Skyepharma

Interim Report and Accounts
for the six months ended
30 June 2015

Delivering value through innovation in drug development

Financial Highlights

- Revenues up 19% at £40.8m (H1 2014: £34.4m)
  - Revenues excluding milestones up 51% at £40.7m (H1 2014: £26.9m) driven by growth in revenues from ***flutiform***®, EXPAREL®, GSK Ellipta® products and Solaraze®
- Operating profit £12.5m (H1 2014: £13.2m)
  - Operating profit excluding milestones up 118% to £12.4m (H1 2014: £5.7m)
- Profit after tax £9.1m (H1 2014: loss of £17.7m) reflecting growth in Group profitability and £25.5m of exceptional costs in the prior year. This represents an increase of 17% in pre-exceptional profit after tax
- Basic earnings per share 8.7 pence (H1 2014: loss per share 27.0 pence)
- Cash and cash equivalents of £27.6m at 30 June 2015 (31 December 2014: £32.4m) after early repayments of secured debt at a cost of £11.8m, saving £1.0m in total future financing charges and leaving net cash of £20.9m (31 December 2014: £15.0m)
- Further strengthening of the balance sheet with early repayment of expensive secured debt and signing of a Revolving Credit Facility (RCF)
- Progress is being made with investment in additional ***flutiform***® manufacturing capacity and product supply revenues are expected to be ahead of the Board's previous expectations for 2015. As a result, after allowing for the likely shift of the next EXPAREL® sales milestone into 2016, underlying trading for the year is expected to be ahead of previous expectations

Operational Highlights

- 65% of revenues derived from products launched since March 2012 (H1 2014: 62%)
- Sustained growth of ***flutiform***® driving royalty and product supply revenues and profitability
  - In-market sales of ***flutiform***® up 129% from H1 2014
- Sales by Pacira of EXPAREL® up 42% from H1 2014
- Sales by GSK of the royalty-generating Ellipta® range of products of £123m in H1 2015 compared with £19m in H1 2014 following additional approvals and launches of Breo®/Relvar® Ellipta®, Anoro® Ellipta® and Incruse® Ellipta®
- Royalties from Solaraze® and its authorised generic in the U.S. are significantly ahead of expectations due to a temporary market situation involving manufacturing issues at a competitor
- Continued progress with developing the Group's inhalation and oral pipeline

Index

OPERATING REVIEW

Summary

Skyepharma has had a strong start to 2015, with continued momentum in revenues from the key growth drivers of products launched since March 2012 and increased planned investment in the development pipeline to deliver additional growth in the medium-term. Key events in the first half of the year included:

- Robust financial and operating cash performance for the half year, with an operating profit of £12.5 million, a closing cash balance of £27.6 million and net cash increasing to £20.9 million from £15 million at 31 December 2014
- A first full six months of revenues from ***flutiform***® in all the major European markets, following the launch in Spain in December 2014, and in Japan, where the 120-puff version was also launched in December 2014. Growing demand for ***flutiform***® has driven an increased gross profit from the supply chain and the Group has continued with the previously-announced capital investments to provide capacity to meet forecast requirements
- Launch of ***flutiform***® in Malaysia, the Philippines, Kuwait and the UAE, bringing the total number of markets where ***flutiform***® is available to 30. As at 30 June 2015, ***flutiform***® had been approved in a further 6 countries and was under review in another 14; since then an additional approval has also been received in Lebanon
- Initiatives to expand the ***flutiform***® opportunity continued with further development of the breath-actuated version for Mundipharma, completion of recruitment for the European COPD study, ongoing recruitment for clinical trials for Asia Pacific (COPD) and further preparations for trials in China for asthma. Mundipharma has withdrawn the European paediatric filing and is seeking a meeting with the UK Medicine and Healthcare Regulatory Products Agency (MHRA) to agree a way forward. Given the size of the paediatric market this is not expected to have a material effect on potential sales of ***flutiform***®
- Higher receipts from the 3 percent share of net sales of EXPAREL® where Pacira has reported net sales of U.S. $112.9 million in the first half of 2015, up 42 percent from U.S. $79.3 million in H1 2014
- Substantial increase in royalties from GSK's Ellipta® range of inhalation products which utilise Skyepharma technology, with GSK reporting H1 net sales of £123 million, compared with £19 million in H1 2014, following launches in Europe, Japan and the U.S.
- Higher than expected contribution from U.S. sales of Solaraze® and its authorised generic due to a temporary market opportunity related to manufacturing issues at a competitor
- Continued investment in self-funded pipeline development including:
  - initial formulation and preparation for pre-clinical work for SKP-2075 in COPD
  - commencement of feasibility work as previously disclosed on a novel inhalation product combining known chemical entities intended for early partnering (SKP-2076)
  - further work to optimise the new gastro-retentive oral drug delivery technology Soctec™
- The Group is in discussion with potential partners to fund further development of SKP-1052, the novel oral product aimed at the prevention of severe nocturnal hypoglycaemia
- Further improvements in balance sheet strength and flexibility:
  - early redemption and termination of remaining CRC Finance facility and the secured Swiss loan; the only borrowings remaining are the Swiss mortgages
  - £25 million, five-year unsecured multi-currency Revolving Credit Facility (RCF) signed in April with Barclays Bank PLC, with an accordion option of £10 million which would extend the RCF to £35 million

Outlook

The Board expects continued substantial growth in revenues in 2015 compared with 2014, due to ongoing momentum from the products launched since March 2012, especially ***flutiform***®, EXPAREL® and the GSK Ellipta®-range of products, as well as the exceptional performance of Solaraze® in the U.S. in H1 2015. Based on current forecasts by analysts who follow Pacira, the next sales milestone of U.S. $8.0 million (£5.1 million) receivable by Skyepharma, which is due when annual net sales of EXPAREL® (on a cash received basis) reach U.S. $250 million, is expected to be triggered in 2016.

The Directors expect that ***flutiform***® product supply revenues for 2015 will be ahead of the Board's previous expectations given recent growth in customer demand forecasts. As a result, after allowing for the likely shift of the EXPAREL® milestone into 2016, the Directors believe that underlying trading for the year will be ahead of previous expectations.

A first sales milestone of €10 million (£7.1 million) is due from Mundipharma when its net sales of ***flutiform***® reach €100 million (£70.1 million) in a calendar year. If this is achieved in 2015, a portion of the milestone would be recorded in revenues in the year through release of deferred income, although it is not anticipated that any cash will be received as it will be used to satisfy a large part of the balance of Mundipharma's right to recover up to €25 million (£17.6 million) of previous development costs.

In line with the estimate provided earlier in the year, net investment in research and development for 2015 is forecast to be around £10 million, depending on exchange rates. This includes continuing investment in a number of novel oral drug delivery platform technologies including Soctec™, SKP-2075, the novel potential anti-inflammatory treatment for COPD and SKP-2076, a novel inhalation product based on known chemical entities, where feasibility work has been started with a view to early partnering for further development.

As announced in March 2015, in response to increasing medium-term demand forecasts, substantial capital investment is being made to achieve a faster step up in planned manufacturing capacity of ***flutiform***®. As a result, capital expenditure on ***flutiform***® in 2015 remains on track to total approximately £7 million to £8 million.

Total capital expenditure in 2015 is also forecast to be approximately £8 million to £9 million, including support for R&D activities and IT improvement projects.

Corporate, sales and marketing and share based payment charges are expected to grow modestly overall compared with 2014.

The Board is confident that the Group has good prospects for growth from the 16 approved products already being marketed and is looking forward to adding further potential from Skyepharma's proven inhalation and oral drug development capabilities.

Financial Highlights

Revenues in the first half of 2015 were £40.8 million, up 19 percent from £34.4 million in H1 2014. This was driven by strong growth in ***flutiform***® royalty and product supply, the Group's share of higher net sales of EXPAREL®, royalties from increased sales of the GSK Ellipta® products and higher than expected royalties from Solaraze® in the U.S. The growth was achieved despite the inclusion of £7.5 million of milestones in H1 2014 relating to the achievement of the first sales-related milestone for EXPAREL® and the commercial launch of ***flutiform***® in France, compared with £0.1 million in H1 2015. Revenues excluding milestones were £40.7 million, 51 percent higher than H1 2014 (£26.9 million).

By the end of June 2015, the Group was earning revenues from 16 (H1 2014: 15) approved products which together generated £35.7 million of royalty, share of sales and product supply revenues (H1 2014: £22.5 million) of which £26.5 million (H1 2014: £21.8 million) related to eight products launched in key markets since March 2012. Recurring revenues (royalties, product supply and share of sales) comprised 87 percent of total revenues (H1 2014: 65 percent). Total revenues from products launched since March 2012 represented 65 percent of total revenues in the period (H1 2014: 62 percent).

flutiform® generated £2.5 million of contract development revenue in the first half of 2015 (H1 2014: £1.3 million).

Cost of sales increased to £18.9 million (H1 2014: £13.2 million) due to higher ***flutiform***® and other product supplies.

Net operating costs increased to £9.4 million in 2015 (H1 2014: £8.0 million), with £1.0 million higher gross investment in research and development projects (partly offset by £0.8 million higher contract development revenues) and a small increase in corporate costs.

Operating profit is down slightly to £12.5 million from £13.2 million in H1 2014 due to the effect of the prior period milestones (H1 2014: £7.5 million). Excluding milestones, underlying operating profit was up 118 percent to £12.4 million (H1 2014: £5.7 million), illustrating strengthening growth in recurring revenues.

Profit after tax was £9.1 million (H1 2014: loss of £17.7 million). The prior year included an exceptional finance charge of £25.5 million reflecting the settlement of the bonds and related transaction costs. Basic earnings per share were 8.7 pence (H1 2014: loss per share 27.0 pence), whilst diluted earnings per share were 8.6 pence (H1 2014: loss per share of 27.0 pence).

Cash flows reflect £0.1 million of milestone receipts (H1 2014: £2.7 million). EBITDA (earnings before interest, tax, depreciation and amortisation) totaled £14.2 million (H1 2014: £14.6 million) and represented 35 percent of revenues (H1 2014: 42 percent of revenues, which benefited from higher milestone revenues with no related cost of sales).

As at 30 June 2015, the Group had net cash of £20.9 million (31 December 2014: net cash £15.0 million). Gross debt amounted to £6.7 million and the Group's cash was £27.6 million, down £4.8 million since 31 December 2014 as a result of paying off costly secured debt. Cash was utilised for the early redemption of the remaining U.S. Dollar balance of the CRC Finance facility on 27 February 2015 at a cost of £10.5 million, saving £0.9 million in future finance charges, and the early repayment of a secured Swiss amortising loan on 30 June 2015 at a cost of £1.2 million, saving £0.1 million in future finance charges.

Operational Highlights

flutiform®

flutiform®, the fixed dose combination of fluticasone, an inhaled corticosteroid ("ICS"), and formoterol, a long-acting beta agonist ("LABA") in a pressurised metered dose inhaler, continues to be an important value driver for the Group. As of 25 August 2015, ***flutiform®*** has been approved in 37 countries and launched in 30, including recent launches in Malaysia, the Philippines, Kuwait and the UAE.

In-market sales of ***flutiform®*** for the six months ended 30 June 2015 totaled €65.1 million (£47.2 million) (H1 2014: €28.4 million (£23.3 million)). In Q2 2015, total in-market sales of ***flutiform®*** were €34.5 million (£24.6 million), up 13 percent from €30.6 million (£22.5 million) in Q1 2015. Note: in-market 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 sales are not the same as sales to wholesalers on which royalties are payable to the Group.

In Japan, where the 120-puff version was launched on 1 December 2014 following the launch of the 56-puff version in November 2013, in-market sales for the six months ended 30 June 2015 (included in the above sales) totaled €18.1 million (£13.1 million) (H1 2014: €4.5 million (£3.7 million)). In Q2 2015, total in-market sales of ***flutiform®*** were €10.0 million (£7.1 million), up 23 percent from €8.1 million (£6.0 million) in Q1 2015. Kyorin has announced a target of JPY 10.3 billion (£53.4 million) for gross sales of ***flutiform®*** in Japan for the year ending 31 March 2016 excluding gross to net discounts.

Minoru Hogawa, President & CEO, Kyorin Holdings Inc., commented, *"**flutiform** is an important new product for Kyorin. We are greatly encouraged by the reception for the 120-puff version from patients and clinicians in Japan, which increases our confidence that we can continue to achieve significant growth in the current year to March 2016."*

In-market sales trends for ***flutiform®*** have been as follows:

€'m	2012	2013	Q1 '14	Q2 '14	Q3 '14	Q4 '14	Q1 '15	Q2 '15
E.U./ROW (excluding America and Japan)	0.8	17.9	10.5	13.4	14.6	18.5	**22.5**	**24.5**
Japan	-	1.5	1.6	2.9	3.3	7.4	**8.1**	**10.0**
Total	0.8	19.4	12.1	16.3	17.9	25.9	**30.6**	**34.5**
Quarter on quarter total growth			28%	34%	10%	45%	**18%**	**13%**

Mundipharma, the Group's licensee in Europe and most other territories outside Japan and the Americas, is seeking to extend the reach of ***flutiform®*** both geographically and through line extensions. As at 30 June 2015, applications for marketing authorisations were under review in 13 countries in the Middle East, Far East and Africa.

In May, Mundipharma completed recruitment of over 1,700 patients for its European clinical study of ***flutiform®*** for COPD. This study is a 52-week multi-center, randomised, double-blind, active-controlled, parallel-group study. Mundipharma is also undertaking clinical trials in Asia-Pacific (including China) for COPD and in China for asthma.

In June, notwithstanding the successful conclusion of a Phase III study into the efficacy and tolerability of ***flutiform®*** for asthma in children aged 5 to 11 which met its primary endpoints ($p<0.001$), Mundipharma received notification from the MHRA that the ongoing European regulatory procedure to obtain a paediatric indication could not be satisfactorily concluded in the required timeframe. Mundipharma has withdrawn its submission and plans to meet with the MHRA to ascertain what further information would be required to enable potential resubmission of the file. The total European paediatric market is less than two percent of the total market for ICS/LABA combination products and this outcome is not expected to have a material impact on sales of ***flutiform®***.

Antony Mattessich, Managing Director, Mundipharma International, said, *"The unique combination of the fastest onset LABA approved for asthma with a potent ICS and patient-friendly device is helping to drive acceptance of* ***flutiform*** *across Europe, and we look forward to increasing our market share as well as continuing to bring the product to patients in new markets in the Asia Pacific and MENA (Middle East and North Africa) regions."*

Skyepharma continues to support Mundipharma in its development of a novel breath-actuated version of ***flutiform***®, where the ***flutiform***® pMDI press-and-breathe actuator is replaced by Mundipharma's breath-actuated device. If approved and launched, Skyepharma would be eligible for revenues from royalties, milestones and filled canister supply on a similar basis to ***flutiform***®.

In 2014, Sanofi, the Group's licensee in Latin America, received marketing approval for ***flutiform***® in Argentina. A new drug application remains under review in Colombia and further applications are being prepared. The potential for launching in the region continues to be under discussion with Sanofi.

EXPAREL®

In July 2015, Pacira Pharmaceuticals, Inc. ("Pacira"), reported first half 2015 net sales of EXPAREL® (bupivacaine liposome injectable suspension), an injectable product for single-dose administration into the surgical site to produce postsurgical analgesia, of U.S. $112.9 million, compared with U.S. $79.3 million in H1 2014. The most recent reported sales are as follows:

U.S. $'m	2013	Q1 '14	Q2 '14	Q3 '14	Q4 '14	Q1 '15	Q2 '15
EXPAREL® net sales	76.1	34.4	44.9	50.2	59.0	**56.0**	**56.9**

The Group receives 3 percent of net sales (on a cash received basis) of EXPAREL®. In addition, Skyepharma is eligible to receive certain sales milestones. Pacira also announced that they have initiated discussions with potential partners for EXPAREL® outside the U.S.

On 16 April, Pacira announced that it had received a subpoena from the U.S. Department of Justice requiring the production of a broad range of documents related to marketing and promotional practices for EXPAREL®. On 30 April, Pacira announced that, given the current lack of visibility on EXPAREL® sales resulting from the combined impact of recent regulatory developments and the government investigation, it had decided not to give guidance for sales of EXPAREL® for 2015. EXPAREL® sales in 2014 totaled U.S. $188.5 million. Based on the latest net sales forecasts by analysts covering Pacira, the Board now expects that the next sales milestone of U.S. $8.0 million (£5.1 million), which is due when annual net sales (on a cash received basis) reach U.S. $250 million, will be achieved in 2016.

On 28 May, Pacira announced it had completed the end-of-review process with the U.S. Food and Drug Administration (FDA) regarding its supplemental New Drug Application (sNDA) for the use of EXPAREL® for administration as a nerve block to provide postsurgical analgesia. Pacira plans to conduct additional Phase III studies for upper extremity and lower extremity nerve blocks that together would cover the majority of nerve blocks performed today in the U.S. Pacira anticipates working with the FDA to finalise the design of the Phase III trials and expects to initiate the studies by the end of 2015. Pacira is also conducting clinical studies for the product for oral surgical procedures and expects these studies to be complete by early to mid-2016. If the clinical studies are successful and approval is sought both the oral surgery and nerve block indications could be approved and launched in 2017.

GSK Ellipta® products

Skyepharma's dry powder formulation technology is used in GSK's new once-a-day treatments for asthma and COPD: Relvar®/Breo® Ellipta®, Anoro® Ellipta® and Incruse® Ellipta®. The Group has the potential for royalty income of up to £9.0 million per annum from the license of the inhalation technologies.

On 30 April, GSK announced that the U.S. FDA had approved Breo® Ellipta® (fluticasone furoate/vilanterol [FF/VI]) for the once-daily treatment of asthma (but not for the relief of acute bronchospasm) in patients aged 18 years and older. Breo® Ellipta® has already been approved and launched by GSK in the U.S. for COPD. On 29 July, GSK reported total Q2 2015 sales of Breo®/Relvar® Ellipta®, Anoro® Ellipta® and Incruse® Ellipta® of £70 million, up from £53 million in Q1 2015. The most recent reported sales of these products are as follows:

£'m	2013	Q1 '14	Q2 '14	Q3 '14	Q4 '14	Q1 '15	Q2 '15
Relvar® Ellipta®/Breo® Ellipta®	8.3	2.9	10.9	15.4	38.0	**40.4**	**53.3**
Anoro® Ellipta®	-	-	4.9	1.1	10.6	**11.6**	**15.4**
Incruse® Ellipta®	-	-	-	-	0.1	**1.0**	**1.0**

As of 30 June 2015, Relvar®/Breo® Ellipta® had been approved in 68 countries for marketing and had been launched in 41 countries, including the U.S., Canada, UK, Germany and Japan. As of the same date, Anoro® Ellipta® had been approved in 58 countries for marketing and had been launched in 27 countries, including the U.S., UK, Germany and Japan. Incruse® Ellipta® was launched in the UK in October 2014, in the U.S. in January 2015 and was approved in Japan in March 2015.

Research and Development

Skyepharma continues to seek to strengthen the product pipeline through a mix of self-funded feasibility and technology development projects with the potential for significant sales, and further collaborations where partners fund the development on a time and materials basis. Self-funded development projects include SKP-2075, SKP-2076, SKP-1052 and work on oral drug delivery technologies, as outlined below:

SKP-2075 is the first of a potential family of products being developed to provide a new treatment for COPD. COPD affects an estimated 210 million people worldwide and its treatment is currently a U.S. $8.4 billion[1] market in the U.S., Japan and the largest five E.U. countries.

In August 2014, the Group acquired (for no upfront consideration) the global rights and related intellectual property to a novel inhaled therapy platform from Pulmagen. Pulmagen and Skyepharma believe that the use of ultra-low dose inhaled theophylline to increase sensitivity to ICS could have applications in a range of COPD products, including combinations which include an ICS, especially for patients whose condition is inadequately controlled by available therapies. The approach may also have potential for certain patients with bronchial asthma.

Skyepharma is applying its proven expertise in inhaled drug development to develop a first product (SKP-2075 - low dose theophylline with ICS) to treat COPD. Good progress is being made in formulating the product in preparation for a Phase II efficacy and safety trial sized to produce clinically significant data. The aim is to out-licence SKP-2075 to a pharmaceutical partner for later-stage development and commercialisation. Skyepharma commenced development of SKP-2075 in the second half of 2014 and aims to complete the Phase II efficacy and safety trial in 2017. Initial formulation has been carried out and preparations are being made for pre-clinical work. The Group anticipates spending approximately £14.0 million (depending on exchange rates), through internally-generated funds, to develop SKP-2075 up to completion of the Phase II trial. Under the terms of the acquisition, Pulmagen will receive a share of Skyepharma's potential future revenues and launch milestones from the successful exploitation of the acquired platform.

SKP-2076 is a novel inhalation product for a major respiratory disease which combines known chemical entities. The Group commenced feasibility work on this product in H1 2015 and is in discussions with a potential partner about licensing the product for further collaborative development.

[1] Chronic Obstructive Pulmonary Disease. Forecast. Datamonitor, DMKC0047510, Publication Date: 03/10/2014

SKP-1052 is a concept developed in-house which uses the Group's proprietary Geoclock™ chronotechnology to reduce the risk of severe nocturnal hypoglycaemia in insulin-treated patients with type 1 and 2 diabetes mellitus. There is currently no recognised medication to reduce the risk of this side-effect of insulin treatment. Research undertaken by the Group indicates a significant potential opportunity to treat over 1.2 million adult patients in the U.S. alone.

Following the generation of supportive data in a proof of concept study, the Group has received encouraging advice from the FDA on the development plan and regulatory pathway in the U.S. for SKP-1052 and is in discussion with potential partners to fund further development.

Oral drug delivery technologies - work is also continuing on a number of internally developed concepts for novel oral drug delivery platform technologies. These include Soctec™, a concept for a novel, proprietary gastro-retentive drug delivery platform technology comprising a buoyant self-orienting capsule. After an encouraging proof of concept study, further development is underway to optimise the Soctec™ technology and to seek a partner for the first feasibility project.

Collaborative development work

Activity continued during the period on development projects largely funded by partners, including the development for Mundipharma of the breath-actuated version of ***flutiform***® described above. Work on the development of new inhaled therapies for COPD and severe asthma for RespiVert Ltd ("RespiVert"), a subsidiary of Janssen Biotech, Inc., has declined as expected as the projects transition to third parties to carry out later stage development work.

Research and development expenditure

The Group's own investment in research and development (net of any contribution margin from contract research and development for third parties) increased to net expenditure of £2.0 million in H1 2015. This is due to work on the internal projects described above to build the pipeline. In line with our January 2015 guidance, we continue to forecast full year net expenditure of around £10 million and, therefore, the level of net investment is expected to be substantially higher in the second half of the year.

Manufacturing and Supply

flutiform® **supply chain**

Under the agreements with Mundipharma and Kyorin, the Group is responsible for arranging the manufacture and supply of ***flutiform***®, and has contracted with Sanofi to manufacture and assemble the product at its factory in Holmes Chapel, UK. The Group has entered into agreements with a number of suppliers in order to obtain materials required and have them supplied to Sanofi to manufacture ***flutiform***®.

The Group has committed to substantial capital expenditure to scale-up ***flutiform***® production capacity. By 30 June 2015 cumulative capital expenditure was £17.5 million of which £0.6 million was incurred in H1 2015 (H1 2014: £0.9 million). In addition, the Group incurred £0.9 million of product maintenance costs in the first half (H1 2014: £1.4 million), which are included as part of cost of sales. The Group will continue to invest in:

- working capital to support growth in supply volumes of ***flutiform***®. As previously announced, longer supplier payment terms to support the early development of the supply chain will return to normal terms during H2 2015 and the impact of this on working capital is approximately £4 million;
- expenditure to maintain product supply (included in cost of sales), forecast to be approximately £2 million for 2015; and
- capital expenditure to increase production capacity to meet anticipated growth in demand. In view of recent increases in medium-term demand forecasts from customers, as announced in March 2015, capital investment in increasing capacity has been accelerated when compared with previous plans and is now forecast to be approximately £7 million to £8 million in 2015.

Lyon Facility

In 2011, Aenova leased the Group's manufacturing business and premises in Lyon (together "the Facility") and is paying a rental of €2.0 million (£1.4 million) per annum until the lease arrangements expire in mid-2016. Aenova continues to manage and be responsible for the operational and financial performance of the Facility on a day-to-day basis. A site restructuring plan was implemented in early 2015. The Group is reviewing options to add additional work into the Facility ahead of the manufacturing business reverting to Skyepharma when the lease terminates and is planning some capital investments, mainly in 2016, with a view to further improvements in operating efficiency and capabilities. Consideration is also being given to negotiating an earlier date for termination of the lease agreement.

The Facility currently manufactures seven Skyepharma products. Five of these use the Geomatrix™ family of technologies: Diclofenac-ratiopharm®-uno, Coruno®, ZYFLO CR®, Madopar DR® and lower-dose formulations of Sular®. LODOTRA®/RAYOS® uses the Group's Geoclock™ chronotechnology. The other oral product, Triglide®, uses some of Skyepharma's solubilisation technology. The Facility has current good manufacturing practice ("cGMP") status, with approvals, amongst others, from the European Medicines Agency, U.S. FDA, ANVISA (Brazil) and KFDA (South Korea). In June 2015, a routine FDA inspection of the Facility was successfully concluded without any form 483 notices (observations for corrective actions) being issued.

Other Approved Products

Solaraze® - combined U.S. sales of Solaraze® and its authorised generic in the first half of 2015 as reported by the Group's U.S. license partner Fougera Pharmaceuticals Inc., (part of Sandoz), were significantly ahead of expectations due to manufacturing issues at a competitor. Combined net sales of Solaraze® in the U.S. in H1 2015 were U.S. $28.1 million (£18.5 million), up 73 percent compared with H1 2014. Skyepharma is currently eligible for a royalty of 20 percent on net sales of these products, which will reduce to a low-teens percentage once all relevant licensed patents expire in Q3 2015. Net invoiced sales in H1 2015 by Almirall, the Group's partner in Europe and certain other territories, increased by 8 percent to €19.6 million (£14.4 million).

Requip® Once-a-day - net sales of Requip® in H1 2015 as reported by GSK totaled £45 million, a decrease of 17 percent from H1 2014 (£54 million). This includes sales of other formulations of Requip® on which the Group does not receive royalties. Of the total sales, £14 million were generated in Europe, a decrease of 36 percent, and £31 million arose in the rest of the world, a decrease of 6 percent.

Xatral® OD (**Uroxatral®** in the U.S.) - Net sales of Xatral® OD and Uroxatral in H1 2015, excluding the U.S., were €37.4 million (£27.1 million), compared with €36.4 million (£29.9 million) in H1 2014. Significant sales growth has been registered mainly in China, Guatemala, Venezuela, Uruguay and Thailand. Meanwhile sales of main Western European contributors such as France and Italy have slightly decreased. In the U.S., net sales of Uroxatral® for H1 2015 were €5.2 million (£3.8 million). In H1 2014, sales were €4.0 million (£3.3 million).

Paxil CR™ - in H1 2015, net sales outside the U.S. were U.S. $44.6 million (£29.2 million), compared with U.S. $52.4 million (£31.3 million) in H1 2014.

LODOTRA® (**RAYOS®** in the U.S.) - Horizon reported combined net sales of LODOTRA® and RAYOS® of U.S. $18.9 million (£12.4 million) in H1 2015 compared with net sales of U.S. $9.9 million (£5.9 million) a year earlier. In April, a comprehensive effort was initiated to provide more patients access to RAYOS through its Prescription-Made-Easy™ program, which resulted in total prescription growth versus the first quarter of 2015 of nearly 90 percent. Horizon recognises a significant portion of LODOTRA® and RAYOS® sales at the time of delivery to its distribution partner, Mundipharma, and those deliveries are not linear or related to end-market sales in terms of timing and, therefore, can fluctuate from year to year. The figures reported by Horizon are not the same as the net sales used in the calculation of the royalties paid to Skyepharma.

On July 15, 2013, the Group and Horizon received a Paragraph IV Patent Certification from Watson Laboratories, Inc. - Florida ("WLF"), advising that WLF had filed an ANDA with the FDA for a generic version of RAYOS®. On August 26, 2013, a member of the Group together with Horizon, filed suit against Watson, Actavis Pharma, Inc., Andrx Corp., and Actavis, Inc., or collectively "WLF". The lawsuit alleges that WLF has infringed certain patents by filing an ANDA seeking approval from the FDA to market generic versions of RAYOS® containing 1 mg, 2 mg, and 5 mg of prednisone prior to the expiration of the patents. The subject patents are listed in the FDA's Orange Book. The commencement of the patent infringement lawsuit stays FDA approval of WLF's ANDA for 30 months or until an earlier district court decision that the subject patents are not infringed or invalid.

Madopar DR® (under the local brand name Prolopa DR®) was launched in Brazil by Roche in August 2015 for the treatment of Parkinson's disease, bringing key product launches since March 2012 to nine (31 December 2014: eight) where the Group is eligible to earn revenues.

Strategy

Skyepharma's strategy is to meet the needs of patients through the application of its scientific know how and innovative inhalation and oral drug delivery technologies. The Group aims to grow revenues from its extensive portfolio of approved products and ensure the success of its pipeline of product candidates. The Board is looking to leverage its growing underlying profitability by measured investment in developing new products and technologies through a mix of own-funded development projects, collaborations with partners and carefully targeted in-licensing transactions and acquisitions. In inhalation, these could be aimed at the global market for the treatment of asthma and/or COPD which is currently worth U.S. $29.3 billion[2] per annum.

Typically, self-funded inhalation projects such as SKP-2075 would cost £10 million to £20 million over several years with the aim of making the product suitable for out-licensing. Such developments are likely to be novel products from early formulation through to Phase II proof of concept. The Group's preferred strategy is for early involvement of the eventual license partner, to mitigate risk of any investment through to proof of concept.

Self-funded oral development projects are mainly focussed on developing novel oral drug delivery technologies, such as Soctec™, to proof of concept with a view to out-licensing the technologies for use in partner-funded developments. Such oral developments would typically cost £1 million to £2 million over several years and additional amounts to develop manufacturing processes to commercial scale. The Group may also consider developing oral products to value inflexion points, especially to exemplify new technologies, at a cost of approximately £3 million to £5 million over several years. Such projects typically involve early partnering before proof of concept to bring in relevant therapy and late-stage development expertise even if much of the development cost to that stage is funded by Skyepharma. Oral products represent nearly half by value[3] of all prescriptions. The Board's intention is to create a development pipeline with a balance of own and partner-funded work where the average net annual R&D investment could be up to 10-15 percent of sales, which is a level which the Board believes will still maintain growing profitability.

Whilst there is significant growth potential from the extensive portfolio of approved products, Skyepharma also aims to strengthen its product pipeline through carefully targeted acquisitions. Ideally, these would typically be near-term earnings accretive, though smaller acquisitions will also be considered where they strengthen the Group's pipeline, technology or capabilities and provide a good fit with the existing business.

[2] Company analysis based on: i) Chronic obstructive pulmonary disease. Forecast. Datamonitor, DMKC0047510, Publication Date: 03/10/2014; ii) Asthma. Forecast, DMKC0082148, Publication Date: 18/06/2014; and iii) Extrapolation of main market sales to global sales numbers with a factor of 25%.

[3] Company analysis based on Benchmarking the Pharmaceutical Market by Drug Delivery to 2014: R&D / Drug Delivery, Datamonitor, DMKC0062616, Publication Date 18/05/12.

Key Performance Indicators

The Board considers the following Key Performance Indicators ("KPIs") to be the most relevant to the Group's operations:

Key financial performance indicators		**2011**	**2012**	**2013**	**2014**	**H1 2014**	**H1 2015**
Revenue excluding milestones	£m	49.1	42.2	56.9	64.7	26.9	**40.7**
Signing and milestone payments received (including receipts related to EXPAREL®)	£m	5.7	12.5	5.5	9.2	2.7	**0.1**
Gross research and development expenditure	£m	16.8	11.9	10.8	12.1	5.3	**6.3**
Net investment in research and development	£m	8.0	2.4	0.5	3.8	1.8	**2.0**
Liquidity	£m	16.0	17.2	17.3	32.4	27.0	**52.6**
Number of approved and marketable revenue-generating products		12	13	15	16	15	**16**

Description of KPIs

Revenue excluding milestones

Revenue excluding milestones reports revenues without the effect of signing and milestone payments which by their nature tend to be uneven and vary from one year to the next. This KPI shows underlying revenue trends for royalties, contract research and development work and supply activities. Revenue excluding milestones in H1 2015 of £40.7 million is higher than H1 2014, primarily due to the growth of ***flutiform***® royalties and supply revenues, EXPAREL® resulting in an increase in income from share of net sales and royalties from the GSK Ellipta® products as well as from Solaraze® in the U.S.

Signing and milestone payments received

This shows amounts of cash received for milestones in respect of products and pipeline product candidates. The total cash received during H1 2015 of £0.1 million is lower than the H1 2014 receipts which primarily consisted of the €3.0 million (£2.5 million at the time) payment in March 2014 from Mundipharma following the launch of ***flutiform***® in France.

Total research and development expenditure

Research and development expenditure measures the costs, including direct and indirect overheads, of all research and development activities. A breakdown of the costs during H1 2015 is shown in Note 6: Research and development expenses. The expenditure in H1 2015 is higher than the prior year due to the work which has commenced on internal projects.

Net investment in research and development expenditure

This shows the Group's total research and development expenditure net of costs reimbursed by development partners. It shows that the Group's own investment in research and development (net of any contribution margin from contract research and development for third parties) increased to net expenditure of £2.0 million in H1 2015. This is due to work on internal projects to build the pipeline and is expected to accelerate further in the second half of the year, in line with the guidance on full year net expenditure given in January 2015 of around £10 million.

Liquidity

This measures the availability of cash resources for corporate purposes. Liquidity as at 30 June 2015 consisted of cash and cash equivalents of £27.6 million plus undrawn committed credit facilities of £25 million.

Number of approved and marketable revenue-generating products

This represents the number of products on which the Group does or expects to earn revenues and which were approved for marketing in at least one country at the end of the period. During 2014, the total increased to 16 following the approval of Incruse® in the E.U. and the U.S.

FINANCIAL REVIEW

The results for the six months ended 30 June 2015 reflect strong growth in revenues, primarily from ***flutiform***® royalty and supply, share of net sales of EXPAREL® and growth in royalties from the GSK Ellipta® products as well as from Solaraze® in the US.

Revenue

Revenues for the six months ended 30 June 2015 were £40.8 million (H1 2014: £34.4 million) comprising signing and milestone receipts, contract research and development, royalties, product supply, share of sales of EXPAREL® and rental income from the Lyon Facility. The increase from 2014 is due to strong growth in ***flutiform***® royalty and supply revenues, the Group's share of higher net sales of EXPAREL®, royalties from increased sales of the GSK Ellipta® products and higher than expected royalties from Solaraze® in the U.S. This is despite £7.5 million of milestones largely from ***flutiform***® and EXPAREL®, being reported in the prior period. Underlying recurring revenue excluding milestones was £40.7 million, some 51 percent higher than H1 2014.

Revenue recognised from signing and milestone payments was £0.1 million in H1 2015, which was down from the £7.5 million reported for H1 2014. The prior period included the first sales-related milestone of U.S. $8.0 million (£4.7 million) in respect of EXPAREL® and a €3.0 million (£2.5 million) milestone following the launch of ***flutiform***® in France.

Contract research and development revenue increased by 23 percent to £4.3 million in H1 2015 (H1 2014: £3.5 million) reflecting additional work for Mundipharma on the breath-actuated version of ***flutiform***® and work for RespiVert.

Royalty income was £10.8 million in H1 2015, £2.4 million higher than in H1 2014, representing an increase, at constant exchange rates, of 29 percent. Royalties from ***flutiform***® benefited from a first full six months' of sales in Japan of the 120-puff version of the product following the December 2014 launch. There was also strong in-market sales growth across the other countries, boosted by the launch in Spain in December 2014. As previously disclosed, the total product supply and royalty cost to Mundipharma is capped at 35% of its net sales of ***flutiform***®, and at current supply prices this has the effect of further reducing the net percentage royalty receivable as the product is launched in lower priced markets. However, this further reduction has been more than offset by a higher margin on product supply. Royalty receipts were higher from the Ellipta® range of products as GSK have reported growing sales, and also from Solaraze® in the U.S. which has benefited from manufacturing issues at a competitor.

Product supply revenue totaled £22.7 million in H1 2015 (H1 2014: £12.9 million), representing an increase of 97 percent at constant exchange rates, reflecting the growth in sales of ***flutiform***® in the multiple markets, including the major European markets together with both 56-puff and 120-puff versions of the product in Japan. Based on forecasts received from partners, the Board expects that revenues from the supply of ***flutiform***® will be an increasing proportion of the Group's revenues in the next few years.

Other revenue of £3.0 million in H1 2015 (H1 2014: £2.1 million) comprises the Group's three percent share of Pacira's cash receipts from net sales of EXPAREL® in the U.S. and rental income from the Lyon Facility. Growth of other revenue over the prior year is due to a higher share of sale income due to increased net sales of EXPAREL®.

Cost of sales

Cost of sales increased to £18.9 million (H1 2014: £13.2 million) due to increased supplies of ***flutiform***® and other products. Gross margin from ***flutiform***® product supply was 24 percent (H1 2014: 8 percent), benefiting from volume-related supplier price breaks. The ***flutiform***® supply chain is becoming an increasingly important part of the Group's revenues. With higher orders for ***flutiform***®, half year-end inventories increased to £12.9 million (H1 2014: £11.1 million), which includes £3.0 million of capitalised overheads (H1 2014: £1.7 million). During H1 2015 the ***flutiform***® supply chain recorded a gross profit of £4.5 million (H1 2014: £0.8 million).

Research and development

Gross investment in research and development in 2015 increased to £6.3 million from £5.3 million in H1 2014 with contract development revenues increasing to £4.3 million from £3.5 million in H1 2014. As a result, net investment in research and development (expenses, net of contract development revenues) was £2.0 million, compared with £1.8 million in H1 2014. This reflects an increase in own-funded projects. Higher contract development revenues are due to increased activity on partner-funded projects, notably supporting the development of the breath-actuated version of ***flutiform***® for Mundipharma whilst work for RespiVert on its new therapies for severe asthma and COPD has reduced as anticipated and noted earlier.

Finance costs

Interest costs totaled £1.0 million (H1 2014: £5.3 million) and consisted of £0.7 million (H1 2014: £1.4 million) in respect of the CRC Finance facility (including a make-whole charge of £0.3 million on early repayment), £0.2 million costs in respect of establishing the RCF (H1 2014: nil), £0.1 million (H1 2014: £0.2 million) on other bank borrowings and £nil (H1 2014: £3.7 million) in respect of the Bonds.

Foreign exchange

Foreign exchange consists of net translation gains and losses on borrowings and cash denominated in a currency other than the entity's functional currency. In H1 2015 this amounted to a loss of £1.3 million (H1 2014: £0.1 million loss).

Operating profit and profit before tax

Operating profit in H1 2015 was £12.5 million (H1 2014: £13.2 million).

Profit before tax for H1 2015 was £10.5 million (H1 2014: £18.1 million loss). The prior year loss includes exceptional financing costs of £25.5 million related to the capital raise and bond repayment.

Taxation

The Group continues to recognise a deferred tax asset of £1.5 million (December 31 2014: £2.0 million). This reflects a prudent assessment that a portion of the Swiss and U.S. tax losses will be utilised in 2015 given the improving outlook for future profitability. The remaining relevant Swiss tax losses are expected to expire at the start of 2016. Following this, the rate of tax on Swiss profits is expected to be a low teens percentage depending on the mix of revenue streams. Income in the U.S. (principally in relation to EXPAREL®) was largely offset by expiring tax losses and intercompany interest in 2014 and is expected to be taxed at a circa 25 percent effective rate in 2015 rising to circa 35 percent effective rate through 2017 as the interest deduction reduces. These rates are subject to any changes in tax legislation in the relevant jurisdictions.

Net result

Profit for H1 2015 after exceptional items and taxation was £9.1 million (H1 2014: £17.7 million loss).

Earnings per share

For H1 2015, basic earnings per share were 8.7 pence per share and diluted earnings per share were 8.6 pence per share.

For the six months ended 30 June 2015, the difference between the basic and diluted earnings per share amounts due to the dilutive impact of the employee share awards on an IAS 33 earnings per share basis as at 30 June 2015 was 1 pence per share.

For the period ended 30 June 2014 there were no differences between the basic and diluted loss per share amounts, since the results were losses.

As at 30 June 2015 there were 104,812,259 Ordinary Shares in issue (30 June 2014: 104,812,259).

In addition, as at 30 June 2015 there were the following potential obligations to issue Ordinary Shares:

Description	**Maximum number of Ordinary Shares**	**Exercise price (per share)**	**Expiry**
Deferred Consideration (Krypton)	375,000	£49.10 increasing at 10% per annum	No expiry
Employee share matching scheme	20,218	Nil	Three years
Employee Long Term Incentive Plan share awards	2,892,822	Nil	Three years
Total at 30 June 2015	**3,288,040**		
Total at 30 June 2014	2,851,750		

The Directors believe that the options in respect of the deferred consideration relating to the acquisition of Krypton in 1998 are unlikely to be exercised. This is because the exercise price is very substantially above the prevailing market price of shares in Skyepharma PLC and the exercise price increases by 10 percent per annum.

Further details on the refinancing, interest rates and other key terms of the agreements can be found in Note 11: Earnings per share

Cash position and liquidity

As at 30 June 2015 the Group had cash and cash equivalents of £27.6 million (31 December 2014: £32.4 million). During H1 2015, the Group generated a cash inflow from operations of £9.2 million compared with an inflow of £8.8 million in H1 2014. Prior year cash inflow from operations included £2.7 million milestone receipts (H1 2015: £0.1 million).

In H1 2015 the Group's total cash outflow in respect of capital expenditure was £1.3 million (H1 2014: £1.2 million) mainly comprising the continued investment in scale up of ***flutiform***® manufacturing capacity, support for R&D activities and IT improvement projects.

In H1 2015 the Group met scheduled financing commitments comprising £0.8 million of net interest paid (H1 2014: £1.6 million) primarily relating to the CRC finance and the property mortgages. During the period the Group also redeemed and terminated early the remaining CRC Finance facility and the secured amortising Swiss bank loan at a total cost of £11.4 million including an early settlement amount of £0.4 million, saving £1.0 million in future finance costs.

At 30 June 2015 Skyepharma had liquidity of £52.6 million (31 December 2014: £32.4 million) consisting of cash of £27.6 million and undrawn committed facilities of £25.0 million.

Net cash

The Group's total net cash, measured in accordance with IFRS, comprises:

	30 June 2015 £m	31 December 2014 £m
CRC Finance	-	(9.7)
Property mortgage	(6.7)	(6.6)
Bank borrowings	-	(1.1)
Total Debt	(6.7)	(17.4)
Less cash and cash equivalents	27.6	32.4
Net Cash position	20.9	15.0

Non-current borrowings amounted to £4.9 million at 30 June 2015 (31 December 2014: £11.8 million), consisting of a property mortgage secured on the land and buildings of Skyepharma AG.

Further details on the refinancing, interest rates and other key terms of the agreements can be found in Note 13: Borrowings.

Balance Sheet

At 30 June 2015, the consolidated balance sheet shows total shareholders' equity of £36.5 million (December 31 2014: £27.2 million).

Deferred Income

Part of an initial upfront milestone of €15.0 million (£10.1 million at the time) and additional funding by Mundipharma in respect of the development of a high strength version of ***flutiform***® has been recorded in deferred income in the Group's balance sheet and will be recognised in the Group's income statement as the recoverable costs are recovered by Mundipharma by deduction from royalties and sales-related milestones. As at 30 June 2015, this amounted to £9.5 million.

Non-current assets marketed for sale

One of the sites in Switzerland has been marketed for sale since January 2011. As at 30 June 2015, the net book value of the site was £4.1 million and was recorded in the Group's balance sheet under assets held for sale, of which £3.9 million relates to land and buildings and £0.2 million relates to laboratory and manufacturing equipment.

In October 2014, a substantial part of this site was leased to the Aenova Group for a period of 10 years and two months at an initial rental of CHF0.5 million (£0.3 million) per annum, which is subject to upwards-only review each year in line with the Swiss consumer price index. Management believes that the existence of a long-term lease will significantly improve the marketability of the site to an investor as it brings the security of a long-term income stream from a reputable tenant. An external property valuation received in 2014 has provided Management with an indicative fair value of the Swiss site that exceeds its carrying value. In accordance with IFRS 5 Non-current assets held for sale no depreciation or impairment has been recorded on this site during the period.

Commitments

The Group has certain minimum commitments to a supplier in respect of ***flutiform***® which total approximately €2.9 million (£2.0 million) for the remainder of 2015.

Going concern

At the time of approving the financial statements the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the Half Year Report 2015.

Principal risks

The Directors have considered the principal risks which may have a material impact on the Group's performance in the second half of 2015. The risks remain as disclosed in pages 30 to 32 of the 2014 Annual Report and Accounts.

Foreign exchange risks

Almost all of the Group's operations are based in Continental Europe and licence royalty payments are typically denominated in various currencies, with sales-related payments based on underlying sales in local currencies. This gives rise to direct and indirect exposures to changes in foreign exchange rates notably the U.S. Dollar, Euro and Swiss Franc. To minimise the impact of any fluctuations, the Group's policy is to maintain natural hedges by relating the structure of borrowings to the underlying trading cash flows that generate them. Exchange translation gains and losses relating to funding (cash and debt) are included in foreign exchange gain or loss on net debt, other realised exchange gains and losses and exchange translation gains and losses are included within the revenue or expense line to which they most closely relate. Where subsidiaries are funded centrally, this is achieved by the use of long-term intercompany loans. Where settlement of such intra-group loans is neither planned nor likely to occur in the foreseeable future, they are treated as part of the net investment and exchange differences are taken to reserves. No use was made of currency options and forward currency contracts during 2015 to date or in 2014.

Forward looking statements

The foregoing disclosures contain certain forward-looking statements. Although Skyepharma believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will materialise. Because the expectations are subject to risks and uncertainties, actual results may vary significantly from those expressed or implied by the forward-looking statements based upon a number of factors. Such forward-looking statements include, but are not limited to, the timescales for approval, launch or regulatory filings for ***flutiform***® and other products, the statements under "Outlook", prospects and any forecast sales of ***flutiform***® and other products, the development of new products, risks related to obtaining and/or maintaining regulatory approval for existing, new or expanded indications of existing and new products, risks related to Skyepharma's ability or that of its sub-contractors and partners to manufacture products on a large scale or at all, risks related to Skyepharma's and its marketing partners' ability to market products on a large scale to maintain or expand market share in the face of changes in customer requirements, competition and regulatory and technological change, risks related to the ownership and use of intellectual property, risks related to Skyepharma's ability to manage growth, and the risk of costs associated with the termination of the lease of the Lyon Facility in June 2016. Skyepharma undertakes no obligation to revise or update any forward statement to reflect events or circumstances after the date of this Interim Report.

RESPONSIBILITY STATEMENT

The Directors of Skyepharma, as listed on pages 36 and 37 of the 2014 Annual Report and Accounts, confirm that to the best of their knowledge:

a) The condensed set of financial statements have been prepared in accordance with International Accounting Standards 34 *Interim Financial Reporting*, as required by the Disclosure and Transparency Rules ("DTR") 4.2.2;

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

c) The interim management report includes a fair review of the information required by the DTR 4.2.7 – an indication of important events which have occurred during the first six months of the year, and a description of the principal risks and uncertainties for the remaining six months of the year; and

d) The interim management report includes a fair review of the information required by the DTR 4.2.8 – the disclosure of related party transactions occurring during the first six months of the year, and any changes in related party transactions disclosed in the 2014 Annual Report and Accounts.

By order of the Board

Peter Grant
Chief Executive Officer
25 August 2015

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2015

	Notes	**Unaudited 6 months ended 30 June 2015 £m**	Unaudited 6 months ended 30 June 2014 £m	Audited Year ended 31 December 2014 £m
Revenue	4	**40.8**	34.4	73.8
Cost of sales	5	**(18.9)**	(13.2)	(32.9)
Gross profit		**21.9**	21.2	40.9
Selling, marketing and distribution expenses		(0.7)	(0.7)	(1.5)
Research and development expenses	6	(6.3)	(5.3)	(12.1)
Corporate costs		(1.8)	(1.5)	(3.5)
Amortisation of intangible assets		(0.4)	(0.4)	(0.8)
Share-based payment charge		(0.4)	(0.3)	(0.5)
Other income		0.2	0.2	0.2
Pre-exceptional operating profit		**12.5**	13.2	22.7
Exceptional costs	7	-	-	(1.1)
Operating profit		**12.5**	13.2	21.6
Finance costs:				
Interest	8	(1.0)	(5.3)	(7.0)
Exceptional finance cost	7	-	(25.5)	(25.5)
Foreign exchange (loss)/gain on net debt	9	(1.1)	(0.4)	0.6
Finance income:				
Revaluation gain/(loss)		0.1	(0.1)	0.4
Profit/(loss) before tax		**10.5**	(18.1)	(9.9)
Income tax (charge)/credit	10	(1.4)	0.4	(0.6)
Total profit/(loss) for the period attributable to the parent		**9.1**	(17.7)	(10.5)

All results are derived from continuing operations.

The notes on pages 26-35 form an integral part of these Half Year Financial Statements.

CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)
For the six months ended 30 June 2015

	Notes	**Unaudited 6 months ended 30 June 2015**	Unaudited 6 months ended 30 June 2014	Audited Year ended 31 December 2014
Earnings per share for the period				
Basic	11	8.7p	(27.0)p	(12.3)p
Diluted	11	8.6p	(27.0)p	(12.3)p
Pre-exceptional earnings per share for the period				
Basic	11	8.7p	11.8p	18.8p
Diluted	11	8.6p	11.8p	18.5p

The notes on pages 26-35 form an integral part of these Half Year Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME/(EXPENSE)

For the six months ended 30 June 2015

	Unaudited 6 months ended 30 June 2015 £m	Unaudited 6 months ended 30 June 2014 £m	Audited Year ended 31 December 2014 £m
Profit/(loss) for the period	**9.1**	(17.7)	(10.5)
Other comprehensive (expense)/income for the period, net of tax:			
Exchange differences on translation of foreign operations	(0.2)	0.3	(0.5)
Net other comprehensive (expense)/income to be reclassified to profit or loss in subsequent periods	**(0.2)**	0.3	(0.5)
Items not to be reclassified to profit or loss in subsequent periods			
Remeasurement of defined benefit plans	-	-	(2.0)
Net other comprehensive expense not being reclassified to profit or loss in subsequent periods	**-**	-	(2.0)
Total other comprehensive (expense)/income for the period, net of tax	**(0.2)**	0.3	(2.5)
Total comprehensive income/(expense) for the period attributable to the owners of the parent, net of tax	**8.9**	(17.4)	(13.0)

The notes on pages 26-35 form an integral part of these Half Year Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2015

	Notes	**Unaudited As at 30 June 2015 £m**	Unaudited As at 30 June 2014 £m	Audited As at 31 December 2014 £m
ASSETS				
Non-current assets				
Intangible assets		6.9	5.7	6.1
Property, plant and equipment		21.0	26.8	21.6
Other financial assets	13	0.5	-	-
		28.4	32.5	27.7
Current assets				
Inventories	12	12.9	11.1	10.4
Trade and other receivables		14.7	18.5	14.6
Cash and cash equivalents		27.6	26.3	32.4
Other financial assets	13	0.1	-	-
Deferred tax asset	10	1.5	2.5	2.0
		56.8	58.4	59.4
Non-current assets held for sale	14	**4.1**	-	3.9
Total assets		**89.3**	90.9	91.0
LIABILITIES				
Current liabilities				
Trade and other payables		(29.1)	(23.9)	(29.3)
Borrowings	13	(1.8)	(8.7)	(5.6)
Deferred income		(2.8)	(1.8)	(3.0)
Provisions	15	(0.5)	-	(1.1)
		(34.2)	(34.4)	(39.0)
Non-current liabilities				
Other borrowings	13	(4.9)	(20.5)	(11.8)
Deferred income		(6.7)	(9.3)	(6.9)
Pension liability	15	(6.1)	(4.0)	(5.9)
Provisions	15	(0.9)	(0.1)	(0.2)
		(18.6)	(33.9)	(24.8)
Total liabilities		**(52.8)**	(68.3)	(63.8)
Net assets		**36.5**	22.6	27.2
SHAREHOLDERS' EQUITY				
Share capital	16	179.4	179.4	179.4
Share premium		407.2	407.2	407.2
Translation reserve		(25.7)	(24.7)	(25.5)
Own share reserve		(0.1)	(0.1)	(0.1)
Share based payments reserve		1.2	-	-
Retained losses		(534.5)	(548.2)	(542.8)
Other reserves		9.0	9.0	9.0
Total shareholders' equity		**36.5**	22.6	27.2

The notes on pages 26-35 form an integral part of these Half Year Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	Attributable to owners of the parent							
	Share capital	**Share premium**	**Translation reserve**	**Own share reserve**	**Share based payments**	**Retained losses**	**Other reserves**	**Total shareholders' equity**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
As at 1 January 2015	179.4	407.2	(25.5)	(0.1)	-	(542.8)	9.0	27.2
Profit for the period	-	-	-	-	-	9.1	-	9.1
Other comprehensive expense	-	-	(0.2)	-	-	-	-	(0.2)
Total comprehensive income for the period	-	-	(0.2)	-	-	9.1	-	8.9
Share-based payment charge	-	-	-	-	0.4	-	-	0.4
Other movements: Transfer within reserves	-	-	-	-	0.8	(0.8)	-	-
As at 30 June 2015	**179.4**	**407.2**	**(25.7)**	**(0.1)**	**1.2**	**(534.5)**	**9.0**	**36.5**

Share based payment awards made under the 2012 LTIP scheme will vest from March 2016 onwards and hence a share based payment reserve has been presented separately within equity.

The notes on pages 26-35 form an integral part of these Half Year Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to owners of the parent						
	Share capital	**Share premium**	**Translation reserve**	**Own share reserve**	**Retained losses**	**Other reserves**	**Total shareholders' equity**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
As at 1 January 2014	120.7	361.7	(25.0)	(0.2)	(530.8)	9.0	(64.6)
Loss for the period	-	-	-	-	(17.7)	-	(17.7)
Other comprehensive income	-	-	0.3	-	-	-	0.3
Total comprehensive expense for the period	-	-	0.3	-	(17.7)	-	(17.4)
Issue of share capital	58.7	53.3	-	-	-	-	112.0
Costs associated with Capital Raise	-	(7.8)	-	-	-	-	(7.8)
Own shares acquired during period	-	-	-	0.1	-	-	0.1
Share based payment charge	-	-	-	-	0.3	-	0.3
As at 30 June 2014	179.4	407.2	(24.7)	(0.1)	(548.2)	9.0	22.6

The notes on pages 26-35 form an integral part of these Half Year Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For year ended 31 December 2014

	Attributable to owners of the parent						
	Share capital	**Share premium**	**Translation reserve**	**Own share reserve**	**Retained losses**	**Other reserves**	**Total shareholders' equity**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
As at 1 January 2014	120.7	361.7	(25.0)	(0.2)	(530.8)	9.0	(64.6)
Loss for the year	-	-	-	-	(10.5)	-	(10.5)
Other comprehensive expense	-	-	(0.5)	-	(2.0)	-	(2.5)
Total comprehensive expense for the year	-	-	(0.5)	-	(12.5)	-	(13.0)
Issue of share capital	58.7	53.3	-	-	-	-	112.0
Costs associated with Capital Raise	-	(7.8)	-	-	-	-	(7.8)
Other movements	-	-	-	0.1	-	-	0.1
Share-based payment charge	-	-	-	-	0.5	-	0.5
As at 31 December 2014	179.4	407.2	(25.5)	(0.1)	(542.8)	9.0	27.2

The notes on pages 26-35 form an integral part of these Half Year Financial Statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2015

	Notes	**Unaudited 6 months ended 30 June 2015 £m**	Unaudited 6 months ended 30 June 2014 £m	Audited Year ended 31 December 2014 £m
Cash flow from operating activities				
Cash generated by operations	(a)	9.2	8.8	30.2
Income tax paid		(0.6)	(0.1)	(0.3)
Net cash generated by operating activities		**8.6**	8.7	29.9
Cash flow from investing activities				
Purchases of property, plant and equipment		(0.4)	(0.3)	(1.1)
Purchases of intangible assets		(0.9)	(0.9)	(1.8)
Interest received		-	-	0.1
Net cash used in investing activities		**(1.3)**	(1.2)	(2.8)
Cash flow from financing activities				
Repayment of borrowings		(11.4)	(3.8)	(16.1)
Repayment of bonds (exceptional)		-	(95.6)	(95.6)
Costs associated with repayment of bonds (exceptional)		-	(0.4)	(0.4)
Interest paid		(0.8)	(1.6)	(3.2)
Issue of shares (exceptional)		-	112.0	112.0
Costs associated with Capital Raise (exceptional)		-	(7.8)	(7.8)
Revolving Credit Facility issuance costs	13	(0.5)	-	-
Net cash (used)/generated in financing activities		**(12.7)**	2.8	(11.1)
Effect of exchange rate changes		0.6	(0.5)	(0.1)
Net (decrease) / increase in cash and cash equivalents		**(4.8)**	9.8	15.9
Cash and cash equivalents at beginning of the year		32.4	16.5	16.5
Net (decrease)/increase in cash and cash equivalents		(4.8)	9.8	15.9
Cash and cash equivalents at end of period		**27.6**	26.3	32.4

The notes on pages 26-35 form an integral part of these Half Year Financial Statements.

NOTES TO THE CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2015

(a) Cash generated by operations

	Notes	**Unaudited 6 months ended 30 June 2015 £m**	Unaudited 6 months ended 30 June 2014 £m	Audited Year ended 31 December 2014 £m
Profit/(loss) for the period		9.1	(17.7)	(10.5)
Adjustments for:				
Tax		1.4	(0.4)	0.6
Depreciation		1.3	1.0	2.6
Amortisation		0.4	0.4	0.8
Finance costs	8	1.0	5.3	6.0
Exceptional finance cost	7	-	25.5	25.5
Finance income	8	(0.1)	-	(0.1)
Share-based payment charge		0.4	0.3	0.5
Exchange losses/(gains) on translation		(0.4)	0.5	0.8
Exceptional operating cost	7	-	-	1.1
Other non-cash charges		(0.1)	(0.1)	(0.1)
Operating cash flows before movements in working capital		**13.0**	**14.8**	27.2
Changes in working capital				
(Increase) in inventories		(2.1)	(2.5)	(1.8)
Decrease/(increase) in trade and other receivables		0.5	(5.3)	(1.4)
(Decrease)/increase in trade and other payables		(1.5)	2.2	7.7
(Decrease) in deferred income		(0.7)	(0.4)	(1.5)
Cash generated by operations		**9.2**	**8.8**	30.2

The notes on pages 26-35 form an integral part of these Half Year Financial Statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 General information

The Half Year Report of the Group for the six months ended 30 June 2015 ("Half Year Report 2015") was authorised for issue in accordance with a resolution of the Directors on 25 August 2015. The Half Year Report 2015 is unaudited but has been reviewed by the Auditors as set out in their report.

Skyepharma PLC (the "Company") and its subsidiaries (together the "Group") combines proven scientific expertise with validated proprietary drug delivery technologies to develop innovative oral and inhalation pharmaceutical products.

The Company is incorporated and domiciled in the United Kingdom, with its registered office at 46-48 Grosvenor Gardens, London SW1W 0EB.

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

The financial information for the year ended 31 December 2014 has been extracted from the Group's published financial statements for that year, and a copy of the statutory accounts for that financial year has been delivered to the Registrar of Companies. The auditors reported on those accounts and their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

2 Accounting policies

(a) Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2015 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2014.

The accounts have been prepared under the historic cost convention. Historic cost is generally based on the fair value of the consideration given in exchange for the assets.

Going concern
The Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Significant accounting policies
The accounting policies, presentation and methods of computation are as applied in the Group's 2014 Annual Report and Accounts. The following standards and interpretations, relevant to the Group, have been issued at the date of these accounts but are not yet effective:

- IFRS 9 *Financial instruments – Classification and Measurement*
- IFRS 15 *Revenue from contracts with customers*
- *Annual Improvements to IFRSs 2012–2014*
- *Disclosure Initiative (Amendments to IAS 1)*

2 Accounting policies (continued)

The Group has adopted the following accounting policy during the period ended 30 June 2015:

- *IAS 19 Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)*
- *Annual Improvements to IFRSs 2010–2012*
- *Annual Improvements to IFRSs 2011–2013*

Adoption of these standards did not have any effect on the financial position of the Group, or result in changes in accounting policy or additional disclosure.

3 Segmental reporting

The Board has identified, based on information used internally by management to assess the performance of and allocate resources to the business, that it has one operating segment being the development and supply of pharmaceutical products.

4 Revenue by income stream

	Unaudited 6 months ended 30 June 2015 £m	Unaudited 6 months ended 30 June 2014 £m	Audited Year ended 31 December 2014 £m
Revenue earned is analysed as follows:			
Signing and milestone payments	0.1	7.5	9.1
Contract research and development revenue	4.3	3.5	8.3
Royalties	10.8	8.4	17.2
Product supply	22.7	12.9	34.2
Other revenue	3.0	2.1	5.0
Total revenue	**40.8**	34.4	73.8

During the six months ended 30 June 2015, ***flutiform***® generated £2.5 million of contract development revenue (H1 2014: £1.3 million), £2.1 million of royalties (H1 2014: £1.5 million) and £19.0 million in product supply revenues (H1 2014: £9.8 million).

Other revenue includes £2.2 million (H1 2014: £1.3 million) from the Group's share of net sales of EXPAREL® in the United States and £0.8 million (H1 2014: £0.8 million) in rental income in respect of the lease to the Aenova Group of the Group's manufacturing facility in Lyon, France.

5 Cost of sales

	Unaudited months ended 30 June 2015 £m	Unaudited 6 months ended 30 June 2014 £m	Audited Year ended 31 December 2014 £m
Product supply	18.5	12.8	32.3
Other cost of sales	0.4	0.4	0.6
Total cost of sales	**18.9**	13.2	32.9

During the six months ended 30 June 2015, cost of sales related to the supply of ***flutiform***® totaled £14.5 million (H1 2014: £9.0 million).

6 Research and development expenses

	Unaudited 6 months ended 30 June 2015 £m	Unaudited 6 months ended 30 June 2014 £m	Audited Year ended 31 December 2014 £m
Clinical trials, supplies and other external costs directly recharged to development partners	0.3	0.6	1.1
Other external clinical trial and supply costs	0.6	0.4	0.6
Other research and development costs	5.4	4.3	10.4
Total research and development expenses	**6.3**	5.3	12.1

7 Exceptional costs

	Unaudited 6 months ended 30 June 2015 £m	Unaudited 6 months ended 30 June 2014 £m	Audited Year ended 31 December 2014 £m
Exceptional operating costs			
Lyon restructuring	-	-	1.1
Exceptional financing costs			
Loss on extinguishment of bonds	-	25.1	25.1
Costs related to bond repayment	-	0.4	0.4
Total exceptional costs – financing items	**-**	25.5	25.5
Total exceptional costs	**-**	25.5	26.5

There were no exceptional items charged to the income statement during the first six months of 2015 and the remaining provision as at 30 June 2015 was £0.5m.

During 2014, the Aenova Group concluded consultations with the Works Council in respect of a site restructuring plan for the Facility in Lyon which was implemented in early 2015. Under the arrangements with Aenova, some of the costs of the restructuring were reimbursed by Skyepharma and accordingly a £1.1 million exceptional operating cost was recognised in H2 2014.

The Capital Raise and bond repayment on 30 April 2014 resulted in a £25.5 million exceptional finance cost during 2014 (of which £25.1 million was non-cash) and was recorded under Exceptional Items within the Income Statement as follows:

Exceptional finance costs	**Audited Year ended 31 December 2014 £m**
Carrying amount of outstanding bonds as at 30 April 2014	70.5
Repayment:	
- Face value of outstanding 2024 Bonds	(60.8)
- Premium and accrued interest	(34.8)
Total Repayment	**95.6**
Exceptional non-cash financing charge	(25.1)
Cash transaction costs of bond repayment	(0.4)
Total exceptional finance cost	**(25.5)**

There was no tax effect of these exceptional costs for the year ended 31 December 2014.

8 Finance costs and income

	Unaudited 6 months ended 30 June 2015 £m	Unaudited 6 months ended 30 June 2014 £m	Audited Year ended 31 December 2014 £m
Finance cost – interest:			
Bank borrowings	0.1	0.2	0.4
CRC finance	0.7	1.4	2.8
Refinancing costs	0.2	-	0.1
Bonds	-	3.7	3.7
Total finance costs	**1.0**	5.3	7.0

Finance income in the period principally relates to £0.1 million of foreign exchange gains on the final repayment and revaluation of the U.S. dollar CRC loan (refer to note 13) (30 June 2014: £0.1 million loss).

9 Foreign exchange on net debt

	Unaudited 6 months ended 30 June 2015 £m	Unaudited 6 months ended 30 June 2014 £m	Audited Year ended 31 December 2014 £m
CRC finance	0.4	0.1	(0.9)
Foreign denominated cash balances	(1.3)	(0.1)	0.5
Intercompany loans	(0.2)	(0.5)	0.9
Total foreign exchange loss/(gain) on net debt	**(1.1)**	(0.5)	0.5

10 Taxation

	Unaudited 6 months ended 30 June 2015 £m	Unaudited 6 months ended 30 June 2014 £m	Audited Year ended 31 December 2014 £m
Current tax:			
Current income tax charge	0.8	0.1	0.6
Deferred tax charge/(credit):			
Relating to origination and reversal of timing differences	0.6	(0.5)	-
Income tax charge/(credit) reported in the Income Statement	**1.4**	(0.4)	0.6

The Group is involved in worldwide operations and as such, its overall effective tax rate is sensitive to the geographic mix of profitability. The overall effective tax rate in the first half of 2015 was 13 percent reflecting a combination of higher tax rates in the U.S. where the income from EXPAREL® arises, nil tax in Switzerland due to utilisation of final brought forward expiring tax losses where the majority of the Group's profit is generated and nil tax in the UK where there is no income and substantial brought forward tax losses. The utilisation of Swiss tax losses in this period caused deferred tax movements that increased the Group's effective tax rate.

10 Taxation (continued)

The Finance Act 2014, which provides for a reduction in the main rate of corporation tax from 23 percent to 21 percent effective from 1 April 2014, was enacted on 3 July 2012. A further reduction from 21 percent to 20 percent by 1 April 2015 was enacted on 2 July 2013. The Group balance sheet as at 30 June 2015 included a tax payable liability of £0.5 million (31 December 2014 £0.8 million).

Deferred tax

The movement in deferred tax assets during the period is as follows:

	Deferred tax assets £m
As at 1 January 2015	2.0
Utilised in the period:	
UK	-
Overseas	(1.1)
Credited to the Income Statement:	
UK	-
Overseas	0.6
As at 30 June 2015	**1.5**

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through reducing future taxation payable is probable. For the interim period, the Group taxation estimates are updated following the results for the first half of 2015 and for subsequent estimates of the future profits that will be chargeable to corporation tax.

Full details of the Group's taxation position at December 2014 are provided in note 14 of the 2014 Annual report.

11 Earnings per share

Earnings per share is calculated based on earnings after tax and the weighted average number of Ordinary Shares in issue during the period. For the six months ended 30 June 2015, the difference between the basic and diluted earnings per share amounts due to the dilutive impact of employee share awards as at 30 June 2015, and on an IAS 33 earnings per share basis, was 1 pence per share. For the periods ended 30 June 2014 and 31 December 2014 there were no differences between the basic and diluted loss per share amounts since the results were losses.

	Unaudited 6 months ended 30 June 2015	Unaudited 6 months ended 30 June 2014	Audited Year ended 31 December 2014
Earnings	**£m**	£m	£m
Attributable profit before exceptional items	9.1	7.8	16.1
Exceptional items	-	(25.5)	(26.6)
Basic and diluted attributable profit/(loss) after tax	**9.1**	(17.7)	(10.5)

Number of shares	**Millions**	Millions	Millions
Weighted average number of Ordinary Shares in issue	104.8	65.7	85.3
Potentially dilutive share awards	1.5	-	-
Weighted average number of diluted Ordinary Shares	**106.3**	65.7	85.3

Basic and diluted earnings per Ordinary Share	**Pence**	Pence	Pence
Basic earnings per Ordinary Share	8.7	(27.0)	(12.3)
Diluted earnings per Ordinary Share	8.6	(27.0)	(12.3)

Pre-exceptional earnings per share is as follows:

Number of shares	**Millions**	Millions	Millions
Weighted average number of Ordinary Shares in issue	104.8	65.7	85.3
Potentially dilutive share awards	1.5	-	1.6
Weighted average number of diluted Ordinary Shares	**106.3**	65.7	86.9

Basic and diluted earnings per Ordinary Share	**Pence**	Pence	Pence
Pre-exceptional			
Basic earnings per Ordinary Share	8.7	(27.0)	(12.3)
Diluted earnings per Ordinary Share	8.6	(27.0)	(12.3)

12 Inventories

	Unaudited As at 30 June 2015 £m	Unaudited As at 30 June 2014 £m	Audited As at 31 December 2014 £m
Inventories - ***flutiform***®	**12.9**	11.1	10.4

During H1 2015, certain inventory was written down to net realisable value resulting in a charge of £0.1 million (H1 2014 £0.1 million) to cost of sales.

13 Borrowings

	Unaudited As at 30 June 2015 £m	Unaudited As at 30 June 2014 £m	Audited As at 31 December 2014 £m
Current			
Bank borrowings	-	1.3	1.1
Property mortgage	1.8	2.0	1.8
CRC finance	-	5.4	2.7
Total current borrowings	**1.8**	8.7	5.6
Non-current			
Property mortgage	4.9	4.9	4.8
CRC finance	**-**	15.6	7.0
Total non-current borrowings	**4.9**	20.5	11.8
Total borrowings	**6.7**	29.2	17.4

Total debt has decreased by £10.7 million in the period. This is due to the early repayment of U.S. Dollar portion of the CRC finance facility and of the Bank borrowings, as well as scheduled repayment of debt.

Bank borrowings

On 30 June 2015, the amortising loan with the Basellandschaftliche Kantonalbank ("BLKB") of CHF1.8 million (£1.2 million) was fully repaid ahead of the scheduled termination date of 30 June 2018.

Property mortgages

In February 2011, the Group renewed its two mortgage agreements with the BLKB. One of the sites in Switzerland was leased to Aenova in October 2014. As at 30 June 2015, this site has a net book value of CHF 6.1 million (£4.1 million) and a mortgage of CHF 2.4 million (£1.6 million) which will be repayable on completion of any sale. This mortgage bears interest at a variable rate (currently 4.0 percent) and is repayable with three months' notice from either party.

13 Borrowings (continued)

As at 30 June 2015, the carrying value of the mortgage relating to the buildings which are in use by the business is CHF 7.4 million (£4.9 million), which bears interest at a fixed 3.6 percent per annum and is fully repayable, if not extended, in February 2016, at which point it will automatically roll into a variable rate mortgage on an indefinite term cancellable by either party on 3 months' notice. Such a roll over mortgage is common market practise in Switzerland and the mortgage was previously rolled over onto a new fixed interest term in both 2006 and 2011. As it is Management's current intention to roll the mortgage over in the same way, the mortgage is classified as long term.

CRC finance

The facility was terminated in February 2015, following the repayment that month of the outstanding U.S. Dollar loan at a cost of £10.5 million. The Euro portion of the loan was repaid in October 2014 at a cost of £10.6 million. The key terms of the CRC Facility (as amended) and the applicable interest rates are set out within the 2014 Annual Report and Accounts. There were no amendments made to the Facility during the period ended 30 June 2015.

Revolving Credit Facility ("RCF")

In April 2015, Skyepharma signed a £25 million five year unsecured multi-currency RCF with Barclays Bank PLC. There is an accordion option to extend the facility up to £35 million during the five year term which ends in March 2020. At present £nil has been drawn down against the facility.

Debt issue costs of £0.7 million, of which £0.5 million were paid during H1 2015, were capitalised in April 2015 as other financial assets. These are being amortised evenly to the income statement over the five year term of the facility. A portion of these costs may be allocated to future draw downs in accordance with IAS 39 Financial instruments.

The cost of borrowing under the facility is 1.30 percent above the relevant LIBOR/EURIBOR reference rate. There are two financial covenants which will be tested at each reporting period if drawings were made in the previous six months against the facility.

14 Non-current assets classified as held for sale

As at 30 June 2015, the Group had assets with a net book value of £4.1 million (31 December 2014: £3.9 million) classified as held for sale. This represents a building and associated land of £3.9 million (31 December 2014: £3.7 million) and laboratory equipment of £0.2 million (31 December 2014: £0.2 million) which was put up for sale in January 2011. The property continues to be actively marketed for sale.

In October 2014, the property was leased to the Aenova Group for a period of 10 years and 11 months. Management believes that the existence of a long-term lease will significantly improve the marketability of the property to an investor as it brings the security of a long-term income stream from a reputable tenant, and as such it has been reclassified from Property, Plant and Equipment to Non-Current Assets Held for Sale as at 31 December 2014. An independent expert has provided management with an indicative fair value in excess of the carrying value and Management hence believe the fair value of the property and associated assets is in the range of £5.2 million to £6.0 million.

15 Provisions

	Unaudited As at 30 June 2015 £m	Unaudited As at 30 June 2014 £m	Audited As at 31 December 2014 £m
Current			
Restructuring provision (Note 7)	0.5	-	1.1
Non-current			
Pensions	6.1	4.0	5.9
Other	0.9	0.1	0.2
End of period	**7.5**	4.1	7.2

An amount totalling £6.1 million (31 December 2014: £5.9 million) of the provisions balance relates to the Group's retirement commitments under its pension scheme in respect of its employees in Switzerland and the Group's leaving indemnity commitments in respect of its former employees in France under French law. The latter relates to former employees transferred to Aenova under the management lease agreement in France who are not expected to retire during the lease period and could return to the Group's employment on expiry of the lease.

Other provisions of £0.9m (31 December 2014: £0.2m) primarily consist of provisions for future legal actions relating to potential intellectual copyright infringements, property dilapidations and uncertain tax amounts. These provisions are not discounted.

16 Share capital

	Ordinary Shares		**Deferred 'B' Shares**		**Deferred 'C' Shares**		
Issued and fully paid	**Number**	**Nominal value £m**	**Number**	**Nominal value £m**	**Number**	**Nominal value £m**	**Total nominal value £m**
At 1 January 2014	46,127,645	46.1	12,000,000	1.2	7,334,899,200	73.3	120.7
Issue of share capital	58,684,614	58.7	-	-	-	-	58.7
At 31 December 2014 and 30 June 2015	**104,812,259**	**104.8**	**12,000,000**	**1.2**	**7,334,899,200**	**73.3**	**179.4**

Issue of Shares

On 29 April 2014, a total of 58,684,614 Ordinary Shares of £1 each were allotted under the Company's Capital Raising, comprising a Firm Placing and Placing and Open Offer at an issue price of 191 pence per Ordinary Share, which raised a total of £104.2 million net of expenses.

17 Commitments

The Group has committed to partially refund certain Mundipharma development costs capped at €25 million (£17.6 million). These will be recovered by the development partner through the reduction of future royalties payable to the Group.

The Group has committed to substantial capital expenditure to scale up and validate the ***flutiform***® manufacturing processes, of which £6.9 million is outstanding as at 30 June 2015 (31 December 2014: £10.0 million).

The Group has certain minimum commitments to a supplier in respect of ***flutiform***® which total approximately €2.9 million (£2.0 million) for the remainder of 2015.

18 Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated upon consolidation.

The Company has intercompany loans and accounts with its subsidiary undertakings, details of which are set out in the 2014 Annual Report and Accounts. Current intercompany balances are normally settled on a monthly basis, including any interest charged on non-current intercompany loans.

INDEPENDENT REVIEW REPORT TO SKYEPHARMA PLC

Introduction

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 2015 which comprises Condensed Consolidated Income Statement, Condensed Consolidated Statement of Other Comprehensive Income/(Expense), Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Cash Flow Statement and the related notes 1 to 18. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

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

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

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

Scope of Review

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

Conclusion

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

Ernst & Young LLP
Reading
Date 25 August 2015

SHAREHOLDER INFORMATION

Secretary and Registered Office
J Murphy
Skyepharma PLC
46-48 Grosvenor Gardens
London
SW1W 0EB

Telephone: 020 7881 0524
Facsimile: 020 7881 1199
Email: ir@skyepharma.com
Website: www.skyepharma.com

Registered in England and Wales. Registered No. 107582

Registrars
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone: 0871 664 0300
(Calls cost 10 pence per minute plus network extras)
(from outside the UK: +44 (0) 20 8639 3399)
Lines are open Monday - Friday 8:30am - 5.30pm

Facsimile: +44 (0) 20 8639 2220
Email: ssd@capita.co.uk
Website: www.capitaassetservices.com
Capita Share Portal: www.capitashareportal.com

Shareholder enquiries
If you have any questions about your shareholding or wish to notify any change in your details please contact the Share Registrar, Capita Asset Services (see contact details above). Whenever you contact the Registrar please quote the full names in which your shares are held. Please advise the Registrar promptly of any change of address.

Electronic communications
Shareholders can elect to obtain shareholder documents such as Annual and Half-Yearly Reports and Notice of Meetings electronically from Skyepharma's website rather than by post. To take advantage of this free service, connect to Capita Asset Services' secure Share Portal website and follow the on-screen instructions to register. Shareholders can also send in votes for general meetings electronically via Capita's Share Portal website by following the instructions for eProxy Voting to submit your vote online.

Beware of Share Fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams.

They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment.

While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud

1. Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
2. Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
3. Check the Financial Services Register from **www.fca.org.uk** to see if the person and firm contacting you is authorised by the FCA.
4. Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
5. Use the firm's contact details listed on the Register if you want to call it back.
6. Call the FCA on **0800 111 6768** if the firm does not have contact details on the Register or you are told they are out of date.
7. Search the list of unauthorised firms to avoid at **www.fca.org.uk/scams**.
8. Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
9. Think about getting independent financial and professional advice before you hand over any money.
10. **Remember:** if it sounds too good to be true, it probably is!

5,000 people contact the Financial Conduct Authority about share fraud each year, with victims losing an average of £20,000

Report a scam

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at **www.fca.org.uk/scams**, where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on **0800 111 6768**.

If you have already paid money to share fraudsters you should contact Action Fraud on **0300 123 2040.**

FCA
Financial Conduct Authority
In association with
ICSA Registrars Group

Skyepharma PLC
46–48 Grosvenor Gardens
London SW1W 0EB
Registered No. 107582

Tel: +44 (0)207 881 0524
Fax: +44 (0)207 881 1199
Email: ir@skyepharma.com

Stock Code: SKP