Vectura Group plc
Interim Report and Accounts

for the six months ended 30 september 2013

Contents

About Vectura

Vectura Group plc and its subsidiaries ("Vectura" or the "Group") is a product development company that focuses on the development of pharmaceutical therapies for the treatment of airway-related diseases. This growing market includes asthma and chronic obstructive pulmonary disease (COPD) and is estimated to be worth in excess of $30 billion worldwide.

Vectura has six revenue generating products marketed by its partners and a portfolio of drugs in clinical development, a number of which have been licensed to major pharmaceutical companies. Vectura has development collaborations and licence agreements with several pharmaceutical companies, including Novartis, Sandoz (the generics arm of Novartis), Baxter, GlaxoSmithKline (GSK) and Tianjin KingYork Group Company Limited ("KingYork").

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

Forward-looking statements

This Interim Report and Accounts contains forward-looking statements, including statements about the discovery, development and commercialisation of products. Various risks may cause Vectura's actual results to differ materially from those expressed or implied by the forward-looking statements, including: adverse results in clinical development programmes; failure to obtain patent protection for inventions; commercial limitations imposed by patents owned or controlled by third parties; dependence upon strategic alliance partners to develop and commercialise products and services; difficulties or delays in obtaining regulatory approvals to market products and services resulting from development efforts; the requirement for substantial funding to conduct research and development and to expand commercialisation activities; and product initiatives by competitors. As a result of these factors, prospective investors are cautioned not to rely on any forward-looking statements. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Excellent clinical and commercial progress, strengthened pipeline and robust financial position

Financial highlights

- **Revenues of £17.0m** (H1: 2012/13 – £17.0m; FY: 2012/13 – £30.5m)
- **Positive EBITDA of £2.3m** (H1: 2012/13 – £2.6m; FY: 2012/13 – negative £3.4m)
- **Loss before tax of £1.2m** (H1: 2012/13 – £1.1m; FY: 2012/13 – £10.4m)
- **EPS loss of 0.1p** (H1: 2012/13 – profit of 0.3p; FY: 2012/13 – loss of 1.8p)
- **Robust balance sheet with cash and cash equivalents of £65.5m** (£70.1m at 31 March 2013)

Operational highlights

Approval of Novartis' Ultibro® Breezhaler® (indacaterol/glycopyrronium, QVA149) in Europe and approval of Ultibro® Inhalation Capsules in Japan

- Following a positive CHMP opinion, the European Commission approved Ultibro® Breezhaler®, triggering a $10m (£6.2m) milestone
- Japanese approval for once-daily Ultibro® Inhalation Capsules, triggering a $2.5m (£1.6m) milestone
- US filing for QVA149 expected late 2014
- Post period event:
  - Launched by Novartis in the Netherlands and Germany

Collaboration with UCB announced

- Development of an innovative biologic immunomodulatory product in the area of severe respiratory disease
- Co-development structure aims to bring asset through to clinical proof of concept
- Further validation of Vectura's development capability and technology platform, and adds a novel early stage asset to the pipeline

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

- Focus continues on high-value, non-commodity products
- Announcement of US guidelines on inhaled generic drugs was a positive development for Vectura
- Clinical trial programme underway for VR506
  - Positive readout on clinical trial 002 (post period)
  - Ongoing clinical trial (004), due to report data in H1 2014
  - Discussions underway with potential development/commercialisation partners

Joint venture established in China ("Kinnovata")

- Non-cash investment for 35% share in JV that will develop and commercialise products in fast-growing Asian markets
  - Worldwide rights to Clickhaler® technology and Asian rights to Duohaler® technology
  - Access to Vectura's approved European Clickhaler® regulatory dossiers
  - Clickhaler® and Duohaler® fixed assets
- Final local Government approval expected in 2014 upon which a non-cash gain of approximately £13.5m will be recognised

New Board appointment

- We are delighted to highlight the appointment of Bruno Angelici to the Board as an Independent Non-executive Director and Non-executive Chairman Designate (see post period press release on 14 November 2013). Bruno Angelici will join the Board on 1 December 2013 and will become Non-executive Chairman on 1 February 2014, the date on which current Chairman, Jack Cashman, will retire from the Board of Vectura.

'The first half of the financial year has been another important period for Vectura, marked by significant development achievements. In September, Novartis received approval in Europe for Ultibro® Breezhaler® and Ultibro® Inhalation Capsules in Japan, the first ever approval of a LABA/LAMA combination.

These events represent a significant de-risking of our interests in this late-stage clinical asset. Novartis continues to roll out the commercialisation of both Seebri® Breezhaler® and Ultibro® Breezhaler® in Europe and Japan. Seebri® Breezhaler® launch is underway and we anticipate growing royalties as the launch of Ultibro® Breezhaler® is initiated by Novartis.

Vectura has maintained its financial discipline, exercising continued tight cost control whilst also leveraging non-core assets in emerging markets through the establishment of Kinnovata, our joint venture in China. Furthermore, our co-development collaboration with UCB highlights our on-going commitment to applying our development and technological strengths to innovative biological assets for airway-related diseases.

We would also like to welcome Bruno Angelici, following the recent announcement that he will join the Board of Vectura. Bruno brings a wealth of experience and we look forward to working with him as Vectura embarks on its next stage of growth.' **Dr Chris Blackwell**

Overview

Vectura is a product development company that focuses on the development of pharmaceutical therapies for the treatment of diseases that affect or can be treated with drugs that act on the airways (airway-related diseases). This segment of the pharmaceutical market includes large indications such as asthma and chronic obstructive pulmonary disease (COPD) and is estimated to be worth in excess of $30 billion in sales worldwide. This segment of the market also covers a wide range of other indications including viral and fungal infections, allergies, cough and fibrotic diseases of the lung.

Vectura's development and formulation expertise is evidenced by numerous accomplishments including six revenue generating marketed products. The Group's in-house and partnered pipeline assets span both branded treatments and high value generics. These programmes, if successful, will compete in multi-billion dollar markets.

Value realisation from product progress

Blue-chip partners including Novartis, Sandoz, GSK, KingYork and UCB, have invested in, and have validated Vectura's technology and approach to drug development.

Our value will stem from pipeline products such as:

- Seebri® Breezhaler® (NVA237; glycopyrronium bromide), a long-acting muscarinic antagonist (LAMA), developed by Novartis, approved by the European Commission for use in Europe as a once-daily, inhaled, maintenance bronchodilator treatment for the relief of symptoms in adult patients with chronic obstructive pulmonary disease (COPD). Seebri® Inhalation Capsules 50 mcg have been approved in Japan as maintenance COPD treatment. The drug is in its launch phase and our licensee, Novartis, has reported $33m in sales for the nine months to 30 September 2013
- Ultibro® Breezhaler® (QVA149) is an inhaled fixed-dose combination of the once-daily, long-acting beta-agonist (LABA), indacaterol maleate and glycopyrronium, a long-acting muscarinic antagonist (LAMA), developed by Novartis. In September 2013, Ultibro® Breezhaler®, was the first once-daily dual bronchodilator to gain European Commission approval as a maintenance bronchodilator treatment to relieve symptoms in adult patients with COPD. Once-daily Ultibro® Inhalation Capsules (QVA149; glycopyrronium/indacaterol), delivered through the Breezhaler® inhalation device, has been approved in Japan for the relief of various symptoms due to airway obstruction in COPD
- Co-development of VR942, a biological therapy targeting a key molecule in the immune system, with UCB through to clinical proof of concept. The collaboration aims to leverage Vectura's expertise in the development of inhaled therapeutics with UCB's biologics and immunology assets. The collaboration will focus on bringing to clinical proof of concept a UCB-generated biological therapy targeting a key molecule in the immune system. Vectura will contribute pharmaceutical, clinical and regulatory development capability to the collaboration
- VR315, VR632 and VR506, generic versions of drugs for COPD and/or asthma.

Seebri® Breezhaler® (NVA237; glycopyrronium bromide)

During 2012, Novartis, the worldwide licensee for NVA237, received approval of Seebri® Breezhaler® in the European Union and in nine other countries including Canada and Australia. Seebri® Inhalation Capsules received approval in Japan. Subsequently, the product has been launched in several countries. The approval of this drug was a landmark and value-enhancing event for Vectura, providing validation of Vectura's business model to date.

Seebri® Breezhaler® is an innovative, once-daily therapy that has been shown to reduce breathlessness and exacerbations, improve lung function and help improve overall quality of life when compared to placebo. Its approval in the European Union is therefore an important development and provides another treatment option for patients with COPD, the world's fourth biggest cause of death.

In the US, Novartis is undertaking Phase III studies of NVA237 and expects to file the product in H1 2014.

Ultibro® Breezhaler® (QVA149; the investigational fixed-dose combination of indacaterol/glycopyrronium)

This year also saw a number of important milestones in the development of QVA149. In July 2013, the European Medicines Agency's Committee for Medicinal Products for Human Use (CHMP) adopted a positive opinion for approval of once-daily Ultibro® Breezhaler® (indacaterol 85 mcg/glycopyrronium 43 mcg) as a maintenance bronchodilator treatment to relieve symptoms in adult patients with chronic obstructive pulmonary disease (COPD). Ultibro® Breezhaler® was developed under the name of QVA149.

In September 2013, the European Commission approved once-daily Ultibro® Breezhaler®. Dual bronchodilation with QVA149 is expected to set a new standard of care in COPD by combining the proven efficacy benefits and safety profiles of two established Novartis COPD treatments; the LABA, Onbrez® Breezhaler® (indacaterol), and the LAMA, Seebri® Breezhaler® (glycopyrronium bromide). Both these components are delivered through the Breezhaler® inhalation device, as is QVA149, and are widely available in many countries around the world. The EU approval of QVA149 triggered a $10m milestone to Vectura which was recognised in the period.

On 20 September 2013, the Japanese Ministry of Health, Labour and Welfare (MHLW) approved Novartis' once-daily Ultibro® Inhalation Capsules (glycopyrronium 50 mcg/indacaterol 110 mcg), delivered through the Breezhaler® device, for relief of various symptoms due to airway obstruction in COPD. Ultibro® Inhalation Capsules were developed under the name of QVA149 and will be available to the 5.3 million Japanese patients who may be living with COPD. The Japan approval triggered a $2.5m milestone to Vectura which was recognised in the period.

QVA149 is expected to be filed in the US by Novartis towards the end of 2014.

The dual activities of LAMA/LABA combination products offer the potential effective bronchodilation, providing an opportunity to address a large and unmet medical need for COPD sufferers.

To date, Vectura has received $52.5m from Novartis[1] and, under the terms of the licence, could receive up to an additional $135m for achievement of regulatory and commercialisation targets for both the monotherapy and combination product.

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

This growing, multi-billion dollar market makes QVA149 a significant value prospect for Vectura as the product is commercialised.

VR942

In September 2013, Vectura and UCB entered into collaboration for the development of an innovative biologic immunomodulatory product in the area of severe inflammatory respiratory disease. The collaboration aims to leverage Vectura's expertise in the pharmaceutical and clinical/regulatory development of inhaled therapeutics with UCB's biologics and immunology assets. The collaboration will focus on bringing to clinical proof of concept a UCB-generated biological therapy targeting a key molecule in the immune system.

Generic programmes

Development work continues on Vectura's generic programmes: VR315 (asthma/COPD), VR632 (asthma/COPD) and VR506 (asthma). Vectura has undertaken two multi-centre, international clinical trials on VR506.

Post period, the first clinical study, VR506/2/002, has been successfully completed and the topline clinical results are positive. Study VR506/2/002 was a randomised, double-blind placebo-controlled, parallel group study to evaluate the efficacy and safety of VR506 inhaled from a new inhaler in adolescent and adult subjects with asthma. The study met the primary outcome measure for the mean change from start of treatment baseline for in clinic morning pre-dose FEV_1 over a 12 week period.

The topline data from study 002 will be released at a suitable conference once the data has been further analysed and subject to the outcome of any ongoing partnering and regulatory discussions.

The second trial, VR506/004 which is in moderate to severe asthmatic patients, is due to complete in early 2014.

1 Onbrez® Breezhaler®, Ultibro® Breezhaler® and Seebri® Breezhaler® are registered trademarks of Novartis AG

Kinnovata

Vectura announced on 13 May 2013 that it had established Tianjin Kinnovata Pharmaceutical Company Limited ("Kinnovata") in China with two partners; Tianjin KingYork Group Company Limited ("KingYork") and Zendex Bio Strategy Inc. ("Zendex"). Completion of the Kinnovata transaction is subject to final Government clearances in China which are expected in 2014.

Kinnovata will develop, manufacture and commercialise respiratory products for the rapidly growing domestic Chinese and other regional markets in Asia. This new company will initially exploit Vectura's Clickhaler® and Duohaler® dry powder inhaler (DPI) technology platforms to address current unmet needs in the growing Asian respiratory markets, notably the asthma and chronic obstructive pulmonary disease (COPD) therapeutic areas.

Kinnovata will be an independent company with its own development and manufacturing operations located in Tianjin. Vectura is also providing training and other expertise to Kinnovata as the Company prepares to undertake its first Clickhaler® clinical studies in Chinese patients. An application for the import of Asmasal® Clickhaler® (salbutamol) has been filed with the Chinese State Food and Drug Administration (SFDA).

In addition, a separate R&D Cooperation Agreement has been established between Kinnovata and the Shanghai Institute of Pharmaceutical Industry to undertake the development of a number of DPI formulations on behalf of Kinnovata.

Technology development

It is essential that the Group's product focus is underpinned by our intellectual property. Vectura commits significant effort to ensure competitiveness in this area is maintained through innovation. Vectura's technologies will therefore continue to drive value by enabling, improving and adding value to the products we develop.

Examples of how Vectura leverages the value of its technology include the royalties' payable from GSK and Profibrix B.V.
On 10 May 2013 the United States Food and Drug Administration (FDA) approved a New Drug Application, NDA, for BREO™ ELLIPTA™ (fluticasone furoate/vilanterol 100/25 mcg) submitted by GSK. In August 2010, GSK entered into a licence and an option to license agreement for certain of Vectura's dry powder formulation patents. Vectura is entitled to a low single digit royalty on net sales of products using these patents capped at a maximum amount of £13m per annum. BREO™ ELLIPTA™ will be the first product to be launched by GSK that will use patents covered by the agreement. GSK has stated that it expects the product to be available in the United States in Q3/Q4 2013. A second GSK combination product covered by the agreement has also been filed for approval in the United States, Europe and Japan.

In accordance with the terms of a licensing agreement between Vectura and ProFibrix B.V., Vectura will earn a low single digit royalty for the sale of ProFibrix's lead biologic, Fibrocaps™, in the major territories. In August 2013 ProFibrix was acquired by The Medicines Company who will now complete development and commercialisation of Fibrocaps™. As a shareholder of ProFibrix B.V., Vectura also received a $1.5m milestone related to the successful outcome of the phase III study and Vectura will potentially receive further payments based on certain approval and sales milestones.

New Board appointment

We are delighted to highlight the post period announcement, on 14th November, announcing the appointment of Bruno Angelici to the Board as an Independent Non-executive Director and Non-executive Chairman Designate.

Bruno Angelici will join the Board on 1 December 2013 and will become Non-executive Chairman on 1 February 2014, the date on which current Chairman, Jack Cashman, will retire from the Board of Vectura. This follows the announcement on 23 September 2013, confirming the intention of Mr Cashman to retire after 12 years' service to the Board.

Bruno Angelici is a Non-executive Director of Smiths Group plc, a FTSE 100 technology group, and Novo Nordisk A/S, a global healthcare company and world leader in diabetes care. He is also a member of the Global Advisory Board of Takeda Pharmaceutical Company Limited, Japan, the largest pharmaceutical company in Asia, and a member of the Supervisory Board of Wolters Kluwer nv, a global information services and publishing company. In the view of the Board, Bruno's exceptional knowledge, independence and extensive international experience at both board and senior management levels will be a significant addition to Vectura as the Company enters the next stage in its evolution.

Bruno's career includes senior management roles in pharmaceutical and medical device companies. Bruno retired from AstraZeneca in 2010 as Executive Vice President International after a 20-year career. He was responsible for Europe, Japan, Asia Pacific, Latin America, Middle East and Africa having originally joined as President of ICI Pharma France. Prior to this, he was at Baxter, a US-based global supplier of medical devices. He has extensive international experience, including in the US, and brings a deep understanding to the Company of the medical device and pharmaceutical industries.

Outlook

The first half of FY2013/14 continued the de-risking of Vectura's late stage branded pipeline whilst also adding additional sources of future value creation. These included the JV in China which utilised non-core assets and does not require a cash investment from Vectura. The Asian markets for asthma and COPD are rapidly growing and over the coming years, Kinnovata aims to have drugs competing in these markets. The co-development agreement with UCB is one that endorses the cutting edge nature of our technology platform, and will potentially deliver a biological drug to address respiratory disease.

We look forward to a number of significant catalysts over the coming year from our programmes. Royalty income should build on our historical base as sales of Seebri® Breezhaler® increase as the commercial launch is rolled out to more countries; the launch of Ultibro® Breezhaler® is expected imminently and we also expect to start receiving royalties from our license with GSK with additional near-term development milestones from this and other products in our pipeline.

These additional income streams, provided by our commercial and late-stage products, will further strengthen our robust financial position and provide a platform from which to accelerate the next phase of Vectura's growth. As part of this growth, we will continue to seek and carefully evaluate suitable opportunities in established and emerging markets, whilst being mindful of the need for financial discipline which balances unmet needs with commercial attractiveness.

We continue to believe that our development model, together with tight cost control and focused development criteria, will continue to result in the appropriate strategy to build value for shareholders.

Summary of results

Revenues of £17.0m and gross profit of £16.9m are consistent with the same period in the prior year. Operating loss of £1.9m is £0.6m higher than last year, primarily due to a slight increase in research and development expenditure of £0.3m and a £0.2m increase in the non-cash share based compensation charge. A one-off receipt relating to investment income was recognised during the period and as a result, loss before tax of £1.2m is in line with the prior period loss of £1.1m.

Revenue

Revenue includes fee income from royalties, product licensing, technology licensing, pharmaceutical development services and device sales. Royalty income currently represents 41% of total revenue (H1: 2012/13 – 36%).

Royalties

Overall, royalty income has increased by £0.8m to £6.9m (H1: 2012/13 – £6.1m) and this increase is driven by the £0.9m of royalty income received from Novartis relating to sales of Seebri® Breezhaler®, which was approved in the EU and Japan in September 2012. Novartis reported Seebri® Breezhaler® sales of $12m in Q2 2013 and $15m in Q3 2013.

Ultibro® Breezhaler® was approved in Europe and Japan in September 2013 and Vectura will earn a royalty from the commercial sales of this product.

Underlying royalty income is mainly derived from the three products licensed to Baxter. ADVATE®, for haemophilia A, contributed royalties of £5.1m and accounted for 74% of the royalties generated in the period (H1: 2012/13 – £5.2m). Adept®, for the prevention of surgical adhesions, and Extraneal®, for peritoneal dialysis, contributed royalties of £0.8m (H1: 2012/13 – £0.7m).

Product licensing

Product licensing revenues in the period were £7.8m (H1: 2012/13 – £9.6m). This relates to the QVA149 European (Ultibro® Breezhaler®) and Japanese (Ultibro® Inhalation Capsules) approval milestones of $10m (£6.2m) and $2.5m (£1.6m) respectively.

Technology licensing

Technology licensing revenues were £2.1m (H1: 2012/13 – £1.1m). This income relates primarily to a £2.0m change of control milestone earned under a technology licensing agreement following the acquisition of ProFibrix B.V. by The Medicines Company.

Pharmaceutical Development Services (PDS)

There were £0.1m of PDS revenues in the six-month period (H1: 2012/13 – £Nil). We have now successfully completed work on some of our partnered projects. Future PDS revenues will depend on the extent and nature of feasibility studies and new licensing deals in this highly specialised area, where partners frequently require Vectura's continued involvement in the development of a product.

Device sales

Device sales of £0.1m were in line with management expectations (H1: 2012/13 – £0.2m). Future device sales are dependent upon the launch of certain generic products.

Expenditure

Vectura has continued to focus on cost control across all categories of expenditure during the first half of the financial year 2013/14.

Research and development expenses

Total investment in research and development was £13.6m, this being a £0.3m increase on the same period in the prior year (H1: 2012/13 – £13.3m). Full-year research and development expenses are expected to be remain broadly consistent with those for the year ended 31 March 2013 (FY: 2012/13 – £30.9m).

Other administrative expenses

Other administrative expenses for the period were £1.6m (H1: 2012/13 – £1.5m). Full-year administrative expenses are expected to remain in line with the prior year (FY: 2012/13 – £3.3m).

Earnings before interest, tax, depreciation and amortisation (EBITDA)

EBITDA for the period was £2.3m (H1: 2012/13 – £2.6m). 2012/13 EBITDA for the full year was a loss of £3.4m.

Investment income

In August 2013, Vectura confirmed the acquisition of ProFibrix B.V. by The Medicines Company. As a shareholder of ProFibrix B.V., Vectura received an initial payment of $1.5m (£1m) in consideration for the sale of its shareholding. Vectura could potentially receive further payments, contingent upon certain approval and sales milestones.

Loss before taxation

The loss for the period before taxation was £1.2m (H1: 2012/13 – £1.1m).

Loss after taxation and loss per share

The loss for the period after taxation was £0.3m (H1: 2012/13 – profit of £0.9m), giving a loss per ordinary share of 0.1p (H1: 2012/13 – profit of 0.3p).

Non-current assets

Non-current assets were £73.7m at 30 September 2013, compared with £76.1m at 31 March 2013, and include goodwill (£49.6m), intangible assets (£13.9m), property, plant and equipment (£9.8m) and other receivables (£0.4m). The net movement of £2.4m in the period relates to property, plant and equipment additions of £1.4m and a £3.8m charge for amortisation and depreciation.

Deferred income

Deferred income relates to milestones and other income received in cash but not yet recognised as revenue. The decrease of £0.1m in the six-month period to 30 September 2013 relates to milestones received in cash prior to 31 March 2013 and recognised as revenue in the six month period. The £1.3m balance (31 March 2013 – £1.4m) will be recognised as revenue in later periods.

Cash flow

Vectura continues to have a strong cash position, with cash and cash equivalents at 30 September 2013 of £65.5m (31 March 2013 – £70.1m). The decrease in cash over the six month period was driven by an outflow from operating activities of £7.0m (H1: 2012/13 – £3.3m), largely relating to payments made to suppliers during the period and an increase in receivables at the period end relating to the QVA149 milestones. This net cash outflow was offset by an inflow of £2.5m in relation to the issue of new share capital (FY: 2012/13 – £0.6m).

Foreign exchange rates

The following foreign exchange rates were used during the period:

	H1 2013/14	H1 2012/13	FY 2012/13
Average rates:			
£/$	1.54	1.58	1.58
£/€	1.17	1.25	1.23
Period-end rates:			
£/$	1.62	1.61	1.52
£/€	1.20	1.26	1.18

Financial statements: Condensed consolidated statement of comprehensive income for the six months ended 30 September 2013

	Note	6 months ended 30 September 2013 £m (unaudited)	6 months ended 30 September 2012 £m (unaudited)	Year ended 31 March 2013 £m (audited)
Revenue	2	17.0	17.0	30.5
Cost of sales		(0.1)	(0.1)	(0.7)
Gross profit		16.9	16.9	29.8
Research and development expenses		(13.6)	(13.3)	(30.9)
Other administrative expenses		(1.6)	(1.5)	(3.3)
Amortisation		(3.2)	(3.2)	(6.3)
Share-based compensation		(0.4)	(0.2)	(0.9)
Total administrative expenses		(5.2)	(4.9)	(10.5)
Operating loss		(1.9)	(1.3)	(11.6)
Investment income	3	1.4	0.2	0.5
Finance (losses)/gains	3	(0.7)	–	0.7
Loss before taxation		(1.2)	(1.1)	(10.4)
Taxation	4	0.9	2.0	4.5
(Loss)/profit after taxation attributable to equity holders of the Company and total comprehensive income		(0.3)	0.9	(5.9)
(Loss)/profit per ordinary share:				
Basic and diluted	5	(0.1p)	0.3p	(1.8p)

Financial statements: Condensed consolidated balance sheet
at 30 September 2013

	Note	30 September 2013 £m (unaudited)	31 March 2013 £m (audited)
Assets			
Goodwill		49.6	49.6
Intangible assets		13.9	17.1
Property, plant and equipment		9.8	9.0
Other receivables		0.4	0.4
Non-current assets		73.7	76.1
Inventories		0.8	0.8
Trade and other receivables	6	13.9	9.2
Cash and cash equivalents		65.5	70.1
Current assets		80.2	80.1
Total assets		153.9	156.2
Liabilities			
Trade and other payables	7	(14.9)	(19.7)
Deferred income	8	–	(0.1)
Current liabilities		(14.9)	(19.8)
Deferred income	8	(1.3)	(1.3)
Non-current liabilities		(1.3)	(1.3)
Total liabilities		(16.2)	(21.1)
Net assets		137.7	135.1
Equity			
Share capital	10	0.1	0.1
Share premium		5.3	2.8
Special reserve		8.2	8.2
Other reserve		124.9	124.9
Share-based compensation reserve		13.3	12.9
Retained loss		(14.1)	(13.8)
Total equity		137.7	135.1

Financial statements: Condensed consolidated cash flow statement
for the six months ended 30 September 2013

	6 months ended 30 September 2013 £m (unaudited)	6 months ended 30 September 2012 £m (unaudited)	Year ended 31 March 2013 £m (audited)
Cash flows from operating activities			
Operating loss	(1.9)	(1.3)	(11.6)
Depreciation and amortisation	3.8	3.7	7.3
Share-based compensation	0.4	0.2	0.9
Increase in inventories	–	–	(0.1)
Increase in receivables	(8.3)	(6.3)	–
Decrease in payables	(4.9)	(1.0)	(1.0)
Decrease in deferred income	(0.1)	(3.0)	(3.4)
Exchange movements	(0.7)	–	0.7
Net cash outflow from operations	(11.7)	(7.7)	(7.2)
Research and development tax credits received	4.7	4.4	4.4
Net cash outflow from operating activities	(7.0)	(3.3)	(2.8)
Cash flows from investing activities			
Interest received	0.2	0.2	0.6
Other investment income	1.0	–	–
Purchase of property, plant and equipment	(1.3)	(0.7)	(4.0)
Receipts from sale of property, plant and equipment	–	–	0.2
Net cash outflow from investing activities	(0.1)	(0.5)	(3.2)
Cash flows from financing activities			
Proceeds from issue of ordinary shares	2.5	0.4	0.6
Net cash inflow from financing activities	2.5	0.4	0.6
Decrease in cash and cash equivalents	(4.6)	(3.4)	(5.4)
Cash and cash equivalents at the beginning of the period	70.1	75.5	75.5
Cash and cash equivalents at the end of the period	65.5	72.1	70.1

Financial statements: Condensed consolidated statement of changes in equity for the six months ended 30 September 2013 (unaudited)

	Share capital £m	Share premium £m	Special reserve £m	Other reserve £m	Share-based compensation reserve £m	Retained loss £m	Total equity £m
At 1 April 2012	0.1	2.2	8.2	124.9	12.0	(7.9)	139.5
Profit for the period	–	–	–	–	–	0.9	0.9
Share-based compensation	–	–	–	–	0.2	–	0.2
Exercise of share options	–	0.4	–	–	–	–	0.4
At 30 September 2012	0.1	2.6	8.2	124.9	12.2	(7.0)	141.0
Loss for the period	–	–	–	–	–	(6.8)	(6.8)
Share-based compensation	–	–	–	–	0.7	–	0.7
Exercise of share options	–	0.2	–	–	–	–	0.2
At 31 March 2013	0.1	2.8	8.2	124.9	12.9	(13.8)	135.1
Loss for the period	–	–	–	–	–	(0.3)	(0.3)
Share-based compensation	–	–	–	–	0.4	–	0.4
Exercise of share options	–	2.5	–	–	–	–	2.5
At 30 September 2013	0.1	5.3	8.2	124.9	13.3	(14.1)	137.7

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

These condensed half-yearly financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and International Accounting Standard 34 – Interim Financial Reporting, and do not include all the statements required for full annual financial statements. The same accounting policies, presentation and methods of computation, have been followed in the interim financial statements as applied in the latest audited financial statements of Vectura Group plc for the year ended 31 March 2013.

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

The financial information for the year ended 31 March 2013 has been extracted from the Group's published financial statements for that year, which contain an unqualified audit report; do not draw attention to any matters of emphasis, and did not contain statements under section 498(2) and 498(3) of the Companies Act 2006, and which have been filed with the Registrar of Companies.

Risks and uncertainties

The key business risks facing Vectura on a stand-alone basis remain unchanged from those set out on pages 27 and 28 of the Annual Report and Accounts for the year ended 31 March 2013. There are a number of potential risks and uncertainties that could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. Particular risks include industry risk, clinical and regulatory risk, counterparty risk, competition and intellectual property risk, economic risk and financial risk (cash flow, credit, liquidity and price).

Going concern

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

The Group has £65.5m of cash and cash equivalents as at 30 September 2013. The Board operates an investment policy, under which the primary objective is to invest in low-risk cash or cash equivalent investments to safeguard the principal. The Group's forecasts, taking into account likely revenue streams, show that the Group has sufficient funds to operate for the foreseeable future, being a period of not less than 12 months from the date of approval of the interim financial statements.

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

2 Revenue

Group revenue by category	6 months ended 30 September 2013 £m	6 months ended 30 September 2012 £m	Year ended 31 March 2013 £m
Royalties	6.9	6.1	13.0
Product licensing	7.8	9.6	12.8
Technology licensing	2.1	1.1	3.7
Pharmaceutical development services	0.1	–	0.6
Device sales	0.1	0.2	0.4
	17.0	17.0	30.5

Revenue by customer location	6 months ended 30 September 2013 £m	6 months ended 30 September 2012 £m	Year ended 31 March 2013 £m
United Kingdom	0.2	1.2	3.9
Rest of Europe	10.8	7.8	11.4
United States of America	6.0	8.0	15.2
	17.0	17.0	30.5

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

All revenue and profits/(losses) before taxation originate in the United Kingdom.

3 Investment income and finance (losses)/gains

	6 months ended 30 September 2013 £m	6 months ended 30 September 2012 £m	Year ended 31 March 2013 £m
Investment income:			
Income from sale of investments	1.2	–	–
Interest receivable on bank deposits and similar income	0.2	0.2	0.5
Finance (losses)/gains:			
Foreign exchange (losses)/gains	(0.7)	–	0.7

4 Taxation

	6 months ended 30 September 2013 £m	6 months ended 30 September 2012 £m	Year ended 31 March 2013 £m
Research and development tax credits:			
– Current period	–	1.3	3.8
– receipt in respect of prior year	0.9	0.4	0.4
Reduction in deferred tax liability	–	0.3	0.3
	0.9	2.0	4.5

5 (Loss)/profit per ordinary share

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

	6 months ended 30 September 2013	6 months ended 30 September 2012	Year ended 31 March 2013
(Loss)/profit for the period (£m) for the purposes of basic and diluted earnings per share	(0.3)	0.9	(5.9)
Weighted average number of ordinary shares for the purposes of basic earnings per share (No. m)	335.9	332.3	332.9
Effect of dilutive potential ordinary shares (share options)	–	5.7	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	335.9	338.0	332.9
(Loss)/profit per ordinary share: Basic	(0.1p)	0.3p	(1.8p)
(Loss)/profit per ordinary share: Diluted	–	0.3p	–

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

IAS 33 – Earnings per Share, requires presentation of diluted earnings per share where a company could be called upon to issue shares that would decrease net profit or increase net loss per share. No adjustment has been made to the basic loss per share as at 30 September 2013, as the exercise of share options would have the effect of reducing the loss per ordinary share, and therefore is not dilutive.

6 Trade and other receivables

	30 September 2013 £m	31 March 2013 £m
Trade receivables	8.3	0.1
Other receivables	0.3	4.0
Prepayments and accrued income	4.7	4.2
VAT recoverable	0.6	0.9
	13.9	9.2

7 Trade and other payables

	30 September 2013 £m	31 March 2013 £m
Trade payables	4.5	3.8
Other taxes and social security costs	0.7	–
Other payables	0.6	0.3
Accruals	9.1	15.6
	14.9	19.7

8 Deferred income

Deferred income relates to amounts received under product licensing agreements. Vectura continues to provide services to these licensing partners over a period of time. Income from milestone receipts under these licensing agreements is therefore deferred as follows:

	30 September 2013 £m	31 March 2013 £m
Amounts due within one year	–	0.1
Amounts due after more than one year	1.3	1.3
	1.3	1.4

9 Financial Instruments

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

	30 September 2013 £m	31 March 2013 £m
Cash and cash equivalents	65.5	70.1
Loans and receivables	13.5	8.8
	79.0	78.9

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

	30 September 2013 £m	31 March 2013 £m
Other	(14.9)	(19.7)

10 Share capital

	30 September 2013		31 March 2013	
	£m	No. 000	£m	No. 000
Authorised:				
Ordinary shares of 0.025p each	0.1	441,200	0.1	441,200
Redeemable preference shares of £1 each	–	34	–	34
Allotted, called up and fully paid:				
Ordinary shares of 0.025p each	0.1	339,179	0.1	334,456
Redeemable preference shares of £1 each	–	34	–	34

11 Related party transactions

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

Directors and governance: Directors' responsibility statement

We confirm that to the best of our knowledge:

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

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

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

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

By order of the Board,

Paul Oliver
Director

18 November 2013

Directors and governance: Independent review report to Vectura Group plc

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2013, which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, the condensed consolidated statement of changes in equity, and related notes 1 to 11.
We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Bristol, United Kingdom

18 November 2013

Shareholder information

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

Dr Christopher P Blackwell
(Chief Executive)

Paul Oliver
(Chief Financial Officer)

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

Dr John R Brown
(Non-Executive)

Dr Susan E Foden
(Non-Executive)

Neil W Warner
(Non-Executive)

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