Vectura Group plc Interim Report and Accounts

for the six months ended 30 September 2012

vectura

A leader in inhaled pharmaceuticals

Contents

About Vectura

Vectura Group plc develops inhaled therapies principally for the treatment of respiratory diseases. Vectura's main products target diseases such as asthma and chronic obstructive pulmonary disease (COPD), a growing market that is currently estimated to be worth in excess of $25bn.

Vectura has seven products marketed by its partners and a portfolio of drugs in clinical and pre-clinical development, a number of which have been licensed to major pharmaceutical companies. Vectura has development collaborations and licence agreements with several pharmaceutical companies, including Novartis, Sandoz, Baxter and GlaxoSmithKline (GSK).

Vectura seeks to develop certain programmes itself where this will optimise value. Vectura's formulation and inhalation technologies are available to other pharmaceutical companies on an out-licensing basis where this complements Vectura's business strategy. For further information, please visit Vectura's website at **www.vectura.com**.

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.

Highlights

Excellent regulatory and clinical progress and robust financial position

Financial

- **Revenues of £17.0m** (2011/12: H1 - £21.1m; FY - £33.0m)
- **Positive EBITDA of £2.6m** (2011/12: H1 - £4.9m; FY - negative £4.2m)
- **Profit after tax of £0.9m** (2011/12: H1 - £2.6m; FY - loss £4.4m)
- **EPS of 0.3p** (2011/12: H1 - 0.8p; FY - negative 1.3p)
- **Robust balance sheet with cash and cash equivalents of £72.1m**

  (£75.5m at 31 March 2012) which equates to 21.7p per share

Operational

Approval and first launch of Seebri® Breezhaler® (glycopyrronium bromide) in Europe

Approval of Seebri® Inhalation Capsules in Japan

- European Medicines Agency's Committee for Medicinal Products for Human Use (CHMP) adopted a positive opinion for Seebri® Breezhaler® on 21 June 2012
  - European Commission approved Seebri® Breezhaler® on 28 September 2012 triggering a $10m (£6.2m) milestone
  - Product now launched in UK and Germany with other markets to follow
- Japanese approval for once-daily Seebri® Inhalation Capsules received on 28 September 2012, triggering a $2.5m (£1.5m) milestone
- US filing for NVA237 expected in 2014

QVA149 (COPD) filed in Europe and Japan

- Phase III data presented by Novartis at the European Respiratory Society (ERS) Congress in September
  - Three presentations on four studies that form part of the 10-study IGNITE programme
  - QVA149 met its respective primary endpoints
- QVA149 filed for marketing authorisation with the European Medicines Agency (EMA) in October 2012, triggering a $5m (£3.1m) milestone post-period end
- QVA149 filed with the Japanese Ministry of Health, Labour and Welfare (MHLW) in November
- US filing expected in 2014

VR315 (asthma/COPD), VR632 (asthma/COPD) and VR506 (asthma)

- Solid development progress on all generic programmes
- First development milestone of $3m (£1.9m) earned from new US partner on VR315 programme
  - Eligible to receive up to a further $32m upon achievement of future pre-determined development milestones
- Clinical trials underway for VR506
  - Two clinical trials currently in progress, both due to complete in 2013

Chief Executive's statement

'Vectura has delivered on its expected catalysts in 2012. Seebri® Breezhaler® has been launched in Germany and the UK, with other market launches expected to follow in the near term. Vectura has preserved its robust financial position which will be supplemented by further milestones and royalties on sales. With the Company approaching self-sustainability, Vectura is now poised to enter its next phase of growth.' **Dr Chris Blackwell**

Interim management report

Overview

Vectura specialises in developing inhaled therapies, principally for the treatment of respiratory diseases, bringing together all elements of product development, including technologies, clinical and regulatory expertise and manufacturing for clinical trials. The collaborations and licence agreements we have with major players in the $25bn asthma/chronic obstructive pulmonary disease (COPD) market are testament to the importance of our respiratory franchise.

In 2012, Novartis released data from the GLOW2 study which showed NVA237/glycopyrronium bromide was superior to placebo and similar to open-label tiotropium 18 mcg in improving lung function. The results demonstrated that once-daily NVA237 had a rapid onset of action at first dose, sustained 24-hour bronchodilation and was well-tolerated over 52 weeks.

Following a positive Committee for Medicinal Products for Human Use (CHMP) recommendation in June 2012, Novartis received the EU approval of Seebri® Breezhaler® (glycopyrronium bromide) as a once-daily, inhaled maintenance bronchodilator treatment for COPD in September 2012. This is a major regional approval of the drug and makes Seebri® Breezhaler® the second once-daily long-acting muscarinic antagonist (LAMA) marketed in the EU in addition to Spiriva. The global COPD market is estimated to be ca. $12bn in respiratory sales, representing a significant commercial opportunity. The US filing is expected in early 2014.

The Japanese Health Authorities approved Seebri® Inhalation Capsules as a once-daily, inhaled maintenance bronchodilator treatment for COPD in September 2012. This represented the first approval of the drug and makes Seebri® the second once-daily LAMA to market. Seebri® will be marketed in Japan for the relief of symptoms due to airway obstruction in COPD patients.

The combination of the LAMA we initially developed, NVA237/glycopyrronium bromide, with Novartis' long-acting beta-agonist (LABA), indacaterol, is the investigational product known as QVA149.

Phase III data on QVA149 were published at the European Respiratory Society Congress comprising three presentations and one press release on four studies that form part of the 10-study IGNITE programme. This programme recruited over 7,000 patients across 42 countries.

The first five studies in the Phase III IGNITE clinical trial programme for QVA149 formed the basis of the recent filings. The trials ILLUMINATE, SHINE, SPARK and BRIGHT met their respective superiority primary endpoints of forced expiratory volume (FEV_1) area under the curve (AUC) for 0-12 hours at 26 weeks versus salmeterol/fluticasone, mean trough FEV_1 at 26 weeks versus both indacaterol maleate and glycopyrronium bromide, reduction in the rate of exacerbations versus glycopyrronium bromide at 64 weeks, and exercise endurance time at 21 days versus placebo.

Novartis filed a marketing authorisation application with the European Medicines Agency (EMA) for QVA149 for the maintenance treatment of COPD in October 2012. The first five studies in the Phase III IGNITE clinical trial programme for QVA149 formed the basis of the filing.

QVA149 was well tolerated in the SHINE, ILLUMINATE, ENLIGHTEN, BRIGHT and SPARK trials with the incidence of adverse events similar between respective groups, US filing is expected by the end of 2014.

We continue to believe that QVA149 could be the first once-daily LABA/LAMA combination therapy to market for COPD. With the dual activity of a beta-adrenergic agonist and a muscarinic antagonist offering the potential for effective bronchodilation with convenient once-daily dosing, it has an opportunity to address a large and unmet medical need for COPD sufferers.

Interim management report (continued)

Our generic programmes continue to progress. In August 2012 we received a $3m milestone from our new US partner, indicating further VR315 development progress during the period.

Vectura continues to minimise development risk through careful financial management and a proactive partnering strategy. We look forward to a number of catalysts that give us confidence in our progress towards sustainable profitability and the creation of additional shareholder value as we look to exploit the significant opportunities within the markets in which we operate.

Summary and outlook

Vectura has delivered on its expected catalysts during the period. The Company has enjoyed significant clinical and regulatory success with its key branded programmes, partnered with Novartis. The first launches of Seebri® Breezhaler® are now underway and with QVA149 filed for approval in Europe and Japan, the Company is entering a new phase in its evolution. Going forward, an already robust financial position will be supplemented with royalties from Seebri® Breezhaler® and milestones from other products.

With the Company approaching self-sustainability, Vectura is poised to embark on its next chapter of growth.

Business review

Partnered proprietary products

In the asthma and COPD markets, we offer licensing opportunities for our products and also offer technologies to other pharmaceutical companies, where our expertise enables a more effective delivery of products.

Seebri® Breezhaler® (NVA237/glycopyrronium bromide) and QVA149 for COPD
NVA237 is a dry powder formulation for inhalation of glycopyrronium bromide, a LAMA with a rapid onset of activity within five minutes on day 1.

NVA237 was exclusively licensed to Novartis in April 2005 by Vectura and our co-development partner, Sosei Group Corporation. NVA237 (Seebri® Breezhaler®) was subsequently approved as a once-daily monotherapy for COPD in Europe, Canada, Australia and in Japan (Seebri® Inhalation Capsules) in September 2012, triggering milestone payments of $10m and $2.5m respectively. Novartis is also developing NVA237 as a combination (QVA149) with its once-daily LABA, indacaterol.

To date, Vectura has received $52.5m from Novartis and, under the terms of the licence, could receive up to an additional $135m for achievement of regulatory and commercialisation targets for both the monotherapy and combination product.

Vectura has no cost obligations for these products and royalties will be received on product sales following successful product launches. The COPD market alone is forecast to grow to ca. $15bn by 2017 and these products are expected to play an important role in this market.

Generic/branded generic products

Branded, combination, dry powder inhaler (DPI) therapy constitutes the largest sector of the respiratory market, with annual sales of over $11bn.

With an ever-growing need for effective and affordable medicines, these products have excellent potential to generate value as generics or branded generics. With extensive formulation and device expertise, both of which are needed to create DPI products that meet the regulatory requirements, Vectura is ideally placed to take advantage of this opportunity.

VR315 for asthma/COPD
VR315 is an inhaled combination therapy for asthma and COPD, delivered with Vectura's GyroHaler® DPI device in Europe, where it is licensed to Sandoz AG for development and commercialisation. The deal is worth up to €22.5m in milestones and development funding, plus royalties on all products sold. Vectura has received all development funding with €7.5m in milestones to be received.

In August 2011, we signed a US licence agreement with a division of a leading international pharmaceutical company. Under the terms of this agreement, Vectura's partner will be responsible for the commercialisation and manufacture of the product together with clinical development. Vectura is providing support for the US development of VR315, providing our expertise in formulation development and optimising performance. We received an initial payment of $10m, a milestone of $3m in August 2012 and we will receive up to $32m upon achievement of further pre-determined development milestones. In addition, we will receive a royalty from all VR315 US sales.

Sandoz also has rights to VR315 in the rest of the world (RoW) territories. Sandoz is responsible for all development work and for obtaining marketing authorisations throughout the RoW territories, which include Japan, Canada, South America and Australia. Under the terms of the agreement, Vectura will receive a royalty on net sales and a margin on the commercial manufacture and supply of the dry powder inhaler device used to deliver VR315. Vectura is also eligible for milestones and advance pre-launch royalties worth up to €7m.

Business review (continued)

VR632 for asthma/COPD

VR632 is our second inhaled combination therapy for asthma and COPD, which also uses our GyroHaler® technology. The European rights for VR632 were licensed to Sandoz in December 2007 in a deal worth up to €15.5m in milestones and development funding plus royalties on all products sold. We retain the rights for other territories. Development progress continues on the product as illustrated by the receipt of a €0.4m development milestone from Sandoz in March 2012.

VR506 for asthma

VR506 is an inhaled corticosteroid (ICS) for the treatment of asthma that is in clinical development. Steroids are the mainstay of prophylactic therapy for asthma. As one of the recommended 'preventer' drugs for adults and children, they are often prescribed alongside beta$_2$-agonist bronchodilators. Two clinical trials are currently in progress, both are due to complete in 2013.

Technologies

We have a wide range of important drug delivery technology platforms that are patent-protected, which we use to support our own product development. We also offer technologies for licence to other pharmaceutical companies, a strategy that has already generated significant revenue for Vectura.

In addition to our formulation technologies, we have cost-effective, multi-unit dose DPI delivery devices which are designed to deliver locally-acting drugs to the lungs. These include devices such as GyroHaler®, OmniHaler® and our reservoir DPI technology, Clickhaler® which has been approved in some European countries. We continue to explore licensing opportunities for all our technologies including in emerging markets.

Financial review

Summary of results

In the six months ended 30 September 2012, revenues decreased by £4.1m to £17.0m and gross profit decreased by £2.8m to £16.9m mainly as a result of the timing of milestone receipts. Research and development expenses of £13.3m (H1 2011/12 - £13.8m) decreased by £0.5m and partially offset the reduction in revenue in the period. The operating loss for the period was £1.3m (H1 2011/12 - profit £0.5m). Loss before tax was £1.1m (H1 2011/12 - profit £1.1m) but a profit was recorded after tax of £0.9m (H1 2011/12 - £2.6m).

Revenue

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

Royalties

Royalty income increased £0.1m to £6.1m (H1 2011/12 - £6.0m). Royalty income is mainly from the three products licensed to Baxter. ADVATE® for haemophilia A, contributed royalties of £5.2m, 85% of the royalties generated in the period, (H1 2011/12 - £5.2m). Adept® for prevention of surgical adhesions and Extraneal® for peritoneal dialysis, contributed royalties of £0.7m (H1 2011/12 - £0.7m).

Product licensing

Product licensing revenues in the period were £9.6m (H1 2011/12 - £10.8m). This includes milestone payments from Novartis of $10m (£6.2m) and $2.5m (£1.5m) relating to the European and Japanese approval for NVA237 respectively. Product licensing revenues also include a $3m (£1.9m) development milestone relating to VR315 US. $2m of this $3m milestone was released from deferred income and a further $1m was received in the period.

Technology licensing

Technology licensing revenues were £1.1m (H1 2011/12 - £1.2m). Most of this income was generated from the non-exclusive licence agreement signed in August 2010 with GSK. This agreement enables GSK to use some of our dry powder formulation patents for two late-stage development compounds in its respiratory product pipeline.

Pharmaceutical development services (PDS)

There were £27,000 of PDS revenues in the six month period (H1 2011/12 - £1.1m). We have now successfully completed work on some of our partnered projects. Future PDS revenues will depend on the extent and nature of feasibility studies and new licensing deals in this highly specialised area, where partners frequently require Vectura's continued involvement in the development of a product.

Device sales

Device sales were lower than the prior year period at £0.2m (H1 2011/12 - £2.0m) as stock is now at the required level.

Research and development expenses

Total investment in research and development was £13.3m, a 4% decrease on the same period in the prior year (H1 2011/12 - £13.8m). Full year research and development expenses are expected to be approximately 5% below those for the year ended 31 March 2012 (£32.8m).

Other administrative expenses

Other administrative expenses for the period were £1.5m (H1 2011/12 - £1.5m). Full year administrative expenses and are expected to remain in line with FY 2011/12 at £3.3m.

Financial review (continued)

EBITDA (earnings before interest, tax, depreciation and amortisation)
EBITDA for the period was £2.6m (H1 2011/12 - £4.9m). 2011/12 EBITDA for the full year was a loss of £4.2m.

Loss before taxation
The loss for the period before taxation was £1.1m (H1 2011/12 - profit of £1.1m).

Profit after taxation and profit per share
The profit for the period after taxation was £0.9m (H1 2011/12 - £2.6m), giving a profit per ordinary share of 0.3p (H1 2011/12 - 0.8p).

Non-current assets
Non-current assets were £76.7m at 30 September 2012, compared with £79.4m at 31 March 2012, and include goodwill (£49.6m), intangible assets (£20.3m), property, plant and equipment (£6.4m) and other receivables (£0.4m). The reduction in non-current assets of £2.7m is mainly due to the amortisation of intangible assets during the period.

Deferred income
Deferred income relates to milestones and other income received in cash but not yet recognised as revenue. The decrease of £3m in the six month period to 30 September 2012 relates to milestones received in cash prior to 31 March 2012 and recognised as revenue in the six month period. The £1.8m balance (31 March 2012 - £4.8m) will be recognised as revenue in later periods.

Cash flow
Cash and cash equivalents decreased by £3.4m in the period and net cash outflow from operating activities was £3.3m (H1 2011/12 – inflow of £3.3m). At 30 September 2012, Vectura had cash and cash equivalents of £72.1m (31 March 2012 - £75.5m), which is equivalent to 21.7p per share in issue.

Foreign exchange rates
The following foreign exchange rates were used during the period:

	H1 2012/13	H1 2011/12	FY 2011/12
Average rates:			
£/$	1.58	1.62	1.60
£/€	1.25	1.14	1.16
Period end rates:			
£/$	1.61	1.56	1.60
£/€	1.26	1.16	1.20

Condensed consolidated statement of comprehensive income for the six months ended 30 September 2012

	Note	6 months ended 30 September 2012 £m (unaudited)	6 months ended 30 September 2011 £m (unaudited)	Year ended 31 March 2012 £m (audited)
Revenue	2	17.0	21.1	33.0
Cost of sales		(0.1)	(1.4)	(2.2)
Gross profit		16.9	19.7	30.8
Research and development expenses		(13.3)	(13.8)	(32.8)
Other administrative expenses		(1.5)	(1.5)	(3.3)
Amortisation		(3.2)	(3.4)	(7.5)
Share-based compensation		(0.2)	(0.5)	(1.1)
Total administrative expenses		(4.9)	(5.4)	(11.9)
Operating (loss)/profit		(1.3)	0.5	(13.9)
Investment income	3	0.2	0.4	0.7
Finance gains	3	–	0.2	–
(Loss)/profit before taxation		(1.1)	1.1	(13.2)
Taxation	4	2.0	1.5	8.8
Profit/(loss) after taxation attributable to equity holders of the Company and total comprehensive income		0.9	2.6	(4.4)
Profit/(loss) per ordinary share:				
Basic and diluted	5	0.3p	0.8p	(1.3p)

Condensed consolidated balance sheet

at 30 September 2012

	Note	30 September 2012 £m (unaudited)	31 March 2012 £m (audited)
Assets			
Goodwill		49.6	49.6
Intangible assets		20.3	23.4
Property, plant and equipment		6.4	6.0
Other receivables		0.4	0.4
Non-current assets		76.7	79.4
Inventories		0.7	0.7
Trade and other receivables	6	13.2	9.7
Cash and cash equivalents		72.1	75.5
Current assets		86.0	85.9
Total assets		162.7	165.3
Liabilities			
Trade and other payables	7	(19.9)	(20.7)
Deferred income	8	(0.6)	(3.5)
Current liabilities		(20.5)	(24.2)
Deferred income	8	(1.2)	(1.3)
Deferred tax liabilities		–	(0.3)
Non-current liabilities		(1.2)	(1.6)
Total liabilities		(21.7)	(25.8)
Net assets		141.0	139.5
Equity			
Share capital	9	0.1	0.1
Share premium		2.6	2.2
Special reserve		8.2	8.2
Other reserve		124.9	124.9
Share-based compensation reserve		12.2	12.0
Retained loss		(7.0)	(7.9)
Total equity		141.0	139.5

Condensed consolidated cash flow statement

for the six months ended 30 September 2012

	6 months ended 30 September 2012 £m (unaudited)	6 months ended 30 September 2011 £m (unaudited)	Year ended 31 March 2012 £m (audited)
Cash flows from operating activities			
Operating (loss)/profit	(1.3)	0.5	(13.9)
Depreciation and amortisation	3.7	3.9	8.6
Share based payment compensation	0.2	0.5	1.1
Increase in inventories	–	(0.4)	(0.5)
(Increase)/decrease in receivables	(6.3)	(1.6)	0.9
(Decrease)/increase in payables	(1.0)	1.2	2.0
Decrease in deferred income	(3.0)	(1.0)	(0.7)
Exchange movements	–	0.2	–
Net cash (outflow)/inflow from operations	(7.7)	3.3	(2.5)
Research and development tax credits received	4.4	–	4.6
Net cash (outflow)/inflow from operating activities	(3.3)	3.3	2.1
Cash flows from investing activities			
Interest received	0.2	0.4	0.7
Purchase of property, plant and equipment	(0.7)	(0.3)	(4.2)
Net cash (outflow)/inflow from investing activities	(0.5)	0.1	(3.5)
Cash flows from financing activities			
Proceeds from issue of ordinary shares	0.4	2.4	2.5
Net cash inflow from financing activities	0.4	2.4	2.5
(Decrease)/increase in cash and cash equivalents	(3.4)	5.8	1.1
Cash and cash equivalents at the beginning of the period	75.5	74.4	74.4
Cash and cash equivalents at the end of the period	72.1	80.2	75.5

Condensed consolidated statement of changes in equity for the six months ended 30 September 2012 (unaudited)

	Share capital £m	Share premium £m	Special reserve £m	Other reserve £m	Share-based compensation reserve £m	Retained loss £m	Total equity £m
At 1 April 2011	0.1	78.3	8.2	124.9	10.9	(82.1)	140.3
Profit for the period	–	–	–	–	–	2.6	2.6
Share-based compensation	–	–	–	–	0.5	–	0.5
Exercise of share options	–	2.4	–	–	–	–	2.4
At 30 September 2011	0.1	80.7	8.2	124.9	11.4	(79.5)	145.8
Loss for the period	–	–	–	–	–	(7.0)	(7.0)
Share-based compensation	–	–	–	–	0.6	–	0.6
Conversion of share premium into retained (loss)/profit	–	(78.6)	–	–	–	78.6	–
Exercise of share options	–	0.1	–	–	–	–	0.1
At 31 March 2012	0.1	2.2	8.2	124.9	12.0	(7.9)	139.5
Profit for the period	–	–	–	–	–	0.9	0.9
Share-based compensation	–	–	–	–	0.2	–	0.2
Exercise of share options	–	0.4	–	–	–	–	0.4
At 30 September 2012	0.1	2.6	8.2	124.9	12.2	(7.0)	141.0

Notes to the condensed set of financial statements

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 Services 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 2012.

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 2012 has been extracted from the Group's published financial statements for that year, which contain an unqualified audit report; does not draw attention to any matters of emphasis, and did not contain statements under section 498(2) and 498(3) of the Companies Act 2006, and which have been filed with the Registrar of Companies.

Risks and uncertainties

The key business risks facing Vectura on a standalone basis remain unchanged from those set out on page 13 of the Annual Report and Accounts for the year ended 31 March 2012. 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 industry risk, clinical and regulatory risk, counterparty risk, competition and intellectual property risk, economic 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 £72.1m of cash and cash equivalents as at 30 September 2012. The Board operates an investment policy, under which the primary objective is to invest in low-risk cash or cash equivalent investments to safeguard the principal. The Group's forecasts, taking into account likely revenue streams, show that the Group has sufficient funds to operate for the foreseeable future.

After 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.

Notes to the condensed set of financial statements

(continued)

2 Revenue

Revenue by category	6 months ended 30 September 2012 £m	6 months ended 30 September 2011 £m	Year ended 31 March 2012 £m
Royalties	6.1	6.0	13.5
Product licensing	9.6	10.8	12.1
Technology licensing	1.1	1.2	2.3
Pharmaceutical development services	–	1.1	2.8
Device sales	0.2	2.0	2.3
	17.0	21.1	33.0

Revenue by customer location	6 months ended 30 September 2012 £m	6 months ended 30 September 2011 £m	Year ended 31 March 2012 £m
United Kingdom	1.2	1.1	2.5
Rest of Europe	7.8	7.9	9.4
United States of America	8.0	11.8	21.0
Rest of World	–	0.3	0.1
	17.0	21.1	33.0

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.

3 Investment income and finance gains

	6 months ended 30 September 2012 £m	6 months ended 30 September 2011 £m	Year ended 31 March 2012 £m
Investment income:			
Interest receivable on bank deposits and similar income	0.2	0.4	0.7
Finance gains:			
Foreign exchange gains	–	0.2	–

4 Taxation

	6 months ended 30 September 2012 £m	6 months ended 30 September 2011 £m	Year ended 31 March 2012 £m
Foreign withholding tax charge on royalties	–	–	(0.1)
Research and development tax credits			
– Current year	1.3	–	4.0
– receipt in respect of prior year	0.4	1.5	2.1
Reduction in deferred tax liability	0.3	–	2.8
	2.0	1.5	8.8

Notes to the condensed set of financial statements

(continued)

5 Profit/(loss) per ordinary share

The calculation of the basic and diluted profit/(loss) per ordinary share is based on the following data:

	6 months ended 30 September 2012 £m	6 months ended 30 September 2011 £m	Year ended 31 March 2012 £m
Profit/(loss) for the year (£m) for the purposes of basic and diluted earnings per share	0.9	2.6	(4.4)
Weighted average number of ordinary shares for the purposes of basic earnings per share (No. m)	332.3	328.0	329.3
Effect of dilutive potential ordinary shares (share options)	5.7	16.2	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	338.0	344.2	329.3
Profit/(loss) per ordinary share:			
Basic and diluted	0.3p	0.8p	(1.3p)

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

6 Trade and other receivables

	30 September 2012 £m	31 March 2012 £m
Trade receivables	7.8	0.8
Other receivables	1.5	4.4
Prepayments and accrued income	3.6	3.5
VAT recoverable	0.3	1.0
	13.2	9.7

7 Trade and other payables

	30 September 2012 £m	31 March 2012 £m
Trade payables	5.0	2.5
Other taxes and social security costs	0.3	–
Other payables	0.2	1.1
Accruals	14.4	17.1
	19.9	20.7

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. Income from milestone receipts under these licensing agreements is therefore deferred as follows:

	30 September 2012 £m	31 March 2012 £m
Amounts due within one year	0.6	3.5
Amounts due after more than one year	1.2	1.3
	1.8	4.8

9 Share capital

	30 September 2012		31 March 2012	
	£m	No. 000	£m	No. 000
Authorised:				
Ordinary shares of 0.025p each	0.1	441,200	0.1	441,200
Redeemable preference shares of £1 each	–	34	–	34
Allotted, called up and fully paid:				
Ordinary shares of 0.025p each	0.1	333,837	0.1	331,686
Redeemable preference shares of £1 each	–	34	–	34

10 Related party transactions

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

Directors' responsibility statement

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 the 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

Anne Hyland
Director

19 November 2012

Independent review report to Vectura Group plc

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 2012, which comprises 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 10. 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 them 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 Services 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 2012 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 Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Bristol, United Kingdom

19 November 2012

Shareholder information

Directors

John (Jack) P Cashman
(Non-Executive Chairman)

Dr Christopher P Blackwell
(Chief Executive)

Anne P Hyland
(Chief Financial Officer)

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

Dr John R Brown
(Non-Executive)

Dr Susan E Foden
(Non-Executive)

Neil W Warner
(Non-Executive)

Secretary
Anne P Hyland

Corporate broker
Peel Hunt LLP
Moor House
120 London Wall
London
EC2Y 5ET, UK

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

Public relations
FTI Consulting
26 Southampton Buildings
London
WC2A 1PB, UK

Auditor
Deloitte LLP
126–130 Hills Road
Cambridge
CB2 1RY, UK

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

Legal advisers
Olswang
90 High Holborn
London
WC1V 6XX, UK

Vectura Group plc
One Prospect West
Chippenham
Wiltshire
SN14 6FH, UK

Printed on Cocoon Preprint, a Forest Stewardship Council (FSC) certified paper, using fully sustainable, vegetable oil-based inks, power from 100% renewable resources and waterless printing technology. Print production systems registered to ISO 14001: 2004, ISO 9001: 2008 and EMAS standards and a carbon free status by offsetting all site emissions through the DEFRA and DECC recognised charity PURE.

EU Ecolabel
www.ecolabel.eu
EU Ecolabel : FR/011/003

100%
FSC
www.fsc.org
RECYCLED
Made from recycled material
FSC® C013343

By printing this publication on Cocoon Preprint 100% recycled paper rather than a non-recycled paper, the environmental impact was reduced by:

- 155 kg of landfill
- 3,030 litres of water
- 285 kWh of electricity
- 29 kg CO_2 and greenhouse houses
- 251 kg of wood

Source: Carbon footprint data evaluated by FactorX in accordance with the Bilan Carbone methodology. Calculations are based on a comparison between the recycled paper used versus a virgin fibre paper according to the latest European BREF data (virgin fibre paper) available. Results are obtained according to technical information and subject to modification.

Designed and produced by **Fox Design Consultants**
Printed by **Park Lane Press**

vectura

A leader in inhaled pharmaceuticals

Vectura Group plc

One Prospect West
Chippenham
Wiltshire SN14 6FH
United Kingdom

T +44 (0)1249 667700
F +44 (0)1249 667701
E investorqueries@vectura.com

www.vectura.com

Registered in England and Wales
Number: 3418970