

REGISTERED NUMBER: 04026469 (England and Wales)

**VECTURA DELIVERY DEVICES LIMITED**

**04026469**

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR  
THE YEAR ENDED 31 DECEMBER 2019**



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FOR THE YEAR ENDED 31 DECEMBER 2019

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VECTURA DELIVERY DEVICES LIMITED  
COMPANY INFORMATION

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**DIRECTORS:** P Fry  
W Downie

**COMPANY SECRETARY:** J Murphy

**REGISTERED OFFICE:** One Prospect West  
Chippenham  
Wiltshire  
SN14 6FH  
United Kingdom

**REGISTERED NUMBER:** 04026469 (England and Wales)

**AUDITOR:** KPMG LLP  
15 Canada Square  
London  
E14 5GL  
United Kingdom

**PRINCIPAL BANKERS:** Barclays Bank Plc  
1 Churchill Place  
Canary Wharf  
London  
E14 5HP  
United Kingdom

**VECTURA DELIVERY DEVICES LIMITED**  
**DIRECTORS' REPORT FOR THE YEAR PERIOD ENDED 31 DECEMBER 2019**

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The Directors present their report on the affairs of the Company, together with the audited financial statements for the year ended 31 December 2019.

This report has been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to small companies.

**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 Delivery Devices Limited (the "Company") is a wholly-owned subsidiary of Vectura Group plc ("Vectura" or the "Group").

**GOING CONCERN**

The Company made a profit of £0.5m for the year ended 31 December 2019 (2018: £6.8m) and has net assets of £1.5m as at 31 December 2019 (31 December 2018: £1.0m). The decrease in profitability is primarily driven from the fact that 2018 includes £4.2m milestone revenue upon signing of the OVOID contract with Hikma, which does not re-occur in 2019. Additionally, 2018 includes a £2.4m release of deferred income due to return of Airflusol licenses to Vectura. The Company performs research and development activities in relation to devices from which it expects to continue generating a positive return in the medium to long term.

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of 18 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through its working capital facility with fellow subsidiary company Vectura Limited, and in downside cases funding from its ultimate parent company, Vectura Group plc, to meet its liabilities as they fall due for that period.

In preparing the forecasts management has assessed the potential impact of the COVID-19 pandemic and for the purposes of going concern severe but reasonably plausible downside revenue scenarios have been considered including potential supply chain disruption and business disruption. At present there is no indication of any adverse financial impact on the measurement of assets and liabilities.

Those forecasts are dependent on Vectura Group plc providing additional financial support during that period. Vectura Group plc has indicated its intention to continue to make available such funds as are needed by the company for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 18 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

**DIVIDENDS**

The Directors do not recommend the payment of a dividend (2018: nil).

**DIRECTORS**

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

P Fry (appointed 30 June 2019)  
J Murphy  
J Ward-Lilley (resigned 30 June 2019)

Will Downie was appointed as a director on 5 February 2020. John Murphy resigned as a director on the same date.

VECTURA DELIVERY DEVICES LIMITED  
DIRECTORS' REPORT FOR THE YEAR PERIOD ENDED 31 DECEMBER 2019

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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. All costs in relation to the Directors' remuneration are met by other entities within the Group. The Directors do not receive any remuneration for services provided to the Company.

**POLITICAL AND CHARITABLE DONATIONS**

No political or charitable donations were made (2018: 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**

Withdrawal Agreement Act 2020

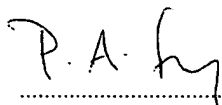
On 31 January 2020 the UK left the European Union under the Withdrawal Agreement Act 2020. The implementation period completes on 31 December 2020 and therefore the main risk to Vectura of a disorderly implementation could still arise, should this implementation period not be extended or the UK not establish a beneficial trading relationship with the EU. Management continues to monitor developments and has assessed the key business risks of a disorderly Brexit and mitigated these through ensuring ongoing EU regulatory requirements for medicinal products and devices will be maintained and implementing supply chain contingency planning to mitigate the impact of a disorderly Brexit.

COVID-19 outbreak

In the first half of 2020, the COVID-19 virus spread worldwide. In common with many other countries, the UK government issued guidance and restrictions on the movement of people designed to slow the spread of this virus. The recent and rapid development of the COVID-19 outbreak has required many entities to limit or suspend business operations. These measures and policies introduced have significantly disrupted the activities of many entities. As the outbreak continues to progress and evolve, it is challenging to predict the full extent and duration of its business and economic impact.

Management has assessed the outbreak of COVID-19 in 2020 as a non-adjusting post balance sheet event. At present there is no indication of any adverse financial reporting impact on the measurement of assets and liabilities; management is continuously monitoring the developments of COVID-19 and provide action as needed.

The Director's report has been approved and signed on behalf of the Board by:



Paul Fry  
Director  
4 June 2020

VECTURA DELIVERY DEVICES LIMITED  
DIRECTORS' RESPONSIBILITY STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

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The directors are responsible for preparing the Directors' report and the 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;
- 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.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VECTURA DELIVERY DEVICES LIMITED

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### Opinion

We have audited the financial statements of Vectura Delivery Devices Limited ("the company") for the year ended 31 December 2019 which comprise the Income Statement, Balance Sheet, Statement of 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 2019 and of its profit 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

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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 a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

### Directors' report

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

Our responsibility is to read 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 directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report 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; or

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VECTURA DELIVERY DEVICES LIMITED

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- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on page 4, 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](http://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.

**Adrian Wilcox (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
15 Canada Square  
London  
E14 5GL  
United Kingdom

4 June 2020



VECTURA DELIVERY DEVICES LIMITED  
INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Year ended 31 December 2019 £'m	Year ended 31 December 2018 £'m
Revenue	4	7.3	12.4
Cost of sales		(1.4)	(1.3)
<b>Gross profit</b>		<b>5.9</b>	<b>11.1</b>
Research and development expenses		(4.2)	(3.1)
Corporate costs and marketing expenses		(1.5)	(1.3)
Other income	5	0.2	0.1
<b>Operating profit</b>		<b>0.4</b>	<b>6.8</b>
Finance expense		(0.1)	-
<b>Profit before tax</b>		<b>0.3</b>	<b>6.8</b>
Net taxation credit	8	0.2	-
<b>Profit for the financial year</b>		<b>0.5</b>	<b>6.8</b>

All results are derived from continuing operations and are attributable to the parent. As there is no difference between the results presented above and total comprehensive income, a separate statement of other comprehensive income is not presented.

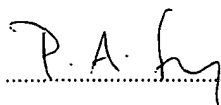
The notes on pages 10 to 18 form an integral part of these financial statements.

VECTURA DELIVERY DEVICES LIMITED  
BALANCE SHEET AS AT 31 DECEMBER 2019

	Note	31 December 2019 £'m	31 December 2018 £'m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	3.0	1.3
Deferred tax asset	8	0.3	0.1
<b>Total non-current assets</b>		<b>3.3</b>	<b>1.4</b>
<b>Current assets</b>			
Inventories	10	0.4	0.3
Trade and other receivables	11	2.0	12.0
Cash and cash equivalents		-	0.8
<b>Total current assets</b>		<b>2.4</b>	<b>13.1</b>
<b>Total assets</b>		<b>5.7</b>	<b>14.5</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	12	(0.2)	(0.4)
Contract liabilities	12	(2.0)	(2.4)
Borrowings	13	(0.3)	-
Amounts owed to other group undertakings	12	-	(8.3)
<b>Total current liabilities</b>		<b>(2.5)</b>	<b>(11.1)</b>
<b>Non-current liabilities</b>			
Contract liabilities	12	-	(2.4)
Borrowings	13	(1.4)	-
Provisions	14	(0.3)	-
<b>Total non-current liabilities</b>		<b>(1.7)</b>	<b>(2.4)</b>
<b>Total liabilities</b>		<b>(4.2)</b>	<b>(13.5)</b>
<b>Net assets</b>		<b>1.5</b>	<b>1.0</b>
<b>EQUITY</b>			
Called up share capital	15	3.5	3.5
Retained losses		(2.0)	(2.5)
<b>Total equity</b>		<b>1.5</b>	<b>1.0</b>

The notes on pages 10 to 18 form an integral part of these financial statements.

The financial statements of Vectura Delivery Devices Limited, registered number 04026469, were approved and authorised for issue by the Board of Directors and were signed on its behalf by:



Paul Fry  
Director  
4 June 2020

VECTURA DELIVERY DEVICES LIMITED  
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital	Retained (losses)	Total equity
	£'m	£'m	£'m
As at 1 January 2018	3.5	(9.3)	(5.8)
Profit for the year	—	6.8	6.8
As at 31 December 2018	3.5	(2.5)	1.0
Profit for the year	—	0.5	0.5
As at 31 December 2019	3.5	(2.0)	1.5

The notes on pages 10 to 18 form an integral part of these financial statements

VECTURA DELIVERY DEVICES LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

1. General information

Vectura Delivery Devices 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 Director's report.

These financial statements are presented in pounds sterling rounded to the nearest £0.1m. 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 Delivery Devices Limited is Vectura Group plc.

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; and
- Disclosures of transactions with a management entity that provides key management personnel services
- 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 Vectura Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Disclosure requirements of IFRS 15 Revenue from Contracts with Customers.
- Disclosure requirements of IFRS 16 Leases.
- 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 are stated at the lower of previous carrying amount and fair value less costs to sell.

Going concern

The Company made a profit of £0.5m for the year ended 31 December 2019 (2018: £6.8m) and has net assets of £1.5m as at 31 December 2019 (31 December 2018: £1.0m). The decrease in profitability is primarily driven from the fact that 2018 includes £4.2m milestone revenue upon signing of the OVID contract with Hikma, which does not re-occur in 2019. Additionally, 2018 includes a £2.4m release of deferred income due to return of Airflusal licenses to Vectura. The Company performs research and development activities in relation to devices from which it expects to continue generating a positive return in the medium to long term.

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of 18 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through its working capital facility with fellow subsidiary company Vectura Limited and in downside cases funding from its ultimate parent company, Vectura Group plc, to meet its liabilities as they fall due for that period.

## **2. Basis of preparation (continued)**

In preparing the forecasts management has assessed the potential impact of the COVID-19 pandemic and for the purposes of going concern severe but reasonably plausible downside revenue scenarios have been considered including potential supply chain disruption and business disruption. At present there is no indication of any adverse financial impact on the measurement of assets and liabilities.

Those forecasts are dependent on Vectura Group plc providing additional financial support during that period. Vectura Group plc has indicated its intention to continue to make available such funds as are needed by the company for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 18 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

### **New Accounting Standards adopted in this period**

The Company has applied IFRS 16 Leases from 1 January 2019. The details of the approach to transition, practical expedients on transition and the impact on the financial statements are provided in note 33 to the Group's Annual Report and Accounts.

A number of other new amendments are also effective from 1 January 2019 in relation to IFRIC 23 - Uncertainty over Income Tax Treatment, IAS 28 - Investments in Associates, IAS 19 - Employee Benefits, IFRS 3 - Business Combinations, IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors and IFRS 9 - Financial Instruments, but they do not have a material effect on the Company's financial statements.

Details about future material changes to accounting policies are provided in note 32 to the Group's Annual Report and Accounts.

### **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 value 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:

#### ***Applying IFRS 15 - Revenue from Contracts with Customers to long-term collaborative agreements***

Collaborative development and marketing agreements which license the Company's technology and intellectual property (IP) can and do have unique terms spanning multiple reporting periods. Consequently, the accounting judgements required to apply IFRS 15 to each such agreement can differ significantly.

The critical accounting judgements relate to all collaborative development agreements with performance obligations outstanding at the transition date and all future similar agreements signed. At present, the agreements relevant to the following IFRS 15 judgements outlined below is Hikma (generic of GSK Ellipta® products) entered in November 2018. These judgements were made at contract inception.

#### **(a) Assessment of contract existence criteria**

A contract with a customer is in the scope of the standard when it is legally enforceable, the contract is approved and both parties are committed to their obligations.

An agreement often provides a customer with an option to acquire additional services on the basis of success based fees. Judgement is required to determine the extent to which the Company or the customer is committed to these services throughout the service period, before a successful outcome is assured.

VECTURA DELIVERY DEVICES LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

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This has been applied to the agreement with Hikma to develop generic versions of GSK's Ellipta® portfolio. It has been judged that the licence to use the Company's intellectual property and the provision of services for development of the Open-Inhale-Close (OIC) device are considered committed as the initial \$15.0m milestone received on signing the agreement in 2018 is non-refundable.

Hikma also has the option to acquire future formulation and process development services for up to five products on success-based terms specified in the agreement. These are not considered revenue contracts but treated as partnered R&D costs until such time the receipt of revenue is considered highly probable.

(b) Whether a licence to the Company's intellectual property is a separate distinct performance obligation

A licence granted by the Company usually provides the partner with a right to use, but not to own, the IP related to a development. A licence is capable of being distinct from development services if, regardless of contractual terms, it could be sold separately in which case revenue is recognised at the grant date (point in time) as applicable to the OIC device licence for the generic GSK Ellipta® portfolio with Hikma.

(c) Allocation of the transaction price based on standalone selling prices at contract inception

For collaborative agreements containing multiple performance obligations, the Company must determine the standalone selling price identified on inception of the contract. Once these have been determined, these are not subsequently amended. The key assumptions used to determine the standalone selling price include forecast revenues, the cost of satisfying the obligation, development timelines and probabilities of technical, regulatory and commercial success.

*Revenue recognition*

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. Variable consideration includes the estimate of payments in the form of contingent development-related and regulatory approval milestones. These milestones are included in the transaction price when the most likely outcome is that they will be received. Once this is established, the entire transaction price is constrained to the extent that it is highly probable that a significant reversal of revenue will not occur in future periods. The estimate is reassessed for each reporting period.

The initial transaction price for the development of the generic GSK Ellipta® portfolio with Hikma has been assessed as \$20.0m, which includes a second \$5.0m milestone due on completion of the device development services. The second milestone is being constrained (i.e. not recognised) until completion is considered highly probable. If this \$5.0m milestone had not been constrained, additional revenue of £3.1m (2018: £2.2m) would have been recognised in 2019.

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.

### 3. Significant accounting policies

#### Revenue

##### Royalties and other marketed revenues

Royalties and other marketed revenues are generated from partners licensing the Company's products in return for a share of the partner net product sales. Where a licence of intellectual property is the predominant item to which a royalty relates, revenues are recognised at the point in time the partner makes a sale. Other marketed revenues primarily include sales or usage based milestones for which revenue is recognised consistently with royalties as stated above.

##### Development revenues

Revenues related to development stage programmes are allocated to the following performance obligations as applicable:

##### (a) Licence to the Company's intellectual property

A licence granted by the Company usually provides the partner with a right to use, but not to own, the IP related to a development that has not yet received regulatory approval as it exists at contract inception. A licence is capable of being distinct from development services if, regardless of contractual terms, it could be sold separately as it exists at the point in time it was granted. The timing of revenue recognised from a licence of intellectual property depends on whether:

- the licence is capable of being distinct (i.e. could be sold separately as it exists at the point in time it was granted). In this case revenue is recognised when control is transferred, normally at contract inception; or
- the licence is not capable of being distinct and therefore, the customer cannot benefit from the value of purchasing it without the provision of additional services from the Company. In this instance, revenue is recognised as those services accrue.

##### (b) Development services

Revenue from a contract to provide development services is recognised by reference to the stage of completion of the contract. Stage of completion is estimated by either completion of relevant milestones or proportion of estimated hours for work performed to date, as appropriate.

##### Product supply

The Company generates revenues from the sale of devices manufactured by third-party suppliers, to commercial distribution partners. Whilst these products are primarily manufactured by third party suppliers contracted by the Company, the Company is contractually obliged to supply these products and, therefore, the Company acts as the principal in these transactions. Control is transferred and revenue is recognised at the point in time when the product is invoiced to the commercial distribution partner and is made available for collection at a designated area specified in the framework agreement.

#### 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 tax credit on the profit 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.

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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.

**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

No depreciation is provided on freehold land or assets under construction. On disposal of PP&E, the carrying value, less any proceeds, is recognised in the income statement.

**Share-based payments**

Vectura Group operates a number of employee equity-settled share-based compensation plans as part of its Reward Strategy. The Company's employees are eligible for these. Equity-settled share-based payments are measured at fair value at the date of grant. In the case of awards with a non-market performance, their fair value is adjusted each reporting period for the likelihood of the number shares that will ultimately vest.

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.

**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 consolidated 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.

**Leases**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether: an identified physically distinct asset can be identified; the Group has the right to obtain substantially all of the economic benefits from the asset throughout the period of use; and has the ability to direct the use of the asset over the lease term being able to restrict the usage of third parties as applicable.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. These are calculated as follows:

***Lease liabilities***

Lease liabilities are measured at the present value of the remaining lease payments, discounted at an applicable incremental borrowing rate, which are obtained from a financial institution privy to the facts, circumstances, location, security and term of each lease liability.



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Non-lease service charges are combined into property leases, which are treated as a single lease component. The effective interest method will be used for calculating the amortised cost of a finance lease and allocating interest income over the relevant period on a lease by lease basis.

Under IFRS 16, liabilities for future periods that can be cancelled by exercising a break clause are not to be included in the lease liability unless it is reasonably certain at the reporting date that the Company will extend the committed lease term and not exercise the break clause.

*Right-of-use assets*

Right-of-use assets are measured at an amount equal to the lease liability, except where there is considered to be a significant difference between the lease liability and the asset value calculated as though IFRS 16 had always been applied.

**Provisions**

Provisions are liabilities where the exact timing and amount of the obligation is uncertain. Provisions are recognised when the Group 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.

**4. Revenue**

Revenue by category and customer location are presented below:

Revenue by category	Year ended 31 December 2019 £'m	Year ended 31 December 2018 £'m
Development services	4.0	6.6
Royalties and other marketed revenues	1.7	4.3
Product supply	1.6	1.5
<b>Total revenue</b>	<b>7.3</b>	<b>12.4</b>

Revenue by customer location	Year ended 31 December 2019 £'m	Year ended 31 December 2018 £'m
United States of America	2.8	6.6
Rest of Europe (excl. UK)	4.5	5.8
<b>Total revenue</b>	<b>7.3</b>	<b>12.4</b>

Revenue of £2.8m (2018: £2.4m) has been recognised relating to the collaborative arrangement with Hikma signed in November 2018 to develop generic versions of GSK's Ellipta® portfolio; reflecting the degree of progress made towards completing the second performance obligation being the provision of development services on the Company's Open-Inhale-Close device.

**5. Other income**

The Company will claim R&D Expenditure Credits ("RDEC") of £0.2m in the year ended 31 December 2019 alongside the tax return filing process (2018: £0.1m). 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.

## 6. Employees

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

	Year ended 31 December 2019 Number	Year ended 31 December 2018 Number
Research and development	20	16
Business development and administration	—	1
Average number of employees	20	17

The aggregate remuneration of employees comprised:

	Year ended 31 December 2019 £'m	Year ended 31 December 2018 £'m
Wages and salaries	1.1	1.1
Social security costs	0.1	0.2
Other pension costs	0.1	0.1
Total remuneration	1.3	1.4

Employee share plans are excluded from this disclosure as they do not solely relate to payments made for employment services in each period presented.

## 7. Auditor's remuneration

Fees payable to the Company's auditor services pursuant to these accounts were £35,000 (2018: £35,000). No other services were performed in relation to Vectura Delivery Devices Limited.

## 8. Taxation

The Company's Effective Tax Rate is a 66.7% credit (2018: 2% debit). The Company is profit-making and recognised a prior year deferred tax credit on temporary differences brought forward of £0.2m.

The UK tax Group 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. R&D tax credits shown within taxation for this period relate to adjustments to prior year claims under the SME regime.

The charge for the year can be reconciled to the Profit before tax as follows:

	Year ended 31 December 2019 £'m	Year ended 31 December 2018 £'m
Profit before tax	0.3	6.8
Profit before tax multiplied by standard rate of UK corporation tax of 19% (2018: 19%)	(0.1)	(1.3)
Effects of:		
Group relief utilised	0.1	1.2
Other permanent differences	0.1	(0.1)
Prior year deferred tax	0.1	0.2
Total tax credit for the period	0.2	-

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset as at 31 December 2019 has been calculated based on this rate.

The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. This will increase the company's future current tax charge accordingly and increase the deferred tax asset by £40k.

## Deferred taxation

The Company recognises a deferred tax asset of £0.3m in the period (2018: £0.1m).

## 9. Property, plant and equipment

	Land and buildings	Laboratory and office equipment	Assets under construction	Total
	£'m	£'m	£'m	£'m
<b>Cost as at 1 January 2019</b>	—	4.6	0.5	5.1
Recognition of right-of-use assets upon initial application of IFRS 16	2.0	—	—	2.0
<b>Adjusted cost as at 1 January 2019</b>	2.0	4.6	0.5	7.1
Additions	—	0.2	0.2	0.4
Reclassification	—	0.3	(0.3)	—
Impairment	—	(0.1)	—	(0.1)
<b>Cost as at 31 December 2019</b>	2.0	5.0	0.4	7.4
<b>Depreciation as at 1 January 2019</b>	—	(3.8)	—	(3.8)
Charge for the year	(0.3)	(0.3)	—	(0.6)
<b>Depreciation as at 31 December 2019</b>	(0.3)	(4.1)	—	(4.4)
<b>Net book value as at 31 December 2019</b>	1.7	0.9	0.4	3.0

The assets under construction regard capital expenditure for laboratory and office equipment. The main elements are tester equipment from Company's several projects (Ovoid, Advair, Westward) and investment in IT infrastructure.

## 10. Inventories

As at 31 December 2019, the Company holds £0.4m of inventories (31 December 2018: £0.3m). The entire balance is classified as 'finished goods' as they relate to device or components that require minimal organisation or assembly in order to sell to the customer.

## 11. Trade and other receivables

	31 December 2019 £'m	31 December 2018 £'m
Amounts due from group undertakings	1.6	11.6
<b>Trade receivables</b>	1.6	11.6
Prepayments	0.1	0.2
Research and development tax credits	0.3	0.2
<b>Trade and other receivables</b>	2.0	12.0

No receivables are past due but not provided for. All receivables from Group undertakings are repayable on demand and accordingly classified as short term.

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**12. Trade and other payables**

	31 December 2019 £'m	31 December 2018 £'m
Accruals	0.2	0.4
Amounts owed to ultimate parent undertaking	—	4.2
Amounts owed to other group undertakings	—	4.1
Contract liabilities	2.0	2.4
<b>Trade and other current payables</b>	<b>2.2</b>	<b>11.1</b>
Contract liabilities	—	2.4
<b>Other non-current payables</b>	<b>—</b>	<b>2.4</b>
<b>Total trade and other payables</b>	<b>2.2</b>	<b>13.5</b>

As all external current 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.

**13. Borrowings**

	31 December 2019 £'m	31 December 2018 £'m
<b>Current</b>		
Finance lease liabilities	0.3	—
<b>Total current borrowings</b>	<b>0.3</b>	<b>—</b>
<b>Non-current</b>		
Finance lease liabilities	1.4	—
<b>Total non-current borrowings</b>	<b>1.4</b>	<b>—</b>
<b>Total borrowings</b>	<b>1.7</b>	<b>—</b>

Finance lease liabilities of £2.0m were initially recognised upon adoption of IFRS 16 on 1 January 2019. As at 31 December 2019, these liabilities are £1.7m and relate to the expected terms remaining on Cambridge research and development facilities lease discounted at 2.9%.

The maturity of the finance lease liabilities is presented below:

	31 December 2019 £'m	31 December 2018 £'m
Within one year	0.3	—
In the second to fifth years inclusive	1.1	—
Over five years	0.3	—
<b>Total borrowings</b>	<b>1.7</b>	<b>—</b>

**14. Provisions**

Property provisions of £0.3m (2018: nil) are recognised in respect of the commitment to restore the leased R&D facilities in Cambridge to their original condition in 2025.

## 15. Share capital

Allotted, issued and fully paid:

Number	Class	Nominal value	2019 £'m	2018 £'m
3,515,179	Ordinary	£1	3.5	3.5

## 16. Ultimate parent company

The Company's immediate parent undertaking are Vectura Group Investments Limited and its ultimate controlling party is Vectura Group plc, both companies 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](http://www.vectura.com/investors/financial-reports), and from Vectura Group plc, One Prospect West, Chippenham, Wiltshire, SN14 6FH.

## 17. Post balance sheet events

### Withdrawal Agreement Act 2020

On 31 January 2020 the UK left the European Union under the Withdrawal Agreement Act 2020. The implementation period completes on 31 December 2020 and therefore the main risk to Vectura of a disorderly implementation could still arise, should this implementation period not be extended or the UK not establish a beneficial trading relationship with the EU. Management continues to monitor developments and has assessed the key business risks of a disorderly Brexit and mitigated these through ensuring ongoing EU regulatory requirements for medicinal products and devices will be maintained and implementing supply chain contingency planning to mitigate the impact of a disorderly Brexit.

### COVID-19 outbreak

In the first half of 2020, the COVID-19 virus spread worldwide. In common with many other countries, the UK government issued guidance and restrictions on the movement of people designed to slow the spread of this virus. The recent and rapid development of the COVID-19 outbreak has required many entities to limit or suspend business operations. These measures and policies introduced have significantly disrupted the activities of many entities. As the outbreak continues to progress and evolve, it is challenging to predict the full extent and duration of its business and economic impact.

Management has assessed the outbreak of COVID-19 in 2020 as a non-adjusting post balance sheet event. At present there is no indication of any adverse financial reporting impact on the measurement of assets and liabilities; management is continuously monitoring the developments of COVID-19 and provide action as needed.