Vectura Group plc

Interim Report and Accounts

for the six months ended 30 September 2014

vectura

Building a sustainable specialty pharmaceutical company

Providing benefit to patients with airways diseases

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 in excess of $46bn worldwide.[1]

Vectura now 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] Pharmaview Commercial Landscape Series Respiratory Decision Resources 2013

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.

Contents

Highlights

Financial highlights

- Revenues up 14% to £19.4m (H1 2013/14: £17.0m; FY 2013/14: £36.5m)
- EBITDA[1] up 30% to £3.0m (H1 2013/14: £2.3m; FY 2013/14: £5.2m)
- Loss before tax of £7.1m (H1 2013/14: loss £1.2m; FY 2013/14: loss £4.8m) due to increased amortisation charge relating to acquisition
- Adjusted basic EPS[2] of 0.8p (H1 2013/14: 0.7p; FY 2013/14: 1.6p)
- Robust balance sheet with cash and cash equivalents of £84.6m (£81.7m at 31 March 2014)

Operational highlights

Activaero

- Integration on track
- Increased level of deal opportunities since the acquisition

VR315 US (asthma/COPD)

- Milestone payment of $1.5m associated with positive development of VR315 in the US
  - Post period: Further development milestone of $1.5m recognised (November 2014)

VR506 (asthma) licence agreement signed

- Signed a US licence agreement with Vectura's existing, undisclosed US partner (for VR315)
  - Important step in the development of VR506 for the US market
  - Extends the successful collaboration with our established US partner

Global roll-out of inhaled assets by partners increases royalty revenues by 45%

- **Seebri® Breezhaler®*** (glycopyrronium bromide, NVA237) – approved in over 70 countries across Europe, Japan, Canada, Latin America, Asia, Australia and the Middle East
  - Q2/Q3 2014 total net sales of $74m (source: Novartis)[3]
  - NVA237 is expected to be filed in the US by Novartis in Q4 2014
- **Ultibro® Breezhaler®*** (indacaterol/glycopyrronium bromide, QVA149) – approved in over 40 countries outside the US (including EU, Japan, Canada, Mexico, Australia and Switzerland) and launched in 21 countries (including Germany, Japan and Canada)
  - Q2/Q3 2014 total net sales of $53m (source: Novartis)[3]
  - QVA149 is expected to be filed in the US by Novartis in Q4 2014
- **AirFluSal® Forspiro®*** – approved in a total of 13 European countries, as well as South Korea and Mexico. Launched in five countries to date
  - Post period: Marketing authorisation granted in Portugal, triggering a €1.5m milestone (October 2014), and in three Baltic states: Estonia, Latvia and Lithuania (November 2014)

* Ultibro®, Seebri®, Breezhaler®, AirFluSal® and Forspiro® are registered trademarks of Novartis AG

Portfolio review completed

- Projects prioritised and resources aligned with strategy

Revenues growth
driven by 45% increase in royalties

+14%

to £19.4m (H1 2013/14: £17.0m)

EBITDA[1] progression

+30%

to £3.0m (H1 2013/14: £2.3m)

Balance sheet strength
cash and cash equivalents

+£2.9m

to £84.6m (£81.7m at 31 March 2014)

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

2 Adjusted basic EPS is calculated using EBITDA and the weighted average number of shares in the period

3 Period equates to Vectura's H1 2014/15

Chief Executive's statement

In the first half of the FY2014/15, Vectura has delivered robust results with a 45% increase in royalties as its partnered products continue their global roll-out. We aim to continue to create value through the development and commercialisation of innovative products for airways diseases with high unmet need. Our focus is to optimise and accelerate return on investment. To this end, we have evaluated the strategic perspectives of our business through a thorough evaluation of our development portfolio, focusing on maintaining alignment with the evolution of our business model.

Vectura has become an established expert and "partner of choice" in airways diseases product development. Our technology platform and pipeline have been improved by M&A and selective investment. We have seen a significant increase in business development opportunities following the acquisition of Activaero.

We now have a strong platform to take Vectura to the next level of its journey to become a specialty pharmaceutical company. This transition of our business model will be undertaken in conjunction with a disciplined prioritised investment in R&D and business development and we will continue to carefully assess M&A opportunities and focus on accretive, revenue-enhancing deals. Our near-term priorities to becoming a specialty pharma company are to accelerate the overall value of our existing pipeline and to demonstrate its value realisation.

Future new product launches will increase our royalty revenues further, allowing the Board to balance investment in growth and delivery of value to shareholders.

Dr Chris Blackwell

Interim management report

Strong set of results with royalty revenues building, integration on track and portfolio review now complete

- Activaero
  - Integration on track
  - Increased levels of deal opportunities since the acquisition
- VR315, a combination therapy for asthma/COPD delivered using Ventura's proprietary technology, made good progress in the US
  - Additional two milestones received, totalling $3.0m
  - In August 2011, Ventura signed a licence agreement with a US division of a leading international pharmaceutical company for the development, manufacture and commercialisation of VR315 in the US. As at 30 September 2014, Ventura had announced development milestones under this agreement totalling $7.5m, with a further milestone of $1.5m announced post period
  - Ventura is eligible to receive a further $26m upon achievement of future predetermined development milestones. These milestones, together with the initial payment of $10m in August 2011, total $45m. In addition, Ventura will receive a royalty from all sales of VR315 in the US
- VR506 (asthma) partnership agreement signed in the US – licence agreement signed with Ventura's existing, undisclosed US partner for VR315
  - Under the terms of this agreement, Ventura's partner is responsible for the commercialisation and manufacture of the product together with clinical development
  - Ventura has received an initial payment of $4m and will receive up to $8m upon achievement of predetermined milestones. In addition, Ventura will receive a royalty from all VR506 US sales
- Seebri® Breezhaler® (glycopyrronium bromide, NVA237) – approved in over 70 countries across Europe, Japan, Canada, Latin America, Asia, Australia and the Middle East
  - Q2/Q3 2014 total net sales of $74m (source: Novartis)[1]
  - Royalty income continues to increase year-on-year
  - NVA237 is expected to be filed in the US by Novartis in Q4 2014
- Ultibro® Breezhaler® (indacaterol/glycopyrronium bromide, QVA149) – approved in over 40 countries outside the US (including EU, Japan, Canada, Mexico, Australia and Switzerland) and launched in 21 countries (including Germany, Japan and Canada)
  - Q2/Q3 2014 total net sales of $53m (source: Novartis)[1]
  - Royalty income continues to increase year-on-year
  - QVA149 is expected to be filed in the US by Novartis in Q4 2014
- AirFluSal® Forspiro® (asthma/COPD) – an inhaled combination therapy (salmeterol/fluticasone) for patients with asthma and/or COPD approved in a total of 13 European countries (four post period), as well as South Korea and Mexico. The product has been launched in five countries to date, including South Korea
  - Additional milestones received

Portfolio review complete

We have prioritised our portfolio and aligned our resources to ensure that our investment in R&D is measured, controlled, realises value near-term and is supportive of our strategy.

Ventura is on a journey to become a specialty pharmaceutical company and our near-term priorities are to:

- accelerate the overall value of our existing pipeline; and
- demonstrate value realisation in our pipeline within our strategic horizon, 2014–2021

The development focus of the Company will change over time. Our current partnered programmes are unaffected and partner obligations are contractual and must be supported. However, we will seek to focus on value realisation from later-stage products and from an increased number of revenue-generating opportunities in the near-term arising from the considerable interest in our capabilities since we presented at our Investor Day in March this year.

[1] Period equates to Ventura's H1 2014/15

Interim management report continued

Key take-aways from the portfolio review

VR475 EU (FAVOLIR®)

- Severe asthma market is forecast to grow[1,2]
- VR475 refocused to target broader market. Shift from Gina 5 OCS-dependent patients to step 4 and 5 Gina patients with severe, uncontrolled, persistent asthma
- VR475 TPP (Target Product Profile) offers potential for an effective, inhaled treatment option to reduce exacerbations
- Initiation of clinical trial activities anticipated in H1 2015 and filing anticipated in Q2 2018

VR647 (SCIPE) and VR475 US

- Analysis suggests a larger opportunity by combining both projects
- Development plan will be discussed with FDA
- Evaluating incoming licensing requests to expedite value return

VR588 (Pan-JAK kinase inhibitor)

- Focus on the asthma indication; multiple additional indications possible
- Minimise investment and focus on activities that support licensing

VR611 (TRPV1 receptor modulator)

- Minimise investment and focus on activities that support licensing

Outlook

In the first half of the FY2014/15, Vectura has delivered robust results with a 45% increase in royalties as its partnered products continue their global roll-out.

With a robust balance sheet, an augmented pipeline and as a recognised expert in airways diseases, we have a strong foundation to continue Vectura's journey to become a specialty pharmaceutical company.

Vectura has a broad and deep pipeline that offers an attractive balance of risk and reward, and we will continue to be a leader in cutting-edge technologies that support development and successful commercialisation of our products.

Vectura has nine pipeline assets expected to launch over the period to 2021 with estimated target market sizes of over $25bn,[3] potential milestone payments of over $200m from existing deals with approximately $40m related to sales milestones and $160m to development milestones.

The Company's potential revenue CAGR for the period 2014–2021 is expected to be over 25%.

The foundations are in place for the next stage of the Company's journey and we aim initially to operate a hybrid business model focused on partnering, co-development and future self-commercialisation, focusing R&D investment to the earliest point for value realisation. We will continue to evaluate the landscape for attractive opportunities with an emphasis on assets that are cash generative in the near-term and which build upon our growing revenue streams.

Our continued disciplined cash control, combined with ongoing portfolio prioritisation, will maintain R&D investments within a defined time. We continue to believe that our strategy and business model will continue to result in growing shareholder value.

1 Decision Resources Patient Base Year 2014 (accessed 4 November 2014)

2 Real-world Evaluation of Asthma Control and Treatment (REACT), Peters et al, JACI, June 2007

3 Decision Resources 2014 Pharmacor series. Note NVA237 and QVA149 potential includes global sales

Financial review

Summary of results

Vectura has delivered another set of strong results for the six-month period to 30 September 2014. Growing royalty revenue from newly-marketed products, combined with a disciplined approach to R&D investment, have resulted in a positive EBITDA of £3.0m, which is a 30% increase on the same period in the prior year.

A 45% increase in royalty revenues has contributed towards revenues of £19.4m, which are £2.4m higher than the same period in the prior year (H1 2013/14: £17.0m). Royalty revenues of £10m (H1 2013/14: £6.9m) include royalties from newly-marketed products – Ultibro® Breezhaler®, BREO® ELLIPTA®*, ANORO® ELLIPTA®* and AirFluSal® Forspiro®.

The increase in total revenues has been partially offset by a £1.4m increase in cost of sales, associated with increased device sales and development services revenues, resulting in £1.0m increase in gross profit.

Vectura continues to allocate its resources in an efficient manner and decreasing commitments on certain of our existing programmes have resulted in a £0.4m decrease in R&D expenditure when compared to the prior period. Other administrative expenses are £0.6m higher than the prior period, which is in line with expectations given the expansion of the Group's operations.

EBITDA of £3.0m (H1 2013/14: £2.3m) has increased by £0.7m compared to the same period in the prior year.

An increase in the amortisation charge to £9.1m during the period (H1 2013/14: £3.2m) is solely due to the amortisation of the Activaero intangible assets that were not part of the prior year amortisation charge. This has contributed to a loss before taxation of £7.1m (H1 2013/14: £1.2m loss). A current period taxation credit of £2.6m has resulted in a loss after tax of £4.5m (H1 2013/14: £0.3m loss).

Revenue

Revenue of £19.4m includes income from royalties, product licensing, technology licensing, development services and device sales.

Royalties

Overall, royalty revenue has increased by £3.1m to £10.0m (H1 2013/14: £6.9m) and this increase is driven by royalties earned from newly-marketed products and from a sustained increase in royalties received in relation to sales of Seebri® Breezhaler®. Royalty revenue currently represents 52% of total revenue (H1 2013/14: 41%).

Royalties earned from sales of Seebri® Breezhaler®, Ultibro® Breezhaler® and AirFluSal® Forspiro® contributed £3.4m to royalty revenue in the period (H1 2013/14: £0.9m).

Other royalty income is mainly derived from three products, two of which are licensed to Baxter. ADVATE®, for haemophilia A, contributed royalties of £5.3m and accounted for 53% of the total royalties generated in the period (H1 2013/14: £5.1m), whilst Adept®, for the prevention of surgical adhesions, contributed royalties of £0.3m (H1 2013/14: £0.3m). Royalties from GSK relating to sales of BREO® ELLIPTA® and ANORO® ELLIPTA® contributed £0.9m during the period.

Product licensing

Product licensing revenues in the period were £3.3m (H1 2013/14: £7.8m).

Of this total, £0.9m ($1.5m) relates to a development milestone defined in an exclusive licensing agreement with a US division of a leading pharmaceutical company for the development, manufacturing and commercialisation of VR315 in the US. Post period, a further $1.5m development milestone has been achieved in relation to VR315 US.

In addition, Vectura has recognised a £2.4m ($4m) milestone which is the initial payment received upon entering into a US licence agreement for VR506, a clinical stage asthma monotherapy delivered using Vectura's proprietary technology. Under this agreement, Vectura is eligible to receive up to a further $8m upon achievement of certain predetermined milestones.

In the prior period, product licensing revenues comprised £7.8m of milestones in relation to QVA149 European (Ultibro® Breezhaler®) and Japanese (Ultibro® Inhalation Capsules) approvals. These milestones were $10.0m (£6.2m) and $2.5m (£1.6m), respectively. Vectura has now begun to earn royalties on the commercial sales of these products.

* BREO® ELLIPTA® and ANORO® ELLIPTA® are registered trademarks of GlaxoSmithKline plc

Financial review continued

Revenue continued

Technology licensing

Technology licensing revenues were £2.2m (H1 2013/14: £2.1m). This total includes a £2.0m milestone earned under a non-exclusive licence agreement with GSK following the launch of ANORO® ELLIPTA® in the US. Under the terms of this agreement, Vectura received an upfront payment in September 2010 and was eligible to earn a further £10.0m in milestones. All of these milestones have now been achieved. Vectura now earns royalties on the commercial sales of BREO® ELLIPTA® and ANORO® ELLIPTA®.

Development services

There were £2.2m of development services revenues in the six-month period (H1 2013/14: £0.1m). This increase is the result of higher demand for these services from Vectura's existing partners and the addition of those partnerships acquired as part of the Activaero acquisition.

Device sales

The significant increase in device sales to £1.7m (H1 2013/14: £0.1m) is largely driven by the approval of AirFluSal® Forspiro® in certain European countries and Rest of the World territories. AirFluSal® Forspiro® uses Vectura's GyroHaler® device. Under the terms of the agreement with Sandoz, Vectura also receives royalties on net sales of AirFluSal® Forspiro®.

Expenditure

Vectura has continued to focus on cost control across all categories of expenditure during the first half of the financial year 2014/15.

Research and development expenses

Total investment in research and development was £13.2m, this being a £0.4m decrease on the same period in the prior year (H1 2013/14: £13.6m). This is partly due to an ongoing focus on cost control and partly due to the timing of certain expenditure. Research and development expenditure is expected to be higher in the second half of the current financial year as Vectura continues to exploit its newly-acquired assets and as certain clinical trial activity is initiated. Full-year guidance for research and development expenditure in the range of £40m–£45m is maintained.

Other administrative expenses

Other administrative expenses for the period were £2.2m (H1 2013/14: £1.6m). The £0.6m increase is in line with expectations, given the enlarged operations of the Group following the acquisition of Activaero. Administrative expenses in the second half of the financial year are expected to be in line with those incurred during the first half of this financial year.

EBITDA

EBITDA is a measure of Vectura's underlying operational performance and, as shown on the face of the income statement, it is calculated by adjusting Vectura's operating result for non-cash and non-recurring items. EBITDA for the period was £3.0m (H1 2013/14: £2.3m). EBITDA for FY2013/14 was £5.2m.

Taxation

The taxation credit for the period ended 30 September 2014 is £2.6m (H1 2013/14: £0.9m). Of this, £0.3m relates to prior year research and development tax credits received and £2.3m relates to non-cash movements in the deferred tax liabilities associated with the intangible assets acquired from Innovata plc and Activaero GmbH.

During the period, research and development tax credits totalling £3.6m were received in relation to the 2013/14 tax returns. As a £3.3m receivable was included in the balance sheet as at 31 March 2014, this resulted in a current year tax credit of £0.3m.

Following the acquisition of Activaero GmbH, Vectura recognised a net deferred tax liability at an effective rate of 27% in respect of the acquired intangible assets. As the assets are amortised, the resultant deferred tax liability will be released to the income statement. During the period, £1.7m has been released to the income statement in respect of the £6.3m amortisation charge associated with the Activaero intangible assets.

At 31 March 2014, the deferred tax liability included an additional £1.8m which relates to the intangible assets acquired from Innovata plc. During the period, £0.6m has been released to the income statement in respect of the £2.8m amortisation charge associated with these assets.

Non-current assets

Non-current assets were £194.3m at 30 September 2014, compared with £211.6m at 31 March 2014, and include goodwill (£56.8m), intangible assets (£122.7m), property, plant and equipment (£11.7m), investments in joint ventures (£2.7m) and other receivables (£0.4m).

The net movement of £17.3m in the period relates to property, plant and equipment additions of £0.6m, amortisation and depreciation charges of £9.6m, recognition of Vectura's £0.5m share of the loss in its joint venture, Ventaleon, and a £7.8m reduction due to the foreign exchange translation adjustment for the Activaero GmbH assets. The foreign exchange translation adjustment has been recognised in the translation reserve.

Intangible assets

Intangible assets of £122.7m include £7.9m relating to the Innovata plc acquisition and assets of £114.8m relating to the recent acquisition of Activaero GmbH.

The intangible assets of £7.9m relating to the Innovata acquisition have been amortised by £2.8m during the period and the residual balance will be fully written down over the next two years.

At 1 April 2014, the net book value of the intangible assets acquired with Activaero GmbH was €155.1m. These assets were amortised by €7.8m during the period and the current net book value of €147.3m has been translated at the prevailing exchange rate at the balance sheet date, giving a carrying value of £114.8m.

The acquired intangible assets relate to in-progress research and development programmes, which include FAVOLIR®, and they will continue to be amortised over a ten-year period from the date of acquisition. In accordance with accounting standards, the initial accounting treatment outlined above is deemed to be provisional, pending the finalisation of the fair value exercise. On that basis, the assets, liabilities or items of consideration may be restated at any time up to the anniversary of the acquisition date in March 2015.

Deferred consideration

The deferred consideration of £27.2m relates to the €35.0m cash payment that is due to be paid in August 2015 to the former shareholders of Activaero GmbH as part of the acquisition consideration.

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 difference of £5.9m within reserves. This adjustment reflects the movement in the exchange rate between 31 March 2014 and 30 September 2014. 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 2014 of £84.6m, up £2.9m since the end of the last financial year (31 March 2014: £81.7m). The net cash inflow from operating activities for the period was £2.0m, primarily driven by £3.6m received in relation to research and development tax credits.

Foreign exchange rates

The following foreign exchange rates were used during the period:

	H1 2014/15	H1 2013/14	FY 2013/14
Average rates:			
£/$	**1.68**	1.54	1.59
£/€	**1.24**	1.17	1.19
Period-end rates:			
£/$	**1.62**	1.62	1.67
£/€	**1.28**	1.20	1.21

Paul Oliver
Chief Financial Officer

Condensed consolidated income statement
for the six months ended 30 September 2014

	Note	6 months ended 30 September 2014 £m (unaudited)	6 months ended 30 September 2013 £m (unaudited)	Year ended 31 March 2014 £m (audited)
Revenue	2	**19.4**	17.0	36.5
Cost of sales		**(1.5)**	(0.1)	(1.0)
Gross profit		**17.9**	16.9	35.5
Research and development expenses		**(13.2)**	(13.6)	(28.0)
Other administrative expenses		**(2.2)**	(1.6)	(3.4)
Non-recurring acquisition costs		**—**	—	(2.5)
Amortisation		**(9.1)**	(3.2)	(6.9)
Share-based compensation		**(0.5)**	(0.4)	(0.9)
Total administrative expenses		**(11.8)**	(5.2)	(13.7)
Operating loss		**(7.1)**	(1.9)	(6.2)
Presented as:				
EBITDA[1]		**3.0**	2.3	5.2
Non-recurring acquisition costs		**—**	—	(2.5)
Amortisation		**(9.1)**	(3.2)	(6.9)
Depreciation of assets		**(0.5)**	(0.6)	(1.1)
Share-based compensation		**(0.5)**	(0.4)	(0.9)
Operating loss		**(7.1)**	(1.9)	(6.2)
Investment income	3	**0.3**	1.4	1.6
Finance gains/(losses)	3	**0.2**	(0.7)	(0.2)
Share of results of joint venture	4	**(0.5)**	—	—
Loss before taxation		**(7.1)**	(1.2)	(4.8)
Taxation	5	**2.6**	0.9	2.5
Loss after taxation attributable to equity holders of the Company		**(4.5)**	(0.3)	(2.3)
Loss per ordinary share:				
Basic and diluted[2,3]	6	**(1.1p)**	(0.1p)	(0.7p)
[1] EBITDA		**3.0**	2.3	5.2
[2] Adjusted basic earnings per ordinary share	6	**0.8p**	0.7p	1.6p
[3] Adjusted diluted earnings per ordinary share	6	**0.7p**	0.7p	1.5p

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

Condensed consolidated statement of comprehensive income
for the six months ended 30 September 2014

	6 months ended 30 September 2014 £m (unaudited)	6 months ended 30 September 2013 £m (unaudited)	Year ended 31 March 2014 £m (audited)
Loss after taxation attributable to equity holders of the Company	(4.5)	(0.3)	(2.3)
Items that may subsequently be reclassified through the income statement:			
Foreign currency translation differences for foreign operations	(5.9)	—	(1.6)
Other comprehensive expense	(5.9)	—	(1.6)
Total comprehensive loss attributable to the equity holders of the Company	(10.4)	(0.3)	(3.9)

Condensed consolidated balance sheet
at 30 September 2014

	Note	30 September 2014 £m (unaudited)	31 March 2014 £m (audited)
Assets			
Goodwill		**56.8**	57.3
Intangible assets		**122.7**	138.9
Property, plant and equipment		**11.7**	11.6
Investments in joint ventures	4	**2.7**	3.4
Other receivables		**0.4**	0.4
Non-current assets		**194.3**	211.6
Inventories		**1.0**	1.0
Trade and other receivables	7	**9.5**	13.7
Cash and cash equivalents		**84.6**	81.7
Current assets		**95.1**	96.4
Total assets		**289.4**	308.0
Liabilities			
Trade and other payables	8	**(12.6)**	(16.9)
Deferred income	9	**(0.1)**	(0.1)
Deferred consideration	10	**(27.2)**	—
Current liabilities		**(39.9)**	(17.0)
Deferred income	9	**(1.6)**	(1.7)
Deferred consideration	10	**—**	(28.7)
Deferred tax liabilities		**(29.8)**	(33.9)
Non-current liabilities		**(31.4)**	(64.3)
Total liabilities		**(71.3)**	(81.3)
Net assets		**218.1**	226.7
Equity			
Share capital	12	**0.1**	0.1
Share premium		**98.7**	97.4
Special reserve		**8.2**	8.2
Other reserve		**124.9**	124.9
Share-based compensation reserve		**14.3**	13.8
Translation reserve		**(7.5)**	(1.6)
Retained loss		**(20.6)**	(16.1)
Total equity		**218.1**	226.7

Condensed consolidated cash flow statement
for the six months ended 30 September 2014

	6 months ended 30 September 2014 £m (unaudited)	6 months ended 30 September 2013 £m (unaudited)	Year ended 31 March 2014 £m (audited)
Cash flows from operating activities			
Operating loss	**(7.1)**	(1.9)	(6.2)
Depreciation and amortisation	**9.6**	3.8	8.0
Share-based compensation	**0.5**	0.4	0.9
Decrease in inventories	**—**	—	0.2
Decrease/(increase) in receivables	**1.1**	(8.3)	(3.9)
Decrease in payables	**(5.8)**	(4.9)	(4.6)
(Decrease)/increase in deferred income	**(0.1)**	(0.1)	0.4
Exchange movements	**0.2**	(0.7)	(0.2)
Net cash outflow from operations	**(1.6)**	(11.7)	(5.4)
Research and development tax credits received	**3.6**	4.7	4.7
Net cash inflow/(outflow) from operating activities	**2.0**	(7.0)	(0.7)
Cash flows from investing activities			
Interest received	**0.2**	0.2	0.4
Purchase of property, plant and equipment	**(0.6)**	(1.3)	(2.3)
Disposal of investments	**—**	1.0	1.2
Acquisition of Activaero GmbH	**—**	—	(37.8)
Non-recurring acquisition costs	**—**	—	(2.5)
Net cash outflow from investing activities	**(0.4)**	(0.1)	(41.0)
Cash flows from financing activities			
Proceeds from issue of ordinary shares	**1.3**	2.5	55.3
Cost of raising equity	**—**	—	(2.0)
Net cash inflow from financing activities	**1.3**	2.5	53.3
Increase/(decrease) in cash and cash equivalents	**2.9**	(4.6)	11.6
Cash and cash equivalents at the beginning of the period	**81.7**	70.1	70.1
Cash and cash equivalents at the end of the period	**84.6**	65.5	81.7

Condensed consolidated statement of changes in equity
for the six months ended 30 September 2014 (unaudited)

	Share capital £m	Share premium £m	Special reserve £m	Other reserve £m	Share-based compensation reserve £m	Translation reserve £m	Retained loss £m	Total equity £m
At 1 April 2013	0.1	2.8	8.2	124.9	12.9	—	(13.8)	135.1
Loss for the period	—	—	—	—	—	—	(0.3)	(0.3)
Share-based compensation	—	—	—	—	0.4	—	—	0.4
Exercise of share options	—	2.5	—	—	—	—	—	2.5
At 30 September 2013	0.1	5.3	8.2	124.9	13.3	—	(14.1)	137.7
Loss for the period	—	—	—	—	—	—	(2.0)	(2.0)
Other comprehensive loss	—	—	—	—	—	(1.6)	—	(1.6)
Share-based compensation	—	—	—	—	0.5	—	—	0.5
Shares issued on acquisition	—	41.3	—	—	—	—	—	41.3
On placement of new shares	—	52.0	—	—	—	—	—	52.0
Cost of raising equity	—	(2.0)	—	—	—	—	—	(2.0)
Exercise of share options	—	0.8	—	—	—	—	—	0.8
At 31 March 2014	0.1	97.4	8.2	124.9	13.8	(1.6)	(16.1)	226.7
Loss for the period	—	—	—	—	—	—	(4.5)	(4.5)
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)**	**(20.6)**	**218.1**

Notes to the condensed set of financial statements
for the six months ended 30 September 2014

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 2014.

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 2014 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 33 to 38 of the Annual Report and Accounts for the year ended 31 March 2014. 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 £84.6m of cash and cash equivalents as at 30 September 2014. 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 2014 £m	6 months ended 30 September 2013 £m	Year ended 31 March 2014 £m
Royalties	**10.0**	6.9	16.3
Product licensing	**3.3**	7.8	13.3
Technology licensing	**2.2**	2.1	4.3
Development services	**2.2**	0.1	1.7
Device sales	**1.7**	0.1	0.9
	19.4	17.0	36.5

Notes to the condensed set of financial statements continued
for the six months ended 30 September 2014

2. Revenue continued

Revenue by customer location	6 months ended 30 September 2014 £m	6 months ended 30 September 2013 £m	Year ended 31 March 2014 £m
United Kingdom	**3.0**	0.2	2.8
Rest of Europe	**6.7**	10.8	17.4
United States of America	**9.7**	6.0	16.2
Rest of World	**—**	—	0.1
	19.4	17.0	36.5

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 £17.6m and non-current assets originating in the United Kingdom were £177.2m.

3. Investment income and finance gains

	6 months ended 30 September 2014 £m	6 months ended 30 September 2013 £m	Year ended 31 March 2014 £m
Investment income			
Income from sale of investment	**0.1**	1.2	1.2
Interest receivable on bank deposits and similar income	**0.2**	0.2	0.4
Total investment income	**0.3**	1.4	1.6
Finance gains/(losses)			
Foreign exchange gains/(losses)	**0.2**	(0.7)	(0.2)

4. Share of results of joint venture

Vectura has an investment in Ventaleon GmbH, whose principal activity is the research and development of pharmaceuticals. Ventaleon is incorporated in Germany and its principal place of business is Germany. Vectura holds a 48% share in the company.

	30 September 2014 £m	31 March 2014 £m
Cost		
Balance at 1 April 2014	**3.4**	—
Additions	**—**	3.5
Share of loss	**(0.5)**	—
Effects of movement in foreign exchange	**(0.2)**	(0.1)
Net book value at 30 September 2014	**2.7**	3.4

5. Taxation

	6 months ended 30 September 2014 £m	6 months ended 30 September 2013 £m	Year ended 31 March 2014 £m
Research and development tax credits:			
– current period	—	—	3.3
– receipt in respect of prior year	0.3	0.9	0.9
Net decrease/(increase) in deferred tax liability	2.3	—	(1.7)
	2.6	0.9	2.5

6. Loss per ordinary share

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

	6 months ended 30 September 2014	6 months ended 30 September 2013	Year ended 31 March 2014
Loss for the period (£m) for the purposes of basic and diluted earnings per share	(4.5)	(0.3)	(2.3)
EBITDA (£m) for the purposes of calculating adjusted earnings per share	3.0	2.3	5.2
Weighted average number of ordinary shares for the purposes of basic earnings per share (number m)	400.8	335.9	337.8
Effect of dilutive potential ordinary shares (share options)	7.7	12.3	10.8
Weighted average number of ordinary shares for the purposes of diluted earnings per share	408.5	348.2	348.6
Unadjusted loss per ordinary share			
Basic	(1.1p)	(0.1p)	(0.7p)
Diluted	—	—	—
Adjusted earnings per ordinary share			
Basic	0.8p	0.7p	1.6p
Diluted	0.7p	0.7p	1.5p

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

IAS 33 – Earnings per Share requires presentation of diluted earnings per share 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, as the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore not dilutive.

7. Trade and other receivables

	30 September 2014 £m	31 March 2014 £m
Trade receivables	3.1	4.4
Other receivables	—	3.4
Prepayments and accrued income	6.0	5.0
VAT recoverable	0.4	0.9
	9.5	13.7

Notes to the condensed set of financial statements continued
for the six months ended 30 September 2014

8. Trade and other payables

	30 September 2014 £m	31 March 2014 £m
Trade payables	**2.7**	2.3
Other payables	**0.4**	0.5
Accruals	**9.5**	14.1
	12.6	16.9

9. 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 2014 £m	31 March 2014 £m
Amounts due within one year	**0.1**	0.1
Amounts due after more than one year	**1.6**	1.7
	1.7	1.8

10. 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.

The deferred consideration held on the balance sheet is a non-contingent payment to be made to the former shareholders of Activaero in August 2015.

The undiscounted amount that Vectura Group plc is due to pay is €35m. The deferred consideration of €35m has been discounted to present value by applying a discount rate of 0.5%. This liability has been translated at the closing exchange rate as at the balance sheet date.

In accordance with accounting standards, the initial acquisition accounting treatment for the Activaero acquisition is deemed to be provisional, pending the finalisation of the fair value exercise. On that basis, the assets, liabilities or items of consideration may be restated at any time up to the anniversary of the acquisition date in March 2015.

11. 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 2014 £m	31 March 2014 £m
Cash and cash equivalents	**84.6**	81.7
Loans and receivables	**9.5**	13.7
	94.1	95.4

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 2014 £m	31 March 2014 £m
Other	**(12.6)**	(16.9)

12. Share capital

	30 September 2014		31 March 2014	
	£m	Number 000	£m	Number 000
Allotted, called up and fully paid				
Ordinary shares of 0.025p each	0.1	402,462	0.1	399,654
Redeemable preference shares of £1 each	—	34	—	34

13. 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.

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 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,

Paul Oliver
Director
17 November 2014

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 2014, 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 13. 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 2014 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
17 November 2014

Shareholder information

Directors
Bruno F J Angelici
(Non-Executive Chairman)

Dr Christopher P Blackwell
(Chief Executive)

Paul S Oliver
(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)

Company Secretary
Paul S Oliver

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

Corporate broker
J.P. Morgan Cazenove
25 Bank Street
Canary Wharf
London
E14 5JP, UK

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

Public relations
FTI Consulting
200 Aldersgate, Aldersgate Street
London
EC1A 4HD, UK

Auditor
Deloitte LLP
3 Rivergate
Temple Quay
Bristol
BS1 6GD, UK

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

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

Legal advisors
Covington & Burling LLP
265 Strand
London
WC2R 1BH, UK

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

Vectura Group plc
One Prospect West
Chippenham
Wiltshire SN14 6FH
United Kingdom

T +44 (0)1249 667700
F +44 (0)1249 667701
www.vectura.com

Registered in England and Wales
Number: 03418970

The Group's commitment to environmental issues is reflected in this Interim Report which has been printed on Heaven 42 which is FSC® certified. Printed in the UK by using environmental Waterless printing technology, and vegetable inks were used throughout.

Both manufacturing mills and the printer are registered to the Environmental Management System ISO14001 and are Forest Stewardship Council® (FSC) chain-of-custody certified. The unavoidable carbon emissions generated during the manufacture and delivery of this document, have been reduced to net zero through a verified carbon offsetting project.