REGISTERED NUMBER: 01696917 (England and Wales)

VECTURA LIMITED

01696917

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2017

DIRECTORS:	J Ward-Lilley A Derodra
COMPANY SECRETARY:	J Murphy
REGISTERED OFFICE:	One Prospect West Chippenham Wiltshire SN14 6FH United Kingdom
REGISTERED NUMBER:	01696917 (England and Wales)
AUDITOR:	KPMG LLP 15 Canada Square London E14 5GL
PRINCIPAL BANKERS:	Barclays Bank Plc 1 Churchill Place Canary Wharf London E14 5HP United Kingdom

PRINCIPAL ACTIVITY

The principal activity of the Company is that of research, development and commercialisation of pharmaceutical products and technologies and this is expected to continue for the foreseeable future. Vectura Limited (the "Company") is a wholly-owned subsidiary of Vectura Group plc ("Vectura" or the "Group") which is the smallest and largest entity to consolidate the Company's results. The Company's immediate parent undertaking is Vectura Group Investments Limited.

The Directors present their strategic report for the year ended 31 December 2017. Owing to the change in reference date explained below, the comparative period is for the nine months ended 31 December 2016.

GROUP MERGER WITH SKYEPHARMA PLC AND CHANGE OF ACCOUNTING REFERENCE DATE

In the comparative period, on 10 June 2016, an all-share Merger between Vectura Group plc and Skyepharma plc was implemented by way of a court-sanctioned scheme of arrangement of Skyepharma plc ("the Merger"). Further details of this transaction are available on the Group's website www.vectura.com/investors

Following the Merger, the Group changed its accounting reference date from 31 March to 31 December, in order to align with Skyepharma plc; and also be consistent with a number of the Group's partners. Accordingly the Company was also required to change its accounting reference date to 31 December. As such, the comparative financial period is for the nine months ended 31 December 2016.

BUSINESS REVIEW

The Company's key financial performance indicators are as follows:

	Year ended 31 December 2017 (£m)	Restated* 9 months ended 31 December 2016 (£m)
Revenue	**19.2**	26.9
-underlying	**17.7**	12.5
-non-recurring	**1.5**	14.4
Research and development expenditure	**(44.8)**	(34.6)
Operating Loss	**(29.8)**	(13.1)
Loss after tax	**(34.0)**	(30.1)
Cash and cash equivalents	**22.7**	40.1
External borrowings	**Nil**	Nil
Intra-Group borrowings	**(4.1)**	(140.3)
Net assets/ (liabilities)	**31.5**	(72.5)

*see note 18 of the accounts for details of the restatement

Revenue

Underlying revenue – Royalties
Underlying royalty revenue of £17.7m (2016: £12.5m) is principally from the Company's share of Novartis' net sales of Seebri® Breezhaler®, Ultibro® Breezhaler® and demonstrated strong underlying organic growth.

Non-recurring revenue - Licensing
Non-recurring revenue of £1.5m (2016: £14.4m) comprises licensing revenue of £0.2m (2016: £5.5m), development services revenues of £1.3m (2016: £1.6m) and expired royalty revenue of £nil (2016: £7.3m)

Non-recurring product licensing revenue of £0.2m (2016: £5.5m) relates to milestones. A signing milestone £0.2m was received in year on signing of a development agreement with Dynavax. In the previous period a milestone of £4.1m ($5.5m) was received as combined net sales by Novartis worldwide of Seebri® Breezhaler® and Ultibro® Breezhaler® had exceeded $500 million. Furthermore, in the comparative period, £1.4m ($2.0m) was received being the Company's share of a $10.0m Group milestone following acceptance of Hikma's ANDA filing for VR315 (US).

Non-recurring revenue – Development services
Development services of £1.3m (2016: £1.6m) are project-related and hence revenue is dependent on the timing of the activities in the underlying arrangements pursuant to the stage of each development. In the comparative period, development revenues were higher as a result of support provided to Hikma for the aforementioned ANDA filing for VR315 (US).

Expired royalty revenue relating to a legacy agreement for a share of GSK's net sales of Relvar®/Breo® Ellipta®, Anoro® Ellipta® and Incruse® Ellipta® ceased at the end of July 2016 and became the subject of an ongoing legal dispute. Therefore, in the comparative period, £7.3m related to these royalty streams are excluded from underlying revenues in order to present a clear trend of the Company's ongoing royalty and overall revenue performance.

Research and development ("R&D") expenditure
The Company incurred R&D expenditure of £44.8m (restated 2016: £34.6m), for which the increase is principally attributable to the extension of the reporting period from nine to twelve months.

Expenditure recorded during the period comprised of the Company's:
- enhanced delivery assets being the ongoing Phase III trial for VR475 (EU) and costs associated with continued development of VR647 (US);
- novel-patented molecule - partnering projects; and
- generic partnering projects

Operating Loss
The Company reported an operating loss of £29.8m (restated 2016: operating loss of £13.1m). The increase in the loss is primarily due to a reduction in non-recurring revenues combined with a full year impact of R&D expenditure.

Loss after taxation

The Company reported a loss after taxation of £34.0m (restated 2016: loss of £30.1m), due to the operating loss described above, exacerbated by foreign exchange losses of £1.3m (2016: gains of £2.2m), an impairment of intercompany receivables of £2.0m (2016: 20.4m) and a net taxation charge of £0.3m (2016: credit of £1.1m)

Cash

Cash and cash equivalents at 31 December 2017 were £22.7m (31 December 2016: £40.1m). This decrease of £17.4m primarily relates to the loss for the year and the reduction in net Group intercompany payables following settlement of a payable to Vectura Group plc.

Net assets

Net assets of £31.5m (restated 31 December 2016: net liabilities of £72.5m) increased by £104.0m primarily relating to the loss for the period of £34.0m combined with £138.0m arising from a capital contribution (which was the result of a realised gain of an intra-group loan waiver and dividend in specie) being reflected directly in equity.

As the capital contributed was in the form of a non-cash asset, per section 846 of the Companies Act 2006, the capital contribution was credited directly to retained earnings, a distributable reserve.

External Borrowings

The Company has no external borrowings (31 December 2016: £nil).

In August 2016, Vectura arranged a £50.0m unsecured committed multi-currency revolving credit facility ("RCF") with Barclays Bank PLC. In 2017, the RCF was revised to include HSBC Bank PLC. The Company is an obligor under this arrangement and is able to draw down against the facility. The cost of borrowing under the RCF is 1.0 - 2.0 per cent above the relevant LIBOR/EURIBOR reference rate. There are two financial covenants which will be tested at each reporting period if drawings have been made under the facility in the previous six months. At 31 December 2017, the facility remains undrawn.

Intra-Group Borrowings

During the year, the Company was released from the obligation to pay a £138.0m (2016: £nil) intra-Group payable to Innovata Limited, as well as all past, present and future claims against the Company related to this payable.

This waiver was made in the form of a dividend in specie from Innovata Limited to the Company's immediate parent entity Vectura Group Investments Limited and subsequently a deemed capital contribution by Vectura Group Investments Limited to Vectura Limited. As the capital contributed was in the form of a non-cash asset, per section 846 of the Companies Act 2006, the capital contribution was credited directly to retained earnings, a distributable reserve.

PRINCIPAL RISKS AND UNCERTAINTIES

The pharmaceutical sector is inherently risky and there are a variety of risks and uncertainties affecting the Company's business. As a member of the Vectura Group, the Company is directly exposed to a variety of risks which are either specific to the Company or are directly or indirectly applicable to the operations of the Company. Risks are identified and mitigated at Group level, with the following risks being deemed applicable to the Company:

- Partner failure or failure to commercialise pipeline developments
- Failure to launch VR315 (US) in a competitive timeframe
- Changes in the regulatory, operating or pricing environment (excluding Brexit)
- Failure to protect intellectual property
- Failure to attract or retain talent/key personnel
- Brexit uncertainty

For full details of the risk's and the Group's approach to risk management, see the Group's Consolidated Annual Report and Accounts Strategic Report section entitled *Risk Management and Principal Risks.*

FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a number of financial risks as detailed below. The Company is funded principally through intercompany borrowings and invests surplus funds in short-term (typically three months) bank deposits. The Company has access to the majority of these deposits at a maximum of 24 hours' notice.

Currency risk: Exposure arises from foreign currency-denominated trading transactions undertaken in foreign currencies but which are not hedged. Such currency exposure is reduced by matching foreign currency revenues with expenditure in the same foreign currency.

Credit risk: The Company is exposed to credit risk through its operating activities, including trade receivables and from its investing activities, including bank deposits. The creditworthiness of customers is assessed by reference to publicly-available information, or additional information provided by those customers. In view of the nature of the business, most customers are large, profitable, pharmaceutical companies and there is no history of significant bad debts or any need for a bad debt provision.

Liquidity risk: Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company aims to mitigate liquidity risk by managing cash generation by its operations, applying cash collection targets throughout the Company. The Company's policy is to maintain continuity of funding through available cash and cash equivalents; the RCF facility being also available and currently undrawn.

This Strategic report has been approved and signed on behalf of the Board:

....

Andrew Derodra

Director
12 June 2018

The Directors present their report on the affairs of the Company, together with the audited financial statements for the year ended 31 December 2017.

GOING CONCERN

The Company made a loss of £34.0m for the year ended 31 December 2017 (restated 2016: loss of £30.1m) and has net assets of £31.5m as at 31 December 2017 (restated 31 December 2016: net liabilities of £72.5m). The Company performs research and development activities from which it expects to generate a positive return in the medium to long term. The Company receives financing from the Group and accordingly Vectura Group plc has provided the Company with a letter of support covering the next twelve months, ensuring the Company can meets its liabilities as they fall due.

The Directors have reviewed the Group's detailed cash flow forecast for the foreseeable future, made relevant enquiries and considered reasonably plausible downsides in trading performance, to satisfy themselves that the ultimate parent company is able to provide the necessary support to enable the Company to meet its liabilities as they fall due. After making these enquires, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the date of signing this report. Accordingly, they continue to adopt the going concern basis in preparing the report and financial statements.

DIVIDENDS

The Directors do not recommend the payment of a dividend (2016: £nil).

DIRECTORS

The Directors who held office during the year were as follows:

J Ward-Lilley
A Derodra
T M Phillips (resigned 31 May 2017)

The ultimate parent company has granted an indemnity to its Directors against liability in respect of any proceedings brought by third parties, which remains in force as at the date of approving the Directors' Report.

AVERAGE NUMBER OF EMPLOYEES

The Company's average headcount for the period was 221 (2016: 212). Despite redundancies, employee data includes staff employed on fixed term contracts to assist with the delivery of integration initiatives, as well as covers for maternity, paternity and illness.

POLITICAL AND CHARITABLE DONATIONS

Charitable donations to Oxfam of £1,100 (2016: £7,000 to Asthma UK) were made during the year. The Company did not make any political donations or incur any political expenditure (2016: £nil).

INFORMATION PROVIDED TO THE AUDITOR

The Directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

AUDITOR

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

POST BALANCE SHEET EVENTS

In May 2018, the Company received either full or partial repayments of intercompany receivables from two other entities within the Group. On 8 May 2018, the Company received £22.0m from Innovata Biomed Limited, which directly increased the Company's cash balance and, as the debt had previously been fully provided against, this provision was released and the Company's net assets increased by the same amount. Furthermore, on 28 May 2018, £5.7m was received from Vectura GmBH, which increased the Company's cash balance and reduced intercompany receivables accordingly.

It has been determined that these repayments were not indicative of circumstances that existed at the balance sheet date as the funds became available to the repaying entities after 31 December 2017. Therefore, in accordance with *IAS 10 Events after the reporting period,* the transaction has been disclosed but the financial statements presented as at 31 December 2017 have not been adjusted.

The Directors' Report has been approved and signed on behalf of the Board by:

....
Andrew Derodra
Director
12 June 2018

The Directors are responsible for preparing the Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Opinion

We have audited the financial statements of Vectura Limited ("the company") for the year ended 31 December 2017 which comprise the Income Statement, Balance Sheet, Statement in Changes in Equity and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

James Lovegrove (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

12 June 2018

	Note	Year ended 31 December 2017 £m	Restated* 9 months ended 31 December 2016 £m
Revenue	4	**19.2**	26.9
Research and development expenses		**(44.8)**	(34.6)
Corporate costs and marketing expenses		**(2.3)**	(4.3)
Exceptional expenses	5	**(3.4)**	(2.3)
Other income	6	**1.5**	1.2
OPERATING LOSS		**(29.8)**	(13.1)
Impairment of intercompany receivables	8	**(2.0)**	(20.4)
Finance (expense)/income	9	**(1.9)**	2.3
LOSS BEFORE TAXATION		**(33.7)**	(31.2)
Net taxation (charge)/credit	11	**(0.3)**	1.1
LOSS FOR THE PERIOD		**(34.0)**	(30.1)

All results are derived from continuing operations and are attributable to the parent.

*Owing to the aggregation of errors in the application of accounting policies in relation to accruals in prior years, a £0.2m correction to decrease comparative performance was recorded. Refer to note 18.

As there is no difference between the results presented above and total comprehensive income, a separate statement of other comprehensive income is not presented.

	Note	31 December 2017 £m	Restated* 31 December 2016 £m
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	12	**4.1**	10.6
Other non-current assets	13	**6.0**	0.2
		10.1	10.8
CURRENT ASSETS			
Trade and other receivables	14	**21.5**	36.0
Cash and cash equivalents		**22.7**	40.1
		44.2	76.1
TOTAL ASSETS		**54.3**	86.9
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	**(17.8)**	(17.5)
Amounts owed to Group undertakings	15	**(4.1)**	(140.3)
		(21.9)	(157.8)
NON-CURRENT LIABILITIES			
Other payables	15	—	(1.0)
Provisions	16	**(0.9)**	(0.6)
TOTAL LIABILITIES		**(22.8)**	(159.4)
NET ASSETS/(LIABILITIES)		**31.5**	(72.5)
EQUITY			
SHAREHOLDER'S EQUITY			
Called up share capital	18	—	—
Retained earnings / (losses)		**31.5**	(72.5)
TOTAL EQUITY		**31.5**	(72.5)

*Owing to the aggregation of errors in the application of accounting policies in relation to accruals, a £2.3m correction to comparative trade payables was recorded. Refer to note 18.

All results are derived from continuing operations and are attributable to the parent. The notes to the accounts form an integral part of these financial statements. The financial statements of Vectura Limited, registered number 01696917, were approved and authorised for issue by the Board of Directors and were signed on its behalf by:

....

Andrew Derodra
Director
12 June 2018

	Share Capital	Retained earnings/ (losses)	Restated* Equity
	£m	£m	£m
As at 1 April 2016 as previously reported	—	(44.9)	**(44.9)**
Adjustment to opening equity*		2.5	**2.5**
As at 1 April 2016 restated	—	(42.4)	**(42.4)**
Loss for the year restated*	—	(30.1)	**(30.1)**
As at 31 December 2016	—	**(72.5)**	**(72.5)**
Loss for the year	—	(34.0)	**(34.0)**
Realised gain on Intra-Group loan waiver	—	138.0	**138.0**
As at 31 December 2017	—	**31.5**	**31.5**

Ordinary share capital of 4,200 shares (2016: 4,200) with a nominal value of £1 per share are fully paid up and held by the Company's immediate parent Vectura Group Investments Limited.

*Owing to the aggregation of previous immaterial errors in the application of accounting policies in relation to accruals in prior years, a £2.3m correction to opening reserves was recorded. Refer to note 18.

During the year, the Company was released from the obligation to pay a £138.0m (2016: £nil) intra-Group payable to Innovata Limited, as well as all past, present and future claims against the Company related to this payable.

This waiver was made in the form of a dividend in specie from Innovata Limited to the Company's parent entity Vectura Group Investments Limited and subsequently a deemed capital contribution by Vectura Group Investments Limited to Vectura Limited. As the capital contributed was in the form of a non-cash asset, received by Vectura Limited, per section 846 of the Companies Act 2006, the capital contribution was credited directly to retained earnings, a distributable reserve.

1. General information

Vectura Limited (the "Company") is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales and is a wholly-owned subsidiary of Vectura Group plc. The address of the registered office is One Prospect West, Chippenham Wiltshire, SN14 6FH. The nature of the Company's operations and its principal activities are set out in the Strategic report.

These financial statements are presented in pounds sterling rounded to millions. The presentational and functional currency is sterling being the primary currency of the UK economic environment in which the Company operates.

These financial statements are separate financial statements. The smallest and largest Group to consolidate Vectura Limited is Vectura Group plc. The Company is exempt from the preparation and delivery of consolidated financial statements, because it is included in the Group accounts of Vectura Group plc.

The Company previously prepared its financial statements to the accounting reference date of 31 March. Following the Merger with Skyepharma on 10 June 2016, the Group and all subsidiaries changed accounting reference date to 31 December. The comparative financial period is for the nine month period ended 31 December 2016.

2. Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary, in order to comply with Companies Act 2006.

The following automatically available FRS 101 disclosure exemptions has been taken:

- A Cash Flow Statement and related notes
- Comparative period reconciliations for fixed assets
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel;
- Disclosures of transactions with a management entity that provides key management personnel services; and
- An additional balance sheet for the beginning of the earliest comparative period following retrospective change in accounting policy, the correction of error, or the reclassification of items in the financial statements

As the consolidated financial statements of ultimate parent undertaking include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of Group settled share based payments.
- The disclosures required by IFRS 7 Financial Instrument Disclosures.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: Non-current assets and disposal Groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

Going concern

The Company made a loss of £34.0m for the year ended 31 December 2017 (restated 2016: loss of £30.1m) and has net assets of £31.5m as at 31 December 2017 (restated 31 December 2016: net liabilities of £72.5m). The Company performs research and development activities from which it expects to generate a positive return in the medium to long term. The Company receives financing from the Group and, accordingly, Vectura Group plc has provided the Company with a letter of support covering the next twelve months, ensuring the Company can meets its liabilities as they fall due.

The Directors have reviewed the Group's detailed cash flow forecast for the foreseeable future, made relevant enquiries and considered reasonably plausible downsides in trading performance, to satisfy themselves that the ultimate parent company is able to provide the necessary support to enable the Company to meet its liabilities as they fall due. After making these enquires, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the date of signing this report. Accordingly, they continue to adopt the going concern basis in preparing the report and financial statements.

2. Basic of preparation (continued)

Foreign currency

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

New Accounting Standards adopted in this period

IFRS 9 – Financial Instruments

The Company adopted IFRS 9 on 1 January 2017, albeit it had no financial impact on either the current or comparative period. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting, a new impairment model for financial assets and early recognition of expected credit losses. The Company is not involved with complex financial instruments, has not to date applied hedge accounting, nor has any history of material credit losses. As such, the only impact of adoption has been on disclosures.

IFRS 9 provides a new hedge accounting model which is optional to apply and is closer aligned to commercial activities, such that it may in the future be applied if the Board deem applicable. Refer to note 26 "Financial instruments" of the Group Annual report.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

IFRIC 22 clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of advanced payments for assets or liabilities for deferred income. This guidance has been adopted in advance of formal EU endorsement, which is expected imminently, as it provides additional clarification to the application of existing accounting policies rather than any amendments to those policies. The date that payments are made is the reference date for foreign exchange and should not be remeasured.

Critical accounting judgements and key sources of estimation uncertainty

In preparing the financial statements, Directors are required to make judgements, estimates and assumptions, in accordance with IFRS, that affect the amounts of assets, liabilities, revenues and expenses reported in the financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results could differ from those estimates.

The critical accounting judgements and key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities have been identified as:

- Revenue recognition
- Capitalisation of research and development expenditure.
- Recognition of deferred tax attributes

The recognition of revenue and the capitalisation of research and development expenditure are areas that require significant judgement in applying IFRS for medium sized pharmaceutical entities involved in collaborative developments.

The Company enters into a wide variety of collaborative agreements with partners which may span several reporting periods, and involve multiple revenue streams. Significant judgement is often required in assessing the obligations under such contracts and the revenue and costs that are applicable to be allocated to each reporting period. For royalty income, judgement is exercised as management are not directly responsible for the sale of the product to the market they prepare an estimate of the level of royalties to be earned and compare this to external sales data reported by partners and royalty statements received. The recognition of income from non-recurring milestones requires an assessment of the Company's future obligations under the applicable contract, such as when development or sales targets have been met, to determine the most suitable revenue recognition profile.

Research and development expenditure requires an assessment of the expenditure in order to determine whether or not it is appropriate to capitalise in accordance with IAS 38, which involves assessing the viability and chances of success of our projects.

The Company is expected to be profitable in the medium term future, if certain products successfully launch as planned. This would trigger a review of the Company's unrecognised deferred tax assets, which will be recognised to the extent it is considered that deferred tax assets will be available for offset in the foreseeable future.

3. Significant accounting policies

Revenue

Revenues are recognised when the Company's obligations related to the revenues have been discharged and their collection is reasonably assured as follows:

Royalty income

Royalty income is recognised on an accruals basis and represents income earned as a percentage of partner product sales in accordance with the terms of each agreement, net of amounts payable to other licensees. As management are not directly responsible for the sale of the product to the market they prepare an estimate the level of royalties to be earned and compare this to external sales data reported by partners and royalty statements received.

Signing and milestone payments

Signing and milestone payments represent amounts earned for licences or payments relating to development achievements.

Upfront signing milestones received on entering collaborative development agreements, as per industry practice, are deferred onto the balance sheet and then subsequently released to revenue over the appropriate stage of completion of the development services provided.

Milestone payments received in advance are treated as deferred until the milestone is achieved. Milestones which are contingent upon achieving a development or sales target are recognised when achieving them is virtually certain and recovery is assured.

Development services

Development services revenues principally comprise of contract product development and contract clinical trial manufacturing fees invoiced to third parties. Revenues are recognised upon the completion of agreed tasks or spread over the duration of the task, as appropriate.

Research and development ("R&D") expenses

R&D expenses comprise internal employee costs and third party service costs relating to feasibility studies, technical development, costs of chemistry, manufacturing of trial batches, clinical work and the registration and maintenance of intellectual property. As the nature of our R&D projects is associated with obtaining regulatory approval, these costs rarely meet the IAS 38 criteria for capitalisation and are normally charged to the Income Statement as the expenses are incurred.

Other income

Other income relates to government grants for qualifying UK R&D under the Research and Development expenditure credit ("RDEC") scheme for large companies. Such grants are taxable and are presented as other income in the Income Statement.

Taxation

The net taxation charge / credit on the loss for the year includes current and deferred tax. Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received using tax rates enacted at the reporting date.

Deferred taxation is recognised on all temporary differences arising between the local tax bases of assets and liabilities and their carrying amounts in the Company's financial statements. Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

3. Significant accounting policies (continued)

Property, plant and equipment ("PP&E")

PP&E is initially recognised at cost with depreciation subsequently applied evenly over its estimated life less any residual value. PP&E is depreciated on a straight-line basis over the estimated useful lives, as follows:

- Land and Buildings – 20 to 50 years
- Laboratory and supply chain equipment – 3 to 10 years

Financial Instruments

For the purposes of recognition and measurement financial assets are classified into one of these categories:

- Trading activities: Assets that are held for collection of contractual trading cash flows are measured at amortised cost. A gain or loss is recognised in the income statement only when the asset is derecognised or impaired. Interest income is included in finance income using the effective interest rate method if applicable.

- Financial assets held for future sale: Assets that are held for collection of contractual cash flows and for selling the financial assets are measured at fair value through other comprehensive income ("FVOCI").

In instances where the financial assets meets neither category, they are measured at fair value through profit and loss ("FVTPL"). Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their invoice amount as interest is not applicable to the contract.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Financial Liabilities are initially measured at fair value and subsequently measured at amortised cost.

Provisions

Provisions are liabilities where the exact timing and amount of the obligation is uncertain. Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of past events, when an outflow of resources is probable to settle the obligation and when an amount can be reliably estimated.

Where the time value of money is material, provisions are discounted to current values using appropriate rates of interest. The unwinding of the discounts is recorded in net finance income or expense.

Share-based payments

Vectura Group plc charges the Company for the costs associated with share-based payments for its employees. These are charged to the Income Statement and are presented within corporate costs and marketing expenses. The Group operates a number of employee equity-settled share-based compensation plans as part of the Total Reward Strategy. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the awards are expensed over the vesting period based on the Company's estimate of awards that will eventually vest. The cost of equity-settled share transactions is recognised, together with a corresponding increase in equity, over the vesting period.

Exceptional items

Exceptional items are presented whenever significant expenses are incurred or income is received as a result of events considered to be outside the normal course of business, where the unusual nature and expected infrequency merits separate presentation to assist comparisons with previous periods.

Items which are included within the exceptional category include:

- costs associated with major corporate transactions;
- Board-approved spend on the integration of major corporate transactions; and
- other major transformation programmes

Furthermore, significant and unusual items of litigation (e.g. GSK litigation) are also included within exceptional items.

4. Revenue

Revenue by category and customer location are presented below:

	Year ended 31 December 2017 £m	9 months ended 31 December 2016 £m
Revenue by category:		
Product licensing	**0.2**	5.5
Royalties	**17.7**	19.8
Development services	**1.3**	1.6
Total revenue	**19.2**	26.9

Revenue by customer location:	**Year ended 31 December 2017 £m**	9 months ended 31 December 2016 £m
United States of America	**1.4**	3.0
United Kingdom	**—**	7.3
Rest of Europe	**17.8**	16.6
Total revenue	**19.2**	26.9

5. Exceptional items

Exceptional expenses relate to post-Merger integration expenditure and comprises mainly redundancy costs and third-party consultancy costs if £1.6m (2016: £1.8m). Other costs of £1.8m (2016: £0.5m) relate to legal fees incurred from initiating legal proceedings against GSK to enforce Vectura's patents in respect of the Ellipta® products.

6. Other income

The Company will claim R&D Expenditure Credits ("RDEC") of £1.5m in the year ended 31 December 2017 alongside the tax return filing process (2016: £1.2m). As these credits are subject to corporation tax they are presented as other income. Other than HMRC's acceptance of the tax return, there are no unfulfilled conditions or other contingencies attaching to this income.

7. Employees

The average number of full time equivalent employees during the period was as follows:

	Year ended 31 December 2017 Number	9 months ended 31 December 2016 Number
Research and development	**212**	198
Business development and administration	**9**	14
Average number of employees	**221**	212

The above employee data includes staff employed on fixed term contracts to assist with the delivery of integration initiatives, as well as covers for maternity, paternity and illness.

Aggregate remuneration of employees	Year ended 31 December 2017 £m	9 months ended 31 December 2016 £m
Wages and salaries	**15.7**	11.1
Social security costs	**1.6**	2.0
Other pension costs	—	0.5
Total remuneration	**17.3**	13.6

In accordance with Schedule 5 (11.1) of CA2006, employee share plans are excluded from this disclosure as they do not solely relate to payments made for employment services in each period presented.

Directors' remuneration
Aggregate Directors' remuneration can be found in the Group accounts as referenced in note 19. The table below represents the portion of Director's remuneration attributable to services provided to the Company

	Year ended 31 December 2017 £m	9 months ended 31 December 2016 £m
Short-term employee benefits	**0.3**	0.2
Annual incentive plan	**0.2**	0.2
Compensation for loss of office	**0.2**	0.3
Other	**0.1**	0.1
Total remuneration	**0.8**	0.8

There were no retirement benefits accrued for the Directors in the financial year (2016: £nil). The aggregate remuneration of the highest paid director in relation to services provided to the company was £0.3m (2016: £0.4m).

The Company's share capital is 100% owned by Vectura Group Investments Limited and therefore the Directors do not have interest, not options, over the company's shares.

8. Impairment of intercompany receivables

During the year, a provision for impairment was made against intercompany receivables due from the Innovata Biomed Limited of £2.0m (2016: £20.4m). The recoverability of these amounts is considered uncertain.

9. Net finance (expenditure)/income

	Year ended 31 December 2017 £m	9 months ended 31 December 2016 £m
Bank interest less RCF commitment fees	**-**	0.2
Foreign exchange (losses)/gains	**(1.3)**	2.2
Finance charge on recognition of non-current assets (note 13)	**(0.6)**	(0.1)
Net finance (expenditure)/ income	**(1.9)**	2.3

RCF commitment fees were £0.1m (2016: £0.1m)

10. Auditor's remuneration

Fees payable to the Company's auditor services pursuant to these accounts were £136,600 (2016: £37,000). No non-audit or other services were performed.

11. Taxation

The Company's Effective Tax Rate is a 1.0% charge (2016: 3.5% credit). The Company is loss-making and claims R&D tax relief under the large enterprise "RDEC" scheme. The tax charge / (credit) is made up of:

	Year ended 31 December 2017 £m	9 months ended 31 December 2016 £m
Research and development tax credits:		
– in respect of prior years	—	(1.3)
Deferred tax charge	**0.3**	0.2
Total tax charge/(credit)	**0.3**	(1.1)

Following the Merger the UK tax Group no longer qualifies for the SME R&D tax credits scheme but is able to claim the research and development expenditure credit ("RDEC") for large enterprises. The credit under this scheme is subject to UK corporation tax and therefore is included within profit before taxation and presented as other income.

The credit for the year can be reconciled to the (loss)/profit before tax as follows:

	Year ended 31 December 2017 £m	Restated* 9 months ended 31 December 2016 £m
Loss before tax	**(33.7)**	(31.2)
Loss before tax multiplied by standard rate of UK corporation tax of 19.25% (2016: 20%)	**(6.5)**	(6.2)
Effects of:		
Group relief surrendered	—	0.7
Other permanent differences	**(0.1)**	—
Unrecognised tax losses carried forward	**6.0**	1.6
Unrecognised deferred tax movement	**0.2**	—
Impairment provision not allowed for tax purposes	**0.4**	4.1
Research and development tax credits:		
– current year	**0.3**	—
– in respect of prior years	—	(1.3)
Total tax charge/(credit) for the period	**0.3**	(1.1)

*See note 18 for details of the restatement.

Unrecognised cumulative tax assets from trading losses of £62.5m (2016: £21.1m), are available to offset 50% of taxable profits in future years, subject to a de-minimus amount of £5m. Whilst profits are expected to be available to utilise these assets in the near future, the assets remain unrecognised until future regulatory approvals are obtained for pipeline products.

12. Property, plant and equipment

	Freehold land and buildings £m	Laboratory equipment £m	Assets under construction £m	Total £m
Cost as at 1 January 2017	1.1	11.8	7.3	20.2
Additions	—	0.3	0.8	1.1
Reclassifications from assets under construction	—	0.9	(0.9)	—
Transfers to other non-current assets (note 13)	—	—	(6.4)	(6.4)
Disposals	—	(0.1)	—	(0.1)
Cost as at 31 December 2017	**1.1**	**12.9**	**0.8**	**14.8**
Depreciation as at 1 January 2017	—	(9.6)	—	(9.6)
Charge for the year	(0.1)	(1.1)	—	(1.2)
Disposals	—	0.1	—	0.1
Depreciation as at 31 December 2017	**(0.1)**	**(10.6)**	—	**(10.7)**
Net Book value as at 31 December 2017	**1.0**	**2.3**	**0.8**	**4.1**
Net book value as at 31 December 2016	1.1	2.2	7.3	10.6

Freehold land totalling £0.2m (2016: £0.2m) is not depreciated. In accordance with IAS 16 Property, Plant and Equipment, as the expected residual value of Buildings exceeds their carrying value no depreciation is charged to Buildings.

Transfers to other non-current assets relates to manufacturing equipment, located at a supplier site that will no longer be used by the Group. Instead a future sale at a minimum of book value has been agreed with the development partner. Refer to note 13 "Other non-current assets".

13. Other non-current assets

The Company has other non-current assets of £6.0m (2016: £0.2m). £5.8m relates to amounts receivable from a development partner for manufacturing equipment which Vectura has developed on their behalf. The development partner has agreed to reimburse Vectura for the £6.4m development costs incurred, although the exact timing of recovery is dependent upon other contractual terms and contingent events, with the earliest possible repayment being on 1 May 2020. The financing charge of £0.6m arising on recognition of the present value of the long term receivable has been recorded in finance expenses on the Income Statement.

14. Trade and other receivables

	Year ended 31 December 2017 £m	9 months ended 31 December 2016 £m
Trade receivables	**0.6**	2.3
Accrued customer income	**5.3**	8.0
Amounts due from parent undertaking	**1.2**	12.5
Amounts due from group undertakings	**8.0**	5.6
VAT receivable	**1.0**	1.1
Net trade receivables	**16.1**	29.5
Other receivables	**1.3**	1.5
Prepayments	**0.6**	0.7
Research and development tax credits	**3.5**	4.3
Trade and other receivables	**21.5**	36.0

As all external receivables will shortly be settled for cash, after the balance sheet date, there is considered to be no difference between their carrying values and fair values. There are no receivables past due but not provided for. All receivables from Group undertakings are repayable on demand and accordingly classified as short term.

15. Trade and other payables

	31 December 2017 £m	Restated 31 December 2016 £m
Trade payables	**6.6**	4.8
Accruals	**8.5**	10.0
Deferred income	**1.9**	1.9
Other payables	**0.8**	0.8
Amounts owed to group undertakings	**4.1**	140.3
Current Trade and other payables	**21.9**	157.8
Other non-current payables	—	1.0
Total Trade and other payables	**21.9**	158.8

As all external payables will shortly be settled for cash, after the balance sheet date, there is considered to be no difference between their carrying values and fair values. Comparative accruals have been restated to be reduced by £2.3m, refer to note 18.

16. Provisions

The Company has provisions of £0.9m as at 31 December 2017 (31 December 2016: £0.6m), which consists solely of the commitment to restore the Company's leased R&D facilities in Chippenham to their original 2012 condition in 2027. These are classified as non-current.

17. Operating lease commitments

At the balance sheet date, the Company has aggregate outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	31 December 2017 £m	31 December 2016 £m
Expiry date:		
Within one year	**0.4**	0.4
In the second to fifth years inclusive	**1.7**	1.7
Over 5 years	**1.9**	2.3
Operating lease commitments	**4.0**	4.4

Operating lease commitments expiry in 2027 and relate to research and development facilities in Chippenham, UK.

18. Comparative period restatement of development project accruals

As part of the Group merger integration and alignment, management has performed a detailed review of the research and development accruals during 2017, including historical accruals. This activity identified a number of historic accruals where it is no longer considered probable that these accruals will result in future cash outflows.

Management also identified that a number of these accrual balances could have been reasonably expected to have been identified and released in earlier periods in accordance with IAS 8.

Accruals, totalling £2.3m have been adjusted in the comparative information. This has led to an adjustment to opening 1 April 2016 equity of £2.5m and an adjustment to the comparative income statement of £0.2m. As a result the following restatements have been made:

Comparative Accruals restatement	Previously reported £m	Restatement £m	Restated £m
1 April 2016 Opening Retained losses - Equity	(44.9)	**2.5**	**(42.4)**
Income statement:			
Research and development expenses 2016	(34.5)	(0.1)	(34.6)
Corporate and marketing expenses 2016	(4.2)	(0.1)	(4.3)
Accruals (included within trade and other payables) as at 31 December 2016 – balance sheet	(12.3)	**2.3**	(10.0)

The impact on certain key metrics as a result of this restatement is as follows:

Comparative Accruals restatement	**Previously reported**	**Restatement**	**Restated**
1 April 2016 Opening retained losses – Equity	(44.9)	**2.5**	**(42.4)**
Loss after tax for the 9 months ended 31 December 2016 – Income statement	(29.9)	**(0.2)**	**(30.1)**
Net Assets at 31 December 2016 – Balance sheet	(74.8)	**2.3**	(72.5)

19. Ultimate parent company

The Company is a subsidiary undertaking of Vectura Group Investments Limited. The Company's ultimate parent undertaking and ultimate controlling party is Vectura Group plc, a company incorporated in England and Wales. Vectura Group plc is both the smallest and largest entity to consolidate the results of the Company.

The consolidated financial statements for Vectura Group plc are available within the investors section of the Group's corporate website www.vectura.com/investors/financial-reports and from Vectura Group plc, One Prospect West, Chippenham, Wiltshire, SN14 6FH.

20. Post balance sheet events

In May 2018, the Company received either full or partial repayments of intercompany receivables from two other entities within the Group. On 8 May 2018, the Company received £22.0m from Innovata Biomed Limited, which directly increased the Company's cash balance and, as the debt had previously been fully provided against, this provision was released and the Company's net assets increased by the same amount. Furthermore, on 28 May 2018, £5.7m was received from Vectura GmBH, which increased the Company's cash balance and reduced intercompany receivables accordingly.

It has been determined that these repayments were not indicative of circumstances that existed at the balance sheet date as the funds became available to the repaying entities after 31 December 2017. Therefore, in accordance with *IAS 10 Events after the reporting period,* the transaction has been disclosed but the financial statements presented as at 31 December 2017 have not been adjusted