

REGISTERED NUMBER: 04026469 (England and Wales)

VECTURA DELIVERY DEVICES LIMITED

04026469

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2017**



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FOR THE YEAR ENDED 31 DECEMBER 2017

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VECTURA DELIVERY DEVICES LIMITED

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:	04026469 (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 Delivery Devices Limited (the "Company") is a wholly-owned subsidiary of Vectura Group plc ("Vectura" or "the Group"). The Directors present their strategic report for the year ended 31 December 2017.

VECTURA GROUP PLC MERGER AND CHANGE OF 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 presented within the table below:

	Year ended 31 December 2017 (£'000)	Restated* 9 months ended 31 December 2016 (£'000)
Revenue	3,313	9,358
-underlying	3,313	3,435
-non-recurring	---	5,923
Research and development expenses	(2,407)	(1,008)
Operating (Loss)/Profit	(819)	6,573
(Loss)/Profit after tax	(775)	6,202
Net Liabilities	(5,812)	(5,037)

*See note 17 of the accounts for details of restatement

Revenue

Revenue comprises: royalties and device sales as underlying revenue, and product licences as non-recurring revenue.

Royalties

Royalties of £1,823k (2016: £1,075k) derive from the Company's share of net sales by Sandoz of AirFluSal® Forspiro®. Sales have demonstrated strong underlying organic growth up 70% on 2016, which is primarily due to 2016 being a 25% shorter reporting period.

Device sales

Device sales of £1,490k (2016: £2,360k) arise from the supply of its GyroHaler® device to Sandoz. The device is used to form the AirFluSal® Forspiro® product, which is sold in a number of European and Rest of the World territories. The reduction is primarily due to the destocking within the AirFluSal® Forspiro® supply chain.

Product licensing

No product licensing (milestone) revenue was received in year. In 2016, £5,923k was received in relation to the Company's share of a \$10.0m milestone from Hikma, the Group's partner on VR315 (US), following acceptance by the US FDA of Hikma's ANDA filing.

Operating (Loss)/Profit

The Company reported an operating loss of £819k (2016: restated profit of £6,573k). This is primarily due to the lack of milestones earned in 2017.

(Loss)/Profit after taxation

The Company reported a loss after taxation of £775k (2016: restated profit of £6,202k), due to the operating profit described above.

The company benefits from R&D tax credits under the Large Enterprise scheme (RDEC) and also benefits from the Patent Box legislation for tax purposes.

Net liabilities

Net liabilities of £5,812k (restated 31 December 2016: £5,037k) increased by £775k, being the reported loss after tax.

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. At 31 December 2017, the facility remained undrawn.

PRINCIPAL RISKS AND UNCERTAINTIES

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:

- Failure to launch VR315 (US) in a competitive timeframe
- Partner failure
- Changes in the regulatory, operating or pricing environment (excluding Brexit)
- Failure to protect intellectual property
- Loss of talent / key personnel
- Brexit

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

FINANCIAL RISK MANAGEMENT

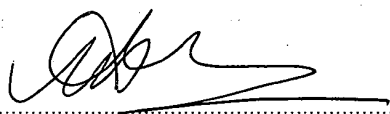
The Company's activities expose it to a number of financial risks as detailed below. The Company is funded principally through intercompany borrowings and invests surplus funds in short-term (typically three months) bank deposits. The Company has access to the majority of these deposits at a maximum 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: Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. 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 is available and is currently undrawn.

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



Andrew Derodra
Director
12 June 2018

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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 £775k for the year ended 31 December 2016 (2016: restated profit of £6,202k) and has net liabilities of £5,812k as at 31 December 2017 (restated 31 December 2016: £5,037k). The Company performs the Group's research and development activities in relation to devices 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 meet 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 enquiries, 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 25 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.

POLITICAL AND CHARITABLE DONATIONS

No political or charitable donations were made (2016: £nil).

INFORMATION PROVIDED TO THE AUDITOR

Each Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- The Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

POST BALANCE SHEET EVENTS

On 28 May 2018, Vectura GmbH, a 100% owned subsidiary of Vectura Group plc, repaid £1.3m of intercompany debtors that were owing as at the balance sheet date. Following receipt of this £1.3m cash, there was a corresponding reduction in the intercompany debtors and therefore there was no impact on net assets as a result of this transaction.

It has been determined that this repayment was not indicative of circumstances that existed at the balance sheet date as the funds became available to the Vectura GmbH 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 Director's Report has been approved and signed on behalf of the Board by:



Andrew Derodra
Director
12 June 2018

DIRECTORS' RESPONSIBILITY STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

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 Delivery Devices 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 7, 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

VECTURA DELIVERY DEVICES LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Year ended 31 December 2017 £'000	Restated* 9 months ended 31 December 2016 £'000
Revenue	4	3,313	9,358
Cost of sales		(1,155)	(1,229)
GROSS PROFIT		2,158	8,129
Research and development expenses		(2,441)	(1,008)
Corporate costs and marketing expenses		(725)	(577)
Exceptional expenses	5	—	(55)
Other income	6	189	84
OPERATING (LOSS)/PROFIT		(819)	6,573
Finance income	8	59	73
(LOSS)/PROFIT BEFORE TAXATION		(760)	6,646
Net taxation charge	10	(15)	(444)
(LOSS)/PROFIT FOR THE PERIOD		(775)	6,202

* Owing to an underaccrual of £61k for business rates, corporate costs and marketing expenses have been restated. See note 17 for details of the restatement.

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.


VECTURA DELIVERY DEVICES LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2017

	Note	31 December 2017 £'000	Restated* 31 December 2016 £'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	1,339	604
Deferred tax asset		104	82
		<u>1,443</u>	<u>686</u>
CURRENT ASSETS			
Inventories	12	337	354
Trade and other receivables	13	3,846	5,389
Cash and cash equivalents		2	2
		<u>4,185</u>	<u>5,745</u>
TOTAL ASSETS		<u>5,628</u>	<u>6,431</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	(167)	(239)
Intercompany payables		(11,273)	(11,229)
TOTAL LIABILITIES		<u>(11,440)</u>	<u>(11,468)</u>
NET LIABILITIES		<u>(5,812)</u>	<u>(5,037)</u>
EQUITY			
SHAREHOLDER'S DEFICIT			
Called up share capital	16	3,515	3,515
Retained losses		(9,327)	(8,552)
TOTAL DEFICIT		<u>(5,812)</u>	<u>(5,037)</u>

* Owing to an underaccrual of £61k for business rates, trade payables have been restated. See note 17 for details of the restatement.

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:



Andrew Derodra
Director
12 June 2018

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Called up share capital	Retained (losses)/ earnings	Total equity
	£'000	£'000	£'000
As at 31 March 2016	3,515	(14,754)	(11,239)
Profit for the period restated*	—	6,202	6,202
As at 31 December 2016 restated	3,515	(8,552)	(5,037)
Loss for the year	—	(775)	(775)
As at 31 December 2017	3,515	(9,327)	(5,812)

* Owing to an underaccrual of £61k for business rates, profit for the nine months to 31 December 2016 has been restated. See note 17 for details of the restatement.

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 Strategic report.

These financial statements are presented in pounds sterling rounded to thousands. 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; 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 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 £775k for the year ended 31 December 2017 (2016: restated profit of £6,202k) and has net liabilities of £5,812k as at 31 December 2017 (restated 31 December 2016: £5,037k). The Company performs the Group's research and development activities in relation to devices 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 meet its liabilities as they fall due.

2. Basis of preparation (continued)

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 enquiries, 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.

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 and accounts.

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 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.

3. Significant accounting policies

Revenue

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.

Device sales

Device sales Product supply revenues, being income derived from manufacturing and supply agreements, are generally recognised upon transfer to the customer of significant risks and rewards, usually upon the goods being available for collection and the customer being informed of this and where the sales price is agreed and collectability is reasonably assured.

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 Consolidated 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 Consolidated Income Statement.

Taxation

The net taxation charge 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.

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

Share-based payments

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.

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.

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

VECTURA DELIVERY DEVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

4. Revenue

Revenue by category and customer location are presented below:

Revenue by category	Year ended 31 December 2017 £'000	9 months ended 31 December 2016 £'000
Devices sales	1,490	2,360
Royalties	1,823	1,075
Underlying revenue	3,313	3,435
Product licensing (milestones)	—	5,923
Non-recurring revenue	—	5,923
Total revenue	3,313	9,358

Revenue by customer location	Year ended 31 December 2017 £'000	9 months ended 31 December 2016 £'000
United States of America	—	5,923
Rest of Europe (excl. UK)	3,313	3,435
Total revenue	3,313	9,358

5. Exceptional items

The Company had no exceptional expenses in year. Prior year exception costs of £55,000 relate to post-Merger integration activities and comprises mainly redundancy costs and third-party consultancy costs.

6. Other income

The Company will claim R&D Expenditure Credits ("RDEC") of £189k in the year ended 31 December 2017 alongside the tax return filing process (2016: £84k). 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 employees during the period was as follows:

	Year ended 31 December 2017 Number	9 months ended 31 December 2016 Number
Research and development	16	16
Business development and administration	—	1
Average number of employees	16	17

The aggregate remuneration of employees comprised:

	Year ended 31 December 2017 £'000	9 months ended 31 December 2016 £'000
Wages and salaries	899	812
Social security costs	143	110
Other pension costs	—	39
Total remuneration	1,042	961

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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

8. Net finance income

	Year ended 31 December 2017 £'000	9 months ended 31 December 2016 £'000
Foreign exchange gains	59	73
Net finance income	59	73

9. Auditor's remuneration

Fees payable to the Company's auditor services pursuant to these accounts were £22,500 (2016 £10,000). No other services were performed in relation to Vectura Delivery Devices Limited

10. Taxation

The Company's Effective Tax Rate is a 2% debit (2016: 6.68% debit). The Company is profit-making and received a tax credit on qualifying R&D expenditure. Analysis of the income tax credit is as follows:

	Year ended 31 December 2017 £'000	9 months ended 31 December 2016 £'000
Deferred tax charge	7	427
RDEC	8	17
Total tax charge	15	444

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. 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 2017 £'000	Restated* 9 months ended 31 December 2016 £'000
(Loss)/profit before tax	(760)	6,646
(Loss)/profit before tax multiplied by standard rate of UK corporation tax of 19.25% (2016: 20%)	(146)	1,329
Effects of:		
Group relief surrendered	-	(72)
Other permanent differences	53	(391)
Unrecognised tax losses carried forward	76	(866)
RDEC – current year	9	17
Movement in deferred tax asset	23	427
Total tax charge for the period	15	444

*See note 17 for details of the restatement.

Deferred taxation

The Company recognises a deferred tax asset of £104k in the period (2016: £82k) arising from fixed asset and R&D timing differences. The Company does not recognise a deferred tax asset in respect of trading losses due to the availability of other reliefs such as the RDEC and Patent Box. Trading losses as at 31 December 2017 are £396k (2016: £nil).

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

11. Property, plant and equipment

	Assets under construction £'000	Laboratory and office equipment £'000	Total £'000
Cost as at 1 January 2017	—	4,170	4,170
Additions	804	27	831
Cost as at 31 December 2017	804	4,197	5,001
Depreciation as at 1 January 2017	—	(3,566)	(3,566)
Charge for the year	—	(96)	(96)
Depreciation as at 31 December 2017	—	(3,662)	(3,662)
Net Book value as at 31 December 2017	804	535	1,339

12. Inventories

As at 31 December 2017, the Company holds £337k of inventories (31 December 2016: £354k). 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.

13. Trade and other receivables

	31 December 2017 £'000	31 December 2016 £'000
Amounts due from group undertakings	3,562	5,321
Net trade receivables	3,562	5,321
Prepayments	116	—
Research and development tax credits	168	68
Trade and other receivables	3,846	5,389

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

14. Trade and other payables

	31 December 2017 £'000	Restated* 31 December 2016 £'000
Accruals	167	239
Amounts owed to ultimate parent undertaking	7,185	7,185
Amounts owed to other group undertakings	4,087	4,044
Current Trade and other payables	11,439	11,468

*See note 17 for details of the restatement.

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.

VECTURA DELIVERY DEVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

15. 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 £'000	31 December 2016 £'000
Expiry date:		
Within one year	277	264
In the second to fifth years inclusive	506	793
Operating lease commitments	783	1,057

Operating lease commitments relate to research and development facilities in Cambridge.

16. Share capital

Allotted, issued and fully paid:

Number	Class	Nominal value	2017 £'000	2016 £'000
3,515,179	Ordinary	£1	3,515	3,515

17. Comparative period restatement of accruals

During the nine month period to 31 December 2016, the Company entered into a lease at a new property. For a period of time, the Company held leases both at the old and new premises. During this time, business rates were only accrued for one of the properties, which led to business rates of £61k being underaccrued as at 31 December 2016. Management have judged that this accrual should reasonably have been identified in the prior period and therefore has been restated in the comparative information. As a result the following restatements have been made:

Comparative Accruals restatement	Previously reported £'000	Restatement £'000	Restated £'000
Income statement:			
Corporate and marketing expenses 2016	(516)	(61)	(577)
Balance sheet as at 31 December 2016:			
Accruals (Included in trade and other payables)	(178)	(61)	(239)
Retained losses	(8,491)	(61)	(8,552)

There is no material effect of this restatement on the tax charge for 2016.

18. Ultimate parent company

The Company's immediate and 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.

19. Post balance sheet events

On 28 May 2018, Vectura GmbH, a 100% owned subsidiary of Vectura Group plc, repaid £1.3m of intercompany debtors that were owing as at the balance sheet date. Following receipt of this £1.3m cash, there was a corresponding reduction in the intercompany debtors and therefore there was no impact on net assets as a result of this transaction.

It has been determined that this repayments was not indicative of circumstances that existed at the balance sheet date as the funds became available to the Vectura GmbH 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.