%Male	%Female
Plc Board including Non-Executive Directors	10	2	12	83	17
Senior Managers excluding Directors	2	2	4	50	50
All other employees	131	105	236	56	44
Total	**143**	**109**	**252**	**57**	**43**

Employee welfare and involvement

Employees are regularly provided with information about the Group, for example through regular 'open house' sessions at which the Chief Executive Officer and other members of the management team present on various topics such as strategic and operational progress, and employee-related policies. Feedback is frequently sought by line managers and the senior management team through team meetings.

Health and safety

The Group is committed to protecting the health and safety of its employees and endeavours to maintain an effective health and safety culture.

The Group provides ongoing training to individuals who are responsible for health and safety and all staff are notified of health and safety practices. The Group continuously monitors its health and safety policy and practices to ensure they are robust, appropriate, and reflect changes in best practice.

Ethical and social policies
The Group is a pharmaceutical group and accordingly operates in a highly regulated ethical framework. It complies fully with these laws and regulations. The Company has a clear anti-bribery policy which is monitored by the Compliance department.

Sunshine Act
The Group is committed to promoting transparency of its relationships with healthcare providers. It collects, tracks and reports payments to healthcare professionals and organisations in compliance with the US Physician Payment Sunshine Act.

Human rights
We support the UN Universal Declaration of Human Rights and recognise the obligation to promote universal respect for and observance of human rights and fundamental freedoms for all, without distinction. We comply with all applicable human rights laws.

Product development
The Group's ToleroMune® technology undertakes early development efficacy testing in blood samples taken from human volunteers with allergies. It commissions third-party laboratories to conduct the minimum necessary pre-clinical product safety testing in animal models as required by regulatory authorities before commencing clinical studies. Regulators have required the Group to commission this safety testing for its allergy products. We work according to the 3Rs policy relating to preclinical testing (Refine, Reduce, Replace).

Environment
The Group is committed to minimising the impact of its activities on the environment. The majority of the Group's employees operate out of modern office suites, although it also occupies laboratory space in Oxford and has a warehouse in Solna, Sweden. Accordingly, the Group believes that efficient use of energy and materials in those premises, and responsible disposal of hazardous waste, are the most important means of climate protection currently available to it. Office-based initiatives to reduce waste have also been adopted, which include recycling of paper waste, cans, plastics, batteries and printer toners/cartridges. The Group does not possess or make use of corporate jets or private planes.

Greenhouse gas emission
This section of the Annual report constitutes the Group's disclosure of its greenhouse gas (GHG) emissions in accordance with the Companies Act 2006 (Strategic Report and Directors' Report Regulations 2013).

The Group considers that its current activities have a low environmental impact. Nonetheless, it still actively seeks to make energy savings in a fashion which is environmentally responsible and cost effective.

The increases shown over 2014 in GHG emissions reflect the acquisitions of Aerocrine and Prosonix which occurred in the course of the year. Prosonix occupies offices and laboratories in Oxford. Aerocrine has offices in Solna, Sweden, Bad-Homburg, Germany, and in Morrisville, North Carolina, and warehouse facilities in Uppsala, Sweden and Morrisville.

	2015	2014
CO_2 equivalent emissions – scope 1 (tonnes)	**–**	–
CO_2 equivalent emissions – scope 2 (tonnes)	**97**	17

GHG emissions are reported in metric tonnes of carbon dioxide equivalents and calculated using the Defra conversion factors. The increase between 2015 and 2014 is largely due to acquisition of Aerocrine and Prosonix following the addition of their premises to the Group.

Gas and electricity usage information has been obtained from purchase invoices and verified by reference to meter readings.

In order to express annual emissions in relation to a quantifiable factor associated with the Group's business, an intensity ratio has been calculated which shows emissions reported per square metre of the office space occupied by the Group. This shows that the Group uses approximately 21 (2014: 47) kilogrammes of carbon dioxide per m^2.

Political and charitable donations
The Group does not make political or charitable donations, although charitable fundraising by employees is encouraged.

Risks and risk management

The management of risks is a key responsibility of the Board of Directors of the Company. The Board ensures that the risks taken by the Group are understood, and are appropriate in the light of its strategy and objectives, and that internal controls are in place to effectively identify, assess, and manage important risks.

The risk management strategy adopted by the Company has a number of facets. A risk register has been created and is updated on an annual basis by those individuals in the business who manage risks on a day to day basis. This identifies each risk, assesses the likelihood of its occurrence and the level of impact on the business. This process is coordinated by the Chief Financial Officer. The register is reviewed by the Senior Management Team and subsequently reviewed by the Audit and Risk Committee and reported to the Board. There is a particular emphasis on ensuring that the risk appetite of the Board is fully understood by the Senior Management Team. The register also sets out activities and controls which are designed to mitigate the identified risks, and again the Board and the Senior Management Team analyse these mitigation strategies and ensure that the approach taken is consistent with the nature and degree of risks which are considered acceptable by the Board. Aside from the review, risk owners across the business are responsible for reporting any significant issues on an ongoing basis up to the Senior Management Team and for ensuring that other members of their teams are aware of the risk management process. The Senior Management Team, which meets weekly, receives summary weekly updates and more detailed monthly reports from all areas of the business, and updates the Board on a timely basis where important developments occur. Within the R&D function, project team meetings take place once a month at which the progress and risks of each individual project are discussed and detailed reports are circulated. The Quality Team, Compliance Committee, and Health and Safety Committee also meet regularly. These discussions are documented in reports which are circulated to the Senior Management Team.

The risk management system is designed to manage risks, rather than eliminate them at the expense of achieving corporate objectives. Accordingly, it can only provide a reasonable and not an absolute assurance against material misstatement or loss.

Risk management during the year has been enhanced to reflect the fact that, following the acquisition of Aerocrine, the Group now sells products in the US, Europe, and around the world. This has led to the inclusion of compliance with healthcare regulations as a new category of principal risk in this year's report.

Principal risks

The main risks relevant to the Group have been identified below, together with an explanation of how they are managed and controlled. Some risks are common across the pharmaceutical industry, while others reflect the Group's specific strategy. The Company considers all of these risks relevant to any decision to invest in it.

Regulatory approvals

The Group may not obtain regulatory approval for those of its products which are in development. Even where products are approved, subsequent regulatory difficulties may arise, or the conditions relating to the approval may be more onerous or restrictive than the Group expects, or existing approvals might be withdrawn.

The pharmaceutical industry is highly regulated. Regulatory authorities across the world enforce a range of laws and regulations which govern the testing, approval, manufacturing, labelling and marketing of pharmaceutical products. Stringent standards are imposed which relate to the quality, safety and efficacy of these products. These requirements are a major determinant of whether it is commercially feasible to develop a drug substance or medical device given the time, expertise, and expense which must be invested. Moreover, approval in one territory offers no guarantee that regulatory approval will be obtained in any other territory.

The Group's lead product candidate is a treatment for cat allergy. Failure to obtain regulatory approval for this lead product, or significant delays in obtaining approval, would have a material adverse effect on the Group's business. This risk can be further divided into a number of component risks, each of which require distinct mitigation strategies. These include a failure to complete the phase III registration study and supporting studies; inability to demonstrate efficacy of the product after moving to field studies from chamber studies; and any problems which might arise in validating the manufacturing process for the active pharmaceutical ingredient in the product.

The Group already holds regulatory approvals for its NIOX MINO® and NIOX VERO® devices in certain key countries such as the United States, Japan, and Germany but approvals are still pending in a number of other countries. Delays or complications in any of these regulatory applications could adversely affect the Group's business.

In order to obtain regulatory approval for the Group's products, it will be necessary to successfully complete supporting clinical studies. The Group is currently carrying out clinical trials for a number of its allergy and respiratory products. Clinical studies are typically expensive, complex and time-consuming, and have uncertain outcomes. Conditions in which clinical studies are conducted differ, and results achieved in one set of conditions could be different from the results achieved in different conditions or with different subject populations. Regulatory authorities or institutional review boards may suspend or terminate clinical studies at any time if the subjects participating in such studies are being exposed to unacceptable health risks or may require additional studies to be performed. Difficulties or delays in the enrolment of subjects could result in significant delays in the completion of those studies and even in their abandonment.

The Group relies on third party sub-contractors and service providers for the execution of most aspects of its development programmes. Failure of these third parties to provide services of a suitable quality within acceptable timeframes – for example due to technical reasons or bankruptcy of the provider – may cause the failure or delay of these development programmes.

Even where approval is obtained, regulatory authorities may still impose significant restrictions on the indicated uses or marketing of the product or impose costly, ongoing requirements for post-marketing surveillance or post-approval studies, or may even withdraw the approval if new concerns over safety and efficacy arise.

Mitigating activities

The Group manages its regulatory risk by employing highly experienced clinical managers and regulatory affairs professionals who, where appropriate, will commission advice from external advisers and consult with the regulatory authorities on the design of the Group's pre-clinical and clinical programs. These in-house experts ensure that high quality protocols and other documentation are submitted during the regulatory process, and that well-reputed contract research organisations with global capabilities are retained to manage the trials.

With regard to the risks specifically identified in relation to its cat allergy product, it is of note that final dosing in the phase III study has now been successfully completed; allergen levels used in the exposure chamber have been shown to be comparable to those experienced with an indoor cat; and three validation batches have been manufactured, giving comfort that the manufacturing process is robust.

Unforeseen side effects

Unforeseen side effects may result from the use of the Group's products or product candidates.

There is a risk of adverse reactions with all drugs and there is a risk that the malfunction of a medical diagnostic may have an adverse impact on patients. If any of the Group's products are found to cause adverse reactions or unacceptable side effects or risk of misdiagnosis, then product development may be delayed, additional expenses may be incurred if further studies or product development work are required, and, in extreme circumstances, it may prove necessary to suspend or terminate development. This may occur even after regulatory approval has been obtained, in which case additional trials may be required or the approval may be suspended or withdrawn or additional safety warnings may have to be included on the label.

Adverse events or unforeseen side effects or device malfunction may also potentially lead to product liability claims being raised against the Group as the developer of the products and sponsor of the relevant clinical trials.

Mitigating activities

The Group conducts extensive pre-clinical and clinical trials which test for and identify adverse side effects of its novel drug candidates. Its medical diagnostic products are subject to rigorous testing procedures. A robust pharmacovigilance plan is in place to ensure any safety issues are identified and reported. A Risk Evaluation and Mitigation Strategy (REMS) has also been developed to ensure that the benefits of its cat allergy product are balanced against any risks. Insurance is in place to cover product liability claims which may arise during the conduct of clinical trials or sales of the Group's NIOX MINO® and NIOX VERO® products.

Commercial success

The Group may not be able to sell its products profitably if reimbursement from third party payers such as private health insurers and government health authorities is restricted or not available because for example it proves difficult to build a strong enough economic case based on the burden of illness and population impact. Third party payers are increasingly attempting to curtail healthcare costs by challenging the prices that are charged for pharmaceutical products and denying or limiting coverage and the level of reimbursement. Moreover, even if the products can be sold profitably, they may not be accepted by patients and the medical community.

Alternatively, the Group's competitors – many of whom have considerably greater financial and human resources – may develop safer or more effective products or be able to compete more effectively in the markets targeted by the Group. New companies may enter these markets and novel products and technologies may become available which are more commercially successful than those being developed by the Group.

The Group's NIOX MINO® and NIOX VERO® devices compete with products made by Bedfont Limited and Medisoft SA. Neither of these competing products are currently available in the US. Outside the US and Germany the Group relies on distributors to sell its NIOX® devices and such relationships must be carefully managed in order to ensure the services provided are of a sufficiently high quality.

The successful commercialisation of the Group's fluticasone propionate will, when launched, be largely dependent upon its partner Mylan which has the exclusive rights to sell the product in most major markets. Moreover, this product and certain other drug products being developed by the Group for treatment of asthma, such as its Seretide substitute, are generic products and so will compete with the innovator products as well as potentially generics from other third parties.

Factors that may undermine the Group's efforts to commercialise its products include: the inability to train and retain effective sales and marketing personnel; a failure to persuade prescribers to prescribe products; and higher costs of marketing and promotion than are anticipated by the Group.

Mitigating activities

In the context of its cat allergy treatment, thorough market research will be carried out prior to product launch and the findings will be used to generate effective and appropriately resourced marketing campaigns. This will emphasise the attributes which differentiate the product from its competitors, for example its short dosing regimen and favourable safety profile. A disease awareness campaign will be developed and implemented. Pricing and reimbursement studies and health economic data will be used to support the value proposition which will be presented to payers.

With regard to its NIOX® franchise, the NIOX VERO® has been launched in Europe, in the US, Japan and China. This device offers advantages over the NIOX MINO® (in terms of portability, enhanced life, and better interface).

With respect to the Respiratory franchise, the Group's agreement with Mylan contains provisions which offer remedies in the event that insufficient diligence is applied to the marketing of its Flixotide substitute. A joint steering committee oversees this project.

Compliance with healthcare regulations

The Group must comply with complex regulations in relation to the marketing of its device products (and in the future will need to comply with such regulations in relation to its drug products once approved). These regulations are strictly enforced. Failure by the Group (or its commercial partners) to comply with the US False Claims Act, Anti-Kickback Statute and the US Foreign and Corrupt Practices Act and regulations relating to data privacy (amongst others) and similar legislation in countries outside the US may result in criminal and civil proceedings against the Group.

Mitigating activities

The Group has strengthened its internal Compliance function in the course of the year, by appointing an experienced compliance professional as VP, Global Compliance Officer. The Global Compliance Officer reports to the General Counsel but also has a direct reporting line to the Chair of the Audit and Risk Committee. A Compliance Committee has been formed to oversee activities in this area. The Compliance function works with a network of external advisers in the relevant territories to ensure the appropriate regulations are understood and that strategies are in place to support products in development and those already approved and sold. Robust processes are in place to ensure that sales compliance requirements are met and any failures or allegations of failure are swiftly investigated. This includes training of employees and audits of distributors and suppliers.

Supply Chain

The Group relies on third party contractors for the supply of key materials and services. Problems at these contractors, such as technical issues, contamination, and regulatory actions may lead to delays or even loss of supply or inadequate supply of these materials and services either prior to launch or thereafter. Some materials may only be available from one source, as is currently the case for the peptides contained in the Group's cat allergy treatment, and the sensors for the NIOX MINO® and NIOX VERO® devices, and regulatory requirements may make substitution costly and time-consuming, particularly where the product is regulated as a biologic as is the case for the Group's allergy products in the US.

Mitigating activities
Audits of sub-contractors are routinely conducted according to procedures set out in the Group's Quality system. Dual sourcing is being investigated where this is practicable. Manufacturing sites are well established FDA-approved facilities.

Research and development risks
The Group may not be successful in its efforts to use and expand its allergy technology platform to build a pipeline of allergy products or its particle engineering technology to successfully develop a pipeline of respiratory products. This would have a material impact on the long term success of the business. Failure of programs could result from lack of internal resources or capabilities, or from not obtaining the desired pre-clinical and clinical results.

In addition, the Group is dependent upon external collaborators for the development of certain of its products. The Group relies upon its collaborations with Panasonic for the development of the NIOX® devices and upon ITG for the development of the sensors contained in those devices.

Mitigating activities
The Group has recruited highly experienced R&D executives. Projects are closely monitored against goals and regularly reported to the Senior Management Team and the Board, and external resources are retained where this is deemed appropriate. The development collaboration with Panasonic is managed by a steering committee with representatives from the Group. In addition, the Group will seek, through business development activity, to identify opportunities which would expand and diversify its portfolio.

Intellectual property, know how, and trade secrets
The Group may be subject to challenges relating to the validity of its patents. If these challenges are successful then the Group may be exposed to generic competition. One of the Group's granted European patents relevant to its cat allergy treatment is currently the subject of opposition appeal proceedings at the European Patent Office. If the opponents are successful then the patent protection for its cat allergy treatment in Europe will be reduced.

Alternatively, the Group may be sued for infringement of third party patent rights. If these actions are successful then it would have to pay substantial damages and potentially remove its products from the market. Such litigation, particularly in the US, involves significant costs and uncertainties.

It is possible that the Group will not be able to secure intellectual property protection, or sufficient protection, in relation to products which are acquired or in development. Similarly, a failure by the Group to maintain or renew key patents would lead to the loss of such protection. In both cases the potential of the Group to earn revenue from its products could be compromised as it would be less difficult for third parties to copy the products.

The Group may rely upon know how and trade secrets to protect its products and maintain a competitive advantage. This may be especially important where patent protection is limited or lacking. Conversely, the Group may be subject to claims that its employees or agents have wrongfully used or disclosed the confidential information of third parties which could lead to damages or injunctions which affect particular products.

The Group licenses certain intellectual property rights from third parties. If the Group fails to comply with its obligations under these agreements it may enable the other party to terminate the agreement. This could impair the Group's freedom to operate and potentially lead to third parties preventing it from selling certain of its products.

Mitigating activities
Important products are covered by more than one patent family and attacks on patents are defended using expert external patent attorneys and lawyers. A robust system is in place which ensures patents are renewed on time. Third party patent filings are monitored to ensure the Group continues to have freedom to operate and oppositions are filed where this is considered expedient. Confidential information (both of the Group and belonging to third parties) is protected through use of confidential disclosure agreements with third parties, and suitable provisions relating to confidentiality and intellectual property exist in the Group's employment contracts. Licences are monitored for compliance with their terms.

At the beginning of the year there were four oppositions pending against the Group's allergy patents – three relating to its cat allergy treatment patents and one relating to the patent protecting the Group's treatment for Ragweed allergy.

A favourable result had been obtained in the opposition against the patent protecting the Group's Ragweed allergy treatment opposition in December 2014 with the patent upheld. This was confirmed by a written decision issued in February 2015 and no appeal was filed by the opponent.

The opposition proceedings against the patent which covers the active constituents of the Group's cat allergy treatment concluded in October 2015 with the opponent's arguments being rejected and the patent being upheld. It has now been confirmed that the opponent will not be appealing the decision. A second opposition against a patent protecting the formulation of the cat allergy treatment was also successfully brought to a close in October with the patent upheld. Again it has been confirmed there will be no appeal by the opponent. There is a third opposition still pending, against a second formulation patent covering the Group's cat allergy treatment. The oral proceedings in this matter took place in December 2015 and the decision was in the Group's favour. The Group is now waiting for confirmation as to whether the opponent will appeal this outcome.

Organisational capabilities and capacity
The Group may be unable to successfully implement its plans for growth if it does not attract and retain employees with the requisite capabilities and experience, in appropriate numbers. More particularly, the rapid development which is envisaged may place unsupportable demands on the Group's current managers and employees, particularly if it cannot attract sufficient new employees. The Group depends on the skills and experience of its current management team and employees, and is generally subject to competition for, and may fail to retain, skilled personnel.

Existing employees, investigators, consultants and commercial partners may engage in misconduct or improper activities, including non-compliance with regulatory standards and laws.

Where the Group acquires complementary technologies, products, or businesses it may not be able to integrate those acquisitions effectively or realise their expected benefits. In the second half of 2015 the Group has focused on integrating the operations of Aerocrine and Prosonix which it acquired on 18 June and 15 June respectively.

The Group may be vulnerable to disruption and damage as a result of failures of its computer systems.

Mitigating activities
The Group has budgeted for substantial growth in headcount over the next three years. The management team has already been strengthened in the course of 2015 by the recruitment of a Chief Business Officer. Remuneration packages are competitive, and incentive plans based on the contingent award of shares, are in place to attract, motivate and retain staff.

Disciplinary and whistleblowing policies exist to address misconduct by employees and officers, and committee structures have been established with the Contract Research Organisations instructed by the Group, to monitor and manage the conduct of the Group's clinical trials. To address IT risks, a disaster recovery plan has been developed. Data is backed up daily on off-site servers and the Group operates from a number of physically separate sites.

Free Float
The UK Listing Authority requires listing issuers to maintain at least 25% free float in their listed shares. At 29 February 2016 the Company had a free float of approximately 18%. If the level of free float cannot be increased to 25% then the UKLA can require the Company to delist from the Official List. This would adversely affect the ability of new and existing shareholders to buy Ordinary shares and of holders to sell them.

Mitigating activities
The Company will keep the free float under review, and if it remains below 25% will: (i) discuss with Shareholders who own more than 5% of the issue share capital of the Company whether any of their holdings can be disaggregated because decisions are being taken by independent investment managers within that Shareholder's organisation; (ii) discuss with such Shareholders the prospect of reducing their holding below 5%; (iii) seek a derogation from the UKLA while such measures are being implemented.

Financial Operations
The Group has incurred significant losses since the inception of its various businesses (including those of its recently acquired companies Aerocrine and Prosonix) and anticipates that it will continue to do so, at least until it is able to launch its allergy products.

Foreign exchange fluctuations may adversely affect the Group's results and financial condition. The Group records its transactions and prepares its financial statements in pounds sterling, but a significant proportion of its expenditure is in US dollars, Swedish krona, Canadian dollars, Swiss Francs, or Euros.

Adverse decisions of regulators, including tax authorities, or changes in tax treaties, laws, or the interpretation of those laws, could reduce or eliminate research and development tax credits which the Group, and its joint venture Adiga Life Sciences Inc. currently receive in the United Kingdom and Canada respectively.

Mitigating activities
The Group has prepared a detailed forecast for the next 10 years and, if it achieves its objectives, this shows that the current business plan is sufficient to take the Group through to profitability. Forward purchases of foreign currencies are made when exchange rates are favourable to provide for expenditure in those currencies. Markets are constantly monitored and an external commentary is provided by Investec on a daily basis. If tax credits are lost in the future then action would be taken to reduce discretionary expenditure in order to ensure there remained sufficient cash to support the business through to profitability.

Viability Statement
The Directors have assessed the viability of the Group over a three year period to 31 December 2018, taking account of the Group's current position and the potential impact of the principal risks identified above. Based on this assessment, the Directors 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 to 31 December 2018.

In making this statement, the Directors have considered the robustness of the Group, taking account of its current position, potential future developments, the principal risks facing it, and the effectiveness of mitigation plans and controls. Their assessment has encompassed the potential impact of significant credible scenarios on the business model, future performance, solvency and liquidity over the period to 31 December 2018.

The Directors have determined that a three year period is the appropriate length of time over which to provide its viability statement. The Board considers annually, and on a rolling basis, a detailed three year budget for the Group. This is limited to three years given the nature of the business and uncertainty. This is built from the bottom up and is stress tested for the following key scenarios:

- Cat trial results negative with read across remaining allergy programmes. In this scenario, expenditure on the allergy programme was re-prioritised in favour of the respiratory and NIOX® programmes
- Reasonable delays in key product launches
- NIOX® sales growth targets missed

In each case, the mitigating actions were robust enough to ensure the solvency and liquidity of the Group through to at least 31 December 2018.

The budget was approved by the Board at its December 2015 meeting.

The Directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the Basis of Preparation paragraph in note 1 to the accounts.

The Strategic report on pages 01 to 37 has been approved by the Board.

Steven Harris
Chief Executive Officer

11 March 2016

Board of Directors

1 Dr Francesco Granata
Chairman, 65

Dr Francesco Granata, joined Circassia as Chairman on 1 September 2013. He is also Chairman of the Nomination Committee.

Francesco is senior advisor at Warburg Pincus International LLC. Prior to this he was Executive Vice President at Biogen Idec Inc., and before that he was Group Vice President and President responsible for Canada and major European markets at Schering-Plough Corporation. Previously, he served as Regional President for Northern Europe and also Middle East and Africa at Pfizer Inc., and as Managing Director of Pharmacia & Upjohn Inc. in Italy. He is currently a Board member of Italfarmaco SpA, a leading Italian pharmaceutical group that operates in both the pharma and chemical sectors; Prismic Pharmaceuticals Inc., a US based medical food company; Quanta Ltd., a UK company that has developed advanced haemodialysis systems for use in the home and clinic; Cell Therapy Ltd., a UK biotechnology company focused on regenerative medicine; and a member of the strategic advisory committee at Lupin, a leading Indian global pharmaceutical company. Prior to his career in industry, Francesco practised as a medical doctor specialising in cardiology. He holds a degree in medicine and surgery from the University of Pavia, Italy, and was formerly a member of the Board of the European Federation of Pharmaceutical Industry Associations.

2 Steven Harris
Chief Executive Officer, 49

Steven Harris co-founded Circassia on 19 May 2006 and has led the Company as Chief Executive Officer since then.

Steven has extensive experience of leading specialty pharmaceutical companies. Prior to co-founding Circassia, he was a founding member of the management team that grew Zeneus Pharma Limited into a successful specialty pharmaceutical company and managed its acquisition by Cephalon Inc. (now part of Teva Pharmaceutical Industries Limited). Prior to this he served for seven years as Chief Financial Officer of PowderJect Pharmaceuticals plc and was a key member of the management team which grew the organisation from a private biotechnology company to the world's fifth largest vaccines business, before it was acquired by Chiron Corporation in 2003. He holds a BSc from Southampton University and is a Chartered Accountant and a member of the Institute of Chartered Accountants of England and Wales (ICAEW).

3 Julien Cotta
Chief Financial Officer, 52

Julien Cotta joined Circassia as Chief Financial Officer on 5 January 2012 and was appointed a Director on 26 November 2013.

Julien has significant financial management experience in the healthcare industry. Prior to joining Circassia, he was Chief Financial Officer of the Finnish medical technology company, Inion Oy, and before this Group Financial Controller at Whatman plc (now part of GE Healthcare). Previously, he served as Vice President of Financial Accounting at Chiron Corporation and Group Financial Controller at PowderJect Pharmaceuticals plc (prior to its acquisition by Chiron in 2003). Before this he held senior financial management roles at Scotia Pharmaceuticals Limited, and Sanofi S.A., having begun his pharmaceutical career as a sales representative at Merck Sharpe & Dohme Corporation. He completed his accountancy training at Coopers & Lybrand (now PricewaterhouseCoopers LLP). Julien holds a BSc (Hons) in Pharmacology from University College London and is a Chartered Accountant and a member of the ICAEW.

4 Dr Rod Hafner
Director and Senior Vice President Research & Development, 50

Dr Rod Hafner joined Circassia on 1 March 2007 and became Senior Vice President of Research & Development and a Director on 10 March 2008.

Rod has many years of experience at a senior level in the life sciences industry and is a named inventor on numerous granted patents and patent applications. Before joining Circassia, he led the UK operating company of the Scandinavian drug delivery business, OptiNose AS (now OptiNose US Inc.) and prior to that was Director of Programme Management and Vice President of Research & Development Portfolio Management at PowderJect. Other roles have included Head of Project Management at Cortecs International Limited and positions at Wyeth Pharmaceuticals, Inc. (now Pfizer) and The Procter & Gamble Company. Rod has led Circassia's research and development function since joining in 2007. He has a BSc (Hons) in Biochemistry from Edinburgh University and a PhD in Biochemistry from the University of Cambridge.

5 Dr Jean-Jacques Garaud
Senior Independent Non-Executive Director, 60

Dr Jean-Jacques Garaud, the Senior Independent Non-Executive Director joined Circassia as a Non-Executive Director on 1 November 2012. He is a Member of the Audit and Risk Committee and the Nomination Committee.

Jean-Jacques has extensive pharmaceutical research and development experience having held senior roles at companies in the United States and Europe. Until recently he was Global Head of Pharma Research and Early Development and a member of the extended corporate executive committee at F Hoffmann-La Roche Inc. having joined the company in 2007 as Global Head of Pharmaceutical Development and Chief Medical Officer. Prior to this he was Global Head of Clinical Research and Development and Global Head of Exploratory Development at Novartis and held roles at Schering-Plough Corporation, Rhone-Poulenc Rorer Limited and Merrell Dow Pharmaceuticals Inc. Before working in industry, Jean-Jacques practised medicine at the Claude Bernard Hospital in Paris, France after gaining his medical degree at the University of Paris. He is a Non-Executive Director at MedDay SAS, Inatherys SAS and Polyphor Limited and Chairman of the Inserm Transfert Initiatives Investment Committee.

6 Dr Tim Corn
Independent Non-Executive Director, 64

Dr Tim Corn joined Circassia as an independent Non-Executive Director on 1 August 2006. He is a Member of the Audit and Risk Committee, the Remuneration Committee, and the Nomination Committee.

Tim was previously Chief Medical Officer at EUSA Pharma (Europe Limited), an international division of Jazz Pharmaceuticals plc. In the course of his career, he has played a key role in the regulatory approval of numerous products in the fields of neurology and oncology. Tim qualified in medicine at King's College Hospital, London, after gaining an MSc in Biochemistry from Imperial College, London. He has been a Fellow of the Faculty of Pharmaceutical Medicine since 1996 and a Fellow of the Royal College of Psychiatrists since 1998. He is Chairman of the Board of Trustees of the Neuro Foundation and a Non-Executive Director of Reneuron plc.

7 Russell Cummings
Non-Executive Director, 51

Russell Cummings joined Circassia as a Non-Executive Director on 25 January 2007. He is Chief Executive Officer of Imperial Innovations Group plc, having joined as Chief Investment Officer in 2006. From 2003 to 2006, he held roles at the growth equity and venture capital firm Scottish Equity Partners LLP, and prior to this spent 16 years at the international venture capital company 3i Group plc, latterly as a Director in its UK Technology Group. He holds a BSc (Eng) in Mechanical Engineering from Imperial College, London. Russell is also a Non-Executive Director of Nexeon Limited.

8 Paul R Edick
Non-Executive Director, 60

Paul R Edick joined Circassia as an independent Non-Executive Director on 3 April 2013.

Until 18 November 2014 Paul was Chief Executive Officer of Durata Therapeutics Inc. which was acquired by Actavis plc. Prior to this he was Chief Executive Officer of Ganic Pharmaceuticals Inc., a Warburg Pincus investment vehicle disbanded in June 2010. From 2006 to 2008 he served as Chief Executive Officer of MedPointe Healthcare Inc., following a period as President. After MedPointe was acquired by Meda in late 2007, he continued in office until mid-2008 and then acted as a consultant for the rest of the year. Earlier roles included a number of senior positions at GD Searle & Company, and Pharmacia Corporation (now Pfizer Inc.), following the acquisition of Searle by Pharmacia, culminating in his appointment as Pharmacia's Group Vice President and President, Asia Pacific/Latin America Operations. Paul holds a BA in Psychology from Hamilton College. He currently sits on the board of NewLink Genetics Corporation, Iterum Therapeutics, NEOS Therapeutics, and PDL BioPharma, and was previously chairman of the Danish biotechnology company, Life Cycle Pharma A/S.

9 Cathrin Petty
Non-Executive Director, 42

Cathrin Petty joined Circassia as a Non-Executive Director on 8 March 2010.

Cathrin is Co-Head of EMEA Healthcare at J.P. Morgan, and has extensive senior level experience of the life sciences industry. She has held a number of non-executive roles, most recently at ICON plc and at the NHS Strategic Health Authority for Greater London. She has previously worked as Special Partner at Vitruvian Partners LLP, Partner at Apax Partners LLP, and at Schroders and Schroder Ventures Life Sciences. She holds an MA in Natural Sciences from the University of Cambridge and a post-graduate Diploma in Management Studies from the Judge Institute, Cambridge.

10 Marvin S Samson
Independent Non-Executive Director, 74

Marvin S Samson joined Circassia as an independent Non-Executive Director on 8 December 2015. He is Chairman of the Remuneration Committee.

Marvin brings to Circassia 50 years' experience of the specialty pharmaceutical industry, having established and led a number of successful companies. He is currently Founder and CEO of Samson Medical Technologies LLC, and was until recently Interim President of the University of the Sciences, Philadelphia. Previously, he was CEO and Chairman of Qualitest Pharmaceuticals, Group Vice President of Injectables at Teva, CEO and President of SICOR, Founder, President and CEO of Marsam Pharmaceuticals and Founder, CEO and President of Elkins-Sinn. He holds a BSc in Chemistry from Temple University, Philadelphia. He is currently a Non-Executive Director of Antares Pharma Inc, Flynn Pharma Ltd and NanoPass Technologies Ltd. He is also Chairman of the Board of Trustees of the University of the Sciences in Philadelphia and a Board Member of the Cooper Rowan Medical School, Virtua Health and the Franklin Institute.

11 Charles Swingland
Non-Executive Director, 63

Charles Swingland is a Non-Executive Director and co-founder of Circassia.

Charles is Deputy Chairman and General Counsel at Drayson Technologies Limited. He was General Counsel, Company Secretary and Deputy Chairman of Circassia from May 2006 until March 2014. Prior to founding Circassia with Steven Harris, he was a Director and General Counsel at Zeneus Pharma Limited from 2004 to 2006 and before this was Executive Director, General Counsel and Company Secretary at PowderJect, until it was sold to Chiron in 2003. Before working in industry, Charles practised as a lawyer in the City of London for over 15 years. Charles is a member of the board of advisers of the Earthwatch Institute.

12 Lota S Zoth
Independent Non-Executive Director, 56

Lota Zoth joined Circassia as an independent Non-Executive Director on 9 February 2015. She is Chair of the Audit and Risk Committee and a member of the Remuneration Committee.

Lota is an experienced Board member, and has significant financial experience gained in a number of global public companies. Most recently she was CFO at MedImmune, and she previously held senior positions at PSINet, Sodexho Marriott, PepsiCo and Ernst & Young. She is currently a Non-Executive Director at Hyperion Therapeutics Inc, NewLink Genetics Corporation, Orexigen Therapeutics Inc., and Spark Therapeutics. She is also Chair of Aeras, a non-profit product development organisation focused on tuberculosis and funded by The Bill and Melinda Gates Foundation, and until 2014 was a Non-Executive Director at privately-held biopharmaceutical company Ikaria Inc. Lota has over 30 years' experience as a Certified Public Accountant, and holds a Bachelor of Business Administration from Texas Tech University.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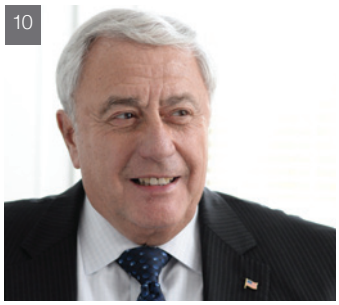
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Corporate governance

Dear Shareholders

On behalf of the Board, I am pleased to present Circassia's Corporate governance report for the year ended 31 December 2015. It describes how the Board and its Committees apply the principles of good corporate governance set out in the UK Corporate Governance Code issued by the Financial Reporting Council (the "Code").

High standards of corporate governance are fundamental to our business and are implemented and supported through appropriate internal policies and procedures. The responsibility for ensuring this framework is effective lies with the Board, and we are constantly striving to improve standards while building a successful company. These same high standards have been applied following the acquisitions of Aerocrine and Prosonix, to ensure that governance is well embedded throughout the Group.

One area on which the Board has focused in particular since Listing relates to its composition. As we explained at the time of Listing, the Board believes that at this critical point in its development the Group benefits from the knowledge and experience of the full range of its Non-Executive Directors but has been looking to appoint further Independent Non-Executive Directors. I am therefore pleased to report that we were able to make two such appointments in the course of the year. On 9 February 2015, Ms Lota Zoth joined the Board as an Independent Non-Executive Director. Ms Zoth has recent and relevant financial experience and was appointed Chair of the Audit and Risk Committee on 27 February 2015. In addition, Mr Marvin Samson joined the Board as an Independent Non-Executive Director on 8 December 2015. He was appointed Chairman of the Remuneration Committee on 9th February 2016.

Mr Paul Edick, who has served as a Non-Executive Director since 3 April 2013 has announced that he does not intend to seek re-election at the Company's 2016 Annual General Meeting. We are very grateful to Paul for his significant contribution.

Maintaining good communication with our Shareholders is extremely important to us. During the year, Steven Harris, our CEO has held a number of meetings with investors and current shareholders, and presented at several conferences which were attended by existing and potential Shareholders. Communications with Shareholders are coordinated by the Head of Corporate Communications, who reports directly to the CEO.

Dr Francesco Granata
Chairman

Corporate governance report

Statement of Compliance with the UK Corporate Governance Code

The UK Corporate Governance Code (the "Code") sets out the principles of good practice in relation to corporate governance which should be followed by companies with a listing on the London Stock Exchange. The Code is published by the Financial Reporting Council ("FRC") and the most recent edition (September 2014) can be found on their website (www.frc.org.uk).

The principles of the Code are divided into five sections. Each section sets out the main principles relating to Leadership; Effectiveness; Accountability; Remuneration; and Relations with Shareholders. This report explains how Circassia has applied these principles.

The Directors support high standards of corporate governance. However, as is explained below, the Company has not complied with the recommendations of the Code that at least half the Board should comprise independent Non-Executive Directors.

In addition, until 27 February 2015 the Company did not comply with the requirement that the Audit and Risk Committee should comprise only Independent Non-Executive Directors. However, since the appointment of Lota Zoth to the Audit and Risk Committee which occurred on 27 February 2015, the Audit and Risk Committee's composition has complied in full with the independence requirements of the Code.

Further, from 15 September 2014 to 9 February 2015 the Company did not comply with the requirement that the Remuneration Committee consists only of Independent Non-Executive Directors. However, since the appointment of Lota Zoth to the Remuneration Committee on 9 February 2015, the Remuneration Committee's composition has complied in full with the independence requirements of the Code.

At the beginning of 2015, the Board consisted of ten members, the Chairman (who was independent on appointment), three Executive Directors, and six Non-Executive Directors. Of the six Non-Executive Directors, two were considered by the Board to be independent. Following the appointment of Lota Zoth on 9 February 2015 and the appointment of Marvin Samson on 8 December 2015, the number of Independent Non-Executive Directors has risen to four. The independence ratio of the Board (excluding the Chairman) was therefore 22% at the beginning of year, but rose to 30% from 9 February 2015, and to 36% by the end of the year. Moreover, Paul Edick, has announced that he does not intend to stand for re-election at the Company's 2016 Annual General Meeting and accordingly, from 18 May 2016, the independence ratio is expected to rise further, to 40%.

The Board believes that at this point in the Group's development it is important that it has access to the expertise and knowledge of its Non-Executive Directors. Moreover, the Company has been successful in recruiting two additional Independent Non-Executive Directors and so the proportion of the Board which comprises Independent Non-Executive Directors has been steadily increased over the course of the past year.

The composition of the three Board Committees throughout the year and the extent to which their composition complied with the provisions of the Code, was as follows:

— **Nomination Committee**
The Code requires that a majority of the members of the Committee should be Independent Non-Executive Directors and the Committee should be chaired by the Chairman or an Independent Non-Executive Director. Throughout the year, the Committee was composed of the following members: Dr Francesco Granata (Chairman and Chair of the Committee); Dr Tim Corn, and Dr Jean-Jacques Garaud. Two-thirds of the Committee was therefore made up of Independent Non-Executive Directors, with the remaining place filled by the Chairman. The composition of the Nomination Committee therefore complied fully with the recommendations of the Code.

— **Remuneration Committee**
The Code requires that the Committee should comprise a minimum of three Directors, all of whom should be independent. For the period from 1 January 2015 until 9 February 2015, the Committee members were: Dr Jean-Jacques Garaud (Chair of the Committee); Dr Tim Corn and Mr Paul Edick. As Mr Edick was not considered to be independent at the time, the composition of the Committee did not comply with the requirements of the Code for this period. However, on 9 February 2015 Mr Edick was succeeded by Ms Lota Zoth, who was and is independent. On 9 February 2016 Dr Jean-Jacques Garaud stepped down as Chair of the Committee and was replaced by Mr Marvin Samson. As both Dr Garaud and Mr Samson are independent, this had no impact on the independent composition of the Committee. Therefore, from 9 February 2015 until the end of the year and up to the date of this report, the Committee complied with the membership requirements of the Code insofar as they relate to independence.

— **Audit and Risk Committee**
The Code requires that the Committee should comprise a minimum of three Directors, all of whom should be independent. For the period from 1 January 2015 to 27 February 2015, the Committee was made up of three members: Ms Cathrin Petty (Chair of the Committee); Dr Tim Corn; and Dr Jean-Jacques Garaud. Ms Petty has recent and relevant financial experience but is not considered to be independent. Therefore, for this period, the composition of the Committee did not fully comply with the requirements of the Code. However, Ms Petty was succeeded by Ms Lota Zoth on 27 February 2015 who has recent and relevant financial experience and is independent. Therefore, from 27 February 2015 until the end of the year and up to the date of this report, the membership of the Audit and Risk Committee complied with the membership requirements of the Code insofar as they relate to independence.

The Board confirms that in all other respects, the Group has fully complied with the principles of the Code throughout the year to 31 December 2015 and up to the date of this report. Details of Directors' remuneration, as required by the Code and Part 4 to Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, are set out in the Remuneration Committee report.

The Group's Auditor, PricewaterhouseCoopers LLP, is required to review whether this Corporate governance statement properly reflects the Group's compliance with certain provisions of the Code and to report any non-compliance. The Group confirms that no report of non-compliance has been made other than in respect of the matters identified above in relation to Board composition.

Leadership

The role of the Board

The Board is responsible for the leadership and long-term success of the business. It has a schedule of matters which are reserved for its review. These include the review and approval of strategic plans, financial statements and budgets, financing, acquisitions and disposals, major capital expenditure, dividend policy, making key risk decisions, monitoring health, safety and environmental performance, and Executive remuneration and appointments.

At each meeting, the Board assesses the progress of the Group when measured against its objectives, particularly those which relate to its clinical trials programmes, and reviews financial performance against the budget.

Roles and responsibilities

The Board is currently composed of the Chairman, three Executive Directors, and eight Non-Executive Directors. The biographies of the members of the Board who served during the year to 31 December 2015 are set out on pages 38 to 39 of this report.

The Executive Directors have direct responsibility for the business operations of the Company. The Non-Executive Directors, by virtue of their wide range of industry experience and skills, bring an informed view to the decision making process.

The roles of the Chairman and Chief Executive Officer are clearly delineated. This division of responsibilities has been set out in writing and approved by the Board.

Chairman

Dr Francesco Granata, Chairman, is responsible for the leadership of the Board and its effectiveness by ensuring that:

— the agenda for meetings is appropriate, and the Board is provided with the information it needs for high quality decision making in a timely fashion;
— the Board plays a full and constructive role in shaping the strategy of the Group;
— the Board environment is productive and utilises the skills and experience of all members;
— the Board complies with the appropriate standards of corporate governance;
— the Committees are properly structured and resourced;
— the performance of the Board, its Committees, and individual Directors are evaluated each year; and
— there is effective communication with Shareholders.

The Chairman and the Non-Executive Directors met in the absence of the Executive Directors at the end of each Board meeting which occurred in 2015.

Chief Executive Officer

Steven Harris, Chief Executive Officer, is responsible for the day to day management of the Company and for implementing the strategy which has been reviewed and approved by the Board. He is also responsible for ensuring effective communication with Shareholders, brokers, and analysts.

Senior Independent Non-Executive Director
Dr Jean-Jacques Garaud has been Senior Independent Non-Executive Director since 21 February 2014. He works closely with the Chairman to resolve any significant issues which may arise and is responsible for the annual evaluation of the Chairman's performance, for leading the other Non-Executive Directors in their oversight of the Chairman, and for ensuring there is a clear division of responsibilities between the Chairman and the Chief Executive Officer. He is available to communicate directly with Shareholders if they have concerns which cannot be resolved through the normal channels of the Chairman, Chief Executive Officer, or Chief Financial Officer.

Non-Executive Directors
The role of the Non-Executive Directors, and of the Committees of which they are members, is to scrutinise the performance of management, satisfy themselves that the financial and risk control mechanisms are robust, and determine appropriate levels of Executive pay. They have wide ranging experience of industry and bring their judgement to bear in the decision making process of the Board. Their seniority and range of skills ensure that no one individual can dominate this process.

Board Committees
The Board has three Committees: the Audit and Risk Committee; the Nomination Committee; and the Remuneration Committee, to which it delegates specific responsibilities. The reports of these Committees and details of their composition form part of the Corporate governance report.

Each Committee has full terms of reference which have been approved by the Board and also appear on the website at www.circassia.com. These terms of reference are reviewed annually. The Board provides the Committees with sufficient resources, including access to external advisers, as may be required in order to fulfil their roles.

Board meetings
The Board aims to meet at least five times during the year. Additional meetings may be arranged where urgent matters arise. These additional meetings may be held by telephone.

The table below sets out the attendance of the Directors, while they were Board members, at scheduled meetings which occurred during the year to 31 December 2015.

	Committee Memberships	Independent status	Board	Nomination Committee	Audit and Risk Committee	Remuneration Committee
Executive Directors						
Steven Harris	n/a	n/a	5 (5)	2 (2) [1]	4 (4) [1]	3 (3) [1]
Julien Cotta	n/a	n/a	5 (5)	2 (2) [2]	4 (4) [2]	3 (3) [2]
Rod Hafner	n/a	n/a	5 (5)	–	–	–
Non-Executive Directors						
Francesco Granata	N (Chair)	Yes	5 (5)	2 (2)	–	–
Jean-Jacques Garaud	A, R (Chair), N	Yes	5 (5)	1 (2)	3 (4)	3 (3)
Tim Corn	A, R, N	Yes	5 (5)	2 (2)	4 (4)	3 (3)
Russell Cummings	–	No	5 (5)	–	–	-
Paul R Edick	R[3]	No	5 (5)	–	–	1 (1)
Cathrin Petty	A (Chair)[4]	No	5 (5)	–	1 (1)	-
Charles Swingland	–	No	5 (5)	–	–	–
Lota Zoth[5]	A[6], R[7]	Yes	5 (5)	–	3 (3)	3 (3)
Marvin Samson[8]		Yes	–	–	–	–

N = Nomination Committee, R = Remuneration Committee, A = Audit Committee

[1] By invitation

[2] In the capacity of Secretary to the Committee

[3] Until 9 February 2015 when he was succeeded by Ms Lota Zoth

[4] Until 27 February 2015 when she was succeeded by Ms Lota Zoth (who was in attendance but not formally present at the first meeting of the year)

[5] Appointed to the Board 9 February 2015

[6] Appointed to the Committee (as Chair) 27 February 2015

[7] Appointed to the Committee 9 February 2015

[8] Appointed to the Board 8 December 2015 at the end of the Board meeting

Board activity
The Board's main activities during the course of the year included:

- Regular reviews of risk management;
- Reviews of the progress of the Group's clinical trials;
- Progression and ultimate approval of the acquisitions of Aerocrine AB and Prosonix Limited and the placing and open offer which raised £275M to fund those acquisitions;
- Reviews of the progress of business and corporate development activity and opportunities;
- Conducting an in-depth review of the Group's strategy over a period of two days;
- Assessment of the financial performance against the budget for FY 2015;
- Approval of the budget for FY 2016 – 2018;
- Completion of a Board evaluation exercise.

Following the acquisition of Aerocrine and Prosonix, the Board has focused on ensuring that these businesses have been effectively integrated into the Group and its governance framework. Prior to this acquisition the Group was developing pharmaceutical products but did not have any marketed pharmaceutical products or medical devices. As Aerocrine markets approved devices in the US, Europe and elsewhere, the Board has paid particular attention to those aspects of governance which relate to healthcare compliance.

Effectiveness

Independence
The Board reviews the independence of its Non-Executive Directors each year. For the period 1 January 2015 to 9 February 2015, excluding the Chairman, two of the nine Board members were Non-Executive Directors who were considered by the Board to be independent. For the period from 9 February 2015 to 8 December 2015, three out of ten Board members were considered to be Independent Non-Executive Directors and from 8 December 2015 to 31 December 2015 four out of eleven Board members were considered to be Independent Non-Executive Directors.

Dr Tim Corn and Dr Jean-Jacques Garaud have participated in the Company's unapproved share option scheme in the past. However, this scheme is unrelated to performance, such participation was historic, and no further share options will be granted to these Directors. The Board has therefore determined that it regards Dr Tim Corn and Dr Jean-Jacques Garaud as Independent Non-Executive Directors within the meaning of "independent" as defined in the Code for the period 1 January 2015 to 31 December 2015.

The Board also carefully reviews any actual or potential conflicts of interest that may arise due to the commercial interests of Non-Executive Directors and they are required to make a declaration in respect of any such situations. The Board can confirm that no new conflicts of interest arose in the year. As is noted in their respective biographies, Cathrin Petty is an employee of JP Morgan and Russ Cummings is an employee of Imperial Innovations. For these reasons, Russ Cummings and Cathrin Petty are considered by the Board not to be independent. Paul Edick is also considered not to be independent as his wife has been employed as the Group's Chief Commercial Officer since 15 September 2014.

The Code indicates that a tenure of more than nine years as a Non-Executive Director could be relevant to a determination of independence. As of 1 August 2015 Tim Corn had served nine years as a Non-Executive Director. Nonetheless, as he has no business, financial or other connections with the Group beyond his directorship (except for the historic share option awards referred to above) it is considered that his independence is not compromised by his length of tenure and the Board is satisfied that he remains independent in character and judgement. It is confirmed that none of the other Independent Non-Executive Directors have served for more than nine years.

The Board further confirms that Dr Francesco Granata was independent upon his appointment.

Appointments to the Board
The procedure for appointment of new Directors to the Board is formal, rigorous and transparent. The process is led by the Nomination Committee which comprises the Chairman and Independent Non-Executive Directors. Shortlisted candidates are interviewed by members of the Committee before a recommendation is made to the Board.

Diversity
The Board recognises the value of diversity at all levels of the Group. The Group has an Equal Treatment, Equal Opportunities and Diversity policy which extends to the Board. This provides that the Group will employ and promote employees on the basis of their abilities and qualifications without regard to age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race (including colour, nationality and ethnic or national origins), religion or belief, sex or sexual orientation. The Group appoints, trains, develops and promotes on the basis of merit alone.

Induction and training
Upon appointment, each Director receives a comprehensive induction package which includes written materials relevant to their responsibilities. In addition, meetings are organised with other Board members and with members of the Company's management team.

All Directors have direct access to the advice of the Company Secretary. Whenever it is considered necessary, the Company Secretary can arrange the appointment of professional advisers at the Group's expense to assist Board members in their roles.

Directors receive frequent updates on commercial developments affecting the business as well as regulatory and legislative changes. Directors are invited, during the annual evaluation procedure, to identify any training which they feel might benefit them.

Information
In advance of each Board Meeting, Directors receive a full agenda and a comprehensive set of papers which include commercial and functional reports. A procedure is in place to ensure that these materials are delivered to the Board in a timely fashion. Senior employees of the business regularly attend meetings in order to enhance the Non-Executive Directors' understanding of current issues and give them the opportunity to ask detailed questions.

Commitment
The Board is satisfied that the other commitments of the Chairman and Non-Executive Directors – which are set out in their biographies – leave them with sufficient time to diligently perform their role for the Group.

Performance evaluation
Formal Board evaluations are carried out once a year, and informal evaluations are carried out on a continuing basis throughout the year. The formal evaluation commences with the circulation of a written questionnaire which has been prepared by the Company Secretary with the assistance of the Auditors. This invites Directors to rate and comment on the performance of the Board in a number of areas, including the conduct of Board meetings; the standard and timeliness of information; the balance of skills of the members of the Board; the roles and responsibilities of individual Directors; and compliance with good corporate governance practices. A detailed, anonymised analysis of these responses is then prepared by the Company Secretary and reviewed and discussed by the Board.

The Board intends to subject itself to an external review every third year. No external review occurred in 2014 or 2015. Accordingly it is anticipated that there will be an external review in 2016.

Re-election
All Directors have service contracts which are capable of termination on giving a fixed period of notice. In the case of the Executive Directors this notice period is six months and in the case of the Non-Executive Directors and Chairman it is three months.

All Directors are subject to re-election by Shareholders on an annual basis.

Accountability

The Board acknowledges its duty to present a fair, balanced and understandable view of the Group's position and prospects. A description of the Group's business model is contained in the Strategic report. The Statement of Directors' responsibilities sets out information regarding the Directors' responsibility to prepare financial statements. The Independent Auditors' report includes a statement by the Auditor on its reporting responsibilities.

The role of the Audit Committee is set out in detail in the Audit Committee report.

The Board is responsible for determining the significant risks which the Group is prepared to take in order to attain its strategic objectives, and keeps the risk management procedures and internal controls of the business under regular review. The Board confirms that it is satisfied that the current procedures and controls are sufficient to ensure compliance with the Code.

After taking advice from the Audit Committee, the Board is able to confirm that the Annual report and accounts, taken as a whole is fair, balanced, and understandable and provides the information necessary for Shareholders to judge the Group's strategy, business model, position and performance.

Viability statement
The Company prepares a three year budget which was reviewed and approved by the Board at its meeting on 8 December 2015. The budget pack also contains a sensitivity analysis which allows the Board to assess the potential financial impact of certain significant potential scenarios which might arise. This includes the possibility of negative clinical results for the pivotal phase III cat allergy treatment study. This process informs the Viability Statement which the Board gives on page 37 of this report.

Risk management system
A description of the risk management system is set out in the Strategic report. The system is designed to manage risks, not to eliminate them completely, and can only provide a reasonable degree of assurance against material misstatement or loss. Inherent in the concept of reasonable assurance is the recognition that the cost of a control procedure should not exceed its anticipated benefits. The principal risks facing the Group are set out in the Strategic report.

The Board confirms that it has conducted a review of the Group's risk management and internal controls systems, including financial, operational and compliance controls and has found them to be effective.

Internal controls
The Audit Committee reviews the Group's financial controls on an annual basis and makes recommendations to the Board where improvements are required. The efficacy of control systems are reviewed by the full Board as required by the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

The Group's primary risk control systems are as follows:

Management structure
- There is a management structure with clear lines of responsibility and accountability. Employees are recruited when they have the appropriate skills and experience to perform their intended roles.
- The Board sets the overall strategy and reviews the performance of the Group.
- The Group's Senior Management Team, chaired by the Chief Executive Officer, is responsible for day to day operations.
- Other team members comprise the Chief Financial Officer, Senior Vice President R&D, Chief Commercial Officer, Chief Business Officer, Vice President Human Resources, and General Counsel. This team meets weekly.

Written policies and procedures
- There are documented quality procedures which ensure regulatory compliance. Regular reviews take place to ensure standards are maintained and the Company is fully prepared for a regulatory inspection. The Vice President, Quality Assurance and her team monitor internal and external (Contract Research Organisation and Contract Manufacturing Organisation) compliance with Good Manufacturing Practice, Good Clinical Practice, and Good Laboratory Practice and organise training for employees.
- The Vice President, Global Compliance Officer maintains policies which relate to healthcare compliance, including but not limited to the Group's Whistleblowing policy (which enables employees to communicate concerns regarding improper activity to a trusted individual who is not their line manager or a member of the senior management team), the Group's Anti-Bribery and Anti-Corruption policy, and the Group's privacy and data protection policies.
- There are controls in place which determine how financial information is validated, consolidated and reviewed.
- There are specific controls on expenditure. Material investments or capital expenditure must be approved by the Board. Normal expenditure is controlled by setting limits which are determined by the CEO and CFO within a general framework approved by the Board.
- Detailed management accounts are prepared on a monthly basis and provided to the Board. Accompanying reports will explain any variances between these results and the budget.
- The R&D Committee meets on a weekly basis to review performance of the various clinical trials and implement action plans to prevent delays.
- The Patents Committee meets regularly to assess the scope of protection provided by pending and granted patents, organise the defence of granted patents, and plan new filings where appropriate. This group also manages registered trade marks.
- There are physical and electronic procedures in place to ensure the security and integrity of data and confidential information.
- An established policy exists for share dealing by employees or connected persons.
- The Health and Safety Policy is maintained and reviewed by the Health and Safety Committee.
- There is a Disclosure Committee, as required by the Market Abuse Directive, comprising the Chief Executive Officer, Chief Financial Officer, and the Head of Corporate Communications. The Chief Business Officer under the direction of this Committee maintains an Insider List recording employees and external parties who may have access to inside information. Individuals are notified of their addition to and removal from the list and are appraised of their responsibilities.

No failure of controls or breach of internal policies was recorded during the year to 31 December 2015 and up to the date of this report.

Remuneration

The Board has adopted a remuneration policy approved by shareholders at the 2015 AGM which it believes is sufficient to attract, retain, and motivate Directors of the quality required to run the Group successfully, but which does not result in payment of more than is necessary for this purpose. A significant proportion of Executive Directors' pay is linked to corporate and individual performance. Full details of the policy are set out in the Remuneration Committee report.

Relations with Shareholders

Dialogue with Shareholders

The Board maintains regular communication with Shareholders. Meetings between material Shareholders and the Executive Directors take place throughout the year. The Chairman and Senior Independent Non-Executive Director and other Directors are available to meet with major Shareholders on request.

All meetings with Shareholders are held in a manner which ensures price sensitive information which has not been made available to Shareholders generally is protected from disclosure.

The Chief Executive Officer and the Chief Financial Officer give annual and six-monthly presentations to institutional investors, analysts, and the media. These presentations are available on the website. Annual and Interim reports and all press releases are also published on the website as are the terms of reference of the three Board committees. Paper copies of the report and accounts are mailed to those Shareholders who have elected to receive them.

The Directors receive a report from the Corporate Communications department at each Board Meeting giving information on material changes in shareholdings and collating feedback from the Company's brokers and investors.

Annual General Meeting

The AGM provides an opportunity for all Shareholders to meet Board members and have the opportunity to ask about the proposed resolutions and the business in general.

Notice of the AGM is posted to Shareholders not less than 20 working days prior to the date of the AGM and is also available to Shareholders on the website at www.circassia.com. The letter accompanying the Notice will include details of the proposed resolutions and an explanation of their content.

At the AGM the number of proxy votes cast for, against, or abstaining from each resolution will be disclosed. Results of voting are announced to the market and posted on the website as soon as possible after the AGM.

The Group does not currently consider it appropriate to introduce mandatory poll voting on all resolutions put to the Shareholders but will keep this position under review.

Audit and Risk Committee report

Dear Shareholder

On behalf of the Board I am pleased to present Circassia's Audit and Risk Committee report for the year ended 31 December 2015.

The Audit and Risk Committee is the key independent oversight Committee at Circassia. It monitors and reviews the effectiveness of the Group's risk management framework and internal controls.

This report sets out how the Committee has discharged its responsibilities under the UK Corporate Governance Code (the "Code"). It also contains a summary of the activities of the Committee throughout the year.

Lota S Zoth
Chair of the Audit and Risk Committee

11 March 2016

Responsibilities

The Committee has responsibility for monitoring the integrity of the financial statements of the Group, and for reviewing the effectiveness of the Group's internal control systems and risk management systems, including reviewing its risk profile.

Accordingly, the Committee performs a detailed review of the interim and annual financial statements, considering whether the accounting policies have been applied properly and consistently and whether the disclosures made in the Annual report and accounts are compliant with financial reporting standards, and with corporate governance and regulatory requirements.

The Committee also manages the relationship with the external Auditors on behalf of the Board. It monitors the independence of the Auditor and reviews the effectiveness of the audit procedure. The Committee makes recommendations to the Board regarding the appointment of the external Auditors and reviews their terms of engagement. The Committee has access to the services of the external Auditors and, if necessary, may appoint external accounting and legal advisers to assist it with its work.

A significant development during the year related to healthcare compliance. Following the acquisition of Aerocrine, the Group now markets approved devices to healthcare professionals in a number of markets around the world. Prior to the acquisition, Aerocrine had developed policies and procedures to ensure compliance with healthcare laws and regulations concerning the sale of such products and following the integration into the Group additional resources have been applied to this area. An experienced compliance professional was appointed as Vice President, Global Compliance Officer in October 2015. The VP, Global Compliance Officer has a direct reporting line to the Chair of the Audit and Risk Committee and will provide updates in this area to her.

The Committee's terms of reference are available on the Company's website. They cover issues such as membership and the frequency of meetings, together with requirements for a quorum and the right to attend meetings. The duties of the Committee as set out in the terms of reference include financial and regulatory reporting; internal controls; internal audit; external audit; risk management; and reporting responsibilities.

Membership

The names of the members of the Audit Committee, their dates of appointment, and the number of meetings attended during the year are set out in the table below:

Member	Date of appointment	Meetings attended (held)
C Petty[1]	21 February 2014	1 (1)
T Corn	21 February 2014	4 (4)
J-J Garaud	21 February 2014	3 (4)
L S Zoth	27 February 2015	3 (3)

[1] Resigned from the Committee 27 February 2015

The first Committee meeting of the year was chaired by Cathrin Petty. At the end of that meeting Ms Petty stepped down and was succeeded as Chair by Lota S Zoth.

The Code provides that all members of the Audit and Risk Committee should be Independent Non-Executive Directors. Cathrin Petty is not considered by the Board to be independent and so for the period to 27 February 2015 the Company did not comply with the provisions of the Code in this regard. However, following the appointment of Ms Lota Zoth as the new Chair of the Audit Committee on 27 February 2015 the Company has complied with this requirement as Ms Zoth is considered to be independent.

Ms Zoth has significant recent and relevant financial experience. She is a Non-Executive Director, Compensation Committee Member and the Audit Committee Chair at Hyperion Therapeutics Inc and NewLink Genetics Corporation. She is also a Non-Executive Director and the Audit Committee Chair at Orexigen Therapeutics Inc., She was also Chief Financial Officer and Senior Vice President at MedImmune, LLC from 2004 to 2007.

The Company Secretary acts as the Secretary to the Committee. The CEO attends Committee meetings at the invitation of the Chair. The Chair of the Committee meets with the external Auditors at least once a year in the absence of management.

A summary of the matters considered by the Committee since the last financial statements is shown in the table below and explained in further detail in the subsequent text:

Financial reporting

During the year to 31 December 2015 and up to the date of this report, the Committee reviewed the interim management statements, the Interim report and accounts for the period ended 30 June 2015 and the preliminary announcement and Annual report and accounts for the year ended 31 December 2015.

Significant accounting matters

The Committee considered the following key accounting issues, judgements and disclosures during the course of the year:

- Accounting for acquisition costs;
- Allocation of goodwill to cash generating units and testing for impairment;
- Measuring the fair value of awards under share option schemes and the related accounting treatment;
- Recognition of deferred tax assets.

Area of review	Activities undertaken
Financial reporting	Review of the interim and full year results. Consideration of whether the Annual report is fair, balanced, and understandable. Review of the external Auditors' reports on the interim and full year results. Review of significant accounting issues (see below). Review of anticipated changes in accounting standards and their impact. Review of the viability statement and going concern basis of preparation of the financial statements.´
External Auditor	Review of external Auditors' independence. Review of Auditors compliance with ethical and professional guidance on audit partner rotation. Assess effectiveness of audit process. Recommend re-appointment of Auditors.
Risk management and internal control	Review of risk, risk management systems, internal controls, and anti-corruption and anti-bribery procedures. Review of internal compliance monitoring.
Governance	Review of the Committee's terms of reference.

Acquisition accounting for Aerocrine and Prosonix
Following the acquisition of Aerocrine and Prosonix in June 2015, the Company is required to comply with the accounting and reporting requirements of IFRS 3 Business Combinations. The core principle of this standard is that an acquirer of a business recognises the assets acquired and liabilities assumed at their acquisition date fair values and discloses information that enables users to evaluate the nature and financial effects of the acquisition.

Valuation specialists were retained to carry out a purchase price allocation (PPA) exercise for both acquisitions. They included in their valuations fair values for intangible assets such as technology and IPR&D for Prosonix and customer relationships and technology for Aerocrine. The fair values at the time of the acquisition are set out in note 32 to the accounts.

Note 13 sets out the assumptions used in the fair valuation of the intangibles at the year end.

The fair values of these intangible assets in particular are subject to a high degree of judgement.

Accounting for acquisition costs
In June 2015, the Group completed an offer and placement of new shares for the acquisition of Aerocrine and Prosonix. The total cost of external advisers in relation to the share offer and the acquisitions was £12.8 million. Of this £4.0 million was recognised in the income statement and £8.8 million against the share premium account.

Under IFRS, incremental costs that are directly attributable to an equity transaction that would have been avoided had the equity instruments not been issued are accounted for through the share premium account. Any acquisition related costs (for example due diligence) must be expensed in the income statement.

As a result of these transactions, there is a risk that costs recognised in the income statement may be mis-stated.

Allocation of goodwill to cash generating units and testing for impairment
In line with IAS 36 Impairment of Assets, the carrying value of goodwill was allocated to cash generating units (CGU) and the carrying value of each CGU including the allocated goodwill tested for impairment.

Cash generating units are the smallest group of assets that independently generate cash flow and whose cash flow is largely independent of the cash flows generated by other assets. These have been defined as the pre-existing Circassia business (i.e. allergy business) prior to the acquisition of Aerocrine and Prosonix; Aerocrine (NIOX® business) and Prosonix (Respiratory business).

Goodwill arising on the acquisition of Aerocrine was allocated to both the pre-existing Circassia cash generating unit and the Aerocrine cash generating unit. This is because both cash generating units benefit from the same sales force selling to largely the same customers. The assumptions used in allocation of the goodwill are set out in note 12 to the accounts. This estimate is subject to a high degree of judgement.

Goodwill arising on the acquisition of Prosonix was allocated entirely to Prosonix. Goodwill allocated to each cash generating unit is disclosed in note 12 of the financial statements.

Note 12 sets out the assumptions used to calculate the value in use for each CGU. As the value in use was significantly greater than the carrying value of each CGU, it was concluded that no impairment of the related goodwill was required. The calculations include estimates which are subject to a high degree of judgement.

Measuring the fair value of awards under new share option schemes and the related accounting treatment
The Group historically maintained an EMI approved share option scheme. Last year the Remuneration Committee approved the creation of a new Performance Service Plan (PSP) scheme.

The new scheme is split into two categories: one for senior management and one for other employees. Under both categories, the awards are split between two tranches. Tranche A vesting is subject to market performance conditions related to total shareholder return (TSR). Tranche B vesting is subject to non-market performance conditions related to period of service and achievement of set milestones in drug development programmes.

Historically the Group calculated the IFRS 2 charge using the Black Scholes model. This model was not sophisticated enough to incorporate the uncertainties inherent in market based performance obligations.

A Monte-Carlo valuation model designed by New Bridge Street is now being used to calculate the charge relating to the awards subject to market conditions, and the Black Scholes model for awards that are not subject to market conditions.

In the current year, 3.0 million (2014: 2.4 million) share options were granted to employees, resulting in a larger total charge to the income statement in the year of £2.7 million (2014: £1.7 million).

Recognition of deferred tax assets
IAS 12 Income taxes sets out four criteria for consideration in assessing the probability that taxable profit will be available against which the unused tax losses can be utilised. These are:

a. whether the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire
b. whether it is probable that the entity will have taxable profits before the unused tax losses or unused tax credits expire
c. whether the unused tax losses result from identifiable causes which are unlikely to recur
d. whether tax planning opportunities (see paragraph 30) are available to the entity that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilised.

In the past, deferred tax assets ohave not been recognised on the pre-existing Circassia business because none of the above conditions applied. In the context of IAS 12, the existence of a history of losses provides evidence that future taxable profits are not "probable" and strong evidence of future profitability would be required to overcome the presumption that the related deferred tax assets should not be recognised. Thus for Circassia Ltd, which has brought forward tax losses of £79.4 million no deferred tax asset has been recognised.

In the case of acquired businesses, however, there are other considerations. On a standalone basis neither Aerocrine AB or Prosonix Ltd would recognise a deferred tax asset for the same reasons as the pre-existing Circassia business. However, as a consequence of acquisition accounting, fair values are recognised on intangible assets against which deferred tax liabilities need to be established. Deferred tax liabilities arise as a consequence of taxable temporary timing differences on the fair value adjustments. The fair value adjustments in the purchase price allocation exercise carried out by valuation specialists in effect represent future profit making capacity. Therefore, if these profits are likely to arise in the same jurisdictions and entities as the losses, there is a basis for recognising a deferred tax asset up to at most the value of the deferred tax liability. Calculation of the deferred tax liability is based on fair values which themselves are subject to a high degree of judgement. Note 32 sets out the fair value adjustments for Aerocrine.

Risk management and internal control
The Board has overall responsibility for the review of the Group's risk management framework and the level of risk which is acceptable in order to achieve its strategic objectives. The Committee, on behalf of the Board, undertakes the detailed monitoring of the risk management framework and system of internal controls and reports to the Board on their suitability and efficacy annually.

In order to discharge its duties in this respect, the Committee receives and reviews reports from the Group's management team.

The Committee continues to assess what is an acceptable level of risk in key areas, and the best strategy for mitigating those risks given the cost and time constraints which exist.

During the year, as is required by the 2014 edition of the Code, the Committee performed a detailed assessment of the principal risks faced by the Group and how these are managed and mitigated. An annual review of the effectiveness of the Group's monitoring and review systems was carried out at the December Committee meeting.

Whistleblowing
A confidential whistleblowing procedure exists to enable employees to raise concerns regarding possible improprieties in relation to financial or other matters. This procedure has been communicated to all staff. Reports can be made through an online tool or a telephone helpline operated by a third party provider. The Committee has reviewed these arrangements and is satisfied that the current procedure allows for proportionate and independent investigation of such disclosures, and for appropriate follow up actions to be taken. In accordance with the current policy, concerned employees may raise matters directly with the Vice President, Global Compliance Officer.

Anti-corruption and anti-bribery
The Group has an anti-corruption and anti-bribery policy which has been communicated to all staff. This policy ensures full compliance with the UK Bribery Act 2010, the US Foreign Corruption Practices Act and other major anti-corruption legislation. The policy extends to carrying out due diligence on new key business partners who are judged to be acting on behalf of the Group in high risk areas.

Internal audit
This year the Committee considered whether there is a need for an internal audit function and concluded that, given the scale of operations at this time, it is not currently necessary. The Board accepted this recommendation. This decision will be kept under review.

External audit
The Group's external Auditor, PricewaterhouseCoopers LLP (PwC), is engaged to express its opinion on the Group's financial statements.

Effectiveness
The effectiveness of the external audit process is reviewed annually by the Committee. This review encompasses an examination of the independence, qualifications, capabilities, and remuneration of the Auditor. If issues are identified which may affect the effectiveness of the process then actions will be agreed. No such issues were identified in the year to 31 December 2015 or up to the date of this report.

At the end of the audit for the year ended 31 December 2015 the Committee formally evaluated the performance of PwC. To conduct this evaluation the Committee completed a questionnaire to assess robustness of the audit process, quality of its delivery, quality of reporting, and quality of the individuals and service. Moreover, the Committee takes into account the quality of its interactions with the Auditor in forming a view on their effectiveness.

Independence
The Committee is responsible for reviewing the independence and objectivity of the external Auditor. Each year the external Auditor confirms its policies for ensuring its independence and provides the Committee with written confirmation that they continue to be independent.

The Committee pays careful regard to whether non-audit work is carried out by the Auditor so as to ensure that the provision of such additional services does not impair its independence or objectivity.

A formal process exists for approving the use of the Auditor for non-audit work. There is no automatic restriction on the Auditor providing such services, but the Auditor should not be appointed to provide non-audit services which might put the Auditor in the position of auditing its own work or create a mutual interest between the Group and the Auditor or result in the Auditor acting as an advocate, manager, or employee of the Group.

PwC undertook non-audit services for the Group in the course of the year to 31 December 2015 which are summarised in the table below. These services were provided in compliance with the policy outlined above and no conflicts of interest were considered to have arisen.

Committee approval required?	Nature of work	Fees £'000
No	Acquisition fees	214
No	Taxation	10

The total fees paid to the Auditor are shown in note 7 of the financial statements. Services were provided during the year in connection with the Placing and Open Offer and the acquisition of Aerocrine and Prosonix. The Committee believes that the use of PwC for this transaction was appropriate in the circumstances and that independence was preserved as the nature of the non–audit services was such that the external Auditor was best placed to perform this work due to their skills and experience, and the fees paid were insignificant in the context of the overall revenues earned by PwC.

In summary, the Committee confirms that the Group has received an independent audit service in the year to 31 December 2015 and up to 11 March 2016.

Audit partner rotation
PwC adheres to a rotation policy which complies with the ethical standards of the Audit Practices Board (the "APB") and the audit partner is rotated every five years. Simon Ormiston, the current audit partner was appointed for the year ended 31 December 2014 and is not due for rotation until completion of the year ended 31 December 2018.

Tendering
PwC has been the Company's Auditor since the year ended 31 December 2007. The Committee is actively monitoring the EU audit directive and ongoing discussions in this area at the Financial Reporting Council, the EU and the Competition Commission. In view of the changes to the regulatory requirements relating to mandatory audit tendering, the Committee expects to conduct an audit tender at the latest prior to contracting the 2017 year-end audit.

The Company has complied during the financial year under review and up to the date of this report with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Reappointment
Each year the Committee considers the reappointment of the external Auditor and makes a recommendation to the Board. In doing so the Committee considers the effectiveness and independence of the external Auditor. The judgement of the Committee is that PwC continues to deliver an effective and independent service.

Accordingly, the Committee has recommended to the Board that PricewaterhouseCoopers LLP be reappointed as the Company's Auditor for a further year. This recommendation has been accepted by the Board.

The Committee will continue to monitor the changes proposed by the UK Competition Commission and European Commission in respect of Auditor services and re-tendering.

Committee evaluation
A review of the effectiveness of the Committee was carried out in December 2015 as part of the process of evaluating Board effectiveness.

Lota S Zoth
Chair of the Audit and Risk Committee

11 March 2016

Nomination Committee report

Dear Shareholder

On behalf of the Board, I am pleased to present Circassia's Nomination Committee report for the year ended 31 December 2015. The key objective of the Committee is to ensure the Board is made up of a range of individuals who together have the appropriate mixture of skills and experience to lead the Group.

During the year the Committee considered and made recommendations to the Board regarding the appointment of Ms Lota S Zoth and Mr Marvin S Samson as Independent Non-Executive Directors. The Committee also considered and recommended the appointment of Lota Zoth as Chair of the Audit and Risk Committee in the place of Cathrin Petty, and to the Remuneration Committee in place of Mr Paul Edick.

There follows a summary of the activities of the Committee.

Dr Francesco Granata
Chairman of the Nomination Committee

11 March 2016

Responsibilities

The Committee must review the size, structure, and composition of the Board and the Committees evaluating the balance of skills, experience, independence, and diversity of the Board as a whole. On the basis of this evaluation it will then make recommendations to the Board on any appointments. As part of this process, the Committee will prepare a description of the skills, experience and other characteristics required, and identify through a transparent procedure, individuals who are capable of filling those roles.

The Committee also plans for the orderly succession of Directors to the Board and recommends to the Board the membership and chairmanship of the Audit and Remuneration Committees.

The full terms of reference of the Committee can be found on the website.

Membership and meetings

Throughout the year the Committee comprised Dr Tim Corn, Dr Jean-Jacques Garaud, and Dr Francesco Granata, the Chairman. All members of the Nomination Committee (excluding the Chairman who was considered independent on appointment) were considered by the Board to be independent throughout this period. The Committee therefore complied with the requirements of the Code that a majority of its members are independent.

The Committee met three times during the year ended 31 December 2015 and all members were present at each meeting. A summary of the composition and attendance of the Committee is as follows:

Member	Date of appointment	Meetings attended (held)
Dr Francesco Granata	21 February 2014	2 (2)
Dr Tim Corn	21 February 2014	2 (2)
Dr Jean-Jacques Garaud	21 February 2014	1 (2)

The Company Secretary acts as Secretary to the Committee. The Chief Executive Officer may attend meetings by invitation.

The Committee is empowered to obtain external professional advice to assist in the performance of its duties. During the year the Committee has retained the services of executive search firm Spencer Stuart as explained below.

Activities

The principal activities during the year were:

- Review of the structure, size and composition of the Board (including skills, experience, independence, knowledge and diversity);
- Appointments of Board members and Committee members; and
- Annual performance evaluation of the Board, its members and its Committees.

The executive search firm Spencer Stuart was retained in 2014 to assist in the identification of new independent Non-Executive Directors. This process culminated in the appointment of Ms Lota S Zoth on 9 February 2015.

Mr Marvin S Samson was appointed on 8 December 2015.

Appointment procedure

There is a formal and transparent procedure by which new Directors are appointed to the Board. Suitable candidates are proposed either by existing Board members or by an external search firm. The Committee will then assess whether the candidate has the requisite skills and experience for the role, sufficient time to perform it, and that their appointment will preserve or improve the balance of skills, experience and knowledge of the Board.

The Committee worked closely with Spencer Stuart, a well-reputed executive search firm, at the beginning of the year in order to finalise the recruitment of Ms Lota S Zoth. In this instance, a list of candidates was prepared by the search firm and reviewed by the Committee. From this long list the Committee produced a short list of candidates for interview. At the conclusion of this process the Committee recommended to the Board that Lota Zoth be appointed.

Mr Samson was shortlisted following proposals by existing Board members and following interviews was recommended by the Nomination Committee for appointment to the Board.

Ms Zoth and Mr Samson have been appointed under service contracts which provide for a notice period of three months.

Diversity

The Company has an Equal Treatment, Equal Opportunities and Diversity policy which extends to the Board. The appointment procedures described above were carried out in full compliance with this policy.

Succession Planning

The Board is satisfied that appropriate planning has taken place for the orderly succession of Directors and senior management.

Chairman's commitments

In accordance with provision B.3.1 of the Code, it is confirmed that the Chairman's other significant commitments are as disclosed in the biography which appears in the Corporate governance report.

Committee evaluation

A review of the effectiveness of the Committee was carried out in December 2015 as part of the process of evaluating Board effectiveness.

Dr Francesco Granata
Chairman of the Nomination Committee

11 March 2016

Annual statement

Dear Shareholder

On behalf of the Board, I am pleased to present Circassia's Remuneration Committee report for the year ended 31 December 2015. This report will be presented for the consideration and approval of Shareholders at the Annual General Meeting on 18 May 2016.

This report complies with the regime set out in Part 4 to Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) (the Regulations), the UK Corporate Governance Code ('the Code') and the Listing Rules. Accordingly it consists of three parts: (i) an Annual statement which summarises the key issues and explains the business context in which the Committee's main decisions were taken; (ii) an unaudited Directors' remuneration policy report which describes the current and future executive remuneration policy, and which was approved by 99.57% of Shareholders at the AGM on 20 May 2015; and (iii) the Annual report on remuneration which sets out details of and rationale for the remuneration provided to the Group's Directors during the 2015 financial year. This latter report is subject to an advisory vote at the AGM.

Remuneration policy

The remuneration policy which was approved by the Shareholders at the last AGM, promotes the long-term sustainable success of the Group. It aims to reward Executive Directors for performance, and for delivery of Shareholder value judged against transparent and demanding criteria. As part of this policy a significant proportion of potential remuneration is linked to the achievement of corporate and individual performance indicators.

The annual bonus plan for Executive Directors and management at Senior Vice President level, includes an element being deferred into shares for three years and subject to forfeiture.

Share incentive arrangements have been in effect since 2014 and are intended to closely align the interests of the Executive Directors with those of Shareholders. The earliest date of vesting under these schemes falls three years after grant subject to the achievement of performance conditions. Details of the awards made under these schemes to the Executive Directors are set out in the Annual report on remuneration. In addition, the Company operates shareholding guidelines for Executive Directors and Senior Vice Presidents to further increase alignment with shareholders.

The Committee believes that the emphasis on performance-related pay, the use of bonus deferral, annual long-term incentive awards and mandatory share ownership guidelines, creates a clear focus on sustainable performance, avoids paying more than is necessary and maintains an ongoing alignment between Executive Directors and Shareholders.

Performance and reward

The bonus arrangements for 2015 comprised an award of up to 100% of salary linked to the achievement of annual developmental and operational goals. As described in the Strategic report, the Group has made significant progress in its clinical programmes, continued to build its commercial infrastructure with key management appointments and the recruitment of sales representatives, has completed the acquisition of Aerocrine and Prosonix and integrated these businesses into the Group, and has successfully defended the oppositions brought against its intellectual property rights.

As a result of strong corporate and individual performance the Committee determined annual bonus payments of 100% of salary for the Executive Directors. These will be paid in March 2016 as a combination of cash and deferred shares.

No long-term incentives were due to vest in relation to performance ending in 2015.

The Committee is satisfied that the total variable pay outcome is a fair reflection of corporate and individual performance throughout 2015.

Application of policy for 2016

The Remuneration policy set out in this report was approved by Shareholders at the Annual General Meeting on 20 May 2015 and will be applied without changes in 2016.

The salaries of the Executive Directors were reviewed with effect from 1 January 2016 and increased in line with increases to the general workforce of 3%.

The annual fee for the Chairman, Dr Francesco Granata, will increase from £130,500 to £134,400.

We welcome Shareholder feedback on these matters and hope that you will be able to support our policy and its application at the forthcoming AGM.

Marvin S Samson
Remuneration Committee Chairman

11 March 2016

Directors' remuneration policy report (DRP)

The present policy was approved by a binding Shareholder vote at the AGM on 20 May 2015 and is therefore expected to remain in force until the AGM in 2018. There is no requirement to vote again on the policy this year as no changes are being proposed at this time, but the full policy has been included again this year for information only. The bar charts on page 57 have, however, been updated to reflect proposed 2016 remuneration levels.

Remuneration philosophy

The potential levels of remuneration have been set so that they are competitive against those comparator companies from which the Group will compete for talented individuals.

The Committee's goal is to design and implement a remuneration policy which will support and reward Executive Directors for delivering the Group's strategic objectives and ultimately creating value to Shareholders, whilst adhering to good corporate governance and reflecting best practice. To achieve this, the balance of remuneration is focused on variable performance-related pay. In particular, to reflect the long-term nature of the Group's development pipeline, variable pay is more heavily weighted towards long-term sustainable value creation through the use of share incentive plans. When combined with significant levels of share ownership guidelines, this creates an alignment between Executive Directors and Shareholders with a longer term view.

The Committee annually reviews the operation of the variable incentive plans to ensure they are operating within an acceptable risk profile and that they do not inadvertently encourage any economic, social or governance issues.

Remuneration policy

The total remuneration for each Executive Director is made up of the following elements:

- Salary;
- Benefits;
- Annual bonus;
- Long-term incentive awards; and
- Pension.

Recovery and withholding provisions will apply to the bonus and long-term incentive arrangements in specific circumstances as determined appropriate by the Remuneration Committee.

Salary	Benefits	Annual bonus
Purpose and link to strategy Provides fixed remuneration in-line with market rates that reflects the responsibilities of the role undertaken and the experience of the individual.	**Purpose and link to strategy** Provides market competitive, yet cost-effective employment benefits.	**Purpose and link to strategy** To incentivise and recognise execution of the business strategy and personal objectives on an annual basis.
Operation Set at an approximately mid-market level and reviewed annually taking into account individual responsibilities, performance, inflation, and market rates. The Committee will also consider the pay and employment conditions in the wider workforce when determining Executive Directors' salaries. Salary increases are normally effective from 1 January each year. Salaries are periodically benchmarked against a relevant peer group of UK listed companies with similar market capitalisations and operations.	**Operation** For Executive Directors this includes private medical insurance, travel and life insurance. Other employment benefits may be provided from time to time on similar terms as those of other employees. If the Company introduces an all-employee share plan, Executive Directors will be eligible to participate on the same terms as other employees. If an Executive Director is based outside the UK additional benefits and assistance with relocation may be provided which reflect local market norms or legislation.	**Operation** Annual bonus performance targets are set at the start of the year by the Board and performance against objectives is assessed by the Remuneration Committee. Bonuses will be paid as a mix of cash and deferred shares. Until the share ownership guidelines are reached, the bonus will be payable as 50% cash and 50% shares. Thereafter, the bonus will be payable as 75% cash and 25% shares. Bonus shares are deferred for three years from the date of the award and are subject to forfeiture. Recovery and withholding provisions will apply in the event of mis-statement of results, error in performance calculation or gross misconduct A dividend equivalent, if payable, will be payable in cash when the shares vest.
Maximum potential value The current base salaries are set out in the implementation of policy section of the Annual report on remuneration. There is no formal maximum limit, but increases are generally in line with those of the wider workforce. Larger increases may be permitted to reflect a change in responsibilities or a significant increase in the scale or complexity of the role.	**Maximum potential value** There is no formal maximum limit as the value of insured benefits will vary from year to year based on the cost from third-party providers.	**Maximum potential value** The maximum payable for all Executive Directors is 100% of salary.
Performance metrics The overall performance of the individual and Company is a key determinant for salary increases.	**Performance metrics** None.	**Performance metrics** Research and development, business development, financial and operational targets are set at the start of the year by the Board. The weighting for each performance measure is determined by the Remuneration Committee and may vary for each Executive Director according to their role and reflecting their objectives for the year. Details of the performance measures for the current year are provided in the Annual report on remuneration.

Performance share plan (PSP)	Pension
Purpose and link to strategy To align the interests of management with Shareholder interests and to enhance retention of staff. To incentivise and recognise achievement of longer term business objectives and sustained superior Shareholder value creation.	**Purpose and link to strategy** To provide a competitive and cost-effective, level of retirement provision.
Operation Conditional awards or options from the Performance Share Plan are granted annually. The awards vest provided certain performance conditions, which have been approved by the Board, are achieved over a period of at least three years. Performance targets are set at the start of each performance period. Recovery and withholding provisions apply for reasons of mis-statement of results, error in performance calculation or gross misconduct.	**Operation** Executive Directors are eligible to join a defined contribution pension scheme. Alternatively a cash supplement (or a combination of contribution and cash) can be made.
Maximum potential value Annual awards of up to the following percentage each year are granted to Executive Directors: — Chief Executive Officer 150% of salary — Other 125% of salary In special circumstances (such as a recruitment) an award of up to 300% of salary is permitted. Dividend equivalents may be payable on vested awards.	**Maximum potential value** The maximum contribution, cash supplement (or combination thereof) payable by the Company is 15% of salary.
Performance metrics Awards are currently subject to a combination of relative Total Shareholder Return (TSR) and clinical progression timelines for Executive Directors. No more than 25% of the maximum award will vest for achieving the threshold performance level. The weighting of these performance measures, the choice of comparators for relative Total Shareholder Return (TSR) and/or the inclusion of additional performance measures will be reviewed annually by the Committee, reflecting the strategic objectives and priorities of the following three year performance period. If the Committee determines a material change to the performance measures used for future awards is required to reflect a change in strategy, this would only be made following appropriate dialogue with the Company's major Shareholders.	**Performance metrics** None.

Share ownership guidelines
Purpose and link to strategy To align Executives with Shareholders and provide an ongoing incentive for continued performance.
Operation Only shares which are fully owned with no outstanding vesting criteria count towards the shareholding guideline. Executive Directors will be required to retain half of any post-tax awards which vest under long-term incentive plans, until the share ownership guideline has been satisfied.
Maximum potential value Executive Directors are required to build and maintain the following minimum level of shareholding: — Chief Executive Officer 150% of salary — Other Executive Directors 100% of salary
Performance metrics None.

The Committee operates the annual bonus and Performance Share Plan (PSP), in accordance with their rules, and where relevant, the Listing Rules. To maintain an efficient administrative process, the Committee retains the following discretions relating to remuneration:

a. the eligibility to participate in the plans;

b. the timing of grant of awards and any payments;

c. the size of awards and payments (subject to the maximum limits set out in the policy table above and the respective plan rules);

d. the determination of whether the performance conditions have been met;

e. determining a good or bad leaver under the terms of the plan;

f. dealing with a change of control or restructuring of the Group;

g. adjustments required in certain capital events such as rights issues, corporate restructuring, events and special dividends; and

h. the annual review of performance conditions for the annual bonus plan and PSP.

In certain exceptional circumstances, such as a material acquisition/divestment of a Group business, which mean the original performance conditions are no longer appropriate, the Committee may adjust the targets, alter weightings or set different measures as necessary, to ensure the conditions achieve their original purpose and are not materially less difficult to satisfy.

Historic awards
Awards which were granted prior to the Company's IPO are set out in the Annual report on remuneration (ARR).

These awards remain eligible to vest, based on their original terms and will be disclosed in the relevant ARR as required.

Performance measures

The rationale behind each performance measure currently used in the Performance Share Plan and how it is calculated is as follows:

Performance measure	Rationale
Relative TSR performance	**Recognises outperformance and delivery of relative value to Shareholders** Relative total Shareholder return is currently measured against the FTSE 250 (excluding Investment trusts (the 'Index')). This was chosen as a comparator group because it represents similar sized companies, is subject to less volatility than a smaller peer comparator group and is transparent for both Shareholders and participants. The Committee will review on an annual basis the continued appropriateness of the comparator group.
Clinical and key strategic business objectives	**Recognises the importance of R&D to future business growth** The growth of the Company and therefore delivery of value to investors is dependent on achievement of certain key clinical timelines.

The annual bonus is designed to drive the achievement of the Company's clinical and strategic business targets. These targets are agreed by the Board and selected because of their importance in value creation for Shareholders. Objectives are weighted for Executives in proportion to the degree of responsibility for control and achievement of that objective. The weightings are agreed by the Remuneration Committee.

Remuneration on recruitment

The Remuneration Committee determines the remuneration package of new Executive Directors. Each element of an Executive Director's remuneration is set out below:

Salary	Base salary will be determined based on the role, experience of the individual and the current market rate. It may be considered necessary to appoint a new Executive Director on a below market salary (e.g. to reflect limited plc board experience). In such circumstances phased increases above those of the wider workforce may be required over an appropriate time period, to bring the salary to the desired market level, subject to the continued development in the role.
Benefits	Benefits provided would be in line with those of current Executive Directors. Where required to meet business needs, reasonable relocation support will be provided. In addition if it becomes necessary to appoint a new Executive Director from outside the UK, additional benefits may be provided to reflect local market norms or legislation.
Annual bonus	The ongoing annual bonus maximum will be in line with that outlined in the policy table for existing Executive Directors, pro-rated to reflect the period of service. Depending on the timing or nature of an appointment it may be necessary to set different initial performance measures and targets for the first year of appointment.
Long-term incentive awards	PSP awards are granted in line with the policy outlined for existing Executives. Any ongoing annual award is limited to that of the current Chief Executive Officer. An award may be made shortly following an appointment (provided the Company is not in a prohibited period). For internal appointments, existing awards will continue on their original terms.
Pension	A company contribution or cash supplement up to the maximum as outlined for current Executive Directors.
Buy-out awards	To enable the recruitment of exceptional talent, the Committee may determine that the buy-out of remuneration forfeit from a prior employer is necessary. Where possible, any replacement remuneration will be offered on a like-for-like basis with the forfeited awards and may be in the form of cash or shares and depending whether the award forgone has similar performance conditions, may or may not be subject to performance conditions. The value of any buy-out will be limited to the value of remuneration forfeit. Where appropriate, such awards will be granted under existing share plans, however, the Remuneration Committee will have discretion to make use of the flexibility to make awards under exemptions in the Listing Rules.

Fee levels for the Chairman and Non-Executive Directors will be set at a level that is consistent with those of existing Non-Executive Directors.

Exit payment policy

The Group does not have a policy of fixed term employment contracts, however, all Directors put themselves forward for re-election at the Annual General Meeting. Notice periods for Executive Directors' employment contracts are six months and three months for the Chairman's and Non-Executive Directors' letters of appointment from either party.

The following policies and payments apply in the event that an Executive Director's employment is terminated.

Remuneration element	Exit payment policy
Current service contracts	Termination by notice: six months. Redundancy: six months annual salary payable (reduced accordingly if part of the notice period is worked). Retirement, death and ill-health, injury or disability: no termination payment.
Future service contracts	Termination by notice: up to 12 months' notice, with a provision to make a payment in lieu of notice for base salary and benefits only. Any payment will be phased on a monthly basis and would be subject to mitigation, whereby the payment made can be reduced (including to zero) if appropriate alternative employment is found. Redundancy: annual salary payable for the relevant notice period (reduced accordingly if part of the notice period is worked). Retirement, death and ill-health, injury or disability: no termination payment.
Long-term incentives and deferred bonuses	PSP awards are governed by the Plan Rules as approved by Shareholders. Likewise, the deferred bonus awards are subject to the same leaver provisions. These are summarised below. Termination by notice: unvested awards lapse on cessation. Redundancy, retirement, ill health, injury or disability, transfer of employment outside of the Group or change of control, or any other reason the Committee determines: unvested awards will vest either on the normal vesting date or if the Board decides, immediately on the participant ceasing to be in employment. Awards will vest subject to the extent the performance condition has been met, as determined by the Remuneration Committee. Awards will be pro-rated for time, unless the Committee determines otherwise. Death: unvested awards will vest on the date of death. Awards will be pro-rated, unless the Committee determines otherwise. Change of control: unvested awards will vest on the date of the takeover. Awards will vest subject to the extent the performance condition has been met, as determined by the Remuneration Committee. Awards will be pro-rated, unless the Committee determines otherwise.
Annual bonus	Termination by notice by individual: if an individual serves notice and the termination date falls before 31 December, the bonus is forfeited. If notice is served between 1 January following the year in which the bonus was earned and the payment date, the employee may (as determined by the Remuneration Committee) receive the entire bonus payable in cash, subject to malus and clawback provisions. Redundancy, retirement, death and ill-health, or any other reason the Committee determines: if the termination date falls during the financial year, pro-rated for service rendered and subject to performance. If it falls after the end of the financial year the bonus is payable in cash based on actual results on the normal bonus payment date. Termination by notice: not normally paid, however, at the Committee's discretion, if the termination date falls during the financial year, a bonus may be paid pro-rata for service rendered and subject to performance over the full financial year and normally paid on the normal payment date. If it falls after the end of the financial year bonus is payable based on actual results on the normal bonus payment date.
Benefits	These will normally continue to apply until the termination date.
Pension	Contributions by the Company will normally continue to apply until the termination date.
Additional payments	The Committee will make payment of any statutory entitlements as necessary. In addition the Committee will retain the discretion to make settlement or to compromise a claim in connection with a termination of any Executive Directors as necessary. Reasonable legal and outplacement costs will be met if deemed necessary.

Service contracts

The following Executive Directors have service agreements with the Company which were effective from 18 March 2014 as follows:

Name	Position	Date of joining
Steven Harris	Chief Executive Officer	19 May 2006
Rod Hafner	Senior VP of R&D	1 March 2007
Julien Cotta	Chief Financial Officer	5 January 2012

The notice period for each Executive Director is 6 months and all Executive and Non-Executive Directors put themselves forward for re-election at the Annual General Meeting.

The key terms for the Letters of Appointment for Non-Executive Directors are set out below:

Name	Notice period	Date of joining
Dr Francesco Granata	3 months	1 September 2013
Dr Tim Corn	3 months	1 August 2006
Russell Cummings	3 months	25 January 2007
Paul Edick	3 months	3 April 2013
Dr Jean-Jacques Garaud	3 months	1 November 2012
Cathrin Petty	3 months	8 March 2010
Charles Swingland	3 months	31 May 2006
Lota Zoth	3 months	9 February 2015
Marvin Samson	3 months	8 December 2015

Copies of the service contracts and letters of appointment are available for inspection at the registered office.

Statement of consideration of employees' pay and remuneration conditions elsewhere in the Group

The Company does not formally consult with employees on the matters of Executive Director remuneration. However, the Committee is made aware of employment conditions in the wider Group.

The same broad principles apply to the remuneration policy for both Executive Directors and the wider employee population. However, the remuneration for Executive Directors has a stronger emphasis on performance-related pay than for other employees. In particular the following approach is used:

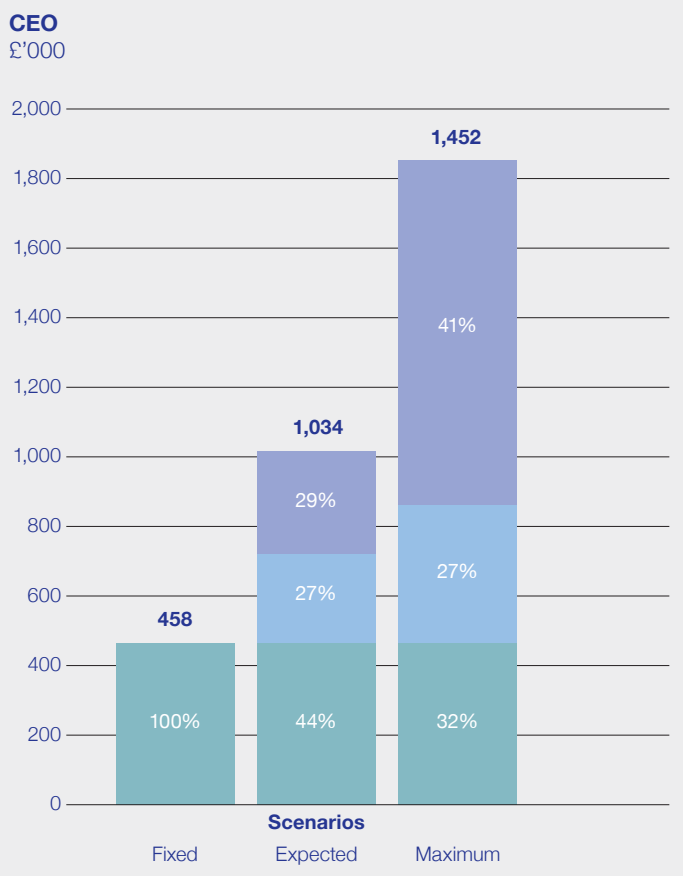
- Salaries, benefits and pensions are compared to appropriate market rates and set at approximately mid-market level with allowance for role, responsibilities and experience.
- When setting salary levels for the Executive Directors, the Committee considers the salary increases provided to other employees and in particular those based in the UK.
- An annual bonus plan is available to all employees and is based on business and individual performance.
- Awards from the Performance Share Plan are made to all current employees including Executive Directors.

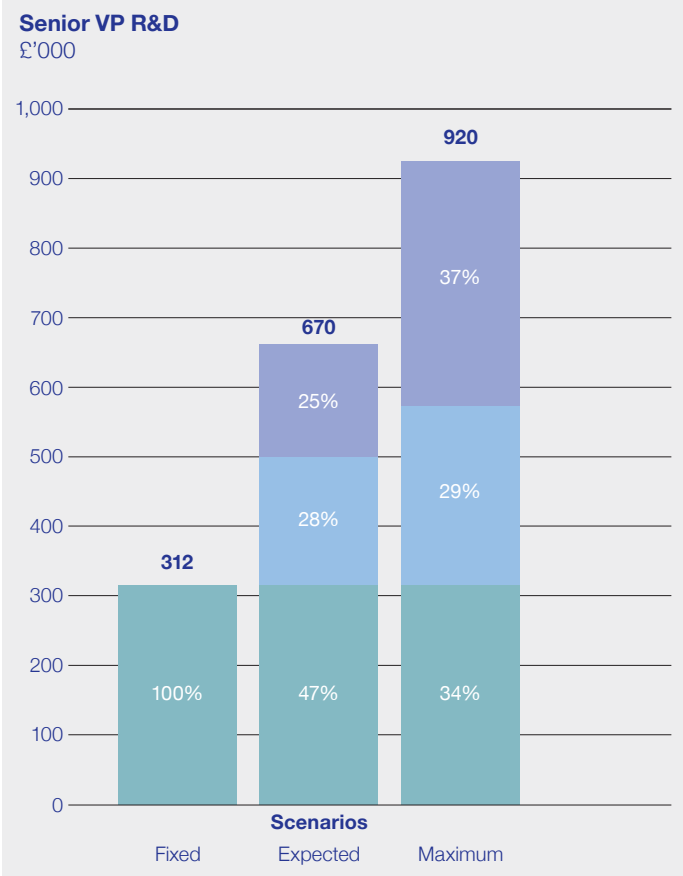
Scenarios

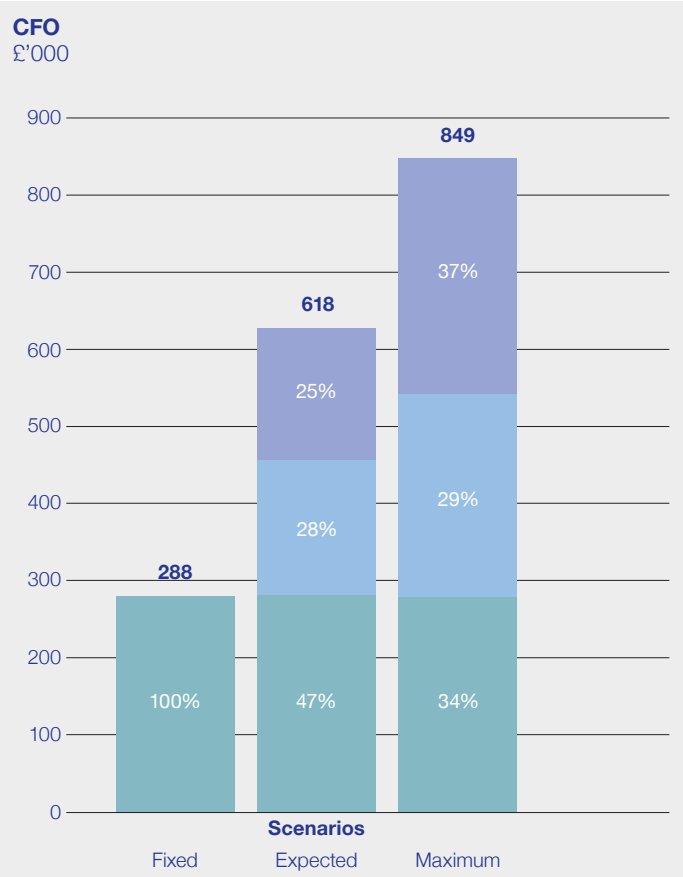
The charts set out for illustrative purposes only, what annual remuneration the Company expects the Directors to obtain if performance levels are below threshold, meet expectations or exceed the maximum targets.

The assumptions used in the calculations are set out below:

- Fixed pay: this includes salary, pension and benefits.
- Base salary effective 1 January 2016 and expected pension contribution has been used.
- The actual monetary value of benefits received in 2015 have been used.
- Expected: this includes salary, pension, benefits, annual bonus and PSP. This assumes that 70% of the annual bonus maximum will be payable for each of the Directors and 50% of PSP awards will vest.
- Maximum: It is assumed that the maximum annual bonus would be payable and that the awards under the PSP vest in full.
- No share price growth has been assumed.







Fixed
Annual bonus
Long-term variable remuneration

Remuneration policy for Non-Executive Directors

The Remuneration Committee is responsible for evaluating and making recommendations to the Board on fees payable to the Chairman. The Chairman does not participate in discussions in respect of fees. The Chairman and CEO are responsible for evaluating and making recommendations to the Board on the fees payable to the Company's Non-Executive Directors.

Remuneration element	Purpose and link to strategy	Operation and maximum
Chairman's fee	To attract and retain a high calibre individual with the requisite experience and knowledge.	The current fee is set out in the implementation of policy section of the Annual report on remuneration. There is no formal maximum. Fees are reviewed on a periodic basis against those in similar sized companies to ensure they remain competitive and adequately reflect the time commitments and scope of the role. Any increase in fee levels may be above that of the wider workforce in a particular year to reflect the periodic nature of any review and/or any change in responsibilities/time commitments. The Chairman may also receive limited travel and/or hospitality related benefits in connection with the role.
Non-Executive Director fee	To attract and retain high calibre individuals with the requisite experience and knowledge.	The current fee levels are set out in the implementation of policy section of the Annual report on remuneration. There is no formal maximum. Fees are reviewed on a periodic basis against those in similar sized companies to ensure they remain competitive and adequately reflect the time commitments and scope of the role. A Board fee is paid to each Non-Executive Director. Supplemental fees are paid to the Senior Independent Director and for the Chairing and membership of Committees to recognise the additional time commitments and responsibilities of these roles. Any increase in fee levels may be above that of the wider workforce in a particular year to reflect the periodic nature of any review and/or any change in responsibilities/time commitments. Non-Executive Directors may also receive limited travel and/or hospitality related benefits in connection with the role.

Statement of consideration of Shareholders' views

The Remuneration Committee will consider any Shareholder feedback received at the AGM and at meetings throughout the year, when reviewing the overall remuneration policy each year. The guidance from shareholder representative bodies is also considered on an ongoing basis.

More specifically the Committee will consult with major Shareholders when proposing any significant changes to the policy in the future.

Annual report on remuneration

This section of the Remuneration Committee report has been prepared in accordance with Part 3 of the Regulations as amended, and 9.8.6R of the Listing Rules. The Annual report on remuneration will be put to an advisory Shareholder vote at the AGM on 18 May 2016.

Composition

From 1 January 2015 to 9 February 2015, the Committee was made up of Dr Jean-Jacques Garaud (Chairman), Dr Tim Corn, and Mr Paul R Edick. Mr Edick was not considered to be independent and therefore, for this period the Committee did not comply with the requirement of the Code that all members of the Remuneration Committee be Independent Non-Executive Directors. On 9 February 2015 Mr Edick was succeeded by Ms Lota S Zoth who is an Independent Non-Executive Director. The composition of the Committee therefore fully complied with the recommendations of the Code for the period from 9 February 2015 to 31 December 2015. The terms of reference of the Committee appear on the Company's website. The Committee met three times during the year ended 31 December 2015. Each meeting was fully attended.

Responsibilities

The Committee is responsible for the following matters:

- setting a remuneration strategy which is designed to promote the long-term success of the Company;
- ensuring that the remuneration of the Executive Directors and senior employees reflects performance and delivery of Shareholder value;
- agreeing the design and targets of share incentive plans which require Shareholder approval and monitoring the achievement of those targets;
- deciding on the remuneration of the Executive Directors and senior employees, including any specific recruitment or retention terms;
- making a recommendation to the Board in relation to the Chairman's fees;
- appointing external advisers where necessary.

Activities

A summary of the matters considered by the Committee in the course of the year ended 31 December 2015 is as follows:

Meeting	Agenda items
February	Review of the salary levels and annual bonus plan for the Executive Directors. Review of remuneration for the Chairman. Review of performance targets for annual PSP awards. Approval of option awards for new employees.
May	Review of PSP plan strategic and clinical targets. Approval of option awards for new employees.
December	Review and approval of annual bonus targets for 2016 for Executive Directors and Senior Vice Presidents.

Advisors

The Committee appointed New Bridge Street (NBS) (part of Aon plc) to advise it on the formulation of the Group's remuneration policy. NBS is a signatory to the Remuneration Consultants' Group Code of Conduct which sets out guidelines to ensure that its advice is independent and free from undue influence. The fees to NBS in 2015 were £18,216 (2014: £26,940), which were mainly charged on the basis of hourly rates. The Committee reviews the performance and independence of its advisers on an annual basis.

Committee evaluation

A review of the effectiveness of the Committee was carried out in December 2015 as part of the process of evaluating Board effectiveness.

Audited information

Total remuneration – year ended 31 December 2015

The total remuneration of the individual Directors who served during the year is set out in the table below. Total remuneration is the sum of emoluments plus pension contributions and the value of long-term incentive awards vesting by reference to performance in the year ended 31 December 2015.

		Salary or fees[5] £'000	Benefits[6] £'000	Bonus[7] £'000	Long-term incentives[8] £'000	Pension[9] £'000	Total remuneration £'000
Executive Directors							
Steven Harris	2015	386	1	386	–	58	831
	2014	375	2	420	675	56	1,528
Julien Cotta	2015	242	1	242	–	36	521
	2014	235	2	313	–	35	585
Rod Hafner	2015	263	1	263	–	39	566
	2014	255	2	272	658	38	1,225
Non-Executive Directors							
Francesco Granata	2015	138	–	–	–	–	138
	2014	133	–	–	–	–	133
Tim Corn	2015	59	–	–	–	–	59
	2014	55	–	–	–	–	55
Russell Cummings	2015[1]	42	–	–	–	–	42
	2014	38	–	–	–	–	38
Paul R Edick	2015	43	–	–	–	–	43
	2014	50	–	–	–	–	50
Jean-Jacques Garaud	2015	71	–	–	–	–	71
	2014	62	–	–	–	–	62
Cathrin Petty	2015	45	–	–	–	–	45
	2014	51	–	–	–	–	51
Lota Zoth	2015[2]	54	–	–	–	–	54
	2014	–	–	–	–	–	–
Marvin Samson	2015[3]	3	–	–	–	–	3
	2014	–	–	–	–	–	–
Charles Swingland	2015	43	–	–	–	–	43
	2014[4]	84	–	–	675	6	765
Total 2015		**1,389**	**3**	**891**	**–**	**133**	**2,416**
Total 2014		1,338	6	1,005	2,008	135	4,492

[1] All fees for Russell Cummings are paid to Imperial Innovations Limited

[2] For the period 9 February 2015 to 31 December 2015

[3] For the period 8 December 2015 to 31 December 2015

[4] For the period from 1 January to 18 March 2014 as an Executive Director and thereafter as a Non-Executive Director

[5] This is the amount earned as salary or fees in the financial year

[6] This is the taxable value of benefits paid in respect of the financial year. The majority of these benefits consist of medical insurance and life assurance

[7] This is the value of the total bonus earned during the financial year and includes the annual bonus paid in respect of performance against goals for 2015 and 2014 and the IPO bonus paid for performance in ensuring an orderly and efficient IPO in 2014. Where the requisite shareholding requirement has not been met by an Executive Director then 50% of the annual bonus will be paid in shares. Where the requirement has been met then 25% will be paid in shares.

[8] The amount shown relates to the gain, being the market value on date of exercise less exercise price, on EMI share option awards that vested during the year

[9] UK tax legislation imposes penalty taxes on annual pension contributions where prescribed maximum limits are exceeded. The Committee has previously determined that Executive Directors affected by this legislation would receive pension benefits limited by the prescribed maximum amounts and an additional taxable supplementary cash payment equal to the cost to the Company of the benefit foregone. The amount of this supplementary allowance is set so that there is no additional cost to the Company as a result of the implementation of this arrangement. In 2015 Steven Harris received £40,114 of this pension amount as supplementary cash (2014: nil).

Annual bonus for the year to 31 December 2015

For the year ended 31 December 2015 the bonus consisted of two elements. For performance against annual operational and development goals bonuses up to a maximum of 100% of base salary for Executive Directors and Senior Vice Presidents could be earned.

Performance objectives are agreed by the Board at the beginning of the year and the Remuneration Committee determines the proportion of bonus payable to each Director and Senior Vice President in the event that the objective is achieved. The Remuneration Committee determines at the beginning of the year following the bonus year, the extent to which the objective has been achieved and the proportion of the bonus earned. The bonus is calculated on base salary.

The annual performance objectives agreed for 2015 together with proportions payable to each Executive Director are set out below.

Objective	Target date	Potential bonuses (as % of salary)			Awarded bonuses (as % of salary)			Commentary
		S Harris	R Hafner	J Cotta	S Harris	R Hafner	J Cotta	
1 **Cat**								All subjects completed CP009 study by end December 2015.
CP009: Complete paediatric phase II study.	Q4 2015	–	–	–	–	–	–	
CP007: Oversee CP007 study, including 80% of data cleaned, to ensure results available by H1 2016.	Q4 2015	5%	15%	5%	5%	15%	5%	By 31 December 2015, more than 80% of data clean had been achieved.
2 **House Dust Mite**								Screening closed end December 2015.
TH005 study fully recruited.	Q4 2015	10%	15%	5%	10%	15%	5%	
3 **Ragweed**								
Complete TR006A follow up study.	Q1 2016	5%	10%	–	5%	10%	–	Study complete.
Submit IND for TR009.	Q4 2015	5%	10%	5%	5%	10%	5%	Written scientific advice received from pre-IND meeting request confirms acceptability of testing 8 x 12 nmol and 8 x 24 nmol in TR009 study. Consequently no need to open IND early to support safety study for 24nmol dose.
4 **Grass**								
TG003/TG004 results available.	H1 2015	–	–	–	–	–	–	TG003/ TG004 results available on schedule.
Submit end of phase II meeting request.	Q3 2015	5%	5%	5%	5%	5%	5%	Request for Type B meeting submitted to FDA following receipt of comments on Master File. Agreement reached with FDA on design of pivotal registration study.
5 **Birch**								
Complete Tox studies.	H1 2015	–	–	–	–	–	–	Tox studies complete.
Commence phase IIa safety study.	H2 2015	–	5%	–	–	5%	–	Phase IIa study initiated July 2015 and dosing complete December 2015.
6 **Japanese cedar**								Successful outcome from consultation with PMDA resulting in agreement to single species toxicity and no need for PK data.
Complete GLP tox studies.	H2 2015	–	5%	–	–	5%	–	

Objective	Target date	Potential bonuses (as % of salary)			Awarded bonuses (as % of salary)			Commentary
		S Harris	R Hafner	J Cotta	S Harris	R Hafner	J Cotta	
7 **Complete all CMC activities necessary to support the goals of the business including:**		–	10%	–	–	10%	–	
— Potency assays qualified to support IND for ragweed and end of phase II meetings for grass	Q4 2015							Potency assay qualified for grass and response identified for final ragweed peptide.
— Support preparation of IND/ CTA for grass registration study and ragweed phase II	Q4 2015							IND submitted 12 February 2016; ragweed IND/CTA support complete.
— Ensure availability of study supplies for birch clinical studies	Q4 2015							Study supplies manufactured and released for birch study.
— Manufacture grass pre-validation batches	Q4 2015							Manufacture grass pre-validation batches of peptides complete at Bachem.
— Manufacture first set ragweed validation batches	Q4 2015							Purchase order in place for ragweed peptides at Bachem Americas to manufacture batches of HDM peptides at second site for inclusion in HDM phase III study, mitigating supply chain risk.
8 **Acquisitions**								
At least two acquisition opportunities brought to the Board requesting authorisation to proceed with non-binding acquisition terms – these proposals shall include the terms and structure of the proposal and the findings of preliminary due diligence. The Board will place greater value of opportunities that are not part of "broad auctions" based on information memorandums, and are based upon more extensive dialogue and discussion with the target prior to submission of any terms.	Q4 2015	20%	10%	20%	20%	10%	20%	Acquisitions of Aerocrine and Prosonix completed on 18 June 2015 and 15 June 2015 on terms deemed favourable by the Board and with clear rationale to support the overall Group strategy.

Objective	Target date	Potential bonuses (as % of salary)			Awarded bonuses (as % of salary)			Commentary
		S Harris	R Hafner	J Cotta	S Harris	R Hafner	J Cotta	
9 **Commercial Infrastructure**		15%	–	20%	15%	–	20%	
Identification and lease of physical facilities in the US.	Q3/2015							US facilities occupied in April 2015.
Identification and appointment of HR and Finance support in the US.	Q2/2015							HR support started in April 2015; Finance support acquired through acquisition of Aerocrine.
Identification and appointment of VP, Medical Affairs.	Q1/2015							VP, Medical Affairs started in April 2015.
Identification of thought leaders and engagement plan development;	Q2/2015							KOL identification, engagement plans and tracking system put into place for Regional Medical Affairs Directors (RMADs) by June 2015 (includes use of MedMeme and Veeva CRM).
Identification, appointment and training of Regional Medical Affairs Directors (US and EU);	Q2/2015							5 US RMADs, 2 German RMADs and 1 UK RMAD hired and trained in May 2015; 1 France RMAD started in September 2015 (due to notice period); number of US RMADs increased to 7 following the addition of NIOX® products in October 2015.
Identification and contracting of publication planning vendor; development, approval and initial implementation of publication plan including appropriate abstract submissions (as data release permits) at AAAAI, EAACI, and ACAAI.	Q2/2015							Publication planning partner hired in April 2016; initial publication plan developed and agreed by Commercial and R&D by June 2015.
Development and deployment of digital engagement initiative with allergists.	Q4/2015							With the acquisition of Aerocrine field force, engagement with allergists is now face-to-face. This initiative was put on hold.
Identification and appointment of Market Access leadership (2 positions – US and EU).	Q4/2015							Five market access consultants participated in tender process; appointment pending
Identification and contracting with appropriate consulting and/or research vendors (including HEOR support) to develop overall global and country-level market access/pricing and reimbursement plans.	Q3/2015							As above.
Identification and contracting of 3PL consultancy.	Q4/2015							With the hiring of the VP, Global Supply & Distribution, it was determined that this activity did not need to occur until 3Q16.

Objective	Target date	Potential bonuses (as % of salary)			Awarded bonuses (as % of salary)			Commentary
		S Harris	R Hafner	J Cotta	S Harris	R Hafner	J Cotta	
10 **Commercialisation of Cat-SPIRE**		15%	–	–	15%	–	–	
— Complete patient journey in all key launch countries	Q3/2015							Patient journey research conducted and reported out in May 2015.
— Complete global scientific narrative and core message structure associated with cat	Q3/2015							Scientific narrative and core message structure completed in December 2015.
— Complete brand positioning for cat	Q4/2015							Brand positioning underway put on hold until after the phase III data.
— Brand name options for submission to appropriate regulatory authorities	Q1/2015							Brand and scientific names finalised. Brand names approved by EMA during the 3Q15.
— Complete burden of disease study for cat allergy	Q4/2015							Study started in November 2015 with read-out anticipated in 1Q16.
— Finalised packaging options for cat	Q4/2015							Investigation ongoing for packaging options. With hire of VP, Global Supply & Distribution it was determined that finalisation not needed until mid-year 2016.
11 **Operate within budget (excluding material additional work approved by board)**	Q4 2015	15%	10%	20%	15%	10%	20%	Achieved.

Objective	Target date	Potential bonuses (as % of salary)			Awarded bonuses (as % of salary)			Commentary
		S Harris	R Hafner	J Cotta	S Harris	R Hafner	J Cotta	
12 **Ensure that Circassia's patents are secured**	Q4 2015	5%	5%	20%	5%	5%	20%	
— Prepare robust responses to oppositions to ensure that the Company gets valuable (protective) claims	Q4 2015							Robust responses were filed in all four pending oppositions, supplemented where appropriate with expert declarations and experimental evidence.
— Win any oppositions that occur such that the Company maintains valuable (protective) claims	Q4 2015							European opposition proceedings took place in relation to CPF04 (cat vaccine patent); CPF32 (formulations with trehalose); and CPF08 (reduced dimer formation). Successful outcomes were achieved in all three proceedings with valuable claims upheld.
— File patents on new programmes	Q4 2015							New patent application based on the transcriptome analysis work carried out with McMaster filed in June. Three further filings for new inventions under preparation.
Total		**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	
Immediate payment in cash as % of salary		**–**	**–**	**–**	**75%**	**75%**	**50%**	
Deferred payment in shares as % of salary		**–**	**–**	**–**	**25%**	**25%**	**50%**	

The Remuneration Committee is able to determine the final outcome of the Bonus Award upwards or downwards where exceptional events occur which are outside the control of the Executive Directors and which materially affect the calculation. In view of a number of significant additional achievements of each of the executives, the Committee was satisfied that a payment of 100% of salary was appropriate. The achievements included:

- Receipt of first regulatory approval for respiratory product
- Integration of the two acquisitions across six geographic locations (Oxford, Chicago, Morrisville, Solna, Germany and China) in less than six months
- Recruitment, training and deployment of US field-based organisation

Deferred share bonus awards are structured as conditional awards over shares which vest after three years. The level of deferral is linked to the achievement of the Company's shareholding guidelines as set out in the policy report. Where the guidelines have been met in full, 75% of bonuses are paid in cash and 25% in shares. Both Steven Harris and Rod Hafner have met their shareholding guidelines and therefore 75% of their 2015 bonus was paid in cash. Julien Cotta has not yet met the shareholding guidelines and so 50% of his bonus was paid in cash and 50% in shares.

Long-term incentive plan (LTIP) awards made during the year
On 26 February 2015 the following awards under the Circassia Pharmaceuticals plc Performance Share Plan (the "PSP") were made to the Executive Directors.

Executive Director	Type of award	Basis of award granted	Share price at date of grant	Number of shares over which award was granted	% of shares granted that vest at threshold performance	Face value of shares over which award originally granted £'000	Vesting determined by performance over
Steven Harris	Nominal cost option	150% of salary of £386,000	£2.60	214,444	25%	£579	3 years from date of grant
Julien Cotta	Nominal cost option	125% of salary of £242,000	£2.60	112,037	25%	£303	3 years from date of grant
Rod Hafner	Nominal cost option	125% of salary of £262,500	£2.60	121,528	25%	£328	3 years from date of grant

The number of options in the 2014 PSP that ultimately vest will be determined according to the following performance criteria:

Criterion 1: Relative TSR
For options granted in 2014, up to 70% of the total award will vest subject to achievement of the performance criterion.

% vesting of the total award	Relative TSR ranking against the FTSE 250 Index (as at the date of grant) for a period of three years from the date of grant.[1]
0%	Below median
25%	Median
70%	Upper quartile

[1] In respect of criterion 1, vesting occurs on a straight line basis between the median and upper quartile points

Criterion 2: Clinical and strategic business objectives
For options granted in 2014, between 0% and 30% of the total award will vest subject to achievement of the performance criterion.

The clinical and strategic business objectives referred to in criterion 2 are as follows. Percentages in brackets relate to the percentage of the total award:

- Cat – phase III results (CP007) by 30 Sept 2016 (9%);
- Ragweed – phase II results (TR006) by 31 December 2015 (3%);
- Ragweed – regulatory and IRB approval for commencement of Phase III by 31 March 2016 (3%);
- HDM – phase II fully recruited by 31 March 2016 (6%);
- Grass – end of phase II meeting by 31 December 2015 (3%);
- Regulatory and IRB approval for commencement of new clinical programme by 31 March 2017 (3%);
- Signed agreement for out-licensing deal/partnership for development and commercialisation by end 31 December 2016 (3%); and
- Achievement against objectives results in proportionate vesting.

The number of options in the 2015 PSP that ultimately vest will be determined according to the following performance criteria:

Criterion 1: Relative TSR
For options granted in 2015, up to 50% of the total award will vest subject to achievement of the performance criterion.

% vesting of the total award	Relative TSR ranking against the FTSE 250 Index (as at Relative TSR ranking against the FTSE 250 Index (as at the date of grant) for a period of three years from the date of grant.[1]
0%	Below median
25%	Median
50%	Upper quartile

[1] In respect of criterion 1, vesting occurs on a straight line basis between the median and upper quartile points

Criterion 2: Clinical and strategic business objectives
For options granted in 2015, up to 50% of the total award will vest subject to achievement of the performance criterion.

The clinical and strategic business objectives referred to in criterion 2 are as follows. Percentages in brackets relate to the percentage of the total award:

— First filing of Cat-SPIRE by 2017 (12.5%);
— Establishment of country-specific sales and sales operations infrastructures including US sales force by end of 2017 (12.5%);
— File one additional product by end of 2018 (12.5%);
— Average sales growth for 2016 – 2018 greater than 20% per annum (12.5%);

Deferred bonus share awards made during the year
On 27 February 2015 the following awards under the Circassia Pharmaceuticals plc Deferred Share Bonus Plan (the DSBP) were made to the Executive Directors in respect of the deferred portion of their 2014 bonus. Awards will vest after three years, subject to continued service only.

Director	Type of award	Vesting date	Face value of shares over which award granted £'000's	Share price at date of grant	Number of shares over which award granted
Steven Harris	Conditional award	26 February 2018	87	£2.61	33,436
Julien Cotta	Conditional award	26 February 2018	112	£2.61	42,807
Rod Hafner	Conditional award	26 February 2018	56	£2.61	21,514

Directors' pensions
For the financial year ended 31 December 2015 the Company contributed £133,575 to defined contribution money purchase pension schemes for the Directors. As was explained in the remuneration table, Executive Directors may also receive a supplementary cash payment in lieu of pension contributions where statutory limits have been exceeded. During the financial year ended 31 December 2015, a total of £40,114 was paid to Steven Harris as supplementary cash due to him exceeding such a statutory limit. The remaining £17,786 of his pension contributions from the Group were paid into his pension scheme prior to reaching this limit. There were no supplementary cash payments during the financial year ended 31 December 2014.

Statement of Directors' shareholding and share interests (audited information)
The Directors who have held office during the year ended 31 December 2015 and their interests (in respect of which transactions must be notified to the Company) in the share capital of the Company are shown in the following tables.

There was no change in the Directors' interests between 31 December 2015 and the date of this report.

Directors holding office at 31 December 2015 with LTIP awards and options outstanding over Ordinary shares of 0.08p were as follows:

Plan	Date of grant	Awards granted and options held as at 1 January 2015[1]	Awards and options granted (exercised, lapsed, or cancelled) during year	Awards and options held at 31 December 2015 and at the date of this report
Executive Directors				
S Harris				
2007 EMI Scheme	2 August 2007	317,500	–	317,500
2007 EMI Scheme	15 August 2011	217,875	–	217,875
2014 PSP	12 March 2014	251,125	–	251,125
2015 PSP	26 February 2015	–	214,444	214,444
Total		**786,500**	**214,444**	**1,000,944**
J Cotta				
2013 Unapproved Scheme	22 October 2013	149,250	–	149,250
2014 PSP	12 March 2014	131,125	–	131,125
2015 PSP	26 February 2015	–	112,037	112,037
2015 PSP		**280,375**	**112,037**	**392,412**
R Hafner				
2014 PSP	12 March 2014	204,750	–	204,750
2015 PSP	26 February 2015	–	121,528	121,528
Total		**204,750**	**121,528**	**326,278**
Non-Executive Directors				
T Corn				
2007 Unapproved Scheme	23 February 2010	62,500	–	62,500
2007 Unapproved Scheme	15 August 2011	16,750	–	16,750
Total		**79,250**	**–**	**79,250**
P Edick				
2007 Unapproved Scheme	3 April 2013	156,250	–	156,250
JJ Garaud				
2007 Unapproved Scheme	12 November 2012	77,500	–	77,500
C Petty				
2007 Unapproved Scheme	15 August 2011	16,250	–	16,250

Vesting during year	Vested as at year end	Unvested as at year end	Exercise price (p)	Date from which first exercisable	Expiry date
–	317,500	–	0.08	2 August 2010	1 August 2017
–	217,875	–	0.08	18 March 2014	14 August 2021
–	–	251,125	nil	12 March 2017	11 March 2024
–	–	214,444	0.08	26 February 2018	25 February 2025
–	**535,375**	**465,569**			
–	–	149,250	242	22 October 2016	21 October 2023
–	–	131,125	nil	12 March 2017	11 March 2024
–	–	112,037	0.08	26 February 2018	25 February 2025
–	**–**	**392,412**			
–	–	204,750	nil	12 March 2017	11 March 2024
–	–	121,528	0.08	26 February 2018	25 February 2025
–	**–**	**326,278**			
–	62,500	–	0.08	23 February 2013	22 February 2020
–	16,750	–	0.08	15 August 2014	14 August 2021
–	**79,250**	**–**			
–	–	156,250	0.08	3 April 2016	2 April 2023
77,500	77,500	–	0.08	12 November 2015	11 November 2022
–	16,250	–	0.08	15 August 2014	14 August 2021

With regard to the PSP, the number of shares released to Directors at the end of the three year performance period is dependent upon satisfying the criteria relating to TSR and clinical and strategic milestones which are set out in the section of this report relating to the PSP.

DSBP awards will vest on the third anniversary of the date of grant, provided the Executive Director remains an officer or employee of the Group.

Executive Directors hold options under the Circassia Holdings Limited EMI Share Option Scheme 2007 (the "EMI Scheme"); the Circassia Holdings Limited Unapproved Share Option Scheme 2007 (the "2007 Unapproved Scheme"); and the Circassia Holdings Limited Unapproved Share Option Scheme 2013 (the "2013 Unapproved Scheme"). Historically, no performance conditions have been attached to the options granted under these schemes. The exercise price is equal to the market value of the Company's shares at the time the options are granted.

It was explained in the Corporate governance section of this report that the Group granted certain Non-Executive Directors share options in the past, when it was a private company. No further options have been granted since Admission and no awards will be made in the future.

Gain on exercise of share options

No Directors exercised share options in the financial year ended 31 December 2015.

Directors' interests in shares (including shares held as Restricted shares)

As was noted earlier in this report, the Company has implemented guidelines which require the Executive Directors and key senior employees to build up and maintain an interest in the Ordinary shares of the Company which is equal in value to their annual base salary. For the purpose of assessing compliance with these guidelines, the value of the shareholding is calculated using the higher of the share price on 31 December 2015 (319p) and the acquisition price of the shares. The value as a percentage of salary has been calculated using base salary as at 31 December 2015.

The following table shows the number of Ordinary shares beneficially owned by the Directors who served during the financial year which are not subject to any restrictions on transfer or to forfeiture.

	Shares beneficially owned as at 31 December 2015	Value of owned shares as a % of salary	Shareholding requirement met
Executive Directors			
S Harris	5,298,677	4379%	Yes
J Cotta	25,000	33%	No
R Hafner	796,044	967%	Yes
Non-Executive Directors			
F Granata	-	n/a	n/a
T Corn	62,500	n/a	n/a
C Petty	188,875	n/a	n/a
C Swingland	3,653,129	n/a	n/a

The following table shows the interests in Restricted shares of the Directors who served during the year. These are subject to restrictions on transfer or to forfeiture.

	Date of grant of Restricted shares	b/f as at 1 January 2015	Vesting	c/f as at 31 December 2015	Value of owned shares as a % of salary
Executive Directors					
S Harris	6 February 2013	250,000	(250,000)	–	–
	7 March 2013	125,000		125,000	103%
J Cotta	6 February 2013	25,000	(25,000)	–	–
	7 March 2013	12,500		12,500	16%
	4 March 2014	9,375		9,375	12%
R Hafner	6 February 2013	125,000	(125,000)	–	–
	7 March 2013	75,000		75,000	91%
	4 March 2014	29,500		29,500	36%
Non-Executive Directors					
F Granata	1 September 2013	312,500	–	312,500	n/a
C Swingland	20 December 2012	62,500	(62,500)	–	–
	7 March 2013	75,000		75,000	n/a

No further restricted shares were awarded in the year.

Restricted shares have been subscribed for or purchased at a price of 10p per Ordinary share and, under the terms of their acquisition, are subject to certain restrictions on transfer and forfeiture. The restrictions lift on the earlier of a sale of the Company and the expiry of a vesting period of between two and three years (depending on the date of award of the Restricted shares). The Ordinary shares may be forfeited if the participant ceases to be employed or be an officer of the Company prior to the vesting of the shares other than by reason of: death; resignation; permanent incapacity; redundancy; retirement; non-renewal of a fixed term contract or consultancy.

Directors are not permitted to hold their shares in hedging arrangements or as collateral for loans without the express permission of the Board. None of the Directors currently holds or has held their shares in such an arrangement.

Unaudited information

Percentage increase in the remuneration of the CEO

	% change between 31 December 2014 and 31 December 2015
CEO	
Salary	3% increase
Benefits	nil
Bonus	8% decrease
Average per employee	
Salary	3% increase
Benefits	1% increase
Bonus	9% decrease

In 2014 the bonus of the CEO included a discretionary one off bonus relating to the IPO process.

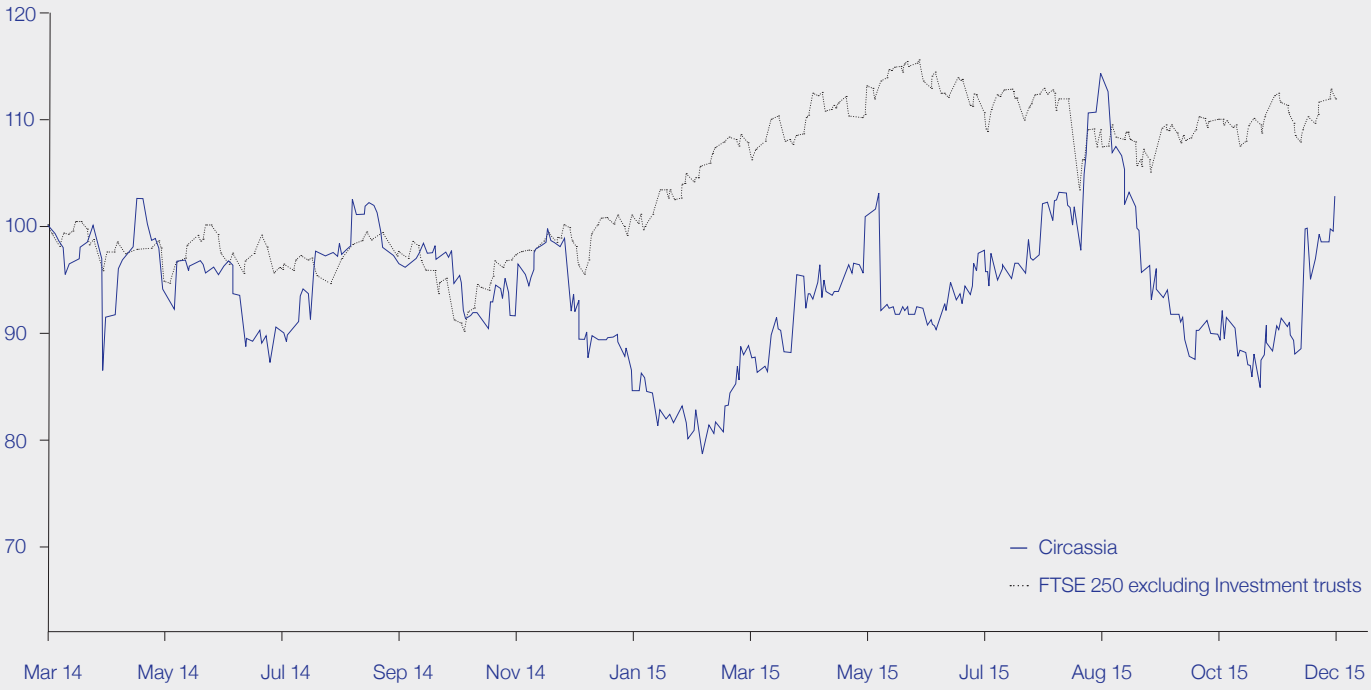
Total shareholder return

The performance of the Company's Ordinary shares compared with the FTSE 250 (excluding Investment trusts) (the "Index") for the year ended 31 December 2015 is shown in the graph below:

The Company has chosen the Index as its benchmark of share price performance as it believes that this gives Shareholders a reasonable comparison with the total shareholder return of other equity investments in companies of a broadly similar size across all sectors. The TSR performance has been measured by JPMorgan Cazenove.

The mid-market price of an Ordinary share on 31 December 2015 was 319p. From 1 January 2015 to 31 December 2015 the share price ranged from a high of 353p to a low of 246p.

Total shareholder return
18 March 2014 – 31 December 2015



Total remuneration for the CEO over time

Description	2015	2014
Total remuneration (£'000)	**2,359**	1,528
Bonus awarded (%)	**100%**	93%
LTIP vesting (%)	**n/a**	100%

The table above shows the total remuneration of the Chief Executive Officer during the financial years in which the Company has been constituted as a public company. The total remuneration figure includes the annual bonus and LTIP awards which vested based on performance during those years. The annual bonus and PSP percentages show the amount paid out for each year as a percentage of the maximum.

Relative importance of expenditure on pay
The table below shows the expenditure by the Company on remuneration paid to all employees of the Group and distributions to Shareholders for the financial period.

	2015 £m	2014 £m
Overall expenditure on pay	**13.7**	6.5
Dividend plus share buyback	**Nil**	Nil

Application of remuneration policy to 2016 salary review
The Executive Directors' salaries were reviewed in January 2014 as part of the IPO process and were set at a level which the Committee regarded as broadly mid-market when compared with other companies of a similar size operating within the same sector. New Bridge Street provided advice to the Committee on this process. Further salary reviews have taken place on 9 February 2015 and 10 February 2016 and a 3% increase was applied effective 1 January 2015 and 2016 respectively. This increase is in line with the average salary increase awarded to UK employees.

	Salary as at 1 January 2016	Salary as at 1 January 2015	% Increase
Steven Harris	397,500	386,000	3
Julien Cotta	249,250	242,000	3
Rod Hafner	270,375	262,500	3

Performance targets for 2016 bonus and PSP awards
For the financial year 2016, the annual bonus will continue to be based on corporate objectives analogous to those set out in the Remuneration Policy. The maximum bonus opportunity will be 100% of salary for Executive Directors in line with the ongoing remuneration policy.

The Committee has decided not to disclose the detailed nature of these performance targets as they comprise commercially sensitive information. Retrospective disclosure of the targets and performance against them will be made in the 2016 Remuneration Committee report.

The measures applicable to awards made under the Performance Share Plan will be as follows:

Criterion 1: Relative TSR
For options granted in 2016, up to 50% of the total award will vest subject to achievement of the relative TSR performance criterion.

% vesting of the total award	Relative TSR ranking against the FTSE 250 Index (as at the date of grant) for a period of three years from the date of grant.[1]
0%	Below median
25%	Median
50%	Upper quartile

[1] In respect of criterion 1, vesting occurs on a straight line basis between the median and upper quartile points

Criterion 2: Clinical and strategic business objectives
For options granted in 2016, up to 50% of the total award will vest subject to achievement of the following clinical and strategic business performance criterion. Percentages in brackets relate to the percentage of the total award:

- First filing of Cat-SPIRE by 2017 (12.5%);
- Establishment of country-specific sales and sales operations infrastructures including US sales force by end of 2017 (12.5%);
- File one additional product by end of 2018 (12.5%);
- Average sales growth for 2016 – 2018 greater than 20% per annum (12.5%);

Award levels for 2016 will be in accordance with the remuneration policy.

Other remuneration components
Pension and benefits will be in line with the remuneration policy.

Non-Executive Director remuneration
The fees for the Chairman and Non-Executive Directors have been increased by 3% effective 1 January 2016. This increase is in line with the average salary increase awarded to UK employees. The fees paid to the Non-Executive Directors in 2015 and the fees proposed to be paid in 2016 are set out below:

	From 1 January 2015 (£)	From 1 January 2016 (£)	Increase %
Chairman	130,500	134,400	3
Non-Executive Director	43,250	44,550	3
Senior Independent Non-Executive Director Fee	49,950	51,450	3
Remuneration and Audit Committee Chairmanship Fee	10,300	10,600	3
Nomination Committee Chair	7,725	7,950	3
Committee Memberships	5,150	5,300	3

Shareholder voting at the Annual General Meeting on 20 May 2015
The Remuneration Policy and Annual Report on Remuneration were both approved by Shareholders at last year's AGM held on 20 May 2015 with the following votes cast for and against.

Voting results at 2015 AGM	For %	Against %	Witheld (votes)
To approve the Annual report on remuneration	99.56	0.44	1,901,524
To approve the Directors' remuneration policy report	99.57	0.43	1,901,524

A vote withheld is not a vote in law and is therefore not included in the percentages shown above.

Approval
This report was approved by the Board on 11 March 2016.

Marvin Samson
Chairman of the Remuneration Committee

Directors' report

In accordance with the Companies Act 2006, the Directors present their report together with the financial statements and the Independent Auditors' report for the year ended 31 December 2015.

Information included in Strategic Report

The Company's Strategic Report is on pages 1 to 37 and includes the following information that would otherwise be required to be disclosed in this Directors' report:

Subject matter	Page reference
Likely future developments in the business	22 to 28
Research and development	22 to 28
Employee involvement	32
Disclosures concerning greenhouse gas emissions	33

Corporate governance statement

The information that fulfils the requirements of the Corporate Governance Statement can be found in the Corporate Governance Report on pages 40 to 41 and the Strategic Report on pages 34 to 37 (and is incorporated into this Directors' Report by reference), with the exception of the information referred to in DTR 7.2.6, which is located in this Directors' Report.

Results and dividend

The results for the year and the financial position as at 31 December 2015 are shown in the Consolidated statement of comprehensive income and the Consolidated statement of financial position. The results of the Group are explained in more detail in the Financial review.

The Directors do not recommend the payment of a dividend for the year to 31 December 2015 (2014: £nil).

Directors and Directors' interests

The Directors of the Company at the date of this report, together with their biographical details and dates of appointment are set out in the Corporate governance report and the Board of Directors section.

The Directors served throughout the year to the date of this report with the exception of Lota S Zoth who served from 9 February 2015 and Mr Marvin S Samson who served from 8 December 2015.

The Board confirms that each of the Directors who served during the year has been formally appraised during this period. In accordance with the Code, all Directors of the Company will stand for re-election on an annual basis.

Information on the Directors' remuneration and their interests in the share capital of the Company are set out in the Remuneration report. None of the Directors has a commercial interest in any material contract entered into by the Company.

As is permitted by sections 232 to 235 Companies Act 2006, and consistent with the Company's Articles of Association, the Company has maintained insurance cover for its Directors and Officers under a Directors' and Officers' Liability Policy. Further, the Company has granted an indemnity to its Directors against liability which arises due to claims brought by third parties.

The Directors may exercise their powers pursuant to the Articles of Association, the Companies Act 2006 and related legislation, and any resolution of the Shareholders. The Articles are available for review at the registered office.

Share capital and Shareholders

Share capital

At 7 March 2016 the Company had a total of 348 Ordinary Shareholders and 284,889,171 Ordinary shares in issue.

During the year the share capital of the Company increased by 95,469,537 Ordinary shares as a result of the admission of shares issued pursuant to the Placing and Open Offer on 11 June 2015. Details of the movements in the Company's share capital are shown in note 23 to the financial statements.

The Company has only one class of shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. There are no restrictions on voting rights or on the holding or transfer of these securities.

Details of employee share schemes are set out in note 24 to the financial statements. The Circassia Pharmaceuticals plc Employee Benefit Trust abstains from voting on the shares held by it. 110,845 shares were acquired by the Employee Benefit Trust during the year (2014: Nil) and the balance of shares held at 31 December 2015 was therefore 110,845.

Pursuant to the Articles of Association and vote of Shareholders at the AGM which took place on 20 May 2015 the Company has been granted authority to allot shares for cash up to a maximum nominal amount of £7,577 on a non-pre-emptive basis. This nominal amount represents approximately 3% of the issued share capital of the Company as at 10 March 2016. No such allotments were made during the year to 31 December 2015 or up to the date of this report. At the General Meeting which took place on 10 June 2015 the Company was granted authority to allot shares in the Company up to an aggregate nominal amount of £76,375.63 pursuant to the placing and open offer.

Lock up arrangements

The Company and the Directors agreed certain lock-up arrangements in advance of the IPO of the Company on 18 March 2014.

Pursuant to the Underwriting Agreement which was made between the Company, the Directors, the Selling Shareholders, and the Banks, each of the Directors agreed that, subject to certain exceptions, during the period of 12 months following Admission, they would not without prior consent of the Joint Bookrunners, offer, sell or contract to sell or otherwise dispose of any Ordinary shares. This obligation expired on 17 March 2015.

Share price

From 1 January 2015 to 31 December 2015 the share price ranged from a high of 353p to a low of 246p. The average price for the period was 289p. The mid-market price of an Ordinary share on 31 December 2015 was 319p.

Significant shareholdings

As at 29 February 2016 the Company had been notified of the following interests, held, directly or indirectly, in 3% or more of the Company's issued share capital.

	Number of shares	% of shares
The Bank of New York (Nominees) Limited	107,563,357	37.8%
State Street Nominees Limited	35,010,387	12.3%
Nortrust Nominees Limited	33,774,706	11.9%
PH Nominees Limited	26,693,711	9.4%
Chase Nominees Limited	25,694,183	9.0%
Chase (GA Group) Nominees Limited	16,825,049	5.9%

The Board confirms that, in accordance with LR 9.2.2AR(2)(a) Relationship Agreements were put in place on 12 March 2014 between the Company and Invesco Asset Management Limited, and the Company and Imperial Innovations LLP and their affiliates.

Invesco holds more than 20% of the voting rights attached to the issued share capital of Imperial Innovations and accordingly there is a presumption (which has not been rebutted) that Invesco and Imperial Innovations are acting in concert in relation to their shareholdings in the Company. At the date of this report, Invesco and Imperial Innovations together held 44.4% of the voting rights attached to the issued share capital of the Company.

Invesco relationship agreement

The principal purpose of the relationship agreement is to ensure that the Company will be capable of carrying on its business independently of Invesco for so long as Invesco, together with its concert parties, holds a controlling interest.

Pursuant to these agreements, and for so long as Invesco holds a controlling interest:

- The parties shall procure that all transactions and relationships between the Company and any other member of the Group and Invesco (or any of its associates) are conducted at arms-length and on normal commercial terms; and
- Invesco shall not (and shall procure that each of its associates shall not) take any action that would prevent the Company from complying with its obligations under the Listing Rules and shall not propose or procure the proposal of any Shareholder resolution which is intended to or appears to be intended to circumvent the proper application of the Listing Rules.

Imperial Innovations relationship agreement

The principal purpose of the Relationship Agreement is to ensure that the Company will be capable of carrying on its business independently of Imperial Innovations for so long as Imperial Innovations with its concert parties, holds a controlling interest.

Pursuant to these agreements, and for so long as Imperial Innovations together with Invesco holds a controlling interest:

- The parties shall procure that all transactions and relationships between the Company and any other member of the Group and Imperial Innovations (or any of its associates) are conducted at arms-length and on normal commercial terms; and
- Imperial Innovations shall not (and shall procure that each of its associates shall not) take any action that would prevent the Company from complying with its obligations under the Listing Rules and shall not propose or procure the proposal of any Shareholder resolution which is intended to or appears to be intended to circumvent the proper application of the Listing Rules.

The Board confirms that the Company has complied with the independence provisions under the relationship agreements referred to above and, that so far as it is aware, the controlling Shareholders have complied with the independence provisions and, so far as it is aware, the controlling Shareholders have complied with the procurement obligation.

Disclosures required under Listing Rule 9.8.4R
The information that fulfils the reporting requirements relating to the following matters can be found on the pages identified.

Subject matter	Page reference
Statement by the board on relationship agreements with controlling shareholders	77 (Directors' report)

Treasury management
The Company's policy on the use of financial instruments and the management of financial risks is set out in note 2 to the financial statements.

Going concern
The accounts have been prepared on a going concern basis. Budgets are prepared on a rolling three year basis each year. These are built from the bottom up and presented to the Board each year for review and approval. The Directors have reviewed the current and projected financial position of the Company, taking into account existing cash balances and available financial facilities. On the basis of this review, the Directors have not identified any material uncertainties to the Group's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date of approval of the financial statements.

Employment and environment
The Company's policies on health and safety, the environment, and employee-related matters are disclosed in the Strategic report. Greenhouse gas emissions have been calculated as carbon dioxide equivalents.

Political and charitable donations
There were no charitable or political donations in the year to 31 December 2015.

Auditor
PricewaterhouseCoopers LLP has expressed its willingness to continue in office as Auditor and a resolution to re-appoint PwC will be put to the members at the forthcoming Annual General Meeting.

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 a Director ought to have taken to make themselves aware of relevant audit information and to establish that the Auditor is aware of that information.

Annual General Meeting
The Annual General Meeting will be held at the offices of Circassia Pharmaceuticals plc on 18 May 2016 at 9:30 a.m. Details of the business to be transacted at the forthcoming AGM will be given in a separate circular to Shareholders.

By order of the Board

Julien Cotta
Company Secretary

11 March 2016

Statement of Directors' responsibilities

In respect of the Annual report and accounts and financial statements for the year ended 31 December 2015
The Directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare 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 IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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 their profit or loss for that period. In preparing each of the Group and parent financial statements the Directors are required to:

- properly select and consistently apply accounting policies;
- make prudent and reasonable accounting estimates and judgements;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and Directors Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and for taking reasonable steps to prevent and detect fraud and other irregularities.

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

Directors' responsibility statement
We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the EU 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;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties which they face; and
- the Annual report and the financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Group's position, performance, business model and strategy.

The Directors' report, including those sections of the Annual report which are referred to in it, has been approved by the Board and is signed on its behalf by:

Julien Cotta
Director

11 March 2016

Independent Auditors' report to the members of Circassia Pharmaceuticals plc

Report on the financial statements

Our opinion

In our opinion:

- Circassia Pharmaceuticals plc's Group financial statements and parent company financial statements (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 2015 and of the Group's loss and the Group's and the parent company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; 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.

What we have audited

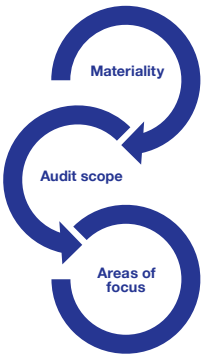
The financial statements, included within the Annual report and accounts (the "Annual Report"), comprise:

- the Consolidated statement of financial position as at 31 December 2015
- the Parent company statement of financial position as at 31 December 2015;
- the Consolidated statement of comprehensive income for the year then ended;
- the Group and parent company statement of cash flows for the year then ended;
- the Group statement of changes in equity for the year then ended;
- the Parent company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Our audit approach

Overview



- Overall Group materiality: £720,000 which represents 1% of total expenses.
- We performed an audit of the complete financial information of 4 components and specified procedures of 2 components which accounted for 93% of the Group's expenses, 100% of the Group's revenue and 91% of the Group loss before tax.
- Of these, two were financially significant components. The Group engagement team conducted the audit of one of the financially significant components and we visited our component team in Sweden who performed the audit of the other significant component.
- The Group engagement team also conducted the audit of the complete financial information of two components that were not deemed to be financially significant.
- The Group engagement team and our component team in the USA performed specified procedures on the financial information of a further two components.
- The components where an audit was performed by the Group engagement team accounted for 73%, 27% and 78% of the work over Group expenses, Group revenue and Group loss before tax respectively.
- Accounting for business combinations.
- Impairment of goodwill and other intangible assets.
- Deferred tax assets may not be realisable.
- Measuring the fair value of awards under share options schemes and the related accounting treatment.
- Accounting for share issue costs.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Independent Auditors' report to the members of Circassia Pharmaceuticals plc continued

Area of focus	How our audit addressed the area of focus
Accounting for business combinations The Group made two acquisitions in the year, Aerocrine AB ("Aerocrine") and Prosonix Limited ("Prosonix"). On 19 June 2015, 92.6% of Aerocrine was acquired for cash consideration of £129.6m. By 31 December 2015 the Group owned 97.9% of Aerocrine. On 15 June 2015, 100% of Prosonix was acquired for cash consideration of £70m plus a further £30m in contingent consideration. The contingent consideration became due on 23 December 2015. Our main area of focus and the area of most complexity and judgement was the identification and valuation of intangible assets. Refer to page 47 (Audit Committee Report), page 92, (Critical accounting estimates and judgements), and pages 116-117 in the notes.	We assessed management's accounting for the business combinations under IFRS 3 "Business combinations" ("IFRS 3"). We obtained management's valuation models and used our firm's valuation specialists in assessing the robustness and appropriateness of the valuation methodologies and the reasonableness of key assumptions and judgements made by management. We assessed the cash flow forecasts and key assumptions and judgements made by management with particular focus on the following: long term growth rates, working capital assumptions, existing customer growth rates, tax rates and royalty rates. We worked with our valuation specialists to assess the reasonableness of management's assumptions by using our understanding of the businesses and performing the following: — We obtained and reviewed the underlying licence agreements to assess the royalty rates used and management's forecasted licence cash flows; — We assessed the assumed revenue growth rates for existing products; — We assessed the appropriateness of working capital assumptions by considering historical working capital trends and management's plans for future working capital; — We ascertained the life of the patents and assessed whether the cash flow forecasts appropriately reflected patent expiries; — We obtained an understanding of the assumed product development phases and timings and benchmarked this to industry standards; — We obtained an understanding of expected market penetration and timelines and benchmarked this to industry standards; — We agreed the tax rates used in the models to those enacted in the prospective markets; — We benchmarked the discount rate to comparable companies. Along with our valuation specialists, we determined that management's assumptions fell within a reasonable range.

Impairment of goodwill and other intangible assets We focused on this area due to the size of the goodwill (£81.2m) and other intangible assets (£165.6m) balances and because of the level of judgement in the impairment assessment, specifically the future results of the businesses and products and the discount rates applied to future cash flows. The future results of the businesses are particularly judgemental given that a large portion of forecast cash flows are dependent upon sales from products currently in the research and development phase. Refer to page 47 (Audit Committee Report), page 92 (Critical accounting estimates and judgements), and pages 102-104 in the notes.	We obtained management's impairment analysis and gained an understanding of the key assumptions and judgements underlying the assessment. We assessed management's allocation of Goodwill between CGUs and determined the allocation to be reasonable. We assessed the key assumptions including those driving the cash flows underpinning the analysis, including the following: — Forecast accuracy: We compared historical forecasts to actual results achieved. — Future revenue streams: We compared forecast growth to business plans and the latest developments. — Future product revenue streams: We compared forecast growth to business plans and obtained an understanding of the stage of product development and management's expected timeline, including updates on expected milestone achievement. — Expenses and overheads: We reviewed historical budget to actual results achieved and assessed the appropriateness of changes to these assumptions for forecast growth and management identified efficiency savings. — Discount rate: We recalculated management's discount rate and benchmarked the rate against companies of a similar nature. We obtained and inspected management's impairment analysis including the sensitivity analysis, which showed sufficient headroom. We performed our own sensitivities over the forecasted cash flows and discount rates, the results of which did not indicate an impairment to goodwill. However, our sensitivities did indicate that if the phase III trials of Cat-Spire are not successful and/or there are delays to other key product launches, these events may trigger an impairment to goodwill. We found the assumptions to be supportable and in line with our expectations and the headroom to remain sufficient using assumptions sensitised to what we considered to be a range of realistically possible alternative outcomes.
Deferred tax assets may not be realisable Deferred tax assets of £17.2m (2014: nil) were recognised in relation to accumulated losses. All of the Group's businesses have brought forward tax losses capable of offset against future profits. Management must make judgements in relation to the probability of future profits in determining the extent to which deferred tax assets are recognised. Management have recognised deferred tax assets only to the extent of deferred tax losses relating to the same taxation authority and the same taxable entity. The Group has a history of losses and the cash flow forecasts underpinning the recognition of the deferred tax assets are judgemental as they are largely dependent upon sales from products currently in the research and development phase. These elements create a level of uncertainty as to whether it is appropriate to recognise the deferred tax asset under IAS12 and if so, at what level the asset should be recognised. Refer to page 47 (Audit Committee Report), page 92, (Critical accounting estimates and judgements), and page 110 in the notes.	We have obtained management's assessment to support the deferred tax asset recognised. We have inspected management's cash flow forecasts. Refer to our discussion above for procedures performed around the cash flow forecasts. We worked with our tax specialists in assessing whether a deferred tax asset could be recognised under IAS12 and the key judgements applied in determining the level of deferred tax asset recognised. The key points we considered in management's assessment were as follows: — Whether the entities have sufficient taxable differences relating to the same taxation authority. — The impact of any forfeiture or expiry of losses to be carried forward. — Whether taxable differences will result in taxable amounts against which the unused tax loses can be utilised. — The likelihood of sufficient profits being recorded. On the basis of our knowledge of the historical losses of the entities in the Group and of the tax flow projections, we evaluated management's judgements in relation to the probability of utilising brought forward tax losses. We concurred with management's judgement that deferred tax assets should be recognised only to the extent of deferred tax liabilities arising in the same jurisdiction.

Independent Auditors' report to the members of Circassia Pharmaceuticals plc continued

Measuring the fair value of awards under share options schemes and the related accounting treatment The Group has in place a number of share incentive schemes which are accounted for in accordance with "Share based payments" ("IFRS 2"), and the details of which are explained in note 24. All share incentive schemes require a level of judgement. However, the incentive schemes that include market vesting performance conditions are more complex, requiring various judgements to be made, including the likelihood of specific performance criteria being achieved, all of which directly impact the fair value of the options. As a result there is a risk that the share option compensation charge could be measured incorrectly. Refer to page 47 (Audit Committee Report), page 93 (Critical accounting estimates and judgements), and pages 110-112 in the notes.	We obtained the paperwork supporting the grant award and scheme details and discussed with management the accounting applied and key judgements made. We considered the reasonableness of the judgements made by management in determining the relevant assumptions utilised in calculating the fair value of the options. We tested management's fair value calculation and support for key assumptions. The share options issued included market vesting performance conditions. Accordingly, management have applied the Monte Carlo method in valuing the options granted. Our approach was underpinned by the following testing: — Assumed volatility was compared to the historical share price volatility of the Group since listing and also benchmarked against other companies in similar industries. — We considered the dividend rate against the Group's dividend history and in the light of management's assessment that no dividends will be declared in the foreseeable future. — The exercise price was agreed to the Group share option award agreements and the board meeting minutes approving the transaction. — The interest rate was compared to the UK Gilt rate at the date of issue for a comparable period. — The share price at grant date was compared to the listed share price on the day of grant. — The leaver rate was agreed to historical actuals, adjusted for an expected increase as the business expands. In light of the above, we found that the method of calculating the fair value of share options has been applied consistently and with supportable assumptions. The charge booked was not materially sensitive to what we considered to be a range of realistically possible alternative outcomes as to the levels of performance attained.
Accounting for share issue costs The Group incurred £8.8m of costs in completing a Placing and Open Offer in June 2015 to finance the acquisitions of Aerocrine and Prosonix. Incremental costs that are directly attributable to the equity transaction are accounted for through equity. There is an element of judgement in determining what costs are directly attributable to the equity issue. Refer to page 47 (Audit Committee Report), page 92 (Critical accounting estimates and judgements), and page 110 in the notes.	We obtained a detailed listing and selected a sample of invoices. For these capitalised expenses, we tested management's assessment of whether legal and professional fees incurred were directly attributable to the share issue. We assessed the capitalised costs for completeness by reviewing a sample of legal and professional invoices expensed. Having tested the appropriateness of the split in expenditure, we then traced the amounts into the financial statements and tested they were appropriately included and disclosed. As a result, we found no material exceptions with management's allocation of the costs to equity and found that the appropriate accounting treatment and disclosures had been applied.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

As described in note 3, the Group is structured into three segments: Allergy, NIOX® and Respiratory. The Group financial statements are a consolidation of 10 reporting components. The reporting components are located in Sweden (1), USA (2), Switzerland (1), Germany (1) and the UK (5).

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or component auditors from other PwC network firms under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

For each reporting component we determined whether we required an audit of their complete financial information, specified procedures over select financial information or an analytical review based on both quantitative and qualitative factors.

An audit of the complete financial information of Circassia Limited and Aerocrine Sweden was performed because they each make up greater than 15% of total Group expense. Full scope audits for 2 further UK reporting components were undertaken where a statutory audit is required. Specified procedures over select financial information was performed for 2 further reporting components and analytical procedures were performed over the remaining reporting components.

Taken together, the components where we performed our audit work procedures (excluding analytical procedures) provided us with coverage of 93% of expenses, 100% of revenues and 91% of loss before tax. The components where an audit was performed by the Group engagement team accounted for 73%, 27% and 78% of the work over Group expenses, Group revenue and Group loss before tax respectively.

As part of the Group engagement team procedures, we were involved in determining the audit approach of our component teams, reviewing the procedures performed and in addressing any issues arising from our work.

As part of our year end procedures, the Group engagement leader visited our Swedish component team (the only significant component not audited directly by the Group engagement team), reviewed their working papers and met with local management. In addition to this, the Group engagement team attended all clearance meetings either in person or by call. This, together with the procedures performed at the Group level, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£720,000 (2014: £463,000).
How we determined it **Rationale for benchmark applied**	1% of total expenses. We have determined the most appropriate measure on which to base materiality to be total expenses as the majority of the Group's products are in the research and development stage and the spend to progress these to commercialisation is expected to continue to be significant over the coming years. As a result, we regard that investors will remain interested in the progression of product development and the level of expenditure more so than the loss generated by the Group.
Component materiality	For each component in our audit scope, we allocated a materiality that is less than our overall Group materiality. For each component in our audit scope, we allocate a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £140,000 and £700,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £36,000 (2014: £23,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 77, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and parent company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and parent company's ability to continue as a going concern.

Independent Auditors' report to the members of Circassia Pharmaceuticals plc continued

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion:

— the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
— the information given in the Corporate Governance Statement as set out on pages 40 to 45 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
information in the Annual Report is: — materially inconsistent with the information in the audited financial statements; or — apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and parent company acquired in the course of performing our audit; or — otherwise misleading.	We have no exceptions to report.
the statement given by the directors on page 78, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and parent company acquired in the course of performing our audit.	We have no exceptions to report.
the section of the Annual Report on page 46, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
the directors' confirmation on page 44 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
the directors' explanation on page 37 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider 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 have nothing material to add or to draw attention to.
Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.	

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Directors' remuneration report - Companies Act 2006 opinion
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement
Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the parent company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Statement of Directors' Responsibility set out on page 78, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Simon Ormiston (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

11 March 2016

Consolidated statement of comprehensive income

for the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Revenue	4	**10.8**	–
Cost of sales		**(4.3)**	–
Gross profit		**6.5**	–
Research and development costs		**(46.8)**	(38.6)
Sales and marketing		**(13.5)**	–
Administrative expenses		**(13.7)**	(7.2)
Other gains	9	**1.1**	–
Operating loss	7	**(66.4)**	(45.8)
Finance income	6	**3.5**	1.9
Share of profit/(loss) of joint venture	16	**0.1**	(0.1)
Loss before tax		**(62.8)**	(44.0)
Taxation	10	**12.8**	8.9
Loss for the financial year		**(50.0)**	(35.1)
Loss attributable to:			
Owners of Circassia Pharmaceuticals plc		**(49.9)**	(35.1)
Non–controlling interests		**(0.1)**	–
Loss for the financial year		**(50.0)**	(35.1)
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences attributable to:			
Owners of Circassia Pharmaceuticals plc	27	**3.1**	–
Total other comprehensive income for the year		**3.1**	–
Total comprehensive expense for the year		**(46.9)**	(35.1)
Total comprehensive expense attributable to:			
Owners of Circassia Pharmaceuticals plc		**(46.8)**	(35.1)
Non–controlling interests		**(0.1)**	–
Total comprehensive expense for the year		**(46.9)**	(35.1)

Loss per share attributable to owners of the parent during the year (expressed in £ per share)

		£	£
Basic and diluted loss per share			
Loss per share from continuing operations	11	**(0.20)**	(0.21)

The results for the financial years above are derived entirely from continuing operations.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company profit and loss account.

The loss for the parent company for the year was £3.2 million (2014: profit £0.5 million).

The notes on pages 92 to 117 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

as at 31 December 2015

	Notes	2015 £m	2014 £m
Assets			
Non-current assets			
Property, plant and equipment	12	**1.3**	0.3
Goodwill	13	**81.2**	1.8
Intangible assets	14	**165.6**	0.2
Deferred tax assets	22	**17.2**	-
Investment in joint venture	16	**0.2**	0.1
		265.5	2.4
Current assets			
Inventories	17	**3.0**	-
Trade and other receivables	18	**5.1**	2.7
Current tax assets	10	**11.8**	8.8
Short-term bank deposits	19	**37.8**	156.9
Cash and cash equivalents	19	**166.0**	29.7
		223.7	198.1
Total assets		**489.2**	200.5
Equity and liabilities			
Ordinary shares	23	**0.2**	0.2
Share premium	25	**564.0**	297.9
Other reserves	27	**2.8**	1.3
Accumulated losses	26	**(158.5)**	(108.6)
		408.5	190.8
Non-controlling interests		**1.2**	–
Total equity		**409.7**	190.8
Liabilities			
Non-current liabilities			
Deferred tax liabilities	22	**31.2**	–
		31.2	–
Current liabilities			
Trade and other payables	20	**48.3**	9.7
		48.3	9.7
Total liabilities		**79.5**	9.7
Total equity and liabilities		**489.2**	200.5

The notes on pages 92 to 117 are an integral part of these consolidated financial statements.

The financial statements on pages 86 to 117 were authorised for issue by the Board of Directors on 11 March 2016 and were signed on its behalf by

Steven Harris
Chief Executive Officer
Circassia Pharmaceuticals plc

Julien Cotta
Chief Financial Officer
Circassia Pharmaceuticals plc

Registered number: 05822706

Parent Company statement of financial position

as at 31 December 2015

	Notes	2015 £m	2014 £m
Assets			
Non-current assets			
Investments in subsidiaries	15	**242.6**	3.0
		242.6	3.0
Current assets			
Trade and other receivables	18	**185.0**	122.5
Short-term bank deposits	19	**37.8**	156.9
Cash and cash equivalents	19	**130.7**	18.8
		353.5	298.2
Total assets		**596.1**	301.2
Equity and liabilities			
Equity attributable to the owners of the Company			
Ordinary shares	23	**0.2**	0.2
Share premium	25	**564.0**	297.9
Other reserves	27	**3.7**	1.3
(Accumulated losses)/retained earnings	26	**(2.0)**	1.2
Total equity		**565.9**	300.6
Liabilities			
Current liabilities			
Trade and other payables	20	**30.2**	0.6
		30.2	0.6
Total equity and liabilities		**596.1**	301.2

The notes on pages 92 to 117 are an integral part of these financial statements.

The financial statements on pages 86 to 117 were authorised for issue by the Board of Directors on 11 March 2016 and were signed on its behalf by

Steven Harris
Chief Executive Officer
Circassia Pharmaceuticals plc

Julien Cotta
Chief Financial Officer
Circassia Pharmaceuticals plc

Registered number: 05822706

Consolidated and parent Company statement of cash flows

for the year ended 31 December 2015

	Notes	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Cash flows from operating activities					
Cash used in operations	28	**(64.9)**	(41.0)	**(5.8)**	(28.7)
Tax credit received		**9.1**	4.1	**–**	–
Net cash used in operating activities		**(55.8)**	(36.9)	**(5.8)**	(28.7)
Cash flows from investing activities					
Acquisition of subsidiaries, net of cash acquired	33	**(161.9)**	–	**(206.8)**	–
Purchases of property, plant and equipment	12	**(0.2)**	(0.3)	**–**	–
Purchases of intangible assets	14	**(0.1)**	–	**–**	–
Interest received		**3.0**	0.2	**2.9**	0.2
Receipt on maturity of forward contract		**1.1**	–	**–**	–
Repayment of borrowings		**(28.1)**	–	**–**	–
Loans granted to subsidiary undertakings		**–**	–	**(63.5)**	–
Decrease/(increase) in short–term bank deposits		**119.1**	(149.8)	**119.1**	(149.8)
Net cash used in investing activities		**(67.1)**	(149.9)	**(148.3)**	(149.6)
Cash flows from financing activities					
Proceeds from issue of ordinary shares	23	**266.1**	192.5	**266.1**	192.5
Purchase of treasury shares	32	**(0.3)**	–	**–**	–
Transactions with non-controlling interests	27	**(7.2)**	–	**–**	–
Net cash generated from financing activities		**258.6**	192.5	**266.1**	192.5
Net increase in cash and cash equivalents		**135.7**	5.7	**112.0**	14.2
Cash and cash equivalents at 1 January	19	**29.7**	23.5	**18.8**	3.8
Exchange gains/(losses) on cash and cash equivalents		**0.6**	0.5	**(0.1)**	0.8
Cash and cash equivalents at 31 December	19	**166.0**	29.7	**130.7**	18.8

The notes on pages 92 to 117 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2015

	Notes	Share capital £m	Share premium £m	Other[1] reserves £m	Accumulated losses £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2014	23, 25, 26, 27	0.1	103.4	0.1	(73.5)	30.1	–	30.1
Comprehensive expense:								
Loss for the financial year		–	–	–	(35.1)	(35.1)	–	(35.1)
Total comprehensive expense	26	–	–	–	(35.1)	(35.1)	–	(35.1)
Transactions with owners:								
Issue of ordinary shares		0.1	194.5	–	–	194.6	–	194.6
Employee share option scheme	27	–	–	1.2	–	1.2	–	1.2
At 31 December 2014	23, 25, 26, 27	0.2	297.9	1.3	(108.6)	190.8	–	190.8
At 1 January 2015	23, 25, 26, 27	0.2	297.9	1.3	(108.6)	190.8	–	190.8
Loss for the financial year		–	–	–	(49.9)	(49.9)	(0.1)	(50.0)
Other comprehensive income	27	–	–	3.1	–	3.1	–	3.1
Total comprehensive expense	26, 27	–	–	3.1	(49.9)	(46.8)	(0.1)	(46.9)
Transactions with owners:								
Issue of ordinary shares	23	–	266.1	–	–	266.1	–	266.1
Purchase of own shares	27	–	–	(0.3)	–	(0.3)	–	(0.3)
Employee share option scheme	27	–	–	2.7	–	2.7	–	2.7
Non-controlling interests on acquisition of subsidiary	33	–	–	–	–	–	4.5	4.5
Transactions with non-controlling interests	27	–	–	(4.0)	–	(4.0)	(3.2)	(7.2)
At 31 December 2015	23, 25, 26, 27	**0.2**	**564.0**	**2.8**	**(158.5)**	**408.5**	**1.2**	**409.7**

[1] Other reserves include share option reserve, translation reserve, treasury shares reserve, and transactions with NCI reserve

The notes on pages 92 to 117 are an integral part of these consolidated financial statements.

Parent Company statement of changes in equity

For the year ended 31 December 2015

	Notes	Share capital £m	Share premium £m	Share option reserve £m	Retained earnings / (Accumulated losses) £m	Total equity £m
At 1 January 2014	23, 25, 26, 27	0.1	103.4	0.1	0.7	104.3
Profit and total comprehensive income	26	–	–	–	0.5	0.5
Transactions with owners:						
Issue of ordinary shares		0.1	194.5	–	–	194.6
Employee share option scheme	27	–	–	1.2	–	1.2
At 31 December 2014	23, 25, 26, 27	0.2	297.9	1.3	1.2	300.6
At 1 January 2015	23, 25, 26, 27	0.2	297.9	1.3	1.2	300.6
Loss and total comprehensive expense	26	–	–	–	(3.2)	(3.2)
Transactions with owners:						
Issue of ordinary shares	23	–	266.1	–	–	266.1
Employee share option scheme	27	–	–	2.4	–	2.4
At 31 December 2015	23, 25, 26, 27	**0.2**	**564.0**	**3.7**	**(2.0)**	**565.9**

The notes on pages 92 to 117 are an integral part of these financial statements.

1. Summary of significant accounting policies

General information

The Group is a specialty biopharmaceutical group focused on the development and commercialisation of a range of allergy, asthma and respiratory products.

Circassia Pharmaceuticals plc is a public limited company which is listed on the London Stock Exchange and incorporated and domiciled in England and Wales. The Company is resident in England and the registered office is The Magdalen Centre, Robert Robinson Avenue, Oxford Science Park, Oxford, Oxfordshire, England, OX4 4GA.

The principal accounting policies adopted in the preparation of this financial information are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated.

Basis of preparation

The financial information has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'), IFRS Interpretations Committee ('IFRIC IC') interpretations endorsed by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared using the historical cost convention modified by the revaluation of certain items, as stated in the accounting policies, and on a going concern basis.

Going concern

Though the Group continues to make losses, the Directors have reviewed the current and projected financial position of the Group, taking into account existing cash balances. On the basis of this review, the Directors have not identified any material uncertainties to the Group's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date of approval of the financial statements.

Changes in accounting policy and disclosures

a) New and amended standards adopted by the Group:

Annual improvements 2011 - 2013 (effective 1 July 2014) (endorsed for 1 January 2015)

b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:

IFRS 9 'Financial instruments', on 'Classification and measurement' (effective 1 January 2018, not EU endorsed). This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value.

A debt instrument is at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. Amortised cost accounting will also be applicable for most financial liabilities, with bifurcation of embedded derivatives. The main change is that in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess the impact of IFRS 9 on its financial information. The Group will also consider the impact of the remaining phases of IFRS 9.

IFRS 15 'Revenue from contract with customers' (effective from 1 January 2018, not EU endorsed), IFRIC 21 'Levies' (effective from 1 January) and IFRS 16 'Leases' (effective from 1 January 2019, not yet EU endorsed) is currently being assessed for the future impact on the Group.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Use of estimates and assumptions

The preparation of financial information in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial information and the reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continually made and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances.

Critical accounting estimates and assumptions

Where the Group makes estimates and assumptions concerning the future, the resulting accounting estimates will seldom exactly match actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Business combinations

The Group accounts for all business combinations under the acquisition method. Under the acquisition method, the identifiable assets acquired and liabilities and contingent liabilities assumed are measured at their fair value at the acquisition date. Judgements are made in determining the basis on which goodwill arising on business combinations is allocated to cash generating units (CGUs). Management have determined that the goodwill arising on the acquisition of Aerocrine should be allocated between the Aerocrine and Circassia CGUs in proportion to the discounted cash flows attributable to these CGUs, which are each expected to benefit from the sales force and commercial infrastructure available to the Group as a result of the acquisition of Aerocrine. Management have determined that the goodwill recognised on the acquisition of Prosonix Limited should be allocated to Prosonix Limited, being the CGU for impairment testing purposes. Estimates are made in relation to the cash flow forecasts, probability factors and discount rates used for this purpose.

Fair value of acquired assets

Intangibles – Technology

In estimating the fair value of Technology, a variation of the Income Approach called the Relief from Royalty Method is used. This methodology is considered the standard and preferred technique to value assets such as trademark, core technology and patents.

Intangibles – Customer Relationships and IPR&D

The Customer Relationships and IPR&D have been valued based on the Excess Earnings Method. This valuation method is based on discounting the cash flows that can be attributed to the intangible asset, after taking into account the contribution of other assets.

Deferred tax

Deferred tax assets have been recognised in relation to tax losses carried forward in Aerocrine and Prosonix, but only to the extent of deferred tax liabilities arising in the same jurisdictions as the brought forward losses. Management have concluded that it is not yet probable that taxable profits will be available in the relevant jurisdictions to utilise brought forward losses in excess of deferred tax liabilities. Judgement is required in making this determination. Management anticipate that taxable profits will be considered probable for the purposes of recognising deferred tax assets under IAS 12 only when there is a stable history of profitability in those tax jurisdictions.

Share issue costs

In June 2015 the Group completed an offer and placement of new shares to finance the acquisitions of Aerocrine and Prosonix. Under IFRS incremental costs that are directly attributable to an equity transaction that otherwise would have been avoided had the equity instruments not been issued are accounted for through equity. Any acquisition related costs (for example due diligence) must be expensed in the income statement. Note 23 provides further details. There is a level of judgement in determining which costs meet the criteria of an equity transaction.

Goodwill and other intangible assets
The Group tests annually whether goodwill and other intangible assets have suffered any impairment. The key assumptions used for the value in use calculations are given in note 13, and in particular the anticipated launch date of products currently under development. If the Group is unable to obtain regulatory approval or to commercialise its product candidates, or experiences significant delays in doing so, this could result in an impairment of the related goodwill and intellectual property rights.

Share based payments
Options were valued using the Black Scholes option pricing model or the Monte Carlo Simulation depending on the type of option issued. For each relevant option grant, individual valuation assumptions were assessed based upon conditions at the date of grant. The range of assumptions in the calculation of share based payments is given in note 24.

Consolidation
Subsidiaries
Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group 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 over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

Joint arrangements
The Group has applied IFRS 11 to all joint arrangements since 1 January 2013. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Circassia Pharmaceuticals plc has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Segmental reporting
The Group has three business segments, Allergy, Respiratory, and NIOX®. This is consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance, has been identified as the Executive Directors, who make strategic decisions.

Clinical study expenses
Where payments to clinical study sites are made in advance for the purchase of stocks of materials for use in clinical studies, the relevant costs are included in receivables as prepaid clinical study expenses. Expenses are charged to the income statement as clinical study services are carried out by third party suppliers, or clinical study materials are received.

Financial instruments
The Group's financial instruments comprise cash and cash equivalents, short-term bank deposits, receivables and payables arising directly from operations.

Cash and cash equivalents comprise cash in hand and short-term deposits which have an original maturity of three months or less and are readily convertible into known amounts of cash. Such assets are classified as current, where management intend to dispose of the asset within 12 months of the end of the reporting period. Bank deposits with maturity of more than 12 months after the end of the reporting period are classified as non-current assets.

Where derivatives exist in the financial year, they are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each reporting date, with any resulting gain or loss recognised through profit or loss.

The Group does not have any committed borrowing facilities, as its cash, cash equivalents and short-term deposits are sufficient to finance its current operations. Cash balances are mainly held on short and medium term deposits with quality financial institutions, in line with the Group's policy to minimise the risk of loss. The main risks associated with the Group's financial instruments relate to interest rate risk and foreign currency risk (note 2).

Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

Goodwill and Intangible assets
Intangible fixed assets, relating to goodwill, customer relationships, technology and intellectual property rights acquired through licensing or assigning patents and know-how are carried at historic cost, less accumulated amortisation, where the useful economic life of the asset is finite and the asset will probably generate economic benefits exceeding costs.

Amortisation is calculated using the straight line method to allocate the cost of intangible assets over their estimated useful lives, as follows:

Intangible asset	Estimated useful lives
IPR&D	5 – 10 years
Customer Relationships	18 years
Technology	15 – 20 years

Goodwill arising on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Where an acquired intangible asset is not yet available for use in the manner intended by management, the asset is tested annually for impairment by allocating the assets to the CGUs to which they relate. Amortisation would commence when product candidates underpinned by the intellectual property rights become available for commercial use. Amortisation would be calculated on a straight line basis over the shorter of the remaining useful life of the intellectual property or the estimated sales life of the product candidates.

Expenditure on product development is capitalised as an intangible asset and amortised over the expected useful economic life of the product candidate concerned. Capitalisation commences from the point at which technical feasibility and commercial viability of the product candidate can be demonstrated and the Group is satisfied that it is probable that future economic benefits will result from the product candidate once completed. Capitalisation ceases when the product candidate receives regulatory approval for launch. No such costs have been capitalised to date.

Expenditure on research and development activities that do not meet the above criteria, including ongoing costs associated with acquired intellectual property rights and intellectual property rights generated internally by the Group, is charged to the income statement as incurred. Intellectual property and in-process research and development from acquisitions are recognised as intangible assets at fair value. Any residual excess of consideration over the fair value of net assets in an acquisition is recognised as goodwill in the financial statements.

Computer Software
Expenditure on software costs are capitalised as an intangible asset and amortised over the expected useful economic life of the software. Until such an asset is fully developed, the costs are capitalised and classified within intangibles assets as 'Software in development'. These costs are not amortised until the software has been fully developed and operational, at which point the total cost of the software development is amortised over its estimated useful life.

Inventories
Inventories are valued at the lower of the acquisition cost and the net realisable value. The FIFO (first in, first out) principle is used to calculate the value of inventories. Inventories mainly comprise products for sale and stocks of components for the service activities in Sweden and the US. The acquisition value comprises all expenses for purchases. The net realisable value is the expected sale price less expected costs for preparation and selling.

Impairment of non-financial assets
Assets that have an indefinite useful life, for example goodwill or intangible assets not ready for use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Charges or credits for impairment are passed through the income statement.

Property, plant and equipment
Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of replaced parts is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight line method to allocate the cost of assets over their estimated useful lives, as follows:

Property, plant and equipment	Depreciation rate
Leasehold improvements	Over the life of the unbreakable portion of the lease
Plant and equipment	10% - 33%
Fixtures and fittings	20%

Individually significant tangible assets that are intended to be held by the Group for use in the production or supply of goods and services or for administrative purposes and that are expected to provide economic benefit for more than one year are capitalised. All other assets of insignificant value are charged to the income statement in the year of acquisition.

Costs incurred relating to an asset that is not yet complete are capitalised and held as Assets under construction until they are brought into use. The asset is then transferred to the appropriate asset class and depreciated in line with the policy above.

Trade and other receivables
Trade receivables are carried at original invoice amount less any provisions for doubtful debts. Provisions are made where there is evidence of a risk of non-payment, taking into account ageing, previous experience and general economic conditions. When a trade receivable is determined to be un-collectable, it is written off, firstly against any provision available and then to the income statement. Subsequent recoveries of amounts previously provided for are credited to the income statement. Other receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment. A provision for impairment of other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Trade payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are initially recognised at fair value and subsequently held at amortised cost. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Cash and cash equivalents
In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held on call with banks, and other short-term highly liquid investments with original maturities of three months or less from the date of original investment.

Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Employee benefit costs
The Group makes contributions to defined contribution personal pension schemes for its Directors and employees. The pension cost charge recognised in the year represents amounts payable by the Group to the funds. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Share based payments
The Group operates a number of equity-settled, share based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including the effect of any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity financial statements.

The Group's employees participate in various share option schemes as disclosed in note 24. Equity settled share based payments are measured at fair value at the date of grant and expensed on a straight line basis over the vesting period of the award. At the end of each reporting period the Group revises its estimate of the number of options that are expected to become exercisable. The financial consequences of revisions to the original estimates, if any, are recognised in the statement of comprehensive income, with a corresponding adjustment to equity.

The fair value of share options is measured using either the Black Scholes option pricing model or the Monte Carlo Simulation. This is dependent on the conditions attached to each of the issued options. Where conditions are non-market based the Black Scholes option pricing model is used. Where market based conditions are attached to options, the fair value is determined using the Monte Carlo Simulation.

Other employee benefits
The expected cost of compensated short-term absence (e.g. holidays) is recognised when employees render services that increased their entitlement. An accrual is made for holidays earned but not taken, and prepayments recognised for holidays taken in excess of days earned.

Revenue
Revenue comprises the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax and trade discounts and after elimination of intra-Group sales. Income is reported as follows:

Sale of goods
The Group sells medical technology equipment that enables inflammation of the airways to be measured as well as consumable items and spare parts. Sales are reported as income when the significant risks and benefits have transferred to the buyer and the seller no longer has any significant control over the goods. The Group provides 12 month guarantees for certain products and includes a provision for estimated future claims.

Licence income
Technology and product licensing revenue represents amounts earned for licences granted under licensing agreements, including up-front payments, milestone payments and technology access fees. Revenues are recognised when this income becomes non-refundable under the terms of the licence and where the Group's obligations related to the revenues have been completed. Refundable licensing revenue is treated as deferred until such time that it is no longer refundable. In general, up-front payments are deferred and amortised in line with the period of development. Milestone payments relating to defined project achievements are recognised as income when the milestone is accomplished.

Royalty revenue is recognised on an accrued basis and represents income earned as a percentage of product sales in accordance with the relevant agreement net of any amounts contractually payable to others under the terms of the relevant royalty agreement.

Foreign currency translation
Monetary assets and liabilities in foreign currencies are translated into Sterling at the rates of exchange ruling at the end of the financial year. Transactions in foreign currencies are translated into Sterling at the rates of exchange ruling at the date of the transaction. Foreign exchange differences are taken to the statement of comprehensive income in the year in which they arise and presented within 'Finance costs or income'.

Foreign exchange differences on translation of foreign operations into the Group presentational currency, are recognised as a separate element of other comprehensive income. Cumulative exchange differences are presented in a separate component of equity entitled Translation reserve.

Taxation including deferred tax
The charge for current tax is based on the results for the year, adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted at the end of each reporting period.

The Group is entitled to claim tax credits in the United Kingdom for certain research and development expenditure. The amount included in the financial statements at the year end represents the credit receivable by the Group for the year and adjustments to prior years.

Deferred tax is accounted for using the liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the average tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

2. Financial and capital risk management

Capital risk management
The Group's objectives when managing capital are to safeguard the ability to continue as a going concern and ensure that sufficient capital is in place to fund the Group's research activities. The Group's principal method of adjusting the capital available is through issuing new shares. During the year, the Company issued 95,469,537 Ordinary shares which funded the acquisitions of Aerocrine and Prosonix. The shares were offered at 288.05p each, raising gross proceeds of £275.0 million. The Group's capital is comprised of share capital and share premium, which are disclosed in notes 23 and 25 respectively. The Group monitors the availability of capital with regard to its forecast future expenditure on an ongoing basis.

Transaction and translation risk
Foreign exchange fluctuations may adversely affect the Group's results and financial condition. The Group prepares its financial statements in pound sterling, but a significant proportion of its expenditure and subsidiary results are in various currencies including US dollars, Swedish krona, Canadian dollars, Swiss francs and Euros. The Group does not currently hedge against translation risk.

Financial risk factors
The Group's simple structure and the lack of external debt financing reduces the range of financial risks to which it is exposed. Monitoring of financial risk is part of the Board's ongoing risk management, the effectiveness of which is reviewed annually. The Group's agreed policies are implemented by the Chief Executive Officer, who submits periodic reports to the Board.

Foreign exchange risk
The majority of operating costs are denominated in Sterling, United States dollars, Canadian dollars, Euro, Swiss francs or Swedish krona. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

In relation to foreign currency risk, the Group's policy is to hold the majority of its funds in Sterling, and to use short-medium term currency purchase options (including spot purchases and forward contracts) and interest-bearing foreign currency deposits to manage short-medium term fluctuations in exchange rates.

The Group sometimes uses short-term currency purchase options and interest-bearing deposits of Swiss francs and Euros to manage short-term fluctuations in exchange rates. The Group uses foreign currency forward contracts to manage medium term fluctuations in Swedish krona, Canadian and United States dollars exchange rates.

At 31 December 2015, if the Euro had weakened/strengthened by 5% against Sterling with all other variables held constant, the post tax loss for the year would have been £0.5 million (2014: £nil) lower/higher, as a result of net foreign exchange gains/losses on translation of Euro-denominated payables, receivables and foreign exchange losses/gains on translation of Euro-denominated bank balances.

The impact on post tax loss at 31 December 2015 of a 5% weakening/strengthening of the US dollar against Sterling with all other variables held constant would have been a decrease/increase of £1.3 million (2014: £nil).

The impact on post tax loss at 31 December 2015 of a 5% weakening/strengthening of the Canadian dollar against Sterling with all other variables held constant would have been a decrease/increase of £0.4 million (2014: £nil).

The impact on post tax loss at 31 December 2015 of a 5% weakening/strengthening of the Swiss franc against Sterling with all other variables held constant would have been a decrease/increase of £0.4 million (2014: £nil).

The impact on post tax loss at 31 December 2015 of a 5% weakening/strengthening of the Swedish krona against Sterling with all other variables held constant would have been a decrease/increase of £1.1 million (2014: £nil).

The change in foreign exchange rates that is assessed to be reasonably likely for each currency in 2015 is 5%.

The Group is also exposed to currency translation risk in respect of the foreign currency denominated assets and liabilities of its overseas subsidiaries. At present, the Group does not consider this to be a significant risk since the Group does not intend to move assets between Group companies.

Interest rate risk
The Group's policy in relation to interest rate risk is to monitor short and medium term interest rates and to place cash on deposit for periods that optimise the amount of interest earned while maintaining access to sufficient funds to meet day to day cash requirements.

The Group does not have any committed external borrowing facilities, as its cash and cash equivalents and short-term deposit balances are sufficient to finance its current operations. Consequently, there is no material exposure to interest rate risk in respect of interest payable.

If interest rates had been 10 basis points higher/lower the impact on net loss in 2015 would have been an increase/decrease of £0.2 million (2014: £0.2 million) due to changes in the amount of interest receivable.

Credit risks

The Group's policy following Admission to the London Stock Exchange is to place funds with financial institutions which have a minimum credit rating with Fitch IBCA of A- long term / F1 short-term. During 2015 the Group placed funds on deposit with 10 banks (2014: 12 banks). The Group does not allocate a quota to individual institutions but seeks to diversify its investments, where this is consistent with achieving competitive rates of return. It is the Group's policy to place not more than £35 million (or the equivalent in other currencies) with any one counterparty.

The value of financial instruments held represents the maximum exposure that the Group has to them. There is no collateral held for this type of credit risk.

No credit limits were exceeded during any of the periods reported, and management does not expect any material losses from non-performance by these counterparties.

Cash flow and liquidity risk

Funds are generally placed on deposit with the maturity profile of investments being structured to ensure that sufficient liquid funds are available to meet operating requirements. The Directors do not consider that there is presently a material cash flow or liquidity risk.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. There were no financial liabilities outstanding for periods greater than one year. The amounts disclosed in the table are the contracted undiscounted cash flows:

At 31 December	Less than 1 year 2015 £m	Less than 1 year 2014 £m
Trade and other payables	48.3	9.7
Total	**48.3**	9.7

Derivative financial instruments and hedging

There were no derivatives at 31 December 2015 or 31 December 2014.

3. Operating segments

The chief operating decision-maker (the Executive Directors) are responsible for making key operating decisions in the Group. Assessment of performance and decisions regarding the allocation of resources are made by operating segment.

The table below presents information regarding the Group's operating segments for the year ended 31 December 2015. The group had one single operating segment in the year ended 31 December 2014.

Allergy relates to a range of immunotherapy development products for the treatment of allergy. NIOX® relates to the portfolio of products used to improve asthma diagnosis and management by measuring fractional exhaled nitric oxide (FeNO) and Respiratory relates to the portfolio of asthma and chronic obstructive pulmonary disease product candidates.

Segment operating loss	Allergy £m	NIOX® £m	Respiratory £m	Total £m
Revenue (from external customers by country, based on the destination of the customer)				
US	–	3.6	0.3	3.9
EU	–	3.9	0.2	4.1
Other countries	–	2.8	–	2.8
Total segment revenue	**–**	**10.3**	**0.5**	**10.8**
Research and development	(37.3)	(2.0)	(5.5)	(44.8)
Sales and marketing	(5.2)	(7.5)	–	(12.7)
Administrative expenses	(10.6)	(2.2)	(0.9)	(13.7)
Depreciation and amortisation[1]	(0.1)	(2.2)	(0.6)	(2.9)
Other	1.1	(4.1)	(0.1)	(3.1)
Operating loss	**(52.1)**	**(7.7)**	**(6.6)**	**(66.4)**

[1] Depreciation and amortisation is included on the face of the statement of comprehensive income within 'Research and development costs' and 'Sales and marketing'

Assets by segment	Allergy £m	NIOX® £m	Respiratory £m	Unallocated £m	Total £m
Cash, cash equivalents and short term deposits	200.4	0.4	3.0	–	203.8
Property, plant and equipment	–	–	–	1.3	1.3
Goodwill	72.1	4.7	4.4	–	81.2
Intangible assets	0.4	57.7	107.5	–	165.6
Deferred tax assets	–	–	–	17.2	17.2
Investment in joint venture	–	–	–	0.2	0.2
Inventories	–	–	–	3.0	3.0
Trade and other receivables	–	–	–	5.1	5.1
Current tax assets	–	–	–	11.8	11.8
Total assets	**272.9**	**62.8**	**114.9**	**38.6**	**489.2**

4. Revenue

The Group derives the following types of revenue:

	2015 £m	2014 £m
Sale of goods	**10.3**	–
Licence and milestone revenue	**0.5**	–
Total revenue	**10.8**	–

5. Employees and directors

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

By activity	2015 Number	2014 Number
Office and management	**49**	15
Sales and marketing	**72**	–
Research and development	**83**	34
Total average headcount	**204**	49

The average number of administration staff employed by the Company during the year, including Executive Directors was 2 (2014: 2).

Employee benefit costs	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Wages and salaries	**13.2**	6.1	**1.5**	1.8
Social security costs	**2.2**	0.8	**0.1**	0.2
Other pension costs	**0.5**	0.4	**0.1**	0.1
Share options expense	**2.7**	1.2	**–**	–
Total employee benefit costs	**18.6**	8.5	**1.7**	2.1

The Group contributes to defined contribution pension schemes for its Executive Directors and employees. Contributions of £52,979 (included in other payables) were payable to the funds at the year end (2014: £29,876).

The details of Directors of the Group who received emoluments from the Group during the year are shown in the Annual report on remuneration in the Remuneration Committee report.

Key management personnel
Key management includes Directors (Executive and Non-executive), the VP of Commercial Operations (leave date 8 April 2015), the Chief Commercial Officer, the General Counsel, VP of Human Resources and the Chief Business Officer (start date 16 June 2015). The compensation paid or payable to key management is set out below.

	2015 £m	2014 £m
Short term employee benefits (including bonus)	**3.4**	3.3
Post-employment benefits	**0.2**	0.2
Share based payment	**1.1**	0.8
Total	**4.7**	4.3

6. Finance income

	2015 £m	2014 £m
Finance income:		
Bank interest receivable	**1.7**	1.7
Net gain on foreign exchange	**1.8**	0.2
Total finance income	**3.5**	1.9

7. Operating expenses

Operating loss is stated after charging the following:

	2015 £m	2014 £m
Employee benefit costs (note 5)	**18.6**	8.5
Externally contracted research & development	**36.4**	33.4
Legal and professional fees including patent costs	**6.8**	1.8
Depreciation[1]	**0.5**	–
Amortisation[1]	**2.4**	–
Operating lease	**0.8**	0.3

[1] Depreciation and amortisation is included on the face of the statement of comprehensive income within 'Research and development costs' and 'Sales and marketing'

8. Auditor's remuneration

Services provided by the Group's auditor and its associates

During the year the Group obtained services from the auditor as detailed below:

	2015 £m	2014 £m
Fees payable to the Group's auditor and its associates for the audit of the parent company and consolidated financial statements	**0.2**	0.1
Fees payable to the Group's auditor and its associates for other services:		
The audit of the Company's subsidiaries	**0.1**	–
Other assurance services[1]	**0.2**	0.2
Total	**0.5**	0.3

[1] Other assurance services in 2015 relate to services performed in respect of the acquisition of Aerocrine and Prosonix. These costs were offset against the share premium reserve.

9. Other gains

	2015 £m	2014 £m
Forward contract foreign exchange gain	**1.1**	–

10. Taxation

The Group is entitled to claim tax credits in the United Kingdom for certain research and development expenditure. The amount included in the financial statements for the years ended 31 December 2015 and 2014 represents the credit receivable by the Group for the year and adjustments to prior years. The 2015 amounts have not yet been agreed with the relevant tax authorities.

	2015 £m	2014 £m
United Kingdom corporation tax research and development credit	**(10.3)**	(8.8)
Adjustments in respect of prior year	**(0.3)**	(0.1)
Movement in deferred tax	**(2.2)**	–
Total tax	**(12.8)**	(8.9)

The tax credit for the year is higher (2014: lower) than the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%). The differences are explained below:

	2015 £m	2014 £m
Loss on ordinary activities before tax	**(62.8)**	(44.0)
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%)	**(12.7)**	(9.5)
Expenses not deductible for tax purposes (permanent differences)	**0.8**	(1.0)
Research & development relief uplift	**(4.0)**	(2.4)
Utilisation of losses not previously recognised	**(0.2)**	–
Adjustments in respect of prior year	**(0.3)**	(0.1)
Tax losses for which no deferred income tax asset was recognised	**3.6**	4.1
Current tax credit for the year	**(12.8)**	(8.9)

At 31 December 2015, the Group had tax losses to be carried forward of approximately £223.3 million (2014: £76.4 million).

At 31 December 2015, the Group has current tax assets arising from tax credits in the United Kingdom for certain research and development expenditure of £11.8 million (2014: £8.8 million).

A reduction in the rate of UK corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020 has been substantively enacted. UK deferred tax assets and liabilities are recognised at a rate of 18% (2014: 20%).

11. Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary equity holders of the Company by the weighted average number of Ordinary shares in issue during the year.

	2015	2014
Loss from continuing operations attributable to ordinary equity owners of the parent company (£m)	**(49.9)**	(35.1)
Weighted average number of Ordinary shares in issue (Number)	**249,578,520**	169,118,824
Loss per share	**£(0.20)**	£(0.21)

As net losses from continuing operations were recorded in 2015 and 2014, the dilutive potential shares are anti-dilutive for the earnings per share calculation.

12. Property, plant and equipment

Group	Leasehold improvements £m	Fixtures and fittings £m	Plant and machinery £m	Assets under construction £m	Total property, plant and equipment £m
At 1 January 2014					
Cost	–	–	–	–	–
Accumulated depreciation	–	–	–	–	–
Net book amount	**–**	**–**	**–**	**–**	**–**
Year ended 31 December 2014					
Opening net book amount	–	–	–	–	–
Additions	0.3	–	–	–	0.3
Depreciation	–	–	–	–	–
Closing net book amount	**0.3**	**–**	**–**	**–**	**0.3**
At 31 December 2014					
Cost	0.3	–	–	–	0.3
Accumulated depreciation	–	–	–	–	–
Net book amount	**0.3**	**–**	**–**	**–**	**0.3**
Year ended 31 December 2015					
Opening net book amount	0.3	–	–	–	0.3
Acquisition of subsidiaries (note 33)	0.2	0.1	0.5	0.5	1.3
Additions	–	–	0.1	0.1	0.2
Depreciation	(0.2)	–	(0.3)	–	(0.5)
Transfers	–	–	0.6	(0.6)	–
Closing net book amount	**0.3**	**0.1**	**0.9**	**–**	**1.3**
At 31 December 2015					
Cost	0.5	0.1	1.2	–	1.8
Accumulated depreciation	(0.2)	–	(0.3)	–	(0.5)
Net book amount	**0.3**	**0.1**	**0.9**	**–**	**1.3**

13. Goodwill

	£m
At 1 January 2014 and 31 December 2014	
Cost	1.8
Accumulated impairment	–
Net book amount	**1.8**
Year ended 31 December 2015	
Opening net book amount	1.8
Acquisition of businesses (note 33)	77.2
Exchange differences	2.2
Closing net book amount	**81.2**
At 31 December 2015	
Cost	81.2
Accumulated impairment	–
Net book amount	**81.2**

During 2015, Circassia completed the acquisition of two businesses, resulting in the recognition of £77.2 million of goodwill. The majority of this goodwill related to the acquisition of Aerocrine AB. This goodwill was allocated to the Aerocrine and Circassia cash generating units (CGUs) for impairment testing purposes as the benefits of the Aerocrine acquisition are split between these CGUs. The goodwill recognised on the acquisition of Prosonix Limited has been allocated to Prosonix Limited, being the CGU for impairment testing purposes.

The goodwill in 2014 arose on the purchase of 100% of the share capital of Circassia Limited from Imperial Innovations Businesses LLP on 17 July 2006. The goodwill represents the excess of cost over the fair value of assets acquired.

The carrying value of goodwill, translated at year end exchange rates, is allocated to the following CGUs:

Cash generating unit	2015 £m	2014 £m
Circassia	**72.1**	1.8
Aerocrine	**4.7**	–
Prosonix	**4.4**	–
	81.2	1.8

The recoverable amounts of the CGUs are assessed using a value in use model. Value in use is calculated as the net present value of the projected risk-adjusted pre-tax cash flows plus a terminal value of the CGU to which the goodwill is allocated.

The goodwill arising on Aerocrine is attributable to the benefit of having an established sales force with future customer relationships. A large element of the advantages of having an established sales force will accrue to the Circassia business as its products can be cross sold to the same customers by this sales force. The acquisition of Aerocrine was based on a strategic benefit to Circassia in leveraging the existing sales force within the business to generate future sales within Circassia. Goodwill has been allocated based on the proportion of discounted cash flows attributable to each CGU. For this reason, 94% of the goodwill acquired on acquisition of Aerocrine has been allocated to the Circassia CGU.

The value in use for Aerocrine and Circassia was calculated over a nine year period using a discount factor of 10% (being a weighted average cost of capital rate for the Group used by some analysts covering the Group). The calculations use pre-tax cash flow projections. In light of the stage of development of the product candidates these cover a nine year period. Cash flows beyond the nine year period were extrapolated using the estimated terminal growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business. The discount rate used is pre-tax and reflects specific risks relating to the Group and uncertainties surrounding the cash flow projections, particularly in relation to the assumed successful launch of the Group's products in the expected timeframe and the resulting sales.

The key assumptions used for the value in use calculations for Circassia, Aerocrine and Prosonix are as follows:

Anticipated launch dates	Group product candidate portfolio 2016 - 2025.
Research and development costs	Based on management forecasts of clinical study costs for its product candidates, as well as related expenses associated with the regulatory approval process and commercialisation.
Sales value, volume and growth rates	Estimates of sales value, volume and growth rates are internal forecasts based on both internal and external market information and market research commissioned by the Company.
Advertising and promotion investment	Based on management forecasts of advertising and promotion required in the key territories.
Profit margins	Margins reflect management's forecasts of sales values and costs of manufacture adjusted for its expectations of market developments.
Period of specified projected cash flows	9 years.
Terminal growth rate	Terminal growth rates based on management's estimate of future long-term average growth rate: 2015 1% 2014 0%
Discount rate	Discount rates based on Group weighted average cost of capital, adjusted where appropriate. The discount factor in 2015 has been adjusted to reflect the change in the risk profile of the business following the acquisitions made during the year: 2015 10% 2014 20%

In each case the valuations indicate sufficient headroom such that a change to key assumptions that are reasonably possible is unlikely to result in an impairment of the related goodwill.

Impact of possible changes in key assumptions

Delayed launch of key product candidate in Prosonix

Management have in their sensitivity analysis assessed the impact of the possibility that the launch of one of the key product candidates in the Prosonix CGU is delayed by a year.

Reduced annual growth rates in Aerocrine

Management have in their sensitivity analysis assessed the impact of a reduced Compound Annual Growth Rate (CAGR) in Aerocrine.

Product failure in late stage clinical trials

Management have in their sensitivity analysis assessed the impact of a lead product failure in late stage clinical trials including failure of cat immunotherapy.

The Directors and management have considered and assessed reasonably possible changes for other key assumptions and have not identified any instances that could cause the carrying amount of the above CGUs to exceed their recoverable amount, with the exception of lead product failure in late stage clinical trials, which would be likely to result in lower than forecast sales and costs in the Circassia and/or Prosonix CGUs such that goodwill would be impaired.

14. Intangible assets

Group	IPR&D £m	Customer relationships £m	Technology £m	Other £m	Total intangible assets £m
At 1 January 2014 and 31 December 2014					
Cost	–	–	–	0.5	0.5
Accumulated amortisation and impairment	–	–	–	(0.3)	(0.3)
Net book amount	**–**	**–**	**–**	**0.2**	**0.2**
Year ended 31 December 2014:					
Opening and closing net book amount	–	–	–	0.2	0.2
Year ended 31 December 2015:					
Opening net book amount	–	–	–	0.2	0.2
Acquisition of businesses (note 33)	88.9	29.9	46.0	1.2	166.0
Additions	–	–	–	0.1	0.1
Amortisation charge	–	(0.9)	(0.9)	(0.6)	(2.4)
Exchange differences	–	0.9	0.8	–	1.7
Closing net book amount	**88.9**	**29.9**	**45.9**	**0.9**	**165.6**
At 31 December 2015					
Cost	88.9	30.8	46.8	1.8	168.3
Accumulated amortisation and impairment	–	(0.9)	(0.9)	(0.9)	(2.7)
Net book amount	**88.9**	**29.9**	**45.9**	**0.9**	**165.6**

An impairment test is performed annually based on the value in use of the intangible assets.

The Group tests annually whether goodwill and intangible assets have suffered any impairment and tests more frequently when events or circumstances indicate that the current carrying value may not be recoverable. No such adverse events or circumstances have arisen in the year. Key assumptions and sensitivities used in the impairment review are disclosed in note 13.

In-Process Research & Development (IPR&D)

IPR&D comprise a portfolio of asthma and chronic obstructive pulmonary disease product candidates still in development. Note 33 'Business combinations' gives details of additions through business combinations in the year.

The IPR&D has been initially valued using the Excess Earnings Method. This valuation method is based on discounting the cash flows that are attributable to the intangible asset, after taking into account the contribution of other assets. IPR&D assets are tested for impairment on the same basis.

Customer relationships

Customer relationships represent the existing customers, as at the date of acquisition that are expected to continue to support the business. A remaining useful life of 18 years was determined at acquisition. Amortisation has been calculated on a straight line basis over this period from the date of acquisition.

Technology

Prosonix achieves a sophisticated level of control over the physicochemical properties of drug particles via an integrated platform of unique and proprietary particle engineering technologies and formulation processes. The Relief from Royalty Method was used to determine the fair value of the acquired Technology. In the Relief from Royalty Method, estimates of the value of these types of intangible assets are made by capitalising the royalties saved because the company owns the intangible asset. A remaining useful life of 20 years was determined at acquisition and amortisation will commence when the products underpinned by this technology become available for commercial use. A value in use model is used in testing for impairment.

Aerocrine has been developing its technology to measure fractional exhaled nitric oxide ("FeNO") since the mid-1990s. The Company was the first to develop an instrument for the measurement of FeNO and is continuously developing the measurement of FeNO as a valuable tool in the management of airway inflammation. The valuation of the Technology was based on pre-determined hypothetical royalty rate attributable to the use of the Technology. The estimated remaining useful life of the Technology is 15 years. Amortisation has been calculated on a straight line basis over this period from the date of acquisition.

Other

Other intangible assets relate to licences and software in development. The software in development relates to the development of a new financial reporting software platform that was not complete at the year end. Once this is complete and the system fully operational, it will be amortised over the determined useful economic life.

15. Investments in subsidiaries

	2015 £m	2014 £m
Investments in subsidiaries at 1 January	**3.0**	1.8
Investment in Prosonix Limited	**100.3**	–
Investment in Aerocrine AB	**136.9**	–
Equity settled instruments granted to employees of subsidiaries	**2.4**	1.2
Investments in subsidiaries at 31 December	**242.6**	3.0

The capital contribution relating to share based payment is for 5,532,518 (2014: 3,165,857) 0.08p share options granted by the Company to employees of subsidiary undertakings in the Group. Further details on the Group's share option schemes can be found in note 24.

Details of the Company's related entities are provided below. All subsidiaries are included in the consolidation and the Directors believe that the fair value of the investment in all subsidiaries exceeds their carrying values.

Name	Country of Incorporation	Nature of business	Proportion of Ordinary shares held
Adiga Life Sciences	Canada	Pharmaceutical research	50%
Circassia Limited	UK	Pharmaceutical research	100%
Circassia Pharma Limited	UK	Pharmaceutical research	100%
Circassia Pharmaceuticals Inc	USA	Pharmaceutical research	100%
Prosonix Limited	UK	Pharmaceutical research	100%
Aerocrine AB	Sweden	Development and sale of devices for management of asthma	97.9%
Aerocrine Inc	USA	Development and sale of devices for management of asthma	97.9%
Aerocrine GmbH	Switzerland	Sale of devices for management of asthma	97.9%
Aerocrine AG	Germany	Sale of devices for management of asthma	97.9%
Aerocrine Limited	UK	Sale of devices for management of asthma	97.9%

16. Investment in joint venture

	2015 £m	2014 £m
At 1 January	**0.1**	0.2
Share of profit/(loss)	**0.1**	(0.1)
At 31 December	**0.2**	0.1

Nature of investment in joint venture 2015 and 2014

Name of entity	Place of business/ country of Incorporation	% of ownership interest	Nature of the relationship	Measurement method
Adiga Life Sciences	Canada	50	Note 1	Equity

Note 1
Adiga Life Sciences ("Adiga") is a joint venture with McMaster University in Canada for early epitope and mechanistic clinical studies. Adiga is a private company and there is no quoted market price available for its shares.

There are no contingent liabilities or commitments relating to the Group's interest in the joint venture.

Summarised financial information for joint venture
Set out below is the summarised financial information for Adiga which is accounted for using the equity method.

Summarised statement of financial position at 31 December	2015 £m	2014 £m
Current assets		
Trade and other receivables	**1.2**	0.1
Cash	**0.2**	0.7
	1.4	0.8
Current liabilities		
Trade payables	**(0.9)**	(0.5)
Other payables	**(0.1)**	(0.1)
	(1.0)	(0.6)
Net assets	**0.4**	0.2

Summarised statement of comprehensive income for the year ended 31 December	2015 £m	2014 £m
Revenue	**2.3**	4.9
Research & development costs	**(2.6)**	(5.9)
Administration expense	**(0.2)**	-
Loss from continuing operations	**(0.5)**	(1.0)
Income tax income	**0.7**	0.8
Post tax profit/(loss) from continuing operations	**0.2**	(0.2)
Total comprehensive income/(expense)	**0.2**	(0.2)

The information above reflects the amounts presented in the financial statements of the joint venture adjusted for differences in accounting policies between the Group and the joint venture (and not Circassia Pharmaceuticals plc's share of those amounts).

Reconciliation of summarised financial information
Reconciliation of the summarised financial information presented to the carrying amount of the Company's interest in the joint venture.

Summarised financial information	2015 £m	2014 £m
Opening net assets 1 January	**0.2**	0.4
Profit/(loss) for the year	**0.2**	(0.2)
Other comprehensive income/(expense)	**–**	–
Closing net assets	**0.4**	0.2
Interest in joint venture @ 50%	**0.2**	0.1
Carrying value	**0.2**	0.1

17. Inventories

	2015 £m	2014 £m
Finished goods	**3.0**	–

Inventories recognised as an expense during the year ended 31 December 2015 amounted to £3.6 million (2014: £nil). These were included in 'Cost of sales'.

Write-down of inventories to net realisable value amounted to £0.5 million (2014: £nil). These were recognised as an expense during the year ended 31 December 2015 and included in 'Cost of sales'.

18. Trade and other receivables

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Trade receivables	**3.0**	–	**–**	–
Other receivables	**1.4**	0.7	**0.3**	–
Prepayments and accrued interest	**0.7**	2.0	**0.2**	1.5
Receivables from subsidiary undertakings	**–**	–	**184.5**	121.0
Total trade and other receivables	**5.1**	2.7	**185.0**	122.5

The fair value of other receivables are their current book values. Included within receivables is £0.3 million (2014: £nil) of trade receivables that were past due at the end of the reporting period but have not been impaired.

Receivables from subsidiary undertakings are amounts provided by the Company to its subsidiaries in order to undertake studies. The receivable is unsecured, interest free and has no fixed date of repayment. Recoverability of the amount is dependent on the success of those studies.

The carrying amounts of the Group and Company receivables, excluding prepayments and recoverable taxes, are denominated in the following currencies:

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
UK pound	**0.4**	1.5	**176.2**	122.5
United States dollar	**1.4**	–	**4.8**	–
Swedish krona	**0.9**	–	**2.0**	–
Euro	**1.1**	–	**2.0**	–
	3.8	1.5	**185.0**	122.5

19. Cash and cash equivalents and short-term bank deposits

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Short-term bank deposit, with original maturity:				
More than 3 months	**37.8**	156.9	**37.8**	156.9
Total short-term bank deposits	**37.8**	156.9	**37.8**	156.9
Cash and cash equivalents:				
Cash at bank and in hand	**166.0**	29.7	**130.7**	18.8
Total cash and cash equivalents	**166.0**	29.7	**130.7**	18.8

The Group and Company cash and cash equivalents and short-term deposits are held with institutions with the following Fitch IBCA long term rating:

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
AA-	**33.1**	51.5	**0.5**	40.6
A+	**72.7**	35.0	**70.0**	35.0
A	**90.7**	92.1	**90.7**	92.0
A-	**7.3**	8.0	**7.3**	8.1
	203.8	186.6	**168.5**	175.7

The Group and Company cash and cash equivalents and short-term deposits are held in the following currencies at 31 December:

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
UK pound	**138.3**	157.9	**135.5**	154.5
United States dollar	**22.2**	11.7	**20.5**	11.3
Canadian dollar	**8.5**	9.5	**7.3**	8.0
Euro	**7.5**	2.0	**5.2**	1.9
Swiss franc	**7.1**	5.5	**–**	–
Swedish krona	**20.2**	–	**–**	–
	203.8	186.6	**168.5**	175.7

20. Trade and other payables

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Trade payables	**5.1**	2.7	**0.1**	0.3
Social security and other taxes	**0.3**	0.2	**–**	–
Accruals	**12.0**	6.8	**0.1**	0.3
Other payables	**0.9**	–	**–**	–
Contingent consideration[1]	**30.0**	–	**30.0**	–
Total trade and other payables	**48.3**	9.7	**30.2**	0.6

[1] Details regarding the contingent consideration are disclosed in note 33. The contingent consideration arrangement requires the Group to pay the former owners of Prosonix Limited £30.0 million upon the Company receiving a product marketing authorisation in respect of Prosonix Limited's lead product in the United Kingdom on or before 31 December 2016 or £15.0 million on or before 31 December 2017. UK marketing approval was received during the year and the contingent consideration of £30.0 million was paid on 6 January 2016. The fair value of the contingent consideration is therefore considered to be equal to its book value and is no longer contingent.

21. Financial instruments

The Group's financial instruments comprise cash and cash equivalents, short-term bank deposits, trade and other receivables, trade and other payables and contingent consideration. Additional disclosures are set out in the accounting policies relating to financial and capital risk management (note 2).

The Group had the following financial instruments at 31 December each year:

Assets	2015 £m	2014 £m
Cash and cash equivalents	**166.0**	29.7
Short-term bank deposits	**37.8**	156.9
Trade and other receivables	**3.8**	1.5
Loans and receivables	**207.6**	188.1

Liabilities	2015 £m	2014 £m
Trade and other payables – current	**47.5**	9.7
Financial liabilities at amortised cost	**47.5**	9.7

The Company had the following financial instruments at 31 December each year

Assets	2015 £m	2014 £m
Cash and cash equivalents	**130.7**	18.8
Short-term bank deposits	**37.8**	156.9
Other receivables	**0.5**	1.5
Receivable from subsidiary undertaking	**184.5**	121.0
Loans and receivables	**353.5**	298.2

Liabilities	2015 £m	2014 £m
Trade and other payables – current	**30.2**	0.6
Financial liabilities at amortised cost	**30.2**	0.6

Cash balances comprise floating rate instant access deposits earning interest at prevailing bank rates.
Short-term deposits earn interest at fixed rates.

In accordance with IAS 39 'Financial Instruments Recognition and Measurement' the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. There were no such derivatives identified at 31 December 2015 or 31 December 2014.

Fair value

The Directors consider that the fair values of the Group's financial instruments do not differ significantly from their book values.

22. Deferred taxation

	Intangibles £m	Tax losses £m	Net deferred tax liability £m
As at 1 January	–	–	–
Acquisitions	34.0	(17.8)	16.2
Change in rate	(2.2)	0.5	(1.7)
(Credit)/charge to the income statement	(0.6)	0.1	(0.5)
As at 31 December 2015	**31.2**	**(17.2)**	**14.0**

On acquisition of Aerocrine AB and Prosonix Limited, the Group recognised a net deferred tax liability of £16.2 million, comprising a deferred tax liability of £34.0 million, offset by a deferred tax asset arising in the same jurisdictions of £17.8 million.

	2015 £m	2014 £m
Deferred tax liabilities	**31.2**	–
Deferred tax assets	**(17.2)**	–
Total deferred tax position	**14.0**	–

The Group has the following unrecognised potential deferred tax assets as at 31 December:

	2015 £m	2014 £m
Losses	**40.2**	15.4
Accelerated capital allowances	**0.5**	–
Share based payments and provisions	**1.7**	1.3
Total unrecognised deferred tax asset	**42.4**	16.7

23. Share capital

Authorised, called up and fully paid	2015 £m	2014 £m
284,889,171 (2014: 189,419,634) Ordinary shares of 0.08p each	**0.2**	0.2

On 11 June 2015, the Company issued 95,469,537 Ordinary shares which funded the acquisitions of Aerocrine and Prosonix. The shares were offered at 288.05p each, raising gross proceeds of £275.0 million.

Deal costs relating to the acquisitions and the share issue were £12.8 million, of which £8.8 million was offset against the Share Premium Account and £4.0 million of indirect Admission costs were included in the income statement.

24. Share based payments

Share options

Options have been awarded under the Circassia PSP Share Option Scheme ("the PSP Scheme"), the Circassia EMI Share Option Scheme ("the EMI Scheme") and the Circassia Unapproved Share Option Scheme ("the Unapproved Scheme").

The share options outstanding can be summarised as follows:

	2015 Number of Ordinary shares ('000)	2014 Number of Ordinary shares ('000)
PSP Scheme[i]	**4,336**	1,969
EMI Scheme[ii]	**535**	535
Unapproved Scheme[iii]	**661**	661
	5,532	3,165

The contractual life of all options is 10 years and the options cannot normally be exercised before the third anniversary of the date of grant.

(i) Options granted under the PSP Scheme do not have a fixed exercise price and are subject to additional vesting performance conditions. The performance conditions state that a proportion of an award shall vest subject to the Company Total Shareholder Return (TSR) ranking against the Comparator Index TSR and the remaining shall vest subject to the meeting of certain strategic Company objectives.

(ii) Options granted under the EMI Scheme have a fixed exercise price based on the market price at the date of grant.

(iii) Options granted under the Unapproved Scheme also have a fixed exercise price based on the market price at the date of grant.

The movement in share options outstanding is summarised in the following table:

	2015		2014	
	Number ('000)	Weighted average exercise price (£)	Number ('000)	Weighted average exercise price (£)
Outstanding at 1 January	**3,165**	**0.25**	3,010	0.23
Granted	**2,853**	**0.0008**	2,439	0.23
Expired	**–**	**n/a**	–	n/a
Forfeited	**(486)**	**0.0003**	(420)	1.05
Exercised	**–**	**n/a**	(1,864)	0.0008
Outstanding at 31 December	**5,532**	**0.15**	3,165	0.25
Exercisable at 31 December	**708**	**0.0008**	631	0.0008

The exercise prices of the share options outstanding at the end of the period were £nil, £0.0008 and £2.42 (2014: £nil, £0.0008 and £2.42). The weighted average remaining contractual life of share options outstanding at the end of the period was 8.2 years (2014: 8.7 years).

There were no options exercised during the year.

In the prior year 1.9m shares were exercised. These were issued at a weighted average price of £0.0008 each and the related weighted average share price at the time of exercise was £2.23 per share.

Valuation models
The fair value of PSP share options granted during the period was determined using the Monte Carlo Simulation model and Black Scholes model dependent on the performance vesting conditions.

Black Scholes
There were no options granted during the year that were valued solely using the Black Scholes model. The following weighted average assumptions were used in the Black Scholes model in calculating the fair values of the options granted during the prior year:

	2014
Share price	£3.19
Exercise price	£0.23
Expected volatility	50%
Expected life	10 years
Expected dividends	0%
Risk free interest rate	3%

Monte Carlo Simulation
The following weighted average assumptions were used in the Monte Carlo Simulation model in calculating the fair values of the options granted during the year:

	2015	2014
Exercise price	**£0.0008**	£nil
Expected volatility	**32%**	31%
Expected life	**3 years**	3 years
Expected dividends	**0%**	0%
Risk free interest rate	**1%**	1%

The Monte Carlo Simulation model has been used to value the portion of the awards which have a market performance vesting condition (Total Shareholder Return (TSR)). The model incorporates a discount factor reflecting this performance condition into the fair value of this portion of the award.

The weighted average fair value of options granted during the period determined using the Monte Carlo Simulation model at the grant date was £2.04 per option (2014: £2.19).

For the options valued using the Monte Carlo Simulation, expected volatility is measured by calculating the standard deviation of the natural logarithm of share price movements of comparable companies. This is a standard approach to calculating volatility. The risk free rate of return is the rate of interest obtainable from government securities as at the date of grant (i.e. Gilts in the UK) over the expected term (i.e. three years).

Restricted shares
The Company previously made awards of Ordinary shares to employees and Non-Executive Directors by entering into a form of restricted share agreement with each participant, under which the participant subscribed for or purchased Ordinary shares in the Company at 10p per ordinary share (converted into 0.08p shares post capital reorganisation). These shares are subject to certain restrictions on transfer and forfeiture, as set out in the restricted share agreement. The restrictions lift on the earlier of a sale of the Company and the expiry of a vesting period of between two and three years (depending on the date of award of the restricted shares).

There were 0.6m Ordinary shares of 0.08p (2014: 1.8m Ordinary shares of 0.08p) in issue at 31 December 2015.

Deferred shares
During the year the Group awarded 110,845 (2014: Nil) deferred shares to Executive Directors as part of a deferred bonus for 2014. The shares are held by the Group's Employee Benefit Trust until the third anniversary of the grant date when they will transfer to the Executive Directors so long as they are still an officer or employee of the Group.

Income statement
See note 5 for the total expense recognised in the income statement in respect of the above equity settled instruments granted to Directors and employees.

25. Share premium

Group and Company	2015 £m	2014 £m
At 1 January	**297.9**	103.4
Conversion of loan notes into Ordinary shares	**–**	2.0
Issue of new shares	**274.9**	201.9
Expenses relating to share issue	**(8.8)**	(9.4)
At 31 December	**564.0**	297.9

26. (Accumulated losses)/retained earnings

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
At 1 January	**(108.6)**	(73.5)	**1.2**	0.7
(Loss)/profit for the year	**(49.9)**	(35.1)	**(3.2)**	0.5
At 31 December	**(158.5)**	(108.6)	**(2.0)**	1.2

27. Other reserves

Group	Share option reserve £m	Translation reserve £m	Treasury shares reserve £m	Transactions with non-controlling interests [a] £m	Total other reserves £m
At 1 January 2014	0.1	–	–	–	0.1
Employee share option scheme	1.2	–	–	–	1.2
At 31 December 2014	1.3	–	–	–	1.3
Employee share option scheme	2.7	–	–	–	2.7
Currency translation differences	–	3.1	–	–	3.1
Purchase of own shares (note 32)	–	–	(0.3)	–	(0.3)
Transactions with non-controlling interests	–	–	–	(4.0)	(4.0)
At 31 December 2015	**4.0**	**3.1**	**(0.3)**	**(4.0)**	**2.8**

[a] On 1 July and 4 July 2015, the group acquired an additional 4.6% and 0.7% respectively of the issued shares of Aerocrine AB for SEK94.3 million (£7.2 million). Immediately prior to the purchase, the carrying amount of the existing 7.4% non-controlling interests in Aerocrine AB was £4.5 million. The group recognised a decrease in non-controlling interests of £3.2 million and a decrease in equity attributable to owners of the parent of £4.0 million. The effect on the equity attributable to the owners of Circassia Pharmaceuticals plc during the year is summarised as follows:

	2015 £m
Carrying amount of non-controlling interests acquired	**3.2**
Consideration paid to non-controlling interests	**(7.2)**
Excess of consideration paid recognised in the transactions with non-controlling interests reserve within equity	**(4.0)**

There were no non-controlling interests in 2014.

Company	Share option reserve £m	Total other reserves £m
At 1 January 2014	0.1	0.1
Employee share option scheme	1.2	1.2
At 31 December 2014	1.3	1.3
Employee share option scheme	2.4	2.4
At 31 December 2015	**3.7**	**3.7**

28. Cash used in operations

Reconciliation of (loss)/profit before tax to net cash used in operations

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Continuing operations				
(Loss)/profit before tax	**(62.8)**	(44.0)	**(3.2)**	0.5
Adjustment for:				
Interest income	**(1.7)**	(1.7)	**(1.6)**	(1.7)
Depreciation	**0.5**	–	**–**	–
Amortisation	**2.4**	–	**–**	–
Share of joint venture (profit)/loss	**(0.1)**	0.1	**–**	–
Fair value gain on forward contract	**(1.1)**	–	**–**	–
Share based payment charge	**2.7**	1.2	**–**	–
Foreign exchange on non-operating cash flows	**(1.1)**	(0.5)	**0.1**	(0.7)
Changes in working capital:				
Decrease/(increase) in trade and other receivables	**1.5**	0.1	**(0.3)**	(26.9)
Increase in inventories	**(0.4)**	–	**–**	–
(Decrease)/increase in trade and other payables	**(4.8)**	3.8	**(0.8)**	0.1
Net cash used in operations	**(64.9)**	(41.0)	**(5.8)**	(28.7)

29. Contingent liabilities

There were no contingent liabilities at 31 December 2015 or at 31 December 2014.

30. Operating lease commitments

The total of future minimum lease payments payable under the entity's non-cancellable operating lease for each of the following periods is as follows:

	2015 £m	2014 £m
Due within one year	**1.0**	0.3
Due between one and five years	**0.8**	0.3

The Group leases various offices and warehouses under non-cancellable operating leases expiring within one to five years.

31. Capital commitments

The Group had no capital commitments at 31 December 2015 or at 31 December 2014.

32. Related party transactions

Group

There is no ultimate controlling party of the Group as ownership is split between the Company's shareholders. The most significant shareholders as at 31 December 2015 are as follows: Invesco Asset Management (35.13% of total voting rights); Woodford Investment Management (15.98% of total voting rights); Oppenheimer Funds Inc (10.67% of total voting rights); Imperial Innovations Businesses LLP (9.30% of total voting rights); Aviva Investors (6.57% of total voting rights).

Transactions with related parties during the year and balances with related parties at 31 December are as follows:

Related party	2015 Purchases £'000	2014 Purchases £'000	2015 Payables £'000	2014 Payables £'000
Adiga Life Sciences (Joint venture)	**1,370**	4,920	**7**	–
Imperial Innovations Businesses LLP [1]	**42**	38	**–**	–
Iterum Pharmaceuticals LLC [2]	**89**	–	**–**	–

[1] 'Purchases' includes compensation paid or payable in respect of services provided by Russ Cummings as Non-Executive Director of the Company.

[2] Iterum Pharmaceuticals LLC is considered a related party by virtue of Paul Edick, a Non-Executive Director of the Company, being the Chairman of the Board.

Disclosure of compensation provided to Directors is given in the Annual Report on Remuneration and in note 5 for key management. Included within key management personnel is Chief Commercial Officer Linda Szyper. Linda is the spouse of Paul Edick, a Non-Executive Director of the Company. The compensation paid or payable to Linda is shown below:

	2015 £m	2014 £m
Linda Szyper:		
Short-term employee benefits (including bonus)	**0.5**	0.1
Share based payment	**0.1**	–
Total	**0.6**	0.1

Company

The following transactions with subsidiaries occurred in the year:

Related party	2015 £m	2014 £m
Rendering of services to Circassia Limited [1]	**1.3**	1.6
Settlement of liabilities on behalf of the subsidiaries	**(139.2)**	(3.0)
Net transfer of funds to subsidiaries	**201.4**	28.7
	63.5	27.3

[1] Remuneration costs (excluding share options charges) relating to Steven Harris and Julien Cotta in respect of services rendered to Circassia Limited.

	2015 £m	2014 £m
Balances due from subsidiary companies	**184.5**	121.0

The amount due is unsecured, interest free and has no fixed date of repayment.

Employee benefit trust

During the prior year the Company set up an Employee benefit trust for the purposes of buying and selling shares on the employees' behalf. A total of £291,081 of funding was paid into the Trust by the Company during the year ended 31 December 2015 (2014: £5,100).

A total of 110,845 shares (0.08p nominal value each) were purchased by the Trust during the year ended 31 December 2015 (2014: nil). As at 31 December 2015 a cash balance of £5,080 (2014: £5,100) was held by the Trust.

33. Business combinations

During the year, Prosonix Limited and Aerocrine AB were acquired by the Group. The acquisitions were made in order to accelerate Circassia's strategy to become a self-sustaining specialty biopharmaceutical company and to provide the capability and resources to commercialise an enlarged late-stage pipeline of potential new allergy and asthma products, once approved.

Prosonix Limited

On 15 June 2015, the Group acquired 100% of the share capital of Prosonix Limited, a specialty pharmaceutical company focused on the development of a portfolio of asthma and chronic obstructive pulmonary disease product candidates. The total consideration was £100.0 million. None of the goodwill is expected to be deductible for tax purposes.

The goodwill of £4.4 million is attributable to the existing Prosonix Limited workforce (which cannot be separately valued under accounting standards).

The following table summarises the consideration paid for Prosonix Limited, and the amounts of the assets acquired and liabilities assumed.

Consideration	£m
Cash	70.0
Contingent consideration	30.0
Total consideration	**100.0**

Recognised amounts of identifiable assets acquired and liabilities assumed	£m
Cash and cash equivalents	5.3
Property, plant and equipment	0.8
Intangible assets (Technology)	19.0
Intangible assets (IPR&D)	88.7
Intangible assets (Other)	0.2
Trade and other receivables	2.1
Trade and other payables	(4.3)
Net deferred tax liabilities	(16.2)
Total identifiable net assets	**95.6**
Goodwill	4.4
Total consideration	**100.0**

The contingent consideration arrangement requires the Group to pay the former owners of Prosonix Limited £30.0 million upon the Company receiving a product marketing authorisation in respect of Prosonix Limited's lead product in the United Kingdom on or before 31 December 2016 or £15.0 million on or before 31 December 2017.

UK marketing approval was received during the year and the contingent consideration of £30.0 million was paid on 6 January 2016. The fair value of the contingent consideration is therefore considered to be equal to its book value and is no longer contingent.

The fair value of trade and other receivables is £2.1 million and includes trade receivables with a fair value of £0.1 million. The gross contractual amount for trade receivables due is £0.1 million.

The revenue included in the consolidated income statement from 16 June 2015 to 31 December 2015 contributed by Prosonix Limited was £0.5 million. Prosonix Limited contributed a loss before tax of £6.6 million for the same period.

Had Prosonix Limited been consolidated from 1 January 2015, the consolidated income statement for the year would show pro-forma revenue in respect of Prosonix Limited of £1.8 million and pro-forma operating loss of £3.8 million.

Measurement period adjustments

The fair value of the trade and other receivables at the acquisition date has been increased by £0.4 million to reflect an increase in the R&D tax credit receivable. A deferred tax asset of £5.3 million has been recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The above adjustments have resulted in a corresponding decrease in goodwill.

Aerocrine AB

On 18 June 2015, the Group acquired 92.6% of the share capital of Aerocrine AB, and by 7 July 2015, the Group acquired a further 5.3% of the share capital, bringing its investment in Aerocrine AB to 97.9%. The company offers market-leading products, which are sold to the Group's core customers of allergy/asthma specialists by an established commercial infrastructure in the US and Germany (Europe's largest allergy market), and by a network of partners in additional territories. The products, NIOX MINO® and NIOX VERO®, are used to improve asthma diagnosis and management by measuring fractional exhaled nitric oxide (FeNO), and NIOX® is the only device available across major markets.

The products are an ideal strategic fit with the Group's commercialisation approach, with sales forces targeting specialists in key markets, partners undertaking promotion in other countries and the potential for primary care sales through partnering.

With a strong commercial infrastructure already established, with reimbursement, market access, supply chain and marketing expertise in place, there is an opportunity to scale up this presence in the near-term as well as expanding into further EU territories. The Group plans to increase the existing field forces, complete training on the Group's allergy products, map out key accounts and build customer relationships well in advance of the launch of the Group's cat allergy product. As a result, the Group aims to accelerate uptake of its cat allergy product and achieve higher peak sales, which research suggests have the potential to reach over $500 million per annum. In addition, this commercial investment is expected to drive greater NIOX® sales, which are targeting a market opportunity of approximately $190 million in the US allergy / asthma specialist segment alone.

The consideration paid was 1.7 billion SEK, equivalent to £129.6 million. None of the goodwill is expected to be deductible for tax purposes.

The goodwill at acquisition of £72.8 million arises from future customer relationships and sales force synergies.

The following table summarises the consideration paid for Aerocrine AB, and the amounts of the assets acquired and liabilities assumed.

Consideration	**£m**
Cash	129.6
Total consideration	**129.6**

Recognised amounts of identifiable assets acquired and liabilities assumed	**£m**
Cash and cash equivalents	32.4
Property, plant and equipment	0.5
Intangible assets (Customer relationships)	29.9
Intangible assets (Technology)	27.0
Intangible assets (IPR&D)	0.2
Intangible assets (Other)	1.0
Inventories	2.3
Trade and other receivables	4.2
Trade and other payables	(8.0)
Other financial investments	0.2
Borrowings	(28.4)
Total identifiable net assets	**61.3**
Non-controlling interests	**(4.5)**
Goodwill	72.8
Total consideration	**129.6**

The non-controlling interests have been recognised as a proportion of net assets acquired.

The revenue included in the consolidated income statement from 19 June 2015 to 31 December 2015 contributed by Aerocrine AB was £10.3 million. Aerocrine AB also contributed an operating loss of £7.7 million over the same period.

Had Aerocrine AB been consolidated from 1 January 2015, the consolidated income statement for the year would show pro-forma revenue in respect of Aerocrine AB of £18.8 million and pro-forma operating loss of £26.6 million.

Measurement period adjustments

The fair value of the consideration at the acquisition date has increased by £0.9 million in respect of vested share options with a change of control clause. The deferred tax rate has decreased from 35% (US tax rate) to 22% (Swedish tax rate) resulting in a deferred tax liability of £12.5 million compared to £19.9 million at acquisition. A deferred tax asset of £12.5 million has been recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The above adjustments have resulted in a decrease of £17.5 million in goodwill and an increase of £1.4 million in non-controlling interests.

Glossary

Active pharmaceutical ingredient (API)
An active ingredient to the product candidate

Allergen
A substance causing an allergic reaction or allergy

Allergic rhinitis/allergic rhinoconjunctivitis
An allergic inflammation of the eyes, nasopharynx and nasal airways

Allergist
A physician specialising in the diagnosis and treatment of allergies

Allergy
An inappropriate immune response by the body to an allergen i.e. a substance (for example a particular food, pollen, animal or plant protein) to which the body has become hypersensitive

Alternaria
A genus of ascomycete fungi, otherwise known as a type of mould

Antibody
A large protein produced by B-cells that is used by the immune system to identify and neutralise foreign objects such as bacteria and viruses

Antigen
The part of the allergen to which antibodies bind

Asthma
A common chronic inflammatory disease of the airways characterised by variable and recurring symptoms, reversible airflow obstruction and bronchospasm (which is a sudden constriction of the muscles in the walls of the bronchioles – part of the lungs)

B-cells
Part of a group of white blood cells (lymphocytes) which forms part of the immune system. The principal functions of B-cells are to make antibodies against antigens

Bermuda grass
Bermuda grass (cynodon dactylon), a grass native to north and east Africa, Asia, Australia and southern Europe

Birch
A broad-leaved deciduous hardwood tree of the genus Betula

Cat dander
A material shed from the body of a cat comprised of skin cells

Double-blind
Neither the participants nor the researchers know which participants receive the placebo or the study drug

Eczema
A form of chronic inflammation of the skin

Efficacy
The ability of an intervention or drug to produce a desired effect

Environmental exposure chamber (EEC)
Controlled indoor environment into which controlled amounts of substance can be released

Epitope
The part of an antigen that is recognised by the immune system, specifically by antibodies, B-cells, or T-cells

Fill finish
Filling and closure of the primary drug container and conduct of post-filling processes, e.g. sealing and inspection, resulting in a product that is suitable for commercial or investigational use following appropriate labelling and packaging

House dust mite (HDM)
A small translucent organism belonging to the arachnid class commonly found in mattresses or pillows of beds, sofas and carpets

Immune cells
Cells relating to the immune system

Immunoglobulin
Antibody

Immunoglobulin E (IgE)
A class of antibody specifically involved in triggering the early phase of allergic reactions

Inflammatory mediators
Soluble, diffusible molecules that act locally at the site of tissue damage and infection, and at more distant sites

Japanese cedar
An evergreen tree also known as Cryptomeria, a monotypic genus of conifer in the cypress family Cupressaceae

Lyophilisation
A dehydration process typically used to preserve a perishable material or make the material more convenient for transport

Mast cells
A resident cell of several types of tissues and contains many granules rich in histamine and heparin. It binds IgE and degranulates on exposure to allergen to trigger allergic reactions

Peptides
Molecules that are comprised of a series of amino acids

Perennial Rye
Lolium perenne, a grass from the family Poaceae native to Europe, Asia and northern Africa and used worldwide in agriculture

Phase II
In a phase II study, a new product candidate is studied in trials in a relatively homogenous population of subjects who have the relevant allergy. These studies are undertaken to identify possible adverse effects and safety risks, and to explore the preliminary or potential efficacy of the product candidate, as well as dosage tolerance and the optimal effective dose

Phase IIb
Phase II studies are sometimes further divided into two phases: phase IIa trials are designed to assess dosage (how much product candidate subjects should be given); and phase IIb trials are specifically designed to study efficacy (how well the product candidate works at a prescribed dose). Often phase II trials are designed as randomised clinical studies, where some subjects receive the product candidate and others receive a placebo/standard treatment. Randomised phase II trials typically have fewer subjects than randomised phase III trials

Phase III
When phase II trials demonstrate that a specific dosage range of the product candidate is likely to be effective and has an acceptable safety profile, confirmatory phase III trials are undertaken. These studies are intended to provide an adequate basis for establishing the benefit/risk ratio for a subsequent application for marketing approval. Therefore, a sufficiently high number of subjects must be enrolled and exposed to the product candidate for a duration which will provide adequate efficacy and safety data for the envisaged clinical use. The studies must be controlled, i.e. compare the product candidate to placebo and/or to active treatment depending on the medical condition and the product candidate under investigation. Confirmatory phase III trials on specific immunotherapy for the treatment of allergic diseases should be performed using a randomised placebo-controlled double-blind design

Placebo
A sham or simulated medical treatment or procedure

Placebo controlled
A way of testing a medical therapy in which, in addition to a group of subjects that receives the treatment to be evaluated, a separate control group receives a placebo treatment which is specifically designed to have no real effect

Pollen
Fine to coarse powder containing the microgametophytes of seed plants, which produce the male gametes

Proof-of-concept
Early clinical drug development (typically in phase I and phase II) conducted to provide first evidence that a product candidate may be an effective treatment of a certain indication

Randomised
The process of allocating subjects to active drug or placebo in a clinical study

Rhinoconjunctivitis
Irritation and inflammation of the mucous membrane inside the nose and eyes

Safety profile
The known information about how safe a medicine is

Seasonal allergy
An allergy where symptoms are only experienced at certain times of the year

Short ragweed
Ambrosia artemisiifolia, a type of flowering plant common in North America

Synthetic peptide immuno-regulatory epitopes (SPIREs)
Short amino acid sequences that contain the T-cell epitope, and intended to elicit a T-reg response to an allergen identified using the Company's ToleroMune® technology

T-cell epitope
Epitope that is recognised by a T-cell

TH2 response
The defensive response of the immune system response to an allergen, triggered by TH2 cells

T-Helper cells class 2 (TH2 cells)
A sub-group of lymphocytes (a type of white blood cell)

Total rhinoconjunctivitis symptom score (TRSS)
Scoring system used to track the severity of symptoms of rhinoconjunctivitis

T-regulatory cells (T-regs)
A component of the immune system that suppresses immune responses of other cells in the immune system

T-regulatory response
Reaction of T-regs which is to control immune responses

Whole allergen immunotherapy
A process of administering allergenic extracts to allergic subjects to decrease the degree of hypersensitivity and symptoms by reducing immunologic responses to allergens

Advisors and contact details

Financial calendar

— Annual General Meeting: 18 May 2016
— Interim results for the six months ending 30 June 2016: Q3 2016

Registrars

All administrative enquiries relating to shareholdings and requests to receive corporate documents by email should, in the first instance, be directed to Equiniti. Shareview is Equiniti's shareholder portal offering access to services and information to help manage your shareholdings and inform your important investment decisions.

Shareview Portfolio

Shareview Portfolio is an online portfolio management tool which enables you to view and manage all the shareholdings you have, where Equiniti is the Registrar, in one place. It is free to use and provides access to a wide range of market information and investment services. Please visit www.shareview.co.uk.

This is not a recommendation to buy or sell shares. The price of shares can go down as well as up, and you are not guaranteed to get back the amount that you originally invested.

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Forward-looking statements

This Annual report and accounts contains certain projections and other forward-looking statements with respect to the financial condition, results of operations, businesses and prospects of Circassia. The use of terms such as “may”, “will”, “should”, “expect”, “anticipate”, “project”, “estimate”, “intend”, “continue”, “target” or “believe” and similar expressions (or the negatives thereof) are generally intended to identify forward-looking statements. These statements are based on current expectations and involve risk and uncertainty because they relate to events and depend upon circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Any of the assumptions underlying these forward-looking statements could prove inaccurate or incorrect and therefore any results contemplated in the forward-looking statements may not actually be achieved. Nothing contained in this Annual report and accounts should be construed as a profit forecast or profit estimate. Investors or other recipients are cautioned not to place undue reliance on any forward-looking statements contained herein. Circassia undertakes no obligation to update or revise (publicly or otherwise) any forward-looking statement, whether as a result of new information, future events or other circumstances.

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