vectura

DEVELOPING FUTURE PRODUCTS
FOR AIRWAYS DISEASES

Vectura Group plc
Interim Report and Accounts

For the six months ended 30 September 2015

LEVERAGING DEVICE AND FORMULATION CAPABILITIES IN INHALED AIRWAYS DISEASES WITH HYBRID MODEL DELIVERING STRONG SUSTAINABLE SHAREHOLDER VALUE

CONTENTS

ABOUT VECTURA

Vectura is a product development company that focuses on the development of pharmaceutical therapies for the treatment of airways-related diseases. This growing market includes asthma and chronic obstructive pulmonary disease (COPD) and is estimated to be worth $44bn worldwide.[1]

Vectura has eight products marketed by partners with growing global royalty streams and a portfolio of drugs in clinical development, a number of which have been licensed to major pharmaceutical companies. Vectura has currently disclosed development collaborations and licence agreements with several global pharmaceutical and biotechnology companies, including Novartis, Sandoz, Baxter, GlaxoSmithKline, UCB, Ablynx, Grifols and Tianjin KingYork Group Company.

Vectura develops products for airways diseases and owns formulation and inhalation technologies that are available to other pharmaceutical companies on an out-licensing basis where this complements Vectura's business strategy.

For further information, please visit Vectura's website at **www.vectura.com.**

[1] Decision Resources 2014

Revenue growth
driven by 67% increase in royalties

+35%

to £26.1m (H1 2014/15: £19.4m)

EBITDA[1] progression

+57%

to £4.7m (H1 2014/15: £3.0m)

Balance sheet strength
cash and cash equivalents

£78.5m

(£90m as at March 2015) final payment made to former Activaero GmbH shareholders of €35m in August 2015

[1] Earnings before investment income, finance gains/(losses), tax, depreciation, amortisation, share-based compensation, adjusted for non-recurring items

Vectura Group plc

Strong interim results driven by 67% increase in royalties

Financial highlights

- Revenues up 35% to £26.1m (H1 2014/15: £19.4m; FY 2014/15: £58.0m)
- EBITDA[1] up 57% to £4.7m (H1 2014/15: £3.0m; FY 2014/15: £16.2m)
- Loss before tax of £5.0m (H1 2014/15: loss £8.7m; FY 2014/15: loss £6.2m)
- Basic EPS loss of 0.7p (H1 2014/15: loss 1.4p; FY 2014/15: earnings 0.9p)
- Robust balance sheet with cash and cash equivalents of £78.5m (£90.0m at 31 March 2015) – final payment made to former Activaero GmbH shareholders of €35m in August 2015

Operational highlights

Partnered marketed products and pipeline programmes

Novartis

- Ultibro® Breezhaler® (indacaterol/glycopyrronium bromide, QVA149) a first-in-class once-daily dual bronchodilator, long-acting $beta_2$-adrenergic agonist (LABA)/long-acting muscarinic antagonist (LAMA), achieved total net sales of $132m within our financial half year (Q2/Q3 2015; as reported by Novartis) generating increased royalty income for Vectura
  - The product has been approved in over 80 countries outside the US (including countries in the EU and Japan) and launched in over 40 countries
- Seebri® Breezhaler® (glycopyrronium bromide, NVA237) a once-daily inhaled long-acting muscarinic antagonist (LAMA), achieved total net sales of $76m within our financial half year (Q2/Q3 2015; as reported by Novartis) generating increased royalty income for Vectura
  - The product is approved for use in over 90 countries outside the US (including countries in the EU and Japan)
- QVM149 (indacaterol/glycopyrronium bromide/mometasone fuorate) a new inhaled once daily combination triple therapy, (LABA)/(LAMA) and corticosteroid (ICS) for asthma
  - Novartis announced a new inhaled dry powder triple therapy for patients with moderate to severe asthma uncontrolled on standard ICS/LABA medication
  - First regulatory filings of QVM149 planned for 2018
  - Vectura is eligible to receive development, filing and approval milestones. In addition, Vectura will receive royalties on products sales in the event of a successful product launch

Post period event related to Novartis

- Novartis received US FDA approval for the new dual combination bronchodilator Utibron™ Neohaler® (formerly QVA149) and the stand-alone monotherapy Seebri™ Neohaler® (formerly NVA237) for patients with chronic obstructive pulmonary disease (COPD)
  - The approval of Utibron™ Neohaler® and Seebri™ Neohaler® triggering a $22.5m milestone payment from Novartis to Vectura
  - Novartis expects that Utibron™ Neohaler® and Seebri™ Neohaler® will be available in the first quarter of 2016
  - Launch of these products in the US will generate a new royalty stream for Vectura

Ultibro, Seebri, Breezhaler and Neohaler are registered trademarks of Novartis AG
Utibron is a trade mark of Novartis AG

Wholly owned pipeline programmes

- VR647 (SCIPE) (paediatric asthma) – inhaled corticosteroid budesonide delivered with Vectura's smart nebuliser, the AKITA® JET
  - Announced successful pre-IND meeting with the US FDA
  - FDA agreed with our intent to rely on the 505(b)(2) pathway for the development programme with the aim of filing a New Drug Application (NDA)
  - Filing is anticipated in H2 2019

Further post period events on wholly owned programme

- VR475 (FAVOLIR)
  - Phase III clinical study has been initiated
  - First sites opened and patient screening initiated

Partnered pipeline programmes

- VR876 EU, undisclosed partner on pipeline programme for lung disease
  - Development milestone triggered a cash milestone payment of €5m (circa. £3.6m) to Vectura. VR876 is being developed by our partner and uses one of Vectura's smart nebuliser delivery systems. The smart nebuliser delivery system is a hand-held, self-contained, battery powered device that delivers nebulised liquid drugs with high performance using a vibrating mesh technology
- VR315 US, undisclosed partner (potentially highly valuable US respiratory generics programme – asthma and COPD)
  - Further cash milestone of $3m triggered by the successful achievement of a development milestone
- VR942, UCB (inhaled, innovative and differentiated biological therapy for severe airways disease)
  - Phase I clinical study commenced on this innovative biologic immuno-modulatory product in the area of severe inflammatory respiratory disease

Further post period events on partnered pipeline programmes

- VR632 EU – partner Sandoz (another of Vectura's generic programmes and second inhaled combination therapy for asthma and COPD delivered using Vectura's proprietary dry powder inhaler and formulation technology)
  - A cash milestone of €0.75m triggered by the successful achievement of a further development milestone associated with VR632 in the EU

Corporate governance

- Change to the Board
  - In June, the appointment of James Ward-Lilley as CEO and Executive Director of Vectura was announced. James joined Vectura at the end of September 2015

[1] Earnings before investment income, finance gains/(losses), tax, depreciation, amortisation, share-based compensation, adjusted for non-recurring items

With my first set of results as CEO, I am delighted to report that Vectura is continuing to make very good progress with robust financial performance reflecting good pipeline progress and significant increases in partnered product sales.

The operational highlights of the first six months of our financial year highlight the sustained manner in which we create value through the application of our unique formulation, device and development expertise in inhaled airways diseases. This includes both novel formulation and device development as well as generic applications of compounds and devices.

Once launched, Utibron™ Neohaler® and Seebri™ Neohaler® will bring a new royalty stream for Vectura and we look forward to confirmation from our partner Novartis in due course on their plans for the commercialisation of these products.

Vectura is progressively building a profitable business with a strong outlook based on its unique expertise in device and formulation development in inhaled airways diseases. This approach has focused on small molecules but now includes biologics that can be delivered via inhalation. Vectura's platform has been complemented and extended with the AKITA® JET and FOX® nebulised inhalation devices which leverage the FAVORITE technology.

We will continue to maintain a strong technology platform to ensure Vectura remains at the forefront of inhalation science. Our priority remains to build a strong hybrid business model which through partnering, clinical development and progressively building a specialist commercial capability maximises our unique capabilities, manages risk and delivers strong sustained shareholder value.

James Ward-Lilley
Chief Executive Officer

Outlook

Vectura is progressively building a profitable business with a strong outlook based on its unique expertise in device and formulation development in inhaled airways diseases. This approach has focused on small molecules but now includes biologics that can be delivered via inhalation. Vectura's platform has been complemented and extended with the AKITA® JET and FOX® smart nebulisation inhalation systems which leverage the FAVORITE technology.

Vectura's successful application of its hybrid model is reflected in the current results and recent strong track record. We expect to see this continue with a combination of further milestones and sales royalties driving revenue growth alongside appropriate cost and R&D spend discipline ensuring we build a track record of sustained profitability.

We will continue to maintain a strong technology platform to ensure Vectura remains at the forefront of inhalation science. Our priority remains to execute our hybrid business model which through partnering, clinical development and progressively building a specialist commercial capability maximises our unique capabilities, manages risk and delivers strong sustainable shareholder value.

Summary of results

Vectura has delivered another strong set of results for the six-month period to 30 September 2015. Growing royalty revenue from recently launched products and important milestone achievements have contributed to revenue growth of 35% compared to the same period in the prior financial year. We have continued to invest in our pipeline with research and development expenditure increasing by 35% compared to the prior period, largely the result of focused investment in our VR475 EU programme as well as continuing to advance other pipeline assets.

Increased revenues, partially offset by increased R&D investment, have resulted in positive EBITDA progression with a 57% increase compared to the same period in the prior year. Non-cash charges including amortisation, depreciation and share-based compensation have decreased by £0.7m compared to the prior period and therefore a 57% increase in EBITDA translates to a 28% decrease in operating loss. During the period, Vectura received £2.4m investment income, which includes a non-recurring receipt of £2.3m relating to the sale of its shareholding in ProFibrix B.V. This significant increase in investment income has contributed to a reduction, compared to the prior period, of 43% in the loss before tax of £5.0m.

Revenue

Revenues have increased by 35% compared to the same period in the prior year. This is the result of a 67% increase in royalty revenue as partnered products continue their global roll-out as well as a 24% increase in device sales. Royalty income from the products marketed by Novartis and GSK now accounts for 65% of total royalty revenue (H1 2014/15 – 43%).

For FY 2015/16 royalties as a percentage of total revenues will decline as a result of significant milestone achievements in H2 2015/16 that have either occurred post the period under review (NVA237 and QVA149) or are expected to occur before the end of the financial year.

Royalties

There has been significant growth in royalty income compared to the prior period as a result of a sustained growth in the sales of recently launched products. In addition, Vectura has benefited from a favourable movement in the £/$ exchange rate which has added growth to revenues earned from contracts denominated in USD. On a constant currency basis, royalty income has increased by 53%.

Royalties earned from sales of Seebri® Breezhaler® and Ultibro® Breezhaler® have contributed revenues of £5.6m in the period. Underlying net sales, as reported by Novartis in USD, have grown by 63% compared to the same period in the prior year ($208m in H1 2015/16 compared to $128m in H1 2014/15). Vectura has benefited from a favourable movement in the £/$ exchange rate in respect of this royalty stream.

Sales of Relvar®/Breo®, Anoro® and Incruse® Ellipta® have generated £4.5m of royalties to Vectura during the period. Underlying sales, as reported by GlaxoSmithKline (GSK), were £158m for the six-month period ended 30 September 2015, compared to £32m for the same period in the prior year. Quarter on quarter progression continues to be strong with GSK reporting 29% growth from calendar Q2 2015 to calendar Q3 2015.

Other royalty revenue is mainly derived from the two products licensed to Baxter. Underlying sales of ADVATE®, as reported in USD, have decreased compared to the same period in the prior year; however, a favourable movement in the £/$ exchange rate has resulted in an overall increase in royalty revenue for Vectura. ADVATE® comes off patent in January 2016 and Vectura does not expect to receive royalty income past this date.

Product licensing

Product licensing revenue of £2m ($3m) reflects the achievement of an important development milestone in respect of the partnered VR315 US programme. Under the terms of this agreement, Vectura is eligible to receive up to a further $23m upon achievement of future predetermined development milestones.

Technology licensing

During H1 2015/16 our partner for the VR876 programme achieved an important development milestone in Europe. This triggered a payment to Vectura of €5m and Vectura recognised net revenue of £2.9m in respect of this milestone.

Device sales

Device sales have increased by £0.4m compared to the prior period. This is the result of increased sales of GyroHaler® as the roll-out of AirFluSal® Forspiro® continues. Royalties received from sales of AirFluSal® Forspiro® have increased compared to the prior period.

Research and development expenses

Research and development expenses of £17.8m are £4.6m higher than the same period in the prior year.

The increase in research and development expenses is the result of continued focused investment in our pipeline including clinical trial activities for VR475 (£1.6m of the expenditure increase in the period) and the continued development of the FOX® device (£1.6m of the expenditure increase in the period), which together account for a £3.2m increase in expenditure. We have continued to develop VR942 in collaboration with our partner UCB and the wholly owned pre-clinical asset VR588. Expenditure incurred on these two programmes has increased by £0.3m compared to the same period in the prior year. In addition, research and development costs are inclusive of £1.0m expenditure associated with the closure of our Gemünden site.

In the long term, we anticipate that the site closure will lead to cost savings, both in research and development expenses and other administrative expenses.

We remain committed to managing our research and development within a predefined range and we anticipate that expenditure for the full year will be at the lower end of our stated range of between £40m to £52m. This compares with our original estimate for the year of being towards the upper end of that range. We will benefit from some improvements and efficiencies, elimination of certain costs in respect of our partnered programmes and, without altering disclosed timelines, phasing of expenditure with certain costs being carried forward into the next financial year.

EBITDA

For the six-month period ended 30 September 2015, EBITDA, our main measure of operational profitability, was £4.7m, an increase of 57% compared to the prior period. We anticipate a significant improvement in profitability during the second half of the year as a result of increasing royalty income from our partners and significant milestone revenues that have either already been achieved since balance date or are expected to be achieved. This will be offset to some degree by an increase in research and development expenses in the second half of the financial year.

Amortisation

Amortisation of £9.3m has decreased by £1.4m compared to the prior period. This movement is partially the result of a lower amortisation charge for the Innovata intangible assets as the patents associated with the ADVATE® asset expire in January 2016 and partially the result of a favourable exchange movement for the Activaero amortisation charge.

Share-based compensation

The share-based compensation charge has increased by £0.6m compared to the prior period; this increase is due to a share option award that was made to James Ward-Lilley upon his appointment as Chief Executive Officer.

Loss before taxation

Loss before taxation of £5.0m has reduced by 43% compared to the same period in the prior year (H1 2014/15 – £8.7m).

Taxation

The deferred tax credit for the current period is solely the release of the deferred tax liability arising upon recognition of the Activaero and Innovata intangible assets. The prior period taxation credit included a £0.3m receipt in respect of 2013/14 R&D tax credit claims. As the Group's losses reduce, research and development tax receipts will decline significantly.

Non-current assets

Non-current assets were £166.1m at 30 September 2015, compared with £174.7m at 31 March 2015. The net movement of £8.6m in the period relates to property, plant and equipment additions of £0.6m, amortisation and depreciation charges of £9.9m, recognition of Vectura's £0.4m share of the loss in its joint venture, Ventaleon, and a £1.1m increase due to the foreign exchange translation adjustment for the Activaero GmbH assets. The foreign exchange translation adjustment has been recognised in the translation reserve.

Translation reserve

The assets and liabilities acquired from Activaero GmbH are denominated in euros and, therefore, in accordance with accounting standards, Vectura has recognised a net foreign exchange translation gain of £0.9m within reserves. This adjustment reflects the movement in the exchange rate between 31 March 2015 and 30 September 2015. In future periods, the movement in this reserve will be dependent upon the £/€ exchange rate at the relevant balance sheet dates.

Cash flow

Vectura continues to maintain a strong cash position, with cash and cash equivalents at 30 September 2015 of £78.5m. Vectura achieved a net cash inflow of £9.4m from operating activities (H1 2014/15 – £2.0m), which is reflective of growing and sustainable cash receipts from royalty revenue and a measured approach to R&D investment. During the period, Vectura made the final consideration payment of €35m to the former shareholders of Activaero. There are no additional payments to be made in respect of this acquisition.

	H1 2015/16	H1 2014/15	FY 2014/15
Average rates:			
£/$	**1.54**	1.68	1.61
£/€	**1.39**	1.24	1.27
Period-end rates:			
£/$	**1.52**	1.62	1.48
£/€	**1.35**	1.28	1.37

Andrew J Oakley
Chief Financial Officer

CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months ended 30 September 2015

	Note	6 months ended 30 September 2015 £m (unaudited)	Restated[1] 6 months ended 30 September 2014 £m (unaudited)	Year ended 31 March 2015 £m (audited)
Revenue	2	**26.1**	19.4	58.0
Cost of sales		**(1.7)**	(1.5)	(2.4)
Gross profit		**24.4**	17.9	55.6
Research and development expenses		**(17.8)**	(13.2)	(36.1)
Other administrative expenses		**(2.5)**	(2.2)	(4.5)
Amortisation of intangible assets		**(9.3)**	(10.7)	(20.9)
Share-based compensation		**(1.1)**	(0.5)	(1.1)
Total administrative expenses		**(12.9)**	(13.4)	(26.5)
Operating loss		**(6.3)**	(8.7)	(7.0)
Presented as:				
EBITDA[2]		**4.7**	3.0	16.2
Amortisation of intangible assets		**(9.3)**	(10.7)	(20.9)
Depreciation of assets		**(0.6)**	(0.5)	(1.2)
Share-based compensation		**(1.1)**	(0.5)	(1.1)
Operating loss		**(6.3)**	(8.7)	(7.0)
Investment income	3	**2.4**	0.3	0.5
Finance (costs)/gains	3	**(0.7)**	0.2	1.7
Share of result of joint venture		**(0.4)**	(0.5)	(1.4)
Loss before taxation		**(5.0)**	(8.7)	(6.2)
Taxation	4	**2.3**	3.0	9.9
(Loss)/profit after taxation attributable to equity holders of the Company		**(2.7)**	(5.7)	3.7
(Loss)/earnings per ordinary share: basic	5	**(0.7p)**	(1.4p)	0.9p
Earnings per ordinary share: diluted	5	**—**	—	0.9p
Adjusted earnings per ordinary share: basic	5	**1.2p**	0.8p	4.0p
Adjusted earnings per ordinary share: diluted	5	**1.1p**	0.7p	3.9p

(1) Restated to reflect the finalisation of the acquisition accounting for Activaero GmbH (see note 9).

(2) Earnings before investment income, finance (costs)/gains, tax, depreciation, amortisation and share-based compensation and adjusted for non-recurring items.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 September 2015

	6 months ended 30 September 2015 £m (unaudited)	Restated(1) 6 months ended 30 September 2014 £m (unaudited)	Year ended 31 March 2015 £m (audited)
(Loss)/profit after taxation attributable to equity holders of the Company	**(2.7)**	(5.7)	3.7
Other comprehensive income/(expense):			
Items that may be subsequently reclassified through the income statement:			
Foreign currency translation differences for foreign operations	**0.9**	(5.9)	(11.4)
Other comprehensive income/(expense)	**0.9**	(5.9)	(11.4)
Total comprehensive loss attributable to the equity holders of the Company	**(1.8)**	(11.6)	(7.7)

(1) Restated to reflect the finalisation of the acquisition accounting for Activaero GmbH (see note 9).

CONDENSED CONSOLIDATED BALANCE SHEET
at 30 September 2015

	Note	30 September 2015 £m (unaudited)	31 March 2015 £m (audited)
Assets			
Goodwill		**56.9**	56.8
Intangible assets		**96.0**	104.3
Property, plant and equipment		**11.5**	11.5
Investment in joint venture		**1.3**	1.7
Other receivables		**0.4**	0.4
Non-current assets		**166.1**	174.7
Inventories		**0.7**	0.9
Trade and other receivables	6	**21.5**	27.9
Cash and cash equivalents		**78.5**	90.0
Current assets		**100.7**	118.8
Total assets		**266.8**	293.5
Liabilities			
Trade and other payables	7	**(20.6)**	(20.6)
Deferred income	8	**(0.1)**	(0.2)
Deferred consideration	9	**—**	(25.6)
Current liabilities		**(20.7)**	(46.4)
Deferred income	8	**(1.5)**	(1.5)
Deferred tax liabilities		**(21.6)**	(23.7)
Non-current liabilities		**(23.1)**	(25.2)
Total liabilities		**(43.8)**	(71.6)
Net assets		**223.0**	221.9
Equity			
Share capital	11	**0.1**	0.1
Share premium		**101.0**	99.2
Special reserve		**8.2**	8.2
Other reserve		**124.9**	124.9
Share-based compensation reserve		**16.0**	14.9
Translation reserve		**(12.1)**	(13.0)
Retained loss		**(15.1)**	(12.4)
Total equity		**223.0**	221.9

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 September 2015

	6 months ended 30 September 2015 £m (unaudited)	Restated[1] 6 months ended 30 September 2014 £m (unaudited)	Year ended 31 March 2015 £m (audited)
Cash flows from operating activities			
Operating loss	**(6.3)**	(8.7)	(7.0)
Depreciation and amortisation	**9.9**	11.2	22.1
Share-based compensation	**1.1**	0.5	1.1
Decrease in inventories	**0.2**	—	0.1
Decrease/(increase) in trade and other receivables	**6.0**	1.1	(14.2)
(Decrease)/increase in trade and other payables	**(1.0)**	(5.8)	0.6
Decrease in deferred income	**(0.1)**	(0.1)	(0.1)
Exchange movements	**(0.7)**	0.2	1.8
Net cash inflow/(outflow) from operations	**9.1**	(1.6)	4.4
Research and development tax credits received	**0.3**	3.6	3.6
Net cash inflow from operating activities	**9.4**	2.0	8.0
Cash flows from investing activities			
Interest received	**0.1**	0.2	0.4
Purchase of property, plant and equipment	**(0.5)**	(0.6)	(1.4)
Income from sale of investment	**2.3**	—	—
Acquisition of Activaero GmbH	**(24.6)**	—	(0.5)
Net cash outflow from investing activities	**(22.7)**	(0.4)	(1.5)
Net cash (outflow)/inflow before financing activities	**(13.3)**	1.6	6.5
Cash flows from financing activities			
Proceeds from issue of ordinary shares	**1.8**	1.3	1.8
Net cash inflow from financing activities	**1.8**	1.3	1.8
(Decrease)/increase in cash and cash equivalents	**(11.5)**	2.9	8.3
Cash and cash equivalents at beginning of the period	**90.0**	81.7	81.7
Cash and cash equivalents at end of the period	**78.5**	84.6	90.0

(1) Restated to reflect the finalisation of the acquisition accounting for Activaero GmbH (see note 9).

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 September 2015 (unaudited)

	Share capital £m	Share premium £m	Special reserve £m	Other reserve £m	Share-based compensation reserve £m	Translation reserve £m	Retained loss £m	Restated[1] Total equity £m
At 1 April 2014	0.1	97.4	8.2	124.9	13.8	(1.6)	(16.1)	226.7
Loss for the period	—	—	—	—	—	—	(5.7)	(5.7)
Other comprehensive loss	—	—	—	—	—	(5.9)	—	(5.9)
Share-based compensation	—	—	—	—	0.5	—	—	0.5
Exercise of share options	—	1.3	—	—	—	—	—	1.3
At 30 September 2014	0.1	98.7	8.2	124.9	14.3	(7.5)	(21.8)	216.9
Profit for the period	—	—	—	—	—	—	9.4	9.4
Other comprehensive loss	—	—	—	—	—	(5.5)	—	(5.5)
Share-based compensation	—	—	—	—	0.6	—	—	0.6
Exercise of share options	—	0.5	—	—	—	—	—	0.5
At 31 March 2015	0.1	99.2	8.2	124.9	14.9	(13.0)	(12.4)	221.9
Loss for the period	—	—	—	—	—	—	(2.7)	(2.7)
Other comprehensive income	—	—	—	—	—	0.9	—	0.9
Share-based compensation	—	—	—	—	1.1	—	—	1.1
Exercise of share options	—	1.8	—	—	—	—	—	1.8
At 30 September 2015	**0.1**	**101.0**	**8.2**	**124.9**	**16.0**	**(12.1)**	**(15.1)**	**223.0**

(1) Restated to reflect the finalisation of the acquisition accounting for Activaero GmbH (see note 9).

1. Basis of preparation of the condensed half-yearly financial statements

These condensed half-yearly financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and International Accounting Standard 34 – Interim Financial Reporting, and do not include all the statements required for full annual financial statements. The same accounting policies, presentation and methods of computation have been followed in the interim financial statements as applied in the latest audited financial statements of Vectura Group plc for the year ended 31 March 2015.

These condensed half-yearly financial statements are unaudited and do not constitute statutory accounts of the Group as defined in section 434 of the Companies Act 2006. The auditor, Deloitte LLP, has carried out a review of the financial information in accordance with the guidance contained in International Standard on Review Engagements (UK and Ireland) 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity, and their review report is set out at the end of this report.

The financial information for the year ended 31 March 2015 has been extracted from the Group's published financial statements for that year, and a copy of the statutory accounts for that financial year has been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Risks and uncertainties

The key business risks facing Vectura on a stand-alone basis remain unchanged from those set out on pages 20 to 25 of the Annual Report and Accounts for the year ended 31 March 2015. There are a number of potential risks and uncertainties that could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. Particular risks include clinical and regulatory risk, competition risk, commercial risk, intellectual property risk and financial risk (cash flow, credit, liquidity and price).

Going concern

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

The Group has £78.5m of cash and cash equivalents as at 30 September 2015. The Board operates an investment policy, under which the primary objective is to invest in low-risk cash or cash equivalent investments to safeguard the principal. The Group's forecasts, taking into account likely revenue streams, show that it has sufficient funds to operate for the foreseeable future, being a period of not less than twelve months from the date of approval of the interim financial statements.

After making enquiries, the Directors believe that the Group is adequately placed to manage its business and financing risks successfully despite the current uncertain economic outlook. Accordingly they continue to adopt the going concern basis in preparing the Interim Report and Accounts.

2. Revenue

Group revenue by category	**6 months ended 30 September 2015 £m**	6 months ended 30 September 2014 £m	Year ended 31 March 2015 £m
Royalties	**16.7**	10.0	25.2
Product licensing	**2.0**	3.3	19.8
Technology licensing	**3.1**	2.2	6.6
Development services	**2.2**	2.2	3.9
Device sales	**2.1**	1.7	2.5
	26.1	19.4	58.0

2. Revenue continued

Revenue by customer location	**6 months ended 30 September 2015 £m**	6 months ended 30 September 2014 £m	Year ended 31 March 2015 £m
United Kingdom	**4.7**	3.0	6.0
Rest of Europe	**11.6**	6.7	29.0
United States of America	**9.7**	9.7	23.0
Rest of World	**0.1**	—	—
	26.1	19.4	58.0

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

All revenue and profits/(losses) before taxation originate in the United Kingdom and Germany. Revenues from external customers in the United Kingdom were £22.7m (H1 2014/15: £17.6m) and non-current assets originating in the United Kingdom were £172.2m (H1 2014/15: £177.2m).

3. Investment income and finance (costs)/gains

	6 months ended 30 September 2015 £m	6 months ended 30 September 2014 £m	Year ended 31 March 2015 £m
Investment income			
Income from sale of investment	**2.3**	0.1	0.1
Interest receivable on bank deposits and similar income	**0.1**	0.2	0.4
Total investment income	**2.4**	0.3	0.5
Finance (costs)/gains			
Foreign exchange (losses)/gains	**(0.7)**	0.2	1.8
Finance costs	**—**	—	(0.1)
Total finance (costs)/gains	**(0.7)**	0.2	1.7

4. Taxation

	6 months ended 30 September 2015 £m	Restated(1) 6 months ended 30 September 2014 £m	Year ended 31 March 2015 £m
Research and development tax credits:			
– current period	**—**	—	2.5
– receipt in respect of prior year	**—**	0.3	0.6
Net decrease in deferred tax liability	**2.3**	2.7	6.8
	2.3	3.0	9.9

(1) Restated to reflect the finalisation of the acquisition accounting for Activaero GmbH (see note 9).

5. (Loss)/earnings per ordinary share

The calculation of (loss)/earnings per ordinary share is based on the following data:

	6 months ended 30 September 2015	Restated(1) 6 months ended 30 September 2014	Year ended 31 March 2015
(Loss)/profit after tax for the period (£m)	(2.7)	(5.7)	3.7
EBITDA for the period (£m)	4.7	3.0	16.2
Weighted average number of ordinary shares – basic earnings per share (m)	405.2	400.8	401.6
Effect of dilutive potential ordinary shares (share options) (m)	9.2	7.7	10.0
Weighted average number of ordinary shares – diluted earnings per share (m)	414.4	408.5	411.6
(Loss)/earnings per ordinary share			
Basic	(0.7p)	(1.4p)	0.9p
Diluted	—	—	0.9p
Adjusted earnings per ordinary share			
Basic	1.2p	0.8p	4.0p
Diluted	1.1p	0.7p	3.9p

(1) Restated to reflect the finalisation of the acquisition accounting for Activaero GmbH (see note 9).

The (loss)/profit per share is based on the weighted average number of shares in issue during the period.

IAS 33 – Earnings per Share requires presentation of diluted earnings per share where a company could be called upon to issue shares that would decrease net profit or increase net loss per share. No adjustment has been made to the unadjusted basic loss per share as at 30 September 2014 or 30 September 2015, as the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore not dilutive.

6. Trade and other receivables

	30 September 2015 £m	31 March 2015 £m
Trade receivables	7.7	16.2
Other receivables	2.8	2.9
Prepayments and accrued income	10.3	8.3
VAT recoverable	0.7	0.5
	21.5	27.9

7. Trade and other payables

	30 September 2015 £m	31 March 2015 £m
Trade payables	6.3	2.5
Other payables	2.0	1.0
Accruals	12.3	17.1
	20.6	20.6

8. Deferred income

Deferred income relates to amounts received under product licensing agreements. Vectura continues to provide services to these licensing partners over a period of time. Certain milestones received by Vectura under these licensing agreements are therefore recognised over future periods and income is deferred as follows:

	30 September 2015 £m	31 March 2015 £m
Amounts due within one year	**0.1**	0.2
Amounts due in more than one year	**1.5**	1.5
	1.6	1.7

9. Business combinations

On 18 March 2014, the Group acquired 100% of the issued share capital and obtained control of Activaero GmbH ("Activaero"), a company focused on the development of products for the treatment of respiratory diseases.

In accordance with IFRS 3 – Business Combinations, the fair values assigned to the identifiable assets, liabilities and contingent liabilities acquired with the Activaero business on 18 March 2014 were determined provisionally on that date and these provisional estimates were revised in the period to 18 March 2015 to reflect new information about facts and circumstances that existed as of the acquisition date. The revised amounts were recognised as though they were the amounts known at the acquisition date and so comparative information for the year ended 31 March 2014 was restated.

As a result of these adjustments, the amortisation period for the acquired intangible assets was confirmed to be eight years from the date of acquisition. The impact of this adjustment on the income statement for the six-month period ended 30 September 2014 has been to increase the loss after tax by £1.2m. The increase in the amortisation charge for the period was £1.6m and this was partially offset by an increase in the tax credit of £0.4m, which is a further release of the deferred tax liability that has been recognised on the acquired intangible assets.

The final element of the consideration for the acquisition, being the non-contingent deferred consideration of €35m, was paid in August 2015. The payment was translated into sterling at the prevailing £/€ exchange rate on the payment date and is shown as a cash outflow of £24.6m during the six months ended 30 September 2015. No further payments are due to be made in respect of this acquisition.

10. Financial instruments

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

	30 September 2015 £m	31 March 2015 £m
Cash and cash equivalents	**78.5**	90.0
Loans and receivables	**21.9**	28.3
	100.4	118.3

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

	30 September 2015 £m	31 March 2015 £m
Other	**(20.6)**	(20.6)

11. Share capital

	30 September 2015		31 March 2015	
	£m	Number 000	£m	Number 000
Allotted, called up and fully paid				
Ordinary shares of 0.025p each	**0.1**	**406,997**	0.1	403,458
Redeemable preference shares of £1 each	**—**	**34**	—	34

12. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. There has been no material change in the type of related party transactions described in the last Annual Report and Accounts.

We confirm that to the best of our knowledge:

a) the condensed set of financial statements has been prepared in accordance with IAS 34 – Interim Financial Reporting;

b) the condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by the Disclosure and Transparency Rules (DTR) 4.2.4R;

c) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

d) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Andrew J Oakley
Director
16 November 2015

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2015, which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, the condensed consolidated statement of changes in equity and related notes 1 to 12. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Bristol, United Kingdom
16 November 2015

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(Non-Executive Chairman)

James Ward-Lilley
(Chief Executive Officer)

Andrew J Oakley
(Chief Financial Officer)

Dr Trevor M Phillips
(Chief Operations Officer
and President of US Operations)

Dr John R Brown
(Non-Executive and
Senior Independent Director)

Dr Susan E Foden
(Non-Executive)

Neil W Warner
(Non-Executive)

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Adept® is a registered trade mark of Innovata Limited
AKITA® and **FAVOLIR®** are registered trade marks of Activaero GmbH
Clickhaler® and **Duohaler®** are registered trade marks of Innovata Biomed Limited. These trade marks are in the process of being transferred to Tianjin Kinnovata Pharmaceutical Company Limited, in certain territories
FOX® is a registered trade mark of Vectura GmbH
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Forward-looking statements
This Interim Report and Accounts contains forward-looking statements, including statements about the discovery, development and commercialisation of products. Various risks may cause Vectura's actual results to differ materially from those expressed or implied by the forward-looking statements, including: adverse results in clinical development programmes; failure to obtain patent protection for inventions; commercial limitations imposed by patents owned or controlled by third parties; dependence upon strategic alliance partners to develop and commercialise products and services; difficulties or delays in obtaining regulatory approvals to market products and services resulting from development efforts; the requirement for substantial funding to conduct research and development and to expand commercialisation activities; and product initiatives by competitors. As a result of these factors, prospective investors are cautioned not to rely on any forward-looking statements. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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