Vectura Group plc

2017 Interim Results

Vectura reports strong growth of recurring revenues, substantially enhancing revenue mix and underlying profitability

Chippenham, UK – 6 September 2017: Vectura Group plc (LSE: VEC) ("Vectura" or "the Group"), an industry-leading device and formulation business for inhaled airways products, today announces its unaudited interim results for the six months ended 30 June 2017.

Financial Highlights

Comparison of the reported results to the reported prior period is impacted by significant prior period milestones and other non-recurring revenue[1]. Accordingly, additional financial information based on recurring revenue[1] is provided to support assessment of underlying performance.

	6 months ended 30 June 2017	6 months ended 30 September 2016[1]	Change
Revenue	£78.8m	£73.9m	*6.6%*
Recurring revenue[1]	£71.0m	£56.3m	26.1%
Recurring revenue[1]% of total revenue	90.1%	76.2%	*+13.9 ppts*
Operating loss	(£41.3m)	(£24.1m)	*(71.4%)*
Adjusted EBITDA[1]	£18.9m	£21.5m	*(12.1%)*
Adjusted EBITDA based on recurring revenue[1]	£11.1m	£3.9m	*184.6%*
Basic EPS	(5.6p)	(3.2p)	*(75.0%)*
Basic adjusted EBITDA per share[1]	2.8p	3.7p	*(24.3%)*

- Revenue up 6.6% to £78.8 million (six months ended 30 September 2016: £73.9 million)
  - Driven by continued momentum of in-market sales of marketed products, resulting in recurring revenue[1] up 26.1% to £71.0 million (six months ended 30 September 2016: £56.3 million)
    - In-market net sales of the eight key inhaled products for the rolling twelve months ended 30 June 2017 grew by 54.1% to over $2.3 billion[2]
  - Non-recurring revenue[1] of £7.8 million down from £17.6 million in the prior period due to lower milestones
  - Revenue mix substantially improved with 90.1% coming from recurring sources, an increase of 13.9 percentage points (six months ended 30 September 2016: 76.2%)
- Adjusted EBITDA based on recurring revenue[1], which measures underlying profitability excluding the impact of milestones and other non-recurring revenue, grew 184.6% to £11.1 million (six months to 30 September 2016: £3.9 million)
- Cash of £90.5 million at 30 June 2017 (31 December 2016: £92.5 million) reflects £4.9 million outflows for prior year tax (nine months ended 31 December 2016: £2.6 million outflows). Full year cash will benefit from the receipt post-period of £4.1 million of royalties and the $5.0 million signing payment from Sandoz
- The Board continues to expect higher overall like-for-like recurring revenue[1] compared to the 2016 full year proforma[1] level. Within total recurring revenue, product supply and device sales are likely to be in line with the 2016 full year proforma, due to an element of customer destocking in the *flutiform*® supply chain. A detailed review of priorities for R&D programmes in 2017 has been undertaken and expenditure for the full year is now expected to be lower, at £60 million - £70 million, compared to the previous guidance range of £65 million - £75 million. The impact of these changes is expected to be broadly neutral at an earnings level.

1 Includes the results of Skyepharma from the effective date of the merger, 10 June 2016

2 Internal calculations based upon royalty reports received from partners. Rolling twelve months sales for the period ended 30 June 2017, compared to the rolling twelve months sales for the period ended 30 June 2016

[1] Recurring revenue, like-for-like recurring revenue, adjusted EBITDA, adjusted EBITDA based on recurring revenue, proforma financial information, and adjusted EBITDA per share are non-IFRS measures. An explanation of non-IFRS measures can be found in the supplementary information section of this statement

Operational highlights

Significant growth across eight key in-market inhaled products

- Further expansion of demand for *flutiform*® with growth of product supply volumes in the period, a key capacity expansion initiative going live, continued roll-out in Asia Pacific and Latin America, and commencement of Phase III asthma study recruitment in China
- Continued growth from Ultibro® Breezhaler® with net sales reported by Novartis up 10% in the period on a constant currency basis, fuelled by the positive FLAME study results and the recent changes to GOLD guidelines

Progress across our novel partnered pipeline

- Validation of Vectura's FOX® handheld smart nebuliser device with first commercial launches of Breelib™ in the EU by Vectura's partner Bayer (VR876)
- Continued progress of Ablynx's Phase IIb study for RSV programme ALX-0171 (VR465) in hospitalised infants. Top line results are expected in H2 2018
- Post-period in August, Vectura announced an exclusive global agreement was signed with Dynavax for the clinical application of Vectura's proprietary smart nebuliser technology to deliver Dynavax's investigational immunotherapeutic agent to lung cancer patients (VR347)

Developments across our generics pipeline

- In May, the US Food and Drug Administration ("FDA") issued a complete response letter ("CRL") in relation to Vectura's partner, Hikma's, abbreviated new drug application ("ANDA") for a generic version of GlaxoSmithKline's Advair Diskus® (fluticasone propionate and salmeterol inhalation powder) (VR315 US). Since the CRL, Vectura has supported Hikma in a constructive dialogue with the FDA and a number of the questions raised have now been clarified and resolved. Vectura expects to be able to confirm the regulatory timetable before the end of 2017
- Partnering of the first of our new generic programmes, extending our established relationship with Sandoz through an exclusive license and development agreement for a generic of a major inhaled combination therapy for asthma and chronic obstructive pulmonary disease ("COPD") in the US (VR2081) utilising a pressurised metered dose inhaler ("pMDI")
- Post-period, Vectura today announced a major new tiotropium bromide dry powder inhaler ("DPI") development programme (VR410) for COPD, accelerated through the licensing of technology from Pulmatrix. Following the announcement of VR2081 with Sandoz, this is the second partnering deal from the new generics programmes that were announced post-merger

Continued development of our wholly-owned pipeline

- Phase III study for VR475 EU (nebulised budesonide for treatment of severe uncontrolled asthma in adults) is progressing well and, post-period in August, patient recruitment was completed earlier than previously expected. This study is expected to complete in H2 2018
- Phase I study in adults of VR647 US (nebulised budesonide for treatment of paediatric asthma) has been successfully completed with Phase II study in children planned to start in Q4 2017

Synergy realisation making excellent progress

- Substantial progress has been made with the merger integration. The new organisation structure is in place and all priority integration initiatives have completed. In line with the Board's expectations, the Group remains on track to deliver the original £10 million target annual cost synergies by 2018 with the majority of this being realised in 2017
- Further annual non-headcount cost synergy opportunities of £1 million - £2 million from 2018 have been identified and realisation initiatives are in progress

James Ward-Lilley, Chief Executive Officer of Vectura:

"*This is a robust set of results in line with Board expectations for the full year reflecting the increasing contribution from our recurring revenues alongside effective cost and synergy management. We continue to make significant headway with both our pipeline and business development. There is a productive dialogue and progress being made with the FDA following receipt of the major CRL for our VR315 Advair generic in the US, concluding a number of open questions. Along with our partner Hikma, we remain confident of the approvability of the product.*

"The Group continues to be uniquely positioned as a leading respiratory airways device and formulation specialist with a proven track record reflected in our broad offering of growing in-market revenues and multiple

pipeline and further partnering opportunities. This provides the basis for a strong outlook for the remainder of the year and beyond with multiple opportunities to create substantial shareholder value."

Analyst briefing

James Ward-Lilley, Chief Executive Officer, and Andrew Derodra, Chief Financial Officer, will present the Interim Results for analysts at 9.30am to 10.30am BST on 6 September 2017. The presentation will be held at the offices of Numis Securities Ltd., 10 Paternoster Square, London, EC4M 7LT. There will be a simultaneous live conference call. Dial-in details are:

Participant local dial-in:	+44(0)20 3427 1906
Participant free phone dial-in:	0800 279 4992
Participant code:	**5798305**

A live webcast of the meeting, with the presentation slides including proforma financial information, will be available on Vectura's website: http://www.vectura.com/investors/presentations-webcasts/

- Ends -

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About Vectura
Vectura, a FTSE250 company listed on the London Stock Exchange (LSE: VEC), is an industry-leading device and formulation business for inhaled airways products offering a uniquely integrated inhaled drug delivery platform. With our extensive range of device and formulation technologies, integrated capabilities and collaborations, we are a leader in the development of inhalation products, increasing our ability to help patients suffering from respiratory diseases.

Vectura has eight inhaled, four non-inhaled and ten oral products marketed by partners with growing global royalty streams. The group has a diverse portfolio of drugs in clinical development, including a number of novel and generic programmes which are partnered with several global pharmaceutical and biotechnology companies including Hikma, Novartis, Sandoz, Mundipharma, Kyorin, Baxter, GSK, UCB, Ablynx, Grifols, Bayer, Chiesi, Almirall, Janssen, Dynavax and Tianjin KingYork along with two wholly owned nebulised development programmes.

Forward-looking statements
This press release 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.

Operational Review

1. Significant growth across eight in-market products

Vectura has a portfolio of revenue-generating in-market partnered products and, during the six months ended 30 June 2017, the Group earned 67.0% (six months ended 30 September 2016: 55.0%) of its total revenues from eight key inhaled products (*flutiform*®, Seebri®/Ultibro® Breezhaler®, AirFluSal® Forspiro®, the three GSK Ellipta® products and Breelib™). All of these eight products were launched within the last five years and together generated in excess of $2.3 billion in-market net sales in the twelve months ended 30 June 2017 (twelve months ended 30 June 2016: $1.5 billion in-market net sales)[3].

flutiform®

flutiform® *(fluticasone/formoterol)* is a fixed dose combination of an anti-inflammatory (ICS) and a bronchodilator (LABA) in a pMDI device. Vectura earns revenue from product supply in addition to royalties on in-market net sales and is eligible to receive up to €30.0 million in future sales milestones from Mundipharma.

flutiform® continued to perform well and in-market net sales for the six-month period ended 30 June 2017 of €103.2 million were 11.1% ahead of the same period in 2016 (Q1/Q2 2016: €92.9 million)[4] generating total recurring product supply and royalty revenue for the Group of £35.4 million during the period (proforma six months ended 30 June 2016: £22.7 million). The product is now launched in 39 countries, approved in a further six and has applications for marketing authorisations under review in 18 other countries.

€'m	Q1 2016	Q2 2016	6 months ended 30 June 2016*	Q1 2017	Q2 2017	6 months ended 30 June 2017*
E.U./ROW (excluding America and Japan)	30.3	32.0	62.3	32.6	32.4	65.0
Japan	14.1	16.5	30.6	18.5	19.7	38.2
Total	44.4	48.5	92.9	51.1	52.1	103.2
Growth vs. prior year comparative period			42.7%			11.1%

* Figures shown at actual exchange rates applicable for the relevant quarter.

Volumes within the *flutiform*® supply chain saw continued growth during the period and the Group continues to make good progress with the previously announced initiatives to expand capacity. A second manufacturing vessel at the Sanofi facility in Holmes Chapel was fully commissioned in January 2017 and is producing commercial batches for both Mundipharma and Kyorin.

Mundipharma, EU & ROW – excluding North America and Japan

flutiform® continued to perform well in a challenging European ICS/LABA market which declined by 4% in value and grew by 2% in volume Q2 MAT 2017 compared to Q2 MAT 2016[5]. In contrast, *flutiform*® grew by 8% in value Q2 MAT 2017 in Europe and kept a stable market share of 3% in an increasingly competitive market[6].

During the period, there was continued roll-out into Asia Pacific and Latin America and the first enrollment into Mundipharma's Phase III asthma study in China. We await an update on the on-going regulatory review of Mundipharma's application for marketing authorisation in Europe for the breath-actuated version of *flutiform*® (*K-Haler*®). Mundipharma will present *K-Haler*® ERS abstracts on 10 and 12 September 2017.

Kyorin, Japan

[3] Internal calculations based upon royalty reports received from partners. Rolling twelve months sales for the period ended 30 June 2017, compared to the rolling twelve months sales for the period ended 30 June 2016

[4] Internal calculations using IMS Health ("IMS") data based on sales to pharmacies and excluding certain minor countries not covered by IMS. In-market sales are not the same as sales to wholesalers on which royalties are payable to the Group

[5] IMS MIDAS Q2 MAT 2017 (CER)

[6] IMS MIDAS Q2 MAT 2017 (CER)

The ICS/LABA market in Japan continued to grow in both volume and value, up 12% Q2 MAT 2017 over Q2 MAT 2016 in volume and 2% in value[7]. As a key element of its new drugs group, Kyorin continues to drive *flutiform*® success in this dynamic market and the product increased its value market share from 9% Q2 2016 to 11% Q2 2017[8]
Post-period in July 2017, Kyorin commenced a paediatric Phase III clinical trial to expand the indication of *flutiform*®. Kyorin have estimated that there are 2.6 million children between the ages of 5 and 14 who suffer from asthma in Japan[9].

Ultibro® Breezhaler® and Seebri® Breezhaler® (Novartis, EU & ROW)

Ultibro® Breezhaler® and Seebri® Breezhaler® are now established and substantial products outside the US. During the period, the Group recognised £8.0 million of total royalties for sales of these products (proforma six months ended 30 June 2016: £7.2 million). In April 2017 Vectura was pleased to confirm that Sunovion had launched Utibron™ Neohaler® in the US and the initial roll-out is now underway. Sunovion has stated that it intends to launch Seebri™ Neohaler® in the US by March 2018.

Ultibro® Breezhaler® *(indacaterol/glycopyrronium bromide, QVA149)* is a first-in-class once-daily fixed dose inhaled dual bronchodilator (LAMA/LABA) indicated as a maintenance bronchodilator treatment to relieve the symptoms of adult patients with COPD. The product is now approved in over 90 countries including Japan and countries in the EU. In July, Novartis reported net sales of $190 million for the six-month period to 30 June 2017, an increase of 10% on a constant currency basis compared to the same period in the prior year (six months ended 30 June 2016: $178 million). This growth was fuelled by the FLAME study positive results and the recent GOLD guideline changes, which recommended LABA/LAMA as a treatment option in the majority of symptomatic patients regardless of their exacerbation risk.

Seebri® Breezhaler® *(glycopyrronium bromide, NVA237)* is a once-daily fixed dose inhaled bronchodilator (LAMA) indicated as a maintenance bronchodilator treatment to relieve the symptoms of adult patients with COPD. The product is now approved for use in over 100 countries including Japan and countries in the EU. In July, Novartis reported net sales of $72 million for the six-month period to 30 June 2017 (six months ended 30 June 2016: $74 million). As expected, sales were at a consistent level with the same period in the prior calendar year as Novartis has continued to focus resource on Ultibro® Breezhaler® following the positive FLAME results.

Ultibro®, Seebri®, Breezhaler®, Neohaler®, are registered trademarks of Novartis AG. Seebri™ and Utibron™ are trademarks of Novartis AG

GSK Ellipta® products. Vectura earns royalties on sales of Breo®/Relvar® Ellipta®, Anoro® Ellipta® and Incruse® Ellipta®, subject to an annual cap of £9.0 million which was first reached in 2016. In 2017, GSK has continued to report strong performance of their Ellipta® products and accordingly Vectura has recorded royalties of £7.2 million in respect of this agreement during the six-month period to 30 June 2017 (proforma[1] six months ended 30 June 2016: £3.4 million). The remaining £1.8 million is expected to be recognised in the second half of 2017.

Legacy Vectura agreement with GSK
In July 2016, Vectura announced that it had initiated legal proceedings against GSK in the US following GSK's decision not to extend the term of its legacy agreement with Vectura beyond 31 July 2016, by licensing additional patent families. The court has scheduled a jury trial commencing on 17 December 2018.

Anoro® Ellipta®, Relvar® Ellipta®/Breo® Ellipta® and Incruse® Ellipta® are registered trademarks of GSK

AirFluSal® Forspiro® (Sandoz, EU & ROW), *(fluticasone propionate, salmeterol)* is an inhaled anti-inflammatory (ICS) and bronchodilator (LABA) combination delivered using a Vectura proprietary DPI for the treatment of asthma and/or COPD. This product has been launched to date in approximately 35 countries in Europe and elsewhere. In the period, Vectura recorded royalties and device sales of £2.0 million (proforma[1] six months ended 30 June 2016: £2.9 million).

[7] IMS MIDAS Q2 MAT 2017 (CER)

[8] IMS MIDAS Q2 MAT 2017 (CER)

[9] As reported by Kyorin

AirFluSal® and Forspiro® are registered trademarks of Novartis AG

Breelib™ (Bayer, EU & ROW – excluding US), an adapted FOX® handheld smart nebuliser as an alternative delivery method for Bayer's marketed product Ventavis (iloprost solution) for the treatment of pulmonary arterial hypertension, marketed as Breelib™. In April 2017, Vectura's portfolio of in-market inhaled assets was recently supplemented by Bayer's launch of Breelib™ in Europe, and the product has now been launched in Poland, Germany, Austria and Portugal with further roll-out continuing.

In April 2017, Vectura announced that it had earned a €5.0 million milestone upon the first launch in a European country.

Although the on-going financial value for the Group from this programme will be limited due to the small patient population, it provides external platform validation and coincides with sustained interest in multiple potential collaborations seeking to leverage the unique FOX® drug device technology.

Ventavis® is a registered trademark of Bayer AG and Breelib™ is a trademark of Bayer AG

2. *Important developments across our novel partnered pipeline validating handheld smart nebuliser technology and industry-leading innovation*

Our broad pipeline includes a number of novel partnered assets ranging from pre-clinical programmes to pre-launch assets. Typical novel molecule and/or device partnering arrangements provide Vectura with development services revenues, milestones and low single digit royalties on high-value opportunities balancing financial exposure to programmes with higher molecule risk.

VR347 (Dynavax, Global), an innovative nebulised treatment for lung cancer patients delivered using Vectura's proprietary AKITA® smart nebuliser. Post-period in August, we announced that Vectura's AKITA® smart nebuliser will be used by Dynavax to deliver DV281, a novel Toll-Like Receptor 9 (TLR9) agonist designed specifically for local delivery to primary lung tumours and lung metastases in order to generate an anti-tumour immune response. Vectura's FAVORITE™ nebulisation technology combines optimising patients' inhalation technique with the effective control of the flow rate and volume of the drug being delivered. This approach maximises the efficiency of the nebulisation and enables consistent targeted drug deposition.

The AKITA® device will initially be used in the development programme with a plan to move to the FOX® handheld device as a next step. The agreement covers the Phase I and Phase II development programmes and Vectura will provide devices and device related support to Dynavax which is responsible for the rest of the programme. Whilst addressing a substantial market opportunity, in these early phases the Group is eligible to receive modest milestones and development services revenues and does not expect a material impact on R&D expenditure.

VR465 (Ablynx, Global) *(inhaled biologic),* Vectura's adapted handheld FOX® smart nebuliser device used to deliver Ablynx's first-in-class, wholly-owned inhaled anti-RSV Nanobody®, ALX-0171, for the treatment of respiratory syncytial virus ("RSV") in infants. RSV is the leading cause of infant hospitalisation and the primary viral cause of infant death[10].

Infant RSV remains an area of high unmet medical need and there are currently no drugs specifically approved for treatment of RSV infections.

ALX-0171 is a potential breakthrough treatment option for RSV infections in vulnerable patient populations and its inhaled method of delivery offers a major platform advantage. The FOX® device used in this programme has been adapted for use with neonates and infants, demonstrating the utility of the Vectura smart nebuliser technology.

In January 2017, Ablynx confirmed the initiation of a global Phase IIb dose efficacy study, RESPIRE, in 180 infants hospitalised as a result of a RSV infection. Post-period, in August 2017, Ablynx announced that it had completed the sequential dose escalation part of the study in 36 infants hospitalised as a result of a RSV

[10] Mazur et al, Lancet, 2015

infection and that it had initiated the parallel dose part of the study with the aim of recruiting an additional 144 infants. Top line results from this study are expected in the second half of 2018.

Ablynx has stated it intends to file a Phase II study for ALX-0171 in infants hospitalised with a RSV infection for regulatory approval in Japan in Q4 2017 and the trial is expected to commence in H1 2018.

VR942 (UCB, Global) *(inhaled biologic)*, a novel dry powder biologic for uncontrolled asthma in co-development with UCB which utilises Vectura's large molecule formulation expertise and is delivered using one of Vectura's proprietary DPI devices. This programme represents an exciting opportunity with biologics currently estimated to be worth $1.5 billion in G7 markets and expected to increase to $3-5 billion[11] by 2024. Currently there are over 6 million patients with severe persistent asthma in major markets[12], of which 40-50% are uncontrolled[13]. This programme, which has the potential to be the first inhaled delivery of a biologic drug for uncontrolled asthma, has the opportunity to displace parenteral biologics with novel medicine that offers similar or better efficacy and a more convenient delivery route.

A presentation of the successful outcomes of the Phase I clinical study on VR942 made at the American Thoracic Society 113th annual conference in May was well attended and positively received.

Discussions regarding Phase II clinical study design continue and it is therefore now unlikely that this study will commence in the second half of 2017.

VR588 (Global), Vectura's wholly-owned novel broad-based, potent and selective inhaled pan-JAK (Janus Kinase) inhibitor as an inhaled therapy, with potential application in multiple indications.

Based on continued disciplined prioritisation of R&D expenditure and team capacity, the Group has focused 2017 investment on valuable later stage projects and has therefore delayed the initiation of clinical activity for VR588.

The Group is reviewing the strategic options for this programme which will include consideration of whether to out-license or to develop further internally.

3. *Significant progress across our generics pipeline assets further demonstrating Vectura's extensive, proven device and formulation expertise*

Our partnered generic assets allow Vectura to access high-volume opportunities whilst managing the significant development cost associated with large generic programmes. Typically Vectura's involvement will include both device and formulation development and as a result the Group can earn development services revenues as well as milestones and mid-teen percentage royalties on net sales of the final marketed products.

VR315 (Hikma, US) *(fluticasone propionate/salmeterol),* is the Group's partnered programme with Hikma for a generic version of Advair® Diskus® for the treatment of asthma and COPD in adolescents and adults for the US.

In May, we announced that the US FDA had issued a CRL in relation to our partner, Hikma's ANDA for a generic version of GlaxoSmithKline's Advair Diskus®. Since the CRL was received, Vectura has supported Hikma in a very constructive dialogue with the FDA and a number of the questions raised have now been clarified and resolved. We expect to be able to confirm the regulatory timetable before the end of 2017.

VR2081 (Sandoz, US) *(undisclosed generic for the treatment of asthma and COPD),* is a programme partnered with Sandoz for the US development of a generic of an existing major inhaled combination therapy for asthma and COPD, delivered in a pMDI device. This agreement, announced in June, further extends Vectura's established relationship with Sandoz and was the first partnering deal to be announced from our new wave of generics programmes that were announced post-merger.
Vectura is responsible for the development of the formulation and manufacture of clinical batches for use in pilot clinical studies whilst Sandoz is responsible for the clinical development, manufacture and commercialisation of VR2081.

[11] Based on Decision Resources 2016 and analyst estimates

[12] Asthma Epidemiology, Decision Resources Group, 2016

[13] Adelphi DSP 2016 EU4, unpublished data cited with permission.

Upon entering into the agreement, Vectura was eligible to receive an initial payment of $5 million from Sandoz and up to a further $5.0 million upon achievement of pre-determined development milestones. The total R&D cost borne by Vectura is expected to be below $20.0 million through to regulatory filing and subsequent launch, which is anticipated in the early to mid-2020's.

The $5 million initial milestone was received post-period in August and is being recognised in revenues across 2017 and 2018. This reflects the period over which research and production obligations will be delivered.

VR410 (Pulmatrix, US) *(branded generic tiotropium bromide)*, is a branded generic alternative to Spiriva® HandiHaler®14 in the US which has been accelerated through an exclusive licence agreement with Pulmatrix. The programme will deliver PUR0200 through one of Vectura's DPI devices.

Pulmatrix has been developing Pulmatrix's PUR0200, a once-daily, inhalable iSPERSE™ formulation of tiotropium bromide for COPD patients. Vectura plans to advance the product to the clinic in 2018 and consider licensing the product (VR410) in the future to one or more sub-licensees who would contribute further to the remaining development and undertake commercialisation activities.

This agreement, announced today, is the second partnering deal to be announced from the new generics programmes that were announced post-merger, after the VR2081 collaboration with Sandoz.

4. *Continued development of our wholly-owned specialist pipeline assets with further clinical activity planned for 2017*

Vectura's wholly-owned specialist assets, VR475 and VR647, provide an opportunity for higher margin capture and greater management control. Risk exposure is managed as these drug/device programmes are in niche indications, targeting specialist patient populations delivering known molecules.

VR475 (EU), improved efficacy of nebulised budesonide to create a differentiated product opportunity for severe uncontrolled adult asthma patients, is Vectura's leading and most advanced wholly-owned specialist pipeline drug/device combination asset. The programme is currently in Phase III uses the AKITA® JET smart nebuliser technology to deliver nebulised budesonide is positioned as a potential new alternative controller inhaled corticosteriod therapy for unresponsive asthmatics before additional treatment such as oral corticosteroids or injectable biologics in Europe.

Development risk of the programme is balanced since individual components of this drug-device combination are already market-proven and the product concept has already been tested in an oral corticosteroid ("OCS") sparing trial with positive results. The Phase III study is progressing well and, post-period in August, patient recruitment was completed earlier than previously expected. This study is expected to complete in H2 2018. Filing is anticipated in H2 2019.

Partnering options are being considered for the commercialisation of this asset in the EU where the opportunity would target approximately 1.5 million patients with severe persistent asthma who are uncontrolled on a high-dose ICS/LABA[15].

Vectura will present an abstract entitled "Novel nebulisation of budesonide as add-on treatment in uncontrolled asthmatics" at ERS on 12 September 2017.

VR647 (US), a more effective inhaled therapy for the paediatric asthma population, is Vectura's second wholly-owned specialist pipeline drug/device combination asset using the AKITA® JET smart nebuliser technology. VR647 is designed as a maintenance treatment and prophylactic therapy for paediatric asthma (12 months to 8 years) targeting the US market.
VR647 harnesses Vectura's innovative smart nebuliser technology targeting superior delivery of an existing drug with a proven track record in an established and significant US market where according to IMS, sales of nebulised budesonide are approximately $962 million[16] per year. This programme provides an opportunity to significantly improve the currently available nebulised delivery of budesonide with a faster delivery time, better

14 Spiriva® and HandiHaler® are registered trade marks of Boehringer Ingelheim

[15] Internal calculation based upon data obtained "Decision Resources, March 2017" and adjusted for relevant percentage patient populations obtained from Adelphi Priority DSP 2016 (unpublished data cited with permission

[16] 2016 Sales, IMS MIDAS Q4 2016 (CER)

lung deposition at a lower nominal dose whilst maintaining similar efficacy, potentially with lower local and systemic side effects.

Over the longer term, Vectura's priority is to develop strong commercial revenues in the US market by building its own specialist customer coverage with VR647 targeted for the paediatric specialist segment.

A Phase I dosing study in adults was completed in June 2017 and this study will inform the doses to be explored in a Phase II study in children planned to commence in H2 2017. These studies will be conducted to support initiation of a Phase III study in H2 2018 with a New Drug Application ("NDA") filing anticipated in 2020.

5. *Merger integration and synergy realisation making excellent progress*

Substantial progress has been made with the merger integration. The new organisation structure is in place and all priority integration initiatives have been completed. In line with the Board's expectations, the Group is expected to deliver the original £10 million target annual cost synergies by 2018 with the majority of this being realised in 2017. Further annual non-headcount cost synergy opportunities of £1 million - £2 million from 2018 have been identified and realisation initiatives are in progress.

Cumulative total merger integration costs, recorded as exceptional items, to the end of the period total £4.9 million (six months ended 30 September 2016: £3.2 million) with the majority of the balance of the £9.0 million total costs announced at the time of the merger expected to be incurred by the end of 2018.

Summary and outlook

With robust delivery in the first half of 2017, particularly from the eight key in-market inhaled products, the Board maintains its expectations for the financial year, with higher overall like-for-like recurring revenue[1] compared to the 2016 full year proforma level. Within total recurring revenue, product supply and device sales are likely to be in line with the 2016 full year proforma, due to an element of customer destocking in the *flutiform*® supply chain. Royalties from the GSK Ellipta® products are expected to reach the annual £9.0 million cap during the third quarter. As previously confirmed, minimal future royalties are anticipated for ADVATE® as prior periods reflect most if not all of run-off sales of inventory produced by Baxter prior to the January 2016 patent expiry. As Sterling weakened significantly against both Vectura's major trading currencies, the US dollar and the Euro, in the second half of 2016, the modest translation benefit reported in H1 revenues is unlikely to increase without further significant depreciation of the currency.

Vectura continues to take a measured and disciplined approach to R&D capital allocation and expects further progress with its development pipeline which offers potential for substantial future value through multiple licensing opportunities and launches within the next 3 - 5 years. A detailed review of priorities for R&D programmes in 2017 has been undertaken and expenditure for the full year is now expected to be lower, at £60 million - £70 million compared to the previous guidance range of £65 million - £75 million. The Board maintains its previous guidance of £65 million - £75 million annual R&D expenditure for 2018. The impact of the changes to revenue and R&D guidance is expected to be broadly neutral at an earnings level for the full year 2017.

As already highlighted, an initiative to expand *flutiform*® production capacity in response to growing demand was successfully introduced during the period. This increase provides flexibility to defer or possibly avoid the need for additional capital expenditure and accordingly options for additional production capacity, minimising or deferring capital outlay without impacting the long-term outlook for the product, are under review. Whilst this is ongoing, the Board expects capital expenditure in 2017 to be lower, at £10 million - £15 million, compared to the previously issued guidance range of £15 million - £20 million. The range of £10 million - £15 million for 2018 remains unchanged.

The Board looks forward to the remainder of the year to further strong delivery, pipeline progress and potential for accelerated licensing through generics, DPI and pMDI formulation and further deals using the Group's FOX® smart nebuliser technology following successful commercial validation.

Financial Review

Comparison to the previously-reported interim results ended 30 September 2016 is affected by substantial milestones and other non-recurring revenue in the prior reported period to 30 September 2016.

Accordingly, recurring revenue and adjusted EBITDA[1] (based on recurring revenue) are presented and exclude the impact of milestones and other non-recurring revenue to illustrate underlying performance from the Group's on market products.

	Reported (unaudited) six months ended		
	30 June 2017 £m	30 Sep 2016 £m	%
Revenue			
Royalties	**28.2**	30.7	(8.1)%
Product supply and device sales	**39.4**	23.6	67.0%
Share of net sales of EXPAREL®	**3.4**	2.0	70.0%
Recurring revenue	**71.0**	56.3	26.1%
Signing and milestone payments	**4.4**	14.6	(69.9%)
Development services	**3.4**	2.8	21.4%
Other revenue[a]	**-**	0.2	n/a
Total revenue	**78.8**	73.9	6.6%
Operating loss	**(41.3)**	(24.1)	(71.4%)
Adjusted EBITDA[1]	**18.9**	21.5	(12.1%)
Recurring revenue % of total revenue	***90.1%***	*76.2%*	*+13.9ppts*
Adjusted EBITDA based on recurring revenue	**11.1**	3.9	184.6%

[a] Other revenue comprises rental income in respect of the management lease to the Aenova Group of the manufacturing facility in Lyon which terminated on 30 June 2016

Revenue for the six months ended 30 June 2017 increased 6.6% to £78.8 million (six months ended 30 September 2016: £73.9 million) with recurring revenue of £71.0 million accounting for 90.1% of the total (six months ended 30 September 2016: £56.3 million, 76.2%). This includes the benefit of a full six month contribution in the period from the Skyepharma merger compared to almost four months in the reported prior period as well as strong organic growth in product supply and device sales. On a like-for-like[1] basis, excluding the run-off of substantially lower royalties from ADVATE®, where the patent expired in January 2016, and Ellipta® royalties under the legacy Vectura agreement discontinued by GSK from August 2016, recurring revenue increased 62.9% to £70.2 million (six months ended 30 September 2016: £43.1 million).

Operating loss for the six months ended 30 June 2017 increased to £41.3 million (six months ended 30 September 2016: £24.1 million loss) due to a full six months of amortisation of the intangible assets recognised on the Skyepharma merger. Amortisation for the period was £53.3 million (six months ended 30 September 2016: £33.0 million). Adjusted EBITDA[1] declined by 12.1%. This was due to the reduction of milestone and other non-recurring revenue as well as a £2.6 million higher R&D expense of £28.7 million (six months ended 30 September 2016: £26.1 million). Adjusted EBITDA based on recurring revenue grew by 184.6% to £11.1 million (six months ended 30 September 2016: £3.9 million) mainly as a result of higher product supply and device sales net of associated increased cost of sales.

Revenue

Revenue comprises royalties, product supply and device sales, signing and milestone payments, development services and other income. Revenue for the six months ended 30 June 2017 increased by 6.6% to £78.8 million compared to £73.9 million for the six months ended 30 September 2016. The inclusion of Skyepharma from 10

[1] Recurring revenue, like-for-like recurring revenue, adjusted EBITDA, adjusted EBITDA based on recurring revenue, proforma financial information, and adjusted EBITDA per share are non-IFRS measures. An explanation of non-IFRS measures can be found in the supplementary information section of this statement

June 2016 to 30 September 2016 contributed £38.7 million to Group revenue in the prior period, including substantial recurring revenue streams from royalties and *flutiform*® product supply.

Recurring revenue has grown 26.1% to £71.0 million during the six months ended 30 June 2017 and accounted for 90.1% of total revenue (six months ended 30 September 2016: £56.3 million, 76.2% of total revenue). This increase in recurring revenue mix arises from growth of *flutiform*® product supply revenues and a lower contribution to total revenues from signing and milestone payments.

Revenue for the six months ended 30 June 2017 includes a foreign exchange translation benefit of £4.5 million due to the weakness of Sterling against the Group's main trading currencies, in particular the US dollar and Euro, compared to the average exchange rates in the six-month period to 30 September 2016.

Royalties

Royalty revenue for the six months ended 30 June 2017 of £28.2 million decreased by 8.1% (six months ended 30 September 2016: £30.7 million). This reduction is largely driven by GSK's discontinuation from August 2016 of royalties for its Ellipta® products under Vectura's legacy agreements that contributed £nil in the six months ended 30 June 2017 (£7.0 million in the six months ended 30 September 2016). ADVATE® royalties of £0.8 million are also lower in the six months ended 30 June 2017 (six months ended 30 September 2016: £6.2 million) as the majority of inventory produced by Baxter prior to the patent expiry in January 2016, on which the Group is eligible to receive royalties, has been sold in prior periods. Total royalties excluding these GSK Ellipta® and ADVATE® royalties were £27.4m for the six months ended 30 June 2017, an increase of 56.6% over the comparable £17.5 million for the six months ended 30 September 2016. This is due to growth of the eight key inhaled marketed products in particular.

Net sales of Ultibro® Breezhaler®, as reported by Novartis, increased by 7% on an actual exchange rates basis to $190.0 million for the six months ended 30 June 2017 (six months ended 30 June 2016: $178.0 million). Net sales of Seebri® Breezhaler®, as reported by Novartis, were consistent at $72.0 million (six months ended 30 June 2016: $74.0 million). Total royalties earned from Novartis for both products were £8.0 million in the six months ended 30 June 2017 (six months ended 30 September 2016: £7.8 million, proforma[1] six months ended 30 June 2016: £7.2 million).

GSK have reported net sales of the Ellipta® products where the Group earns royalties (Breo®/Relvar® Ellipta®, Anoro® Ellipta® and Incruse® Ellipta®) in the six months ended 30 June 2017 up 57% to £716.0 million compared to £455.0 million for the six months ended 30 September 2016.

Under the legacy Skyepharma licence with GSK, the Group received royalties on sales of the Ellipta® products of £7.2 million in the six months ended 30 June 2017 (six months ended 30 September 2016: £2.7 million, proforma[1] six months ended 30 June 2016: £3.4 million). As a result of the £9.0 million calendar year royalty cap, only a further £1.8 million of royalties is expected in the second half of 2017 under this agreement.

Royalties from *flutiform*® were £3.2 million in the six months ended 30 June 2017 (six months ended 30 September 2016: £1.7 million, proforma[1] six months ended 30 June 2016: £2.7 million). These royalties are impacted by a cap which limits, to the extent of any gross royalties, the aggregate revenues from Mundipharma for royalties and product supply to 35% of Mundipharma's net sales of the product in the same period. Accordingly, and as reported previously, the effective royalty rate in respect of Mundipharma during the six months ended 30 June 2017 was a low single digit percentage. However, when combined with the gross margin generated by *flutiform*® product supply to Mundipharma the effective contribution is a low teens percentage of in-market net sales.

Total in-market net sales[18] for all territories covered by both the Group's partners, Mundipharma and Kyorin, for the six-month period ended 30 June 2017 were €103.2 million, 11.1% higher than the comparative period in the prior year (six months ended 30 June 2016: €92.9 million).

[2] In-market net sales are internal calculations using IMS Health (IMS) data based on sales to pharmacies and excluding certain minor countries not covered by IMS. In-market net sales are not the same as sales to wholesalers on which royalties are payable to the Group

[1] Recurring revenue, like-for-like recurring revenue, adjusted EBITDA, adjusted EBITDA based on recurring revenue, proforma financial information, and adjusted EBITDA per share are non-IFRS measures. An explanation of non-IFRS measures can be found in the supplementary information section of this statement

Other royalties largely relate to sales of AirFluSal® Forspiro® and the non-inhaled products, primarily Solaraze® and the oral portfolio.

Signing and milestone payments
Product and technology licensing milestones of £4.4 million were recognised in the six months ended 30 June 2017 (six months ended 30 September 2016: £14.6 million).

In April 2017, the Group recognised revenue of €5.0 million (£4.2 million) relating to a milestone from Bayer following the first European launch in Poland of Breelib™, the new nebuliser for Ventavis® (iloprost). Breelib™ has been developed by Bayer in collaboration with Vectura, adapting Vectura's FOX® handheld smart nebuliser device and utilising its unique flow rate and volume control technology.

In the comparative six months ended 30 September 2016, the Group reported a $10.0 million (£7.1 million) milestone following acceptance by the US FDA of Hikma's ANDA filing for VR315 US. Vectura also received a €1.5 million (£1.1 million) milestone from Ablynx after it exercised its commercial license option in May 2016 to use the Group's FOX® handheld smart nebuliser technology to progress its ALX-0171 infant RSV programme into a Phase IIb dose-ranging efficacy study. In addition, an $8.0 million (£6.1 million) sales milestone was recorded following Pacira's confirmation that worldwide annual net sales of EXPAREL® (on a cash-received basis) to 30 June 2016 had reached $250 million.

Product supply and device sales
Product supply and device sales revenues were £39.4 million for the six months ended 30 June 2017 (six months ended 30 September 2016: £23.6 million), mainly due to £32.2 million (six months ended 30 September 2016: £18.2 million) from the supply of *flutiform*® to Mundipharma and Kyorin and £5.9 million (six months ended 30 September 2016: £2.7 million) from the supply of oral products from Lyon to the Group's partners.

In addition to the royalty earned on net sales by Sandoz of AirFluSal® Forspiro®, recorded within royalty revenues, Vectura also received device sales revenue for the supply of its GyroHaler® device to Sandoz. Device sales revenue of £0.9 million for the product for the six months ended 30 June 2017 fell by £1.0 million versus the six months ended 30 September 2016 (£1.9 million) largely due to destocking.

Development services
Development services revenues were £3.4 million during the six months ended 30 June 2017 (six months ended 30 September 2016: £2.8 million) and mainly relate to the on-going development of the breath-actuated version of *flutiform*® and to the VR2076 triple programme, both with Mundipharma.

Other revenue
Other revenue for the six months ended 30 June 2017 comprises £3.4 million (six months ended 30 September 2016: £2.0 million) of the Group's three percent share of Pacira's cash receipts from net sales of EXPAREL®. For the six months ended 30 June 2017, Pacira reported that net sales of EXPAREL® increased by 6% compared to the same period in 2016 to $137.5 million.

Other revenue in the six months ended 30 September 2016 also includes £0.2 million being the final portion of the annual rental income from the Lyon facility for the period 10 - 30 June 2016, after which the Aenova lease of the facility terminated.

Cost of sales
Cost of sales increased to £28.4 million (six months ended 30 September 2016: £21.6 million including the *flutiform*® supply chain from 10 June 2016). Gross profit from *flutiform*® product supply was £11.3 million, which equates to a gross margin of 35.1% (six months ended 30 September 2016: gross profit of £2.6 million including a £3.7 million charge for the unwinding of the fair value uplift on inventory recognised under IFRS 3 *Business Combinations* on the merger date, 14.1% gross margin). Inventories for the *flutiform*® supply chain were £20.5 million at 30 June 2017 (31 December 2016: £17.6 million).

Research and development ("R&D") expenses
The Group maintains a disciplined approach to capital allocation in managing its R&D portfolio. Total investment in R&D was £2.6 million higher for the six months ended 30 June 2017 at £28.7 million (six months ended 30 September 2016: £26.1 million).

Expenditure recorded during the period comprised £16.3 million on the Group's wholly owned specialist assets (six months ended 30 September 2016: £12.0 million) driven mainly by VR475, £8.1 million on novel-patented molecule partnering projects (six months ended 30 September 2016: £9.6 million), £3.1 million on generic/analogue and device partnering projects (six months ended 30 September 2016: £4.1 million) and £1.2 million on other oral projects (six months ended 30 September 2016: £0.4 million).

As part of the merger integration and alignment, management has performed a detailed review of the research and development accruals during the half year ended 30 June 2017, including historical accruals. This activity identified a number of individually immaterial historical accruals originally established with knowledge from previous members of staff, which are not considered probable to result in future cash outflows. The amount to 30 June 2017 of these accruals totals £2.7m. The release has been made in the six-month period to 30 June 2017 and is presented separately in research and development expenses in the Condensed consolidated income statement to enable users to understand the impact of the credit on the current year performance. Management has determined that there is no material impact of the accruals on any comparative income statement, balance sheet or cash flow statement.

Other income
Other income for the six months ended 30 June 2017 mainly comprises a £0.9 million R&D expenditure credit (six months ended 30 September 2016: £nil). Following the merger, the UK entities within the Group are no longer eligible for the R&D tax credit for small and medium-sized enterprises (SMEs) but are able to claim the R&D expenditure credit for large enterprises. As this is effectively a taxable grant, it is booked within the Group's operating loss. The corresponding credit for the six months ended 30 September 2016 was recorded in the later period to 31 December 2016 as, following the Skyepharma merger, the Group was still assessing its eligibility to claim the R&D expenditure credit for large enterprises.

Amortisation of intangible assets
The amortisation charge for the six months ended 30 June 2017 was £53.3 million (six months ended 30 September 2016: £33.0 million). The increase for the period is a result of the full six-month charge for amortisation of the £379.5 million of intangible assets recognised as a result of the Skyepharma merger. Amortisation for the six months ended 30 September 2016 includes amortisation of the Skyepharma intangible assets for the period from the completion of the transaction on 10 June 2016 to 30 September 2016.

Exceptional items
Adjusted EBITDA for the six months ended 30 June 2017 is stated before £3.1 million of exceptional costs (six months ended 30 September 2016: £9.6 million). These comprise £2.1 million of post-merger integration costs, mainly redundancy and third-party consultancy costs (six months ended 30 September 2016: £3.2 million), £0.5 million of restructuring costs at the Group's manufacturing facility in France (six months ended 30 September 2016: £nil) and £0.5 million of legal fees incurred from initiating legal proceedings against GSK to enforce Vectura's patents in respect of the Ellipta® products (six months ended 30 September 2016: £0.3 million). Transaction costs of £6.1 million related to the Skyepharma merger were recorded in the six months ended 30 September 2016.

Share of loss of joint ventures and associates, net of tax
The loss of £1.8 million for the six months ended 30 June 2017 (six months ended 30 September 2016: £0.2 million) includes £1.4 million relating to the contributions necessary to finalise the valuation for approval by the Chinese State authorities of the Group's 37.84% share in Tianjin Kinnovata Pharmaceutical Company Limited. A final contribution of £0.4 million for new equipment is expected to be incurred within the next 12 months. Given the relatively early stage of this joint venture and inherent uncertainty in the Chinese market, the Group has not recognised a balance sheet carrying value for its investment.

Net Finance expense/income
Net financing expense for the six months ended 30 June 2017 totalled £1.4 million (six months ended 30 September 2016: income of £1.9 million) comprises £1.5 million of foreign exchange losses on cash and intercompany receivables partially offset by net interest income of £0.1 million. In the comparative period, net finance income of £1.9 million arose from foreign exchange and other gains of £2.1 million on cash and intercompany balances partially offset by net interest expenses of £0.2 million.

Loss before taxation

The Group has reported an increased loss before tax of £44.5 million for the six months ended 30 June 2017 (six months ended 30 September 2016: £22.4 million) mainly as a result of the significant increase in amortisation of intangible assets described earlier.

Taxation
The Group's effective tax rate ("ETR") for the six months ended 30 June 2017 is a 14% credit (six months ended 30 September 2016: 17% credit). The ETR is driven by the mix of tax credits on losses in the UK (nil credit) and tax charges on profits in Switzerland (12% charge) and the US (31% charge). It is significantly impacted by deferred tax credits on the amortisation of acquired intangible assets (19% credit). The expectation of the long-term trend for the ETR continues to be a mid-teens percentage rate.

Loss after taxation
Loss after taxation for the six months ended 30 June 2017 was £38.1 million (six months ended 30 September 2016: £18.6 million).

Earnings per share
Basic earnings per share ("EPS") was a 5.6 pence loss for the six months ended 30 June 2017 (six months ended 30 September 2016: 3.2 pence loss per share) driven by higher amortisation charges.

Basic adjusted EBITDA per share for the six months ended 30 June 2017 was 2.8 pence profit (six months ended 30 September 2016: 3.7 pence profit per share). This reduction is due to lower royalties and signing and milestone revenues in the period and higher R&D expenditure, as described above.

Balance Sheet

Goodwill
Goodwill of £167.8 million at 30 June 2017 is higher than at 31 December 2016 of £162.8 million due to foreign exchange movements.

Intangible assets
The carrying value of intangible assets at 30 June 2017 of £407.8 million (31 December 2016: £456.8 million) has decreased by £49.0 million during the period. This is due to amortisation of £53.3 million offset by foreign exchange movements of £4.3 million. On 10 June 2016, intangible assets of £379.5 million were recognised due to the Skyepharma merger, with the largest asset being attributed to *flutiform*®. These assets, which are denominated in Swiss Francs and US Dollars, are amortised over their estimated useful lives which range from two to seven years, with an average life of six years.

Property, plant and equipment
During the six months ended 30 June 2017 Vectura has invested £3.8 million of capital expenditure (six months ended 30 September 2016: £1.7 million) mainly in manufacturing equipment to support the production of *flutiform*® as well as laboratory equipment.

In January 2017, the Group's investment in expanding capacity of *flutiform*® at the Sanofi manufacturing facility in Holmes Chapel, previously classified as an asset under construction, became fully operational.

Translation reserve
In accordance with IAS21 Effects of changes in foreign exchange rates, the Group has recognised a net foreign exchange gain of £9.1 million (six months ended 30 September 2016: £55.7 million gain) within reserves as a result of translating overseas operations denominated in local currencies to the presentational currency of the Group.

Cash position and liquidity
Vectura continues to maintain strong liquidity with cash and cash equivalents at 30 June 2017 of £90.5 million (31 December 2016: £92.5 million). The Group generated a lower inflow from operating activities versus adjusted EBITDA due to a small increased investment in *flutiform*® inventories given future expectations of growth, non-cash release of R&D accruals as described above and later timing of receipt of certain royalties totalling $5.4 million. These royalties were received in July 2017. The $5.0 million payment from Sandoz following the signing of the development and license agreement for VR2081, announced on 28 June 2017, was also received post-period.

The Group also made scheduled corporation tax payments relating to prior years for its US and Swiss operations of £4.9 million in the six months ended 30 June 2017 (six months ended 30 September 2016: £0.4 million).

Cash outflows from investing activities were £28.2 million lower mainly due to the merger related outflows in the six months ended 30 September 2016 partially offset by higher capital expenditure outflows.

On 22 August 2017, HSBC Bank Plc, one of the Group's existing relationship banks, was added as a lender to the £50 million multicurrency revolving credit facility with Barclays Bank PLC. This facility expires in August 2021 and remains undrawn.

Risks and uncertainties

Only one of the principal business risks and uncertainties has changed in the period compared to those set out on pages 30 to 34 of the Group's Report and Accounts for the nine-month period ended 31 December 2016. Following receipt on 10 May 2017 of the Complete Response Letter ("CRL") from the US Food and Drug Administration (FDA) for VR315 (US), the risk previously titled "Disruption to the launch of VR315 (US)" has been updated as follows:

Issues raised by the US FDA in their Complete Response Letter for VR315 (US) are not resolved		
On 10 May 2017, our partner, Hikma Pharmaceuticals PLC ("Hikma") received a CRL from the US FDA in relation to its abbreviated new drug application for its generic version of GSK's Advair Diskus®. The FDA has categorised the CRL as 'Major'. Failure to resolve these issues at all or in a timely manner will result in a loss of potential future revenues for the Group as well as additional funds for investment. Both Vectura and Hikma are confident the issues raised in the CRL will be addressed and the product approved as an AB rated substitutable product. We expect to be able to confirm the regulatory timetable before the end of the year.		
Principal causes	**Strategic impact**	**Mitigation**
• Responses not accepted by the FDA • Cost of resolving issues is prohibitive • Competitors able to gain approval and launch	• Sustained organic growth	The Group is working closely with Hikma in a productive dialogue with the FDA to resolve the issues in the CRL by the most expedient route possible. R&D investment is being prioritised to minimise the financial impact of the delayed approval.

By order of the Board

Andrew Derodra
Chief Financial Officer
5 September 2017

Condensed consolidated income statement

for the six months ended 30 June 2017

	Note	**6 months ended 30 June 2017 (unaudited) £m**	6 months ended 30 September 2016 (unaudited) £m
Revenue	3	**78.8**	73.9
Cost of sales		**(28.4)**	(21.6)
Gross profit		**50.4**	52.3
Selling and marketing expenses		**(2.1)**	(1.8)
Research and development expenses	4	**(31.4)**	(26.1)
One-off credit to research and development expenses	4	**2.7**	-
Net research and development expenses		**(28.7)**	(26.1)
Corporate and administrative expenses		**(4.3)**	(4.5)
Share-based payments		**(1.1)**	(1.4)
Other income		**0.9**	-
Operating profit before exceptional items and amortisation		**15.1**	18.5
Amortisation of intangible assets		**(53.3)**	(33.0)
Exceptional items	5	**(3.1)**	(9.6)
Operating loss		**(41.3)**	(24.1)
Finance income	6	**0.1**	2.1
Finance expenses	6	**(1.5)**	(0.2)
Share of loss of joint ventures and associates	7	**(1.8)**	(0.2)
Loss before taxation		**(44.5)**	(22.4)
Net taxation credit	8	**6.4**	3.8
Loss after taxation		**(38.1)**	(18.6)
Adjusted EBITDA	9	**18.9**	21.5
Loss per share for the period			
Basic		**(5.6p)**	(3.2p)
Diluted		**(5.6p)**	(3.2p)

All results are attributable to shareholders of Vectura Group plc and are derived from continuing operations.

Following the Skyepharma merger on 10 June 2016, the Group changed its accounting reference date to 31 December from 31 March. As a result the comparative period presented is for the six months ended 30 September 2016.

A one-off credit to research and development expenses was recognised in the current period being the release of project accruals where future payments were no longer deemed probable (refer to Note 4).

The accompanying notes 1-14 form an integral part of these Interim Condensed Consolidated Financial Statements.

Condensed consolidated statement of other comprehensive income

for the six months ended 30 June 2017

	6 months ended 30 June 2017 (unaudited) £m	6 months ended 30 September 2016 (unaudited) £m
Loss after taxation	**(38.1)**	(18.6)
Items that may be reclassified to the income statement in future periods		
Net foreign exchange gain arising from translating foreign operations	**9.1**	55.7
Items that will not be reclassified to the income statement in future periods		
Actuarial gains/(losses) on re-measurement of pensions	**0.7**	(0.2)
Deferred tax impact	**(0.1)**	-
Other comprehensive income	**9.7**	55.5
Total comprehensive (loss) / income	**(28.4)**	36.9

The accompanying notes 1-14 form an integral part of these Interim Condensed Consolidated Financial Statements.

Condensed consolidated balance sheet

at 30 June 2017

	Note	30 June 2017 (unaudited) £m	31 December 2016 (audited) £m
ASSETS			
Non-current assets			
Goodwill	10	**167.8**	162.8
Intangible assets	10	**407.8**	456.8
Property, plant and equipment		**56.6**	54.8
Other non-current assets		**3.3**	4.0
Total non-current assets		**635.5**	678.4
Current assets			
Inventories		**21.4**	18.4
Trade and other receivables		**52.2**	56.6
Cash and cash equivalents	11	**90.5**	92.5
Total current assets		**164.1**	167.5
Total assets		**799.6**	845.9
LIABILITIES			
Current liabilities			
Trade and other payables		**(53.7)**	(59.8)
Corporation tax payable		**(7.2)**	(8.6)
Provisions		**(1.0)**	(1.9)
Total current liabilities		**(61.9)**	(70.3)
Non-current liabilities			
Other non-current payables		**(9.9)**	(12.2)
Provisions		**(4.0)**	(3.5)
Retirement obligations		**(5.3)**	(5.9)
Deferred taxation	12	**(67.3)**	(76.8)
Total non-current liabilities		**(86.5)**	(98.4)
Total liabilities		**(148.4)**	(168.7)
Net assets		**651.2**	677.2
SHAREHOLDERS' EQUITY			
Share capital	13	**0.2**	0.2
Share premium		**102.7**	102.3
Merger reserve		**551.9**	551.9
Own shares reserve		**(0.7)**	(0.7)
Share-based payments reserve		**7.8**	5.8
Translation reserve		**50.5**	41.4
Retained losses		**(61.2)**	(23.7)
Total shareholders' equity		**651.2**	677.2

The accompanying notes 1-14 form an integral part of these Interim Condensed Consolidated Financial Statements.

Condensed consolidated statement of changes in equity

for the six months ended 30 June 2017

	Share capital £m	Share premium £m	Merger reserve £m	Own shares reserve £m	Share-based payment reserve £m	Translation reserve £m	Retained losses £m	Total equity £m
At 31 March 2016 (audited)	**0.1**	**101.6**	**133.1**	**—**	**17.4**	**(7.6)**	**(7.4)**	**237.2**
Loss for the nine month period	—	—	—	—	—	—	(32.1)	(32.1)
Other comprehensive income	—	—	—	—	—	49.0	1.1	50.1
Total comprehensive income / (loss) for the period	—	—	—	—	—	49.0	(31.0)	18.0
Skyepharma scheme of arrangement	0.1	—	424.3	—	—	—	—	424.4
Share transaction costs	—	—	(2.5)	—	—	—	—	(2.5)
Share-based payments	—	—	—	—	2.3	—	—	2.3
Exercise of vested share awards	—	0.7	—	—	—	—	—	0.7
Employee share trust transactions	—	—	(1.0)	(0.7)	—	—	(1.2)	(2.9)
Merger relief	—	—	(2.0)	—	—	—	2.0	—
Transfer between reserves	—	—	—	—	(13.9)	—	13.9	—
At 31 December 2016 (audited)	**0.2**	**102.3**	**551.9**	**(0.7)**	**5.8**	**41.4**	**(23.7)**	**677.2**
Loss for the period	—	—	—	—	—	—	(38.1)	(38.1)
Other comprehensive income	—	—	—	—	—	9.1	0.6	9.7
Total comprehensive (loss) / income for the period	—	—	—	—	—	9.1	(37.5)	(28.4)
Share-based payments	—	—	—	—	2.0	—	—	2.0
Exercise of vested share awards	—	0.4	—	—	—	—	—	0.4
At 30 June 2017 (unaudited)	**0.2**	**102.7**	**551.9**	**(0.7)**	**7.8**	**50.5**	**(61.2)**	**651.2**

The accompanying notes 1-14 form an integral part of these Interim Condensed Consolidated Financial Statements.

Condensed consolidated cash flow statement

for the six months ended 30 June 2017

	6 months ended 30 June 2017 (unaudited) £m	6 months ended 30 September 2016 (unaudited) £m
Cash flows from operating activities		
Loss before tax	**(44.5)**	(22.4)
Net finance expense/(income)	**1.4**	(1.9)
Share of movement of equity accounted investments	**1.8**	0.2
Depreciation	**2.7**	1.6
Amortisation	**53.3**	33.0
Share-based payments (including those in exceptional items)	**2.0**	1.4
Increase in inventories	**(2.8)**	(0.3)
Decrease in trade and other receivables	**4.3**	0.8
(Decrease)/increase in trade and other payables	**(5.9)**	3.6
Non-recurring transaction costs paid	**1.1**	6.1
Foreign exchange movements	**(1.6)**	0.7
Other non-cash items	**(2.2)**	0.1
Cash inflow from operating activities	**9.6**	22.9
Research and development tax credits received	**0.3**	2.4
Corporation tax paid	**(4.9)**	(0.4)
Net cash inflow from operating activities	**5.0**	24.9
Cash flows from investing activities		
Skyepharma merger, net of cash acquired	**-**	(25.0)
Exceptional merger and integration costs	**(1.1)**	(11.9)
Proceeds from sale of property, plant and equipment	**-**	2.8
Purchase of property, plant and equipment	**(6.5)**	(1.7)
Interest received	**0.1**	0.1
Net cash outflow from investing activities	**(7.5)**	(35.7)
Net cash outflow before financing activities	**(2.5)**	(10.8)
Cash flows from financing activities		
Proceeds from issue of ordinary shares	**0.4**	0.3
Repayment of borrowings	**(0.1)**	(0.1)
Interest paid and other finance charges	**(0.2)**	(0.3)
Net cash inflow/(outflow) from financing activities	**0.1**	(0.1)
Effect of foreign exchange rate changes	**0.4**	3.1
Decrease in cash and cash equivalents	**(2.0)**	(7.8)
Cash and cash equivalents at beginning of the period	**92.5**	99.8
Cash and cash equivalents at end of the period	**90.5**	92.0

The accompanying notes 1-14 form an integral part of these Interim Condensed Consolidated Financial Statements.

1. General information

Vectura Group plc ('the Company') and its subsidiaries (together, "Vectura" or 'the Group') is an industry-leading airways disease formulation and device development business. Vectura has eight inhaled, four non-inhaled and ten oral products marketed by partners, and a portfolio of owned and partnered drugs in development.

Vectura has a number of licence agreements with several global pharmaceutical and biotechnology companies including Hikma, Novartis, Sandoz, Mundipharma, Kyorin, GSK and Bayer who market our products. The Group has Research and Development centres based in the UK, Switzerland and Germany and oral manufacturing capabilities in France.

The Company is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the UK. These Interim Condensed Consolidated Financial Statements were approved for issue on 5 September 2017.

These Interim Condensed Consolidated Financial Statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the period ended 31 December 2016 were approved by the Board of Directors on 20 March 2017 and delivered to the Registrar of Companies. The report of the auditor, Deloitte LLP, on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006. The Group's current external auditor, KPMG LLP, has reviewed these Interim Condensed Consolidated Financial Statements in accordance with the International Standard on Review Engagements (UK and Ireland) 2410 and their independent review report is set out after the Directors' responsibility statement.

2. Basis of preparation

These Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2017 have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and with IAS 34, 'Interim financial reporting', as adopted by the European Union. Accordingly, these financial statements are condensed and do not include all the disclosures that are required for full annual financial statements and should be read in conjunction with the Group's Report and Accounts for the period ended 31 December 2016, which have been prepared in accordance with IFRSs as adopted by the European Union. There have been no changes in risk management policies or procedures since 31 December 2016.

Vectura meets its day-to-day working capital requirements through its on hand cash resources and available bank facilities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that it is able to operate without the need to use its current facilities for the foreseeable future. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. Having reassessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the condensed consolidated interim financial statements.

The accounting policies adopted are consistent with those of the 31 December 2016 Report and Accounts. A number of amendments to IFRSs became effective for the financial year beginning on 1 January 2017, however the Group did not have to change its accounting policies or make any retrospective adjustments as a result of adopting these new standards. Taxation in the interim periods is accrued using the expected tax rate forecast for the full year in each applicable jurisdiction.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these Interim Condensed Consolidated Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at 31 December 2016.

Owing to the change in accounting reference date, the comparative results for the period refer to the most recently published interim results for the six months ended 30 September 2016. As the Group's operations are not considered particularly seasonal in nature this is regarded as comparable except that, due to the Skyepharma merger, the results of the Skyepharma business are only included in the comparative results from the 10 June 2016 merger date.

The Group is managed on the basis of a single reportable segment, being the development and supply of pharmaceutical products. It has been determined that there is only one operating segment, because the Chief Operating Decision Maker, represented by the Board, allocates resources on the basis of integrated management information, which is presented to the Board at least every two months, as well as the integrated management information in the annual budget.

There have been no additional related party transactions (other than those described in Note 14) during this reporting period.

3. Revenue

The Group derives the following types of revenue by income stream:

	6 months ended 30 June 2017 (unaudited) £m	6 months ended 30 September 2016 (unaudited) £m
Royalties	**28.2**	30.7
Product supply and device sales	**39.4**	23.6
Other revenue - share of net sales of EXPAREL®	**3.4**	2.0
Recurring revenue	**71.0**	56.3
Signing and milestone payments	**4.4**	14.6
Development services	**3.4**	2.8
Other revenue	**-**	0.2
Non-recurring revenue	**7.8**	17.6
Total revenue by income stream	**78.8**	73.9

4. Research and development expenses

	6 months ended 30 June 2017 (unaudited) £m	6 months ended 30 September 2016 (unaudited) £m
Wholly-owned specialist assets	**17.3**	12.0
Novel-patented molecule and device partnering projects	**9.2**	9.6
Generic/analogue molecule and device partnering projects	**3.7**	4.1
Other oral projects	**1.2**	0.4
Research and development expenses	**31.4**	26.1
One-off credit to research and development expenses	**(2.7)**	-
Net research and development expenses	**28.7**	**26.1**

As part of the merger integration and alignment, management has performed a detailed review of the research and development accruals during the half year ended 30 June 2017, including historical accruals. This activity identified a number of individually immaterial historical accruals originally established with knowledge from previous members of staff, which are not considered probable to result in future cash outflows. The amount to 30 June 2017 of these accruals totals £2.7m. The release has been made in the six-month period to 30 June 2017 and is presented separately in research and development expenses in the Condensed consolidated income statement to enable users to understand the impact of the credit on the current year performance. Management has determined that there is no material impact of the accruals on any comparative income statement, balance sheet or cash flow statement.

5. Exceptional items

	6 months ended 30 June 2017 (unaudited) £m	6 months ended 30 September 2016 (unaudited) £m
Skyepharma merger transaction costs	**—**	6.1
Post-merger integration costs	**2.1**	3.2
Other restructuring and legal fees	**1.0**	0.3
Total exceptional items	**3.1**	9.6

Post-merger integration costs include one-off isolated instances of spend on projects required to combine the two businesses primarily relating to Human Resources, Finance and Information Technology.

Post-merger integration costs include a share based payment charge of £0.9 million. Upon completion of the merger, 1,490,982 exceptional nil-cost awards were granted to key members of management, excluding Executive Directors, considered critical to the integration process. These awards vest in full provided that an 18-month or 36-month service condition is met from their date of grant. There are no performance conditions associated with these awards. The grant date fair value was £1.41 per share and the total share-based payment charge, assuming no lapses occur, will be expensed evenly to 21 March 2018 or 21 September 2019, depending on the applicable service conditions.

5. Exceptional items continued

Other costs of £1.2m include legal fees from initiating legal proceedings against GSK relating to enforcement of certain patents in respect of the Ellipta® products. Should this progress to trial the legal costs are expected to be incurred over several periods and will be significant. Due to the irregularity of these circumstances and the nature of the costs in this instance, they are presented as exceptional. Other costs of £1.0m also include incremental restructuring costs at the Group's non-core manufacturing facility in Lyon, France.

Exceptional items for the comparative period were predominantly related to one off transaction costs associated with the merger alongside post-merger integration activities.

6. Net finance income and expenses

Net finance expense of £1.4m relates to foreign exchange losses on cash and intercompany balances of £1.5m partially offset by net interest income of £0.1m. In the comparative period, net finance income of £1.9m arose from foreign exchange and other gains of £2.1m on cash and intercompany balances offset by net interest expenses of £0.2m.

7. Joint ventures and associates

The charge of £1.8m (six months ended 30 September 2016: £0.2m) relates to the contribution to the Group's Chinese joint venture of £1.4m (six months ended 30 September 2016: £0.2m: £nil) and the Group's share of the loss in the German associate Ventaleon GmBH of £0.4m (six months ended 30 September 2016: £0.2m £0.2m).

During the period, the Group obtained confirmation that the Chinese State authorities had approved the valuation of assets contributed in return for a 37.84% share in Tianjin Kinnovata Pharmaceutical Company Limited ("Kinnovata"). Kinnovata will develop, manufacture and commercialise the Clickhaler® and Duohaler® respiratory products for the Chinese market. Vectura contributed the intellectual property associated with Clickhaler® and Duohaler® and will be entitled to a 5% royalty on future net sales. In order to finalise the valuation process, costs of £1.4m have been incurred comprising £0.4m for the cost of new equipment and a £1.0m waiver of a loan previously made to the joint venture. These contributions are considered arms-length related party transactions, necessary to finalise the valuation process. It is anticipated that a final £0.4m contribution for the new equipment will be incurred over the next 12 months conditional on relevant milestones being achieved in the construction process. These costs are presented as a share in the movement of equity accounted investments.

Whilst the Group is not committed to make any further contributions other than as set out above, Vectura's share could be diluted if it does not participate in any potential future capital raises. Owing to potential for delays and uncertainty inherent within the Chinese market, no value is attributed to the investment at present and no gain on contribution of the Group's intellectual property and fully depreciated fixed assets is recognised.

8. Taxation

The Group's effective tax rate has been calculated as a 14% credit (six months ended 30 September 2016: 17% credit) on the Group's loss before taxation. The lower credit this period is due to the inclusion of Skyepharma's profits in the Swiss and US jurisdictions for the full six-month period.

A taxation credit of £6.4m (six months ended 30 September 2016: £3.8m) has been recognised in the consolidated income statement, being the net effect of a tax expense in the Group's US and Swiss operations offset by deferred tax credits on the amortisation of acquisition accounting fair value adjustments. IAS 34 requires that income tax expense is recognised in each interim period based upon the best estimate of the weighted average annual income tax rate expected for the full financial year.

9. Adjusted EBITDA

Adjusted EBITDA is a non-statutory measure used by the Board, the Executive Leadership Team and managers of the business to monitor the Group's performance.

	6 months ended 30 June 2017 (unaudited) £m	6 months ended 30 September 2016 (unaudited) £m
Operating loss	**(41.3)**	(24.1)
Exceptional items	**3.1**	9.6
Amortisation of intangible assets	**53.3**	33.0
Depreciation of property, plant and equipment	**2.7**	1.6
Share-based payments	**1.1**	1.4
Adjusted EBITDA	**18.9**	21.5

9. Adjusted EBITDA continued

	6 months ended 30 June 2017 (unaudited) £m	6 months ended 30 September 2016 (unaudited) £m
Adjusted EBITDA per share for the period		
Basic	**2.8p**	3.7p
Diluted	**2.8p**	3.7p

Basic Adjusted EBITDA per share is calculated by dividing Adjusted EBITDA by the weighted average number of shares in issue for the six-month period ended 30 June 2017 of 678.5 million shares (six months ended 30 September 2016: 574.7 million shares). Diluted EBITDA is calculated by dividing Adjusted EBITDA by the weighted average number of shares including the effect of dilutive potential shares of 5.8 million (six months ended 30 September 2016 11.1 million shares). This metric demonstrates underlying profitability per share.

Adjusted EBITA based on recurring revenues is calculated as follows:

	6 months ended 30 June 2017 (unaudited) £m	6 months ended 30 September 2016 (unaudited) £m
Adjusted EBITDA	18.9	21.5
Exclude signing and milestone payments	(4.4)	(14.6)
Exclude development services	(3.4)	(2.8)
Exclude other revenue	-	(0.2)
Adjusted EBITA based on recurring revenues	**11.1**	**3.9**

10. Goodwill and intangible assets

(Unaudited)	Goodwill £m	Intellectual property £m	Other £m	Total £m
Cost				
At 1 January 2017	162.8	627.7	5.7	796.2
Foreign exchange movements	5.0	10.7	—	15.7
At 30 June 2017	**167.8**	**638.4**	**5.7**	**811.9**
Amortisation				
At 1 January 2017	—	(171.5)	(5.1)	(176.6)
Amortisation charge	—	(53.2)	(0.1)	(53.3)
Foreign exchange movements	—	(6.4)	—	(6.4)
At 30 June 2017	—	(231.1)	(5.2)	(236.3)
Net book value				
At 30 June 2017	**167.8**	**407.3**	**0.5**	**575.6**
At 1 January 2017	162.8	456.2	0.6	619.6

10. Goodwill and intangible assets continued

(Audited)	Goodwill £m	Intellectual property £m	Other £m	Total £m
Cost				
At 1 April 2016	57.4	201.2	—	258.6
Skyepharma merger	100.8	374.4	5.1	480.3
Additions	—	0.1	—	0.1
Foreign exchange movements	4.6	52.0	0.6	57.2
At 31 December 2016	162.8	627.7	5.7	796.2
Amortisation				
At 1 April 2016	—	(109.0)	—	(109.0)
Amortisation charge	—	(58.9)	(5.1)	(64.0)
Foreign exchange movements	—	(3.6)	—	(3.6)
At 31 December 2016	—	(171.5)	(5.1)	(176.6)
Net book value				
At 31 December 2016	162.8	456.2	0.6	619.6

IAS 34 Interim financial statements requires the recognition and measurement of impairments to be determined by the same criteria applied to the latest annual reporting period in accordance with IAS 36 Impairments, having reviewed the assets for indicators of significant impairment since the most recent annual report.

Management assess internal and external triggers associated with the intangible assets including development of competing products, changes in the legal framework covering patents, rights or licences or litigation, advances in medicine and/or technology that affect medical treatments or adverse sales or financial performance and delays or increased costs of development. IAS 36 paragraph 9 requires impairment tests to be undertaken on any asset where there is evidence of a significant impairment trigger. Where these were identified, a value-in-use calculation was performed using assumptions consistent to the assumptions used in the latest Report and Accounts, updated for the most recent cash flow forecasts. No impairment was identified (31 December 2016: £nil). Value-in-use calculations are based on internal forecasts and are therefore sensitive to changes in the assumptions applied in these forecasts.

On 11 May 2017, Vectura announced that its partner on VR315 US, Hikma Pharmaceuticals PLC ("Hikma") received a Complete Response Letter ("CRL") from the US Food and Drug Administration ("FDA") in relation to its abbreviated new drug application ("ANDA") for its generic version of GlaxoSmithKline's Advair Diskus®.

Whilst Hikma and Vectura remain committed to bringing this important product to the US market and have confidence in the future approval of the programme as an AB-rated substitutable product, the receipt of the CRL is considered an impairment trigger. As VR315 US is an internally generated intangible then no value is ascribed to it in accordance with IAS 38 Intangible assets and hence there is no intangible asset value to test for impairment. However, given that this is a significant project for the Group, it was also considered to be an impairment trigger for goodwill allocated to the associated UK/Germany CGU. The carrying value of goodwill associated with this CGU was considered supportable even when applying the most serve scenarios and as such no impairment has been recognised.

11. Cash and cash equivalents

The Group's cash and cash equivalents are denominated in the following currencies:

	30 June 2017 (unaudited) £m	31 December 2016 (audited) £m
Sterling	30.3	27.8
US Dollars	20.8	34.0
Euros	26.8	24.2
Swiss Francs	12.6	6.5
Cash and cash equivalents	**90.5**	**92.5**

The Group has access to a £50m unsecured multi-currency revolving credit facility with Barclays Bank PLC and HSBC Bank Plc. Interest is charged on borrowings at 1.0 - 2.0 percent above LIBOR/EURIBOR in the jurisdiction using the facility. Compliance with an EBITDA and an interest cover covenant is required following each reporting period once drawings occur. To date no drawings have occurred and the full facility remains available. The facility expires in August 2021.

12. Deferred tax liabilities

(Unaudited)	Skyepharma intangible assets £m	German intangible assets £m	Swiss unrealised exchange gains £m	Total £m
At 1 January 2017	(53.1)	(18.7)	(5.0)	(76.8)
Utilised in the income statement	6.9	3.2	(0.1)	10.0
Exchange differences	0.1	(0.4)	(0.2)	(0.5)
At 30 June 2017	**(46.1)**	**(15.9)**	**(5.3)**	**(67.3)**

Deferred tax liabilities predominately arise in relation to the recognition of intangible assets at fair value in accordance with IFRS 3 Business Combinations. These liabilities unwind to offset the distortion to the effective tax rate that otherwise occurs as the intangible assets are amortised.

The deferred tax asset on the Swiss pension liability of £1.1m (31 December 2016: £1.2m) is presented in non-current assets and the movement in the deferred tax asset due the actuarial gain in the six months to 30 June 2017 is presented within other comprehensive income.

13. Share capital

Allotted, called up and fully paid share capital is as follows:

	£m	Shares
Ordinary 0.025p shares as at 31 December 2016	0.2	677,469,055
Ordinary 0.025p issued to satisfy employee share plans	-	1,874,697
Ordinary 0.025p shares as at 30 June 2017	**0.2**	**679,343,752**

Employee share options exercised during the period had a weighted average exercise price of 145.2 pence per share.

14. Related Party Transactions

No material related-party transactions have been identified in the six months ended 30 June 2017 other than those described above in Note 7 or in addition to those described in Note 29 of the Vectura Group plc Annual Report and Accounts for the nine month period ended 31 December 2016.

Supplementary information (unaudited)

Non-IFRS disclosures

Recurring revenue
Recurring revenue is defined as revenue from royalties, share of net sales of EXPAREL®, product supply and device sales. As such, it is a measure of revenue the Group earns from in-market sales of its marketed products including *flutiform*®, Seebri®/Ultibro®, the GSK Ellipta® products and AirFluSal®.

Recurring revenue is the portion of the Group's revenue from sources that are likely to continue in the future, removing potentially material fluctuations due to milestones and other non-recurring items. It is therefore a useful metric by which to assess the Group's underlying performance.

Like-for-like recurring revenue
Like-for-like recurring revenue is defined as revenue from royalties, share of sales, product supply and device sales – excluding royalties from the GSK Ellipta® products under the legacy Vectura agreement which were discontinued by GSK from August 2016 and are subject to an ongoing dispute and royalties earned from ADVATE® following patent expiry in January 2016.

The Group recorded £7.0 million GSK Ellipta® royalty revenues under the legacy Vectura agreement for the six months ended 30 September 2016 and £10.5m for the proforma period to 30 June 2016.

The Group recorded £0.8 million ADVATE® royalty revenues for the six months ended 30 June 2017, compared to £6.2 million in the six months ended 30 September 2016; this being an expected decline as the majority of inventory produced by Baxter prior to the patent expiry in January 2016, on which the Group is eligible to receive royalties was sold in prior periods. In the proforma period to 30 June 2016 ADVATE® royalties were £6.2 million.

Adjusted EBITDA
Adjusted EBITDA is calculated by taking operating loss and adding back depreciation, amortisation, exceptional items and charges for share-based payments. For a reconciliation of operating loss to adjusted EBITDA, please refer to Note 9 of the financial statements.

Adjusted EBITDA is a non-statutory measure used by the Board, the Executive Leadership Team and managers of the business to monitor Vectura's performance as it provides useful information about the Group's underlying profitability.

Adjusted EBITDA based on recurring revenues
Adjusted EBITDA is calculated by taking operating loss arising from recurring revenues and adding back depreciation, amortisation, exceptional items and charges for share-based payments, and also deducting development services revenues and signing and milestone revenues.

Presenting adjusted EBITDA based on recurring revenues demonstrates the underlying profitability of the Group excluding non-recurring items of revenue which can distort analysis of trends in performance. It is a measure of the profitability of the Group based on the revenue generated by our marketed products less all the costs included within adjusted EBITDA.

For a reconciliation of adjusted EBITDA to adjusted EBITDA based on recurring revenues, please refer to Note 9 of the financial statements.

Adjusted EBITDA per share
Adjusted EBITDA per share is calculated as adjusted EBITDA divided by the weighted average number of shares in issue during the period. This metric demonstrates underlying profitability per share. For a calculation of adjusted EBITDA per share, please refer to Note 9 of the financial statements.

Supplementary unaudited proforma financial information
Supplementary unaudited proforma revenue and adjusted EBITDA, which exclude acquisition accounting adjustments, are presented as though the merger with Skyepharma was implemented on or before 1 January 2016. This information has been provided in order to indicate underlying performance. No reconciliation is provided for the proforma information for the six-month period ended 30 June 2016 as the comparative reported results are for the six months ended 30 September 2016. This comparative proforma information for the six months ended 30 June 2016 has been extracted from the Group's management accounts, which are prepared in accordance with IFRS as adopted by the EU, and then adjusted for acquisition accounting adjustments relating to the Skyepharma merger. This information has been prepared in in accordance with the accounting policies as disclosed in the 31 December Report and Accounts.

Directors' responsibility statement

The Directors confirm that these Interim Condensed Consolidated Financial Statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of consolidated financial statements; and
- a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last Annual Report and Accounts.

The Directors of Vectura Group plc are listed in the Annual Report for 31 December 2016, with the exception of the following changes in the period:

- Mr T Philips resigned on 31 May 2017

A list of current Directors is maintained on the Vectura Group plc website: http://www.vectura.com/company/leadership/

By order of the Board

Andrew Derodra

Director

5 September 2017

Independent review report to Vectura Group plc

Conclusion

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 June 2017 which comprises of a Condensed consolidation income statement, Condensed consolidated statement of other comprehensive income, Condensed consolidated balance sheet, Condensed consolidated statement of changes in equity, Condensed consolidated cash flow statement and the related explanatory notes.

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 June 2017 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

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 UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) 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.

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 DTR of the UK FCA.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

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.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 reached.

Adrian Wilcox
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
Canary Wharf
London

E14 5GL

United Kingdom