

Vectura Group plc

- Strong Interim results driven by pipeline progress -

Chippenham, UK – 14 November 2011: Vectura Group plc (LSE: VEC) (“Vectura”), the Company that specialises in developing inhaled therapies, principally for the treatment of respiratory diseases, today announces its interim results for the six months ended 30 September 2011.

Financial Highlights

- Revenues ahead of expectations at £21.1m (H1 2010/11 £26.3m)
- Profit after tax of £2.6m; a £2.8m improvement (H1 2010/11 £0.2m loss)
- Positive EPS of 0.8p (H1 2010/11 loss per share of 0.1p)
- Cash and cash equivalents increased by 8% to £80.2m (£74.4m at 31 March 2011)

Operational Highlights

- **NVA237 (COPD) on track for European launch in 2012**
 - European Marketing Authorisation Application filed, triggering a \$5m milestone receipt from Novartis
 - Phase III data presented at the European Respiratory Symposium (ERS) demonstrated improvements compared with placebo:
 - Increased lung function with fast onset of action
 - Improved exercise endurance
 - Delay to onset of first moderate/severe COPD exacerbation
 - Reduced incidence of hospitalizations
 - US regulatory questions to be addressed with further clinical data
- **QVA149 (COPD) on track for European launch in 2013**
 - Phase III data to be published at a major respiratory conference in 2012
 - First regulatory submissions anticipated in 2012
 - US regulatory filing is expected following resolution of questions on NVA237
- **VR315 (asthma/COPD) - Two significant new partnerships secured**
 - Agreement with Sandoz for Rest of World (RoW)
 - Agreement with a US division of an international pharmaceutical company
- **VR506 (asthma)**
 - Clinical development on track and further studies planned

Dr Chris Blackwell, Chief Executive of Vectura:

“Vectura’s results demonstrate continued financial strength, with a profit after tax and cash in excess of £80m. This strong financial performance was underpinned by two important new collaboration agreements concerning VR315 and the filing of NVA237 in Europe. We look forward to the launch of NVA237 in Europe in 2012 as well as additional Phase III clinical data for both NVA237 and QVA149.”

“Looking ahead, we will focus on building our pipeline whilst looking for new partnering opportunities to maintain the growth prospects of the Company.”

– Ends –

Dr Chris Blackwell, Chief Executive and Ms Anne Hyland, Chief Financial Officer, will host an analyst/investor briefing today at 09.30 a.m. GMT at the offices of FTI Consulting, Holborn Gate, 26 Southampton Buildings, London, WC2A 1PB. For further details please contact Mo Noonan on +44(0)20 7269 7116.

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Notes for editors

About Vectura

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

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

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

Forward-looking statements

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

INTERIM MANAGEMENT REPORT

CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW

OVERVIEW

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

During the first half of the year, we made further progress towards becoming a sustainably cash-generative business. As well as securing two prestigious partners for our generic programme VR315 in the US and the RoW, another of our partners, Novartis, has made progress towards commercialising two of our key programmes in a number of territories.

In August, we signed important deals for VR315 in the US and RoW territories. In the US, our partner is a division of a leading international pharmaceutical company. The RoW deal extends our existing relationship with Sandoz, our licensee for Europe. The development of the product now progresses world-wide.

In September, Novartis filed the COPD product, NVA237, for marketing authorisation with the European Medicines Agency (EMA) under the brand-name Seebri[®] Breezhaler[®]. For this, Vectura received a \$5m milestone. The NVA237 GLOW1 and GLOW3 Phase III data were presented at ERS in the same month, confirming the product's efficacy; NVA237 demonstrated superior 24-hour bronchodilation, a rapid onset of action, a decreased risk of COPD exacerbations, a positive effect on exercise endurance and good overall tolerability. Novartis will present further data at a major respiratory conference in the first-half of 2012 and continues to expect the first launch of NVA237 in 2012.

In the US, the Food and Drug Administration (FDA) has recently requested additional clinical data to support the submission. Novartis have not yet disclosed their projected US filing date.

The combination of our long-acting muscarinic antagonist (LAMA), NVA237, with Novartis' long-acting beta-agonist (LABA), indacaterol, is the product known as QVA149. We expect to see Phase III data from studies with QVA149 presented by Novartis at a major respiratory conference in the second half of 2012. A first regulatory submission is on track for 2012, with first launch anticipated in 2013. We await an update from Novartis on the likely submission and launch timing for QVA149 in the US.

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

In addition to VR315, NVA237 and QVA149, we continue to see progress with our other products; VR632, a second combination product licensed to Sandoz, and VR506, an inhaled corticosteroid. Licensing discussions on VR040 for Parkinson's disease continue to offer the prospect to generate a financial return.

Summary and Outlook

Vectura enjoyed a progressive first half, delivering a profit whilst licensing our generic VR315 opportunity and securing a milestone from progress on one of our key branded programmes, NVA237.

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

PARTNERED PROPRIETARY PRODUCTS AND TECHNOLOGIES

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

NVA237 and QVA149 for chronic obstructive pulmonary disease (COPD)

NVA237 is a dry powder formulation for inhalation of glycopyrronium bromide, a LAMA with a rapid onset of activity.

NVA237 was licensed to Novartis in April 2005 by Vectura and our co-development partner, Sosei Group Corporation. Novartis intends to launch NVA237 as a once-daily monotherapy for COPD in 2012 and as a combination (QVA149) with its once-daily LABA, indacaterol, in some territories in 2013.

In September 2011, Novartis filed NVA237 for marketing authorisation with the EMA under the brand-name Seebri[®] Breezhaler[®], triggering a \$5m milestone payment to Vectura.

That same month, Novartis presented new NVA237 Phase III data at the ERS congress. The GLOW1 and GLOW3 studies in COPD patients showed that NVA237 significantly increased patients' lung function compared to placebo, with a fast onset of action at first dose, as well as improving exercise endurance.

The GLOW1 study met its primary endpoint by showing that NVA237 50 mcg once-daily produced a significant improvement of 108 mL in trough FEV₁ (forced expiratory volume of breath in one second) after 12 weeks in patients with moderate-to-severe COPD compared to placebo (p<0.001). Moreover, NVA237 had a rapid onset of action, with a 93 mL improvement in FEV₁ compared to placebo at five minutes after the first dose (p<0.001).

NVA237 significantly prolonged the time to first moderate/severe COPD exacerbation compared to placebo, and reduced the percentage of hospitalizations. Significant improvement in breathlessness was seen at 26 weeks compared to placebo, accompanied by a significant improvement in health-related quality of life and reduction in the use of rescue medication.

The GLOW3 study investigated the effects of NVA237 50 mcg once-daily on exercise endurance in moderate-to-severe COPD patients. The study met its primary endpoint by showing a significant 21% improvement in exercise endurance relative to placebo at the end of the study (i.e. Day 21), with a significant 10% increase from day one (both p<0.001).

Both studies showed that NVA237 was well-tolerated, with a similar incidence of adverse events for patients treated with NVA237 and placebo.

In October, Novartis announced that in the US, NVA237 will require additional clinical data to support submission. They confirmed that, as a result of questions from the FDA, they were exploring the dosing regimen of the product.

The FDA's requirement for additional clinical data for NVA237 is likely to impact timing of the NDA submission for QVA149 in the US, though we continue to believe that QVA149 could be the first once-daily LABA/LAMA combination therapy on the market for COPD. The dual activity of a beta-adrenergic agonist (beta₂-agonist) and a muscarinic antagonist could result in a potent bronchodilator with convenient once-daily dosing. This would address a large and unmet need for COPD sufferers where patient compliance is a key consideration.

Novartis commenced Phase III studies with QVA149 in May 2010, triggering a \$7.5m milestone payment to Vectura. Novartis expects to present Phase III data at a major respiratory conference in the second half of 2012 and to file the product in Europe and the RoW the same year. The first product launch is expected in 2013.

To date, Vectura has received \$35m from Novartis and, under the terms of the licence, could receive up to an additional \$152.5m 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 is forecast to grow to \$24bn in 2019 and these products will play an important role in this market.

Formulation technologies licensed to GlaxoSmithKline (GSK) for asthma/COPD

A non-exclusive licensing agreement signed in August 2010 with GSK enables them to use some of our dry powder drug formulation patents for two late-stage development compounds in their respiratory product pipeline. Under the agreement Vectura will receive £20m by the time the compounds are launched as well as earning royalties on sales of these products, generating up to £13m per year. We believe this agreement underlines the value of our technology platform and we continue to seek other deals.

GENERIC/BRANDED GENERIC PRODUCTS

Branded, combination, dry powder inhaler (DPI) therapy constitutes the largest sector of the respiratory market, with annual sales of over \$11bn. With an ever-growing need for effective and affordable medicines, these products have excellent potential to generate value as generics or branded generics. With extensive formulation and device expertise, both of which are needed to create DPI products, we are ideally placed to take advantage of this opportunity.

VR315 for asthma/COPD

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

We signed a US licence agreement with a division of a leading international pharmaceutical company in August 2011. Under the terms of this agreement, Vectura's partner will be responsible for the commercialisation and manufacture of the product together with clinical development. Vectura is providing support for the US development of VR315 and received an initial payment of \$10 million and up to \$35 million upon achievement of pre-determined development milestones and in addition, will receive a royalty from all VR315 US sales.

Also in August, we extended our collaboration with Sandoz for RoW rights to VR315. Sandoz is responsible for any development work required and for obtaining marketing authorisations throughout the RoW territory, which includes Japan, Canada, South America and Australia. Under the terms of the agreement, Vectura will receive a royalty on net sales and a margin on the commercial manufacture and supply of the dry powder inhaler device used to deliver VR315 and is also eligible for milestones and advance pre-launch royalties worth up to €8m.

VR632 for asthma/COPD

VR632 is our second inhaled combination therapy for asthma and COPD, which also uses our GyroHaler[®] technology. The European rights for VR632 were licensed to Sandoz in December 2007 in a deal worth up to €15.5m in milestones and development funding plus royalties on all products sold. We retain the rights for the US and other territories. In October 2010, we received the penultimate development milestone payment of €0.6m from Sandoz for progress made with VR632.

VR506 for asthma

VR506 is an inhaled corticosteroid (ICS) for the treatment of asthma that entered clinical development in early 2011. Steroids are the mainstay of prophylactic therapy for asthma. As one of the recommended “preventer” drugs for adults and children, they are often prescribed alongside beta₂-agonist bronchodilators.

LICENSING OPPORTUNITIES

Duohaler[®] combination products for asthma/COPD

The Duohaler[®] dry powder inhaler provides advantages over a number of other multi-dose DPIs. Two separate drug reservoirs feed two individual drug formulations into two separate metering chambers, and the drugs are then delivered to the user in the same inhalation. This process obviates the need to co-formulate combination drugs and provides a means of delivering simultaneously a combination formulation from one reservoir and an individual drug from the second. This technology is available for licensing.

VR496 for cystic fibrosis (CF)

VR496 is a multi-modal treatment for respiratory symptoms associated with airway disorders such as cystic fibrosis. The active component is heparin, a drug that has been approved worldwide as an injected or infused treatment for other indications.

Data from a proof-of-concept study announced in March 2011 showed VR496 was safe and well-tolerated, with evidence of anti-inflammatory and mucolytic activity.

VR040 for Parkinson's disease (PD)

VR040 is an inhaled, systemically acting, and rapid-onset treatment for “off” episodes associated with Parkinson's disease. The active ingredient is apomorphine hydrochloride, which is currently marketed by other companies for this indication as a solution for injection in Europe and the US. VR040 is our formulation of apomorphine, delivered by inhalation using our proprietary technology. We are currently talking to companies interested in licensing VR040.

MARKETED PRODUCTS

Six products are currently being marketed by partners and generating revenue for Vectura, with ADVATE[®] being the main value driver.

ADVATE[®] for haemophilia A

In 2000, we granted worldwide rights to Baxter to use our stabilisation patents in its serum-free recombinant Factor VIII, ADVATE[®]. This is indicated for the treatment of haemophilia A and is marketed worldwide by Baxter and from which Vectura earns royalties from sales.

Extraneal[®] for peritoneal dialysis

Extraneal[®] is a peritoneal dialysis solution containing icodextrin, licensed to Baxter in 1996 and marketed by Baxter worldwide. Vectura receives royalties on sales in the US and certain other territories.

Adept[®] for prevention of surgical adhesions

Adept[®] is a 4% icodextrin solution used during surgery to reduce post-surgical adhesions, a frequent and major complication after gynaecological and other abdominal surgery. It has been used in Europe since 2000 and since 2006 in the US. In December 2005, we signed a licence deal with Baxter for the manufacture and distribution of Adept[®].

Products delivered in Clickhaler[®] for asthma

Five products have gained regulatory approvals for the treatment of asthma that are delivered using Clickhaler[®], our proprietary reservoir DPI device.

Asmasal[®] and Asmabec[®] are marketed by Recipharm in the UK, France and Ireland. Asmasal[®] contains salbutamol, a short-acting beta₂-agonist for the rapid relief of asthma symptoms. Asmabec[®] contains beclometasone, an inhaled steroid used as standard preventative therapy for asthma. Meptin[®] (procaterol) is a short-acting beta₂-agonist for the rapid relief of mild, intermittent asthma symptoms, marketed by Otsuka Pharmaceutical in Japan.

Regulatory approvals have also been received for Clickhaler[®] budesonide in Germany, the Netherlands and New Zealand, with approvals for Clickhaler[®] formoterol received in Denmark, the Netherlands, South Africa and New Zealand. Neither of these products is marketed at present; we are actively exploring new territories for marketing them as well as other Clickhaler[®] products. One of the countries we are considering is China, where an estimated 5% of the population suffers from asthma or COPD.

ENABLING TECHNOLOGY PLATFORMS

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

Vectura has a state-of-the-art Good Manufacturing Practice (GMP) facility that has been designed specifically to manufacture inhaled products to support clinical trials.

The development of drugs for inhalation is more complex than for oral delivery and different approaches are required depending on the characteristics of the drug being delivered. Companies across the world are keen to harness our expertise and technology for their own inhalation programmes and we expect that this will lead to future collaborations and licensing deals.

Multi-unit dose DPI devices

Our cost-effective, multi-unit dose DPI technologies, designed to deliver locally-acting drugs to the lungs, include devices such as GyroHaler[®] and OmniHaler[®]. Compact and easy to use, our devices consist of just a few moulded parts, which reduces manufacturing costs. Each device delivers up to 60 doses and is disposable after use. They have aerosolisation characteristics that are likely to be competitive in the marketplace and provide excellent drug protection from moisture and light using sealed, foil blisters. GyroHaler[®] is used to deliver some of our generic products and is scaled up for commercial launch. Other devices are in late-stage development.

Formulation technologies – including PowderHale[®]

Our formulation technologies include PowderHale[®], a patented DPI formulation technology designed to allow aerosolised drug particles to achieve high lung deposition with low-dose variability. This is achieved by incorporating an additional pharmacologically inactive excipient known as a Force Control Agent (FCA). We also possess expertise in micronisation, blending and spray drying, all of which are used in the development of our own and third-party products.

FINANCIAL REVIEW

Summary of results

In the six months ended 30 September 2011, revenues and gross profit both decreased by £5.2m to £21.1m and £19.7m respectively (H1 2010/11 - £26.3m and £24.9m) mainly as a result of the timing of milestone receipts. This shortfall was compensated by a reduction in expenses and a positive operating profit was recorded of £0.5m, a £1m improvement on the operating loss for H1 2010/11. Profit before tax was £1.1m (H1 2010/11 – loss before tax £0.6m) and profit after tax was £2.6m, a £2.8m improvement on the H1 2010/11 loss after tax of £0.2m.

Revenue

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

Royalties

Royalty income decreased as expected by £1.4m to £6m (H1 2010/11 - £7.4m) as the Extraneal[®] royalty income has now ceased in all territories with the exception of the US. ADVATE[®] contributed £5.2m, 87% of the royalties generated in the period, (H1 2010/11 - £5.2m).

Product licensing

Product licensing revenues in the period were £10.8m (H1 2010/11 - £4.5m). These include the \$5m (£3.2m) milestone from Novartis related to the European regulatory submission for NVA237. Product licensing revenues also include \$6.3m (£3.9m) received for VR315 US licensing, and a €1m (£0.9m) milestone received from Sandoz for VR315 RoW licensing. Also included in product licensing is £2.8m that relates to the release of deferred income.

Technology licensing

Technology licensing revenues were £1.2m (H1 2010/11 - £11m). Included within H1 2010/11 was a £10m milestone payment from GSK under a non-exclusive agreement to licence certain of Vectura's dry powder formulation patents.

Pharmaceutical development services (PDS)

PDS revenues declined by £2.1m to £1.1m (H1 2010/11 - £3.2m) as we substantially completed the development work on certain licensed projects. We expect these revenues to increase slightly in the second half of the year as we work with our new US partner on VR315. 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 enjoyed a strong H1 with revenue of £2m (FY 2010/11 - £1.6m) due to timing of orders. H2 device sales are expected to be approximately 25% of those achieved in H1.

Research and development expenses

Total investment in research and development (R&D) was £13.8m, a 21% decrease on the same period in the prior year (H1 2010/11 - £17.5m). The prior year number includes a £2.5m restructuring charge. Excluding this restructuring charge, R&D expenses in the six months to 30 September 2011 decreased by 8% against the comparative six month period in 2010/11. Full year research and development expenses are expected to be approximately 10% below those for the year ended 31 March 2011 (£37.7m).

Other administrative expenses

Other administrative expenses for the period were £1.5m (H1 2010/11 - £1.7m) and are expected to remain consistent in the second half of this financial year.

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

EBITDA for the period was £4.9m (H1 2010/11 - £6.3m). 2010/11 EBITDA for the full year was £0.5m.

Profit after taxation and profit per share

The profit for the period after taxation was £2.6m (H1 2010/11 - loss of £0.2m), giving a profit per ordinary share of 0.8p (H1 2010/11 - loss of 0.1p).

Non-current assets

Non-current assets were £80.2m, compared with £83.8m at 31 March 2011, and include goodwill (£49.6m), intangible assets (£27.5m), property, plant and equipment (£2.7m) and other receivables (£0.4m). The reduction in non-current assets of £3.6m is mainly due to the amortisation of intangible assets during the period.

Deferred income

Deferred income relates to milestones and other income received in cash but not yet recognised as revenue. The £4.5m (31 March 2011 - £5.5m) will be recognised as revenue in later periods.

Cash flow

Cash and cash equivalents increased by £5.8m in the period. This increase is due mainly to the £8.3m of revenue receipts for new licensing deals (VR315 RoW, £2.2m; VR315 US, £6.1m). At 30 September 2011, Vectura had cash and cash equivalents of £80.2m (31 March 2011 - £74.4m), which is equivalent to 24p per share in issue.

Foreign exchange rates

The following foreign exchange rates were used during the period:

	<u>H1 2011/12</u>	<u>H1 2010/11</u>	<u>31 March 2011</u>
Average rates:			
£/\$	1.62	1.52	1.56
£/€	1.14	1.19	1.18
Period end rates:			
£/\$	1.56	1.58	1.60
£/€	1.16	1.15	1.13

Condensed consolidated statement of comprehensive income

for the six months ended 30 September 2011

	Note	6 months ended 30 September 2011 £m (unaudited)	6 months ended 30 September 2010 £m (unaudited)	Year ended 31 March 2011 £m (audited)
Revenue	2	21.1	26.3	42.9
Cost of sales		(1.4)	(1.4)	(2.7)
Gross profit		19.7	24.9	40.2
Research and development expenses		(13.8)	(17.5)	(37.7)
Other administrative expenses		(1.5)	(1.7)	(3.3)
Amortisation		(3.4)	(5.3)	(10.7)
Share-based compensation		(0.5)	(0.9)	(1.8)
Total administrative expenses		(5.4)	(7.9)	(15.8)
Operating profit/(loss)		0.5	(0.5)	(13.3)
Investment income	3	0.4	0.3	0.8
Finance gains/(losses)	3	0.2	(0.4)	(0.8)
Profit/(loss) before taxation		1.1	(0.6)	(13.3)
Taxation	4	1.5	0.4	4.5
Profit/(loss) after taxation attributable to equity holders of the Company and total comprehensive income		2.6	(0.2)	(8.8)
Profit/(loss) per ordinary share:				
Basic and diluted	5	0.8p	(0.1p)	(2.7p)

Condensed consolidated balance sheet

at 30 September 2011

		30 September 2011 £m (unaudited)	31 March 2011 £m (audited)
	Note		
Assets			
Goodwill		49.6	49.6
Intangible assets		27.5	30.9
Property, plant and equipment		2.7	2.9
Other receivables		0.4	0.4
		<hr/>	<hr/>
Non-current assets		80.2	83.8
		<hr/>	<hr/>
Inventories		0.6	0.2
Trade and other receivables	6	12.2	9.2
Cash and cash equivalents		80.2	74.4
		<hr/>	<hr/>
Current assets		93.0	83.8
		<hr/>	<hr/>
Total assets		173.2	167.6
		<hr/>	<hr/>
Liabilities			
Trade and other payables	7	(19.8)	(18.7)
Deferred income	8	(3.2)	(5.5)
		<hr/>	<hr/>
Current liabilities		(23.0)	(24.2)
		<hr/>	<hr/>
Deferred income	8	(1.3)	-
Deferred tax liabilities		(3.1)	(3.1)
		<hr/>	<hr/>
Non-current liabilities		(4.4)	(3.1)
		<hr/>	<hr/>
Total liabilities		(27.4)	(27.3)
		<hr/>	<hr/>
Net assets		145.8	140.3
		<hr/>	<hr/>
Equity			
Share capital	9	0.1	0.1
Share premium		80.7	78.3
Special reserve		8.2	8.2
Other reserve		124.9	124.9
Share-based compensation reserve		11.4	10.9
Retained loss		(79.5)	(82.1)
		<hr/>	<hr/>
Total equity		145.8	140.3
		<hr/>	<hr/>

Condensed consolidated cash flow statement

for the six months ended 30 September 2011

	6 months ended 30 September 2011 £m (unaudited)	6 months ended 30 September 2010 £m (unaudited)	Year ended 31 March 2011 £m (audited)
Operating profit/(loss)	0.5	(0.5)	(13.3)
Depreciation and amortisation	3.9	5.9	12.0
Share-based compensation	0.5	0.9	1.8
Increase in inventories	(0.4)	(0.1)	(0.2)
(Increase)/decrease in receivables	(1.6)	1.7	0.9
Increase/(decrease) in payables	1.2	(3.9)	(0.5)
(Decrease)/increase in deferred income	(1.0)	6.8	2.8
Exchange movements	0.2	(0.4)	(0.8)
Net cash inflow from operations	3.3	10.4	2.7
Taxation paid	-	(0.2)	(0.1)
Research and development tax credits received	-	4.2	8.2
Net cash inflow from operating activities	3.3	14.4	10.8
Cash flows from investing activities			
Interest received	0.4	0.3	0.7
Purchase of property, plant and equipment	(0.3)	(0.9)	(1.5)
Receipts from sale of property, plant and equipment	-	-	0.1
Net cash inflow/(outflow) from investing activities	0.1	(0.6)	(0.7)
Net cash inflow before financing activities	3.4	13.8	10.1
Cash flows from financing activities			
Proceeds from issue of ordinary shares	2.4	-	0.2
Net cash inflow from financing activities	2.4	-	0.2
Increase in cash and cash equivalents	5.8	13.8	10.3
Cash and cash equivalents at beginning of period	74.4	64.1	64.1
Cash and cash equivalents at end of period	80.2	77.9	74.4

Condensed consolidated statement of changes in equity

for the six months ended 30 September 2011 (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 2010	0.1	78.1	8.2	124.9	9.1	(73.3)	147.1
Loss for the period	-	-	-	-	-	(0.2)	(0.2)
Share-based compensation	-	-	-	-	0.9	-	0.9
At 30 September 2010	0.1	78.1	8.2	124.9	10.0	(73.5)	147.8
Loss for the period	-	-	-	-	-	(8.6)	(8.6)
Share-based compensation	-	-	-	-	0.9	-	0.9
Exercise of share options	-	0.2	-	-	-	-	0.2
At 31 March 2011	0.1	78.3	8.2	124.9	10.9	(82.1)	140.3
Profit for the period	-	-	-	-	-	2.6	2.6
Share-based compensation	-	-	-	-	0.5	-	0.5
Exercise of share options	-	2.4	-	-	-	-	2.4
At 30 September 2011	0.1	80.7	8.2	124.9	11.4	(79.5)	145.8

Notes to the condensed set of financial statements

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

These condensed half yearly financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and International Accounting Standard 34 – Interim Financial Reporting, and do not include all the statements required for full annual financial statements. The same accounting policies, presentation and methods of computation, have been followed in the interim financial statements as applied in the latest audited financial statements of Vectura Group plc for the year ended 31 March 2011.

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 auditors, Deloitte LLP, have 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 2011 has been extracted from the Group's published financial statements for that year, which contain an unqualified audit report; does not draw attention to any matters of emphasis, and did not contain statements under section 498(2) and 498(3) of the Companies Act 2006, and which have been filed with the Registrar of Companies.

Risks and uncertainties

The key business risks facing Vectura on a standalone basis remain unchanged from those set out on page 13 in the Annual Report and Accounts for the year ended 31 March 2011. 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, 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 £80.2m of cash and cash equivalents as at 30 September 2011. The Board operates an investment policy, under which the primary objective is to invest in low-risk cash or cash equivalent investments to safeguard the principal. The Group's forecasts, taking into account likely revenue streams, show that the Group has sufficient funds to operate for the foreseeable future.

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

2. Revenue

	6 months ended 30 September 2011 £m	6 months ended 30 September 2010 £m	Year ended 31 March 2011 £m
Group revenue by category:			
Royalties	6.0	7.4	13.6
Product licensing	10.8	4.5	10.6
Technology licensing	1.2	11.0	12.9
Pharmaceutical development services	1.1	3.2	4.2
Device sales	2.0	0.2	1.6
	21.1	26.3	42.9
	21.1	26.3	42.9

	6 months ended 30 September 2011 £m	6 months ended 30 September 2010 £m	Year ended 31 March 2011 £m
Revenue by customer location:			
United Kingdom	1.1	11.0	11.6
Rest of Europe	7.9	7.6	15.1
United States of America	11.8	7.4	13.5
Rest of World	0.3	0.3	2.7
	21.1	26.3	42.9
	21.1	26.3	42.9

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.

Interest income is disclosed separately in the statement of comprehensive income and has been excluded from this note.

3. Investment income and finance gains / (losses)

	6 months ended 30 September 2011 £m	6 months ended 30 September 2010 £m	Year ended 31 March 2011 £m
Interest income:			
Interest receivable on bank deposits and similar income	0.4	0.3	0.8
	0.4	0.3	0.8
Finance gains/(losses):			
Foreign exchange gains/(losses)	0.2	(0.4)	(0.8)
	0.2	(0.4)	(0.8)
	0.2	(0.4)	(0.8)

4. Taxation

	6 months ended 30 September 2011 £m	6 months ended 30 September 2010 £m	Year ended 31 March 2011 £m
Foreign withholding tax charge on royalties	-	(0.2)	(0.1)
Research and development tax credits	1.5	1.6	3.6
Deferred tax charge	-	(1.0)	1.0
	<u>1.5</u>	<u>0.4</u>	<u>4.5</u>

5. Profit/(loss) per ordinary share

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

	6 months ended 30 September 2011	6 months ended 30 September 2010	Year ended 31 March 2011
Profit/(loss) for the year (£m) for the purposes of basic and diluted earnings per share	<u>2.6</u>	<u>(0.2)</u>	<u>(8.8)</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share (No. m)	328.0	324.8	325.3
Effect of dilutive potential ordinary shares (share options)	<u>16.2</u>	<u>-</u>	<u>-</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>344.2</u>	<u>324.8</u>	<u>325.3</u>
Profit/(loss) per ordinary share: Basic and diluted	<u>0.8p</u>	<u>(0.1p)</u>	<u>(2.7p)</u>

The 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 when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. No adjustment has therefore been made to the basic loss per share for the prior year, as the exercise of share options would have the effect of reducing the loss per ordinary share, and is therefore not dilutive.

6. Trade and other receivables

	30 September 2011 £m	31 March 2011 £m
Trade receivables	3.5	2.0
Other receivables	4.3	2.7
Prepayments and accrued income	4.0	3.5
VAT recoverable	0.4	1.0
	<hr/>	<hr/>
	12.2	9.2
	<hr/> <hr/>	<hr/> <hr/>

7. Trade and other payables

	30 September 2011 £m	31 March 2011 £m
Trade payables	2.7	2.9
Other taxes and social security costs	0.4	-
Other payables	1.3	1.0
Accruals	15.4	14.8
	<hr/>	<hr/>
	19.8	18.7
	<hr/> <hr/>	<hr/> <hr/>

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 2011 £m	31 March 2011 £m
Amounts due within one year	3.2	5.5
Amounts due after more than one year	1.3	-
	<hr/>	<hr/>
	4.5	5.5
	<hr/> <hr/>	<hr/> <hr/>

9. Share capital

	30 September 2011		31 March 2011	
	£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
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Allotted, called up and fully paid:				
Ordinary shares of 0.025p each	0.1	331,115	0.1	326,659
Redeemable preference shares of £1 each	-	34	-	34
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

10. Related party transactions

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

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- a) the condensed set of financial statements has been prepared in accordance with IAS 34 – Interim Financial Reporting;
- b) the condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by the Disclosure and Transparency Rules (DTR) 4.2.4R;
- c) the interim management report includes a fair review of the information required by the DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- d) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board,

Anne Hyland
Director

13 November 2011

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 2011, which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, the condensed consolidated statement of changes in equity, and related notes 1 to 10. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP

Chartered Accountants and Statutory Auditors
Cambridge, United Kingdom
13 November 2011