RNS Number : 6843S
Vectura Group plc
18 March 2021

2020 Preliminary Results

- Vectura reports 2020 financial performance ahead of expectations and announces intention to pay special dividend of approximately £115m to shareholders during 2021 -

Chippenham, UK - 18 March 2021: Vectura Group plc (LSE: VEC) ("Vectura", "the Group", "the Company"), an industry-leading specialist inhalation CDMO, today announces its Preliminary Results for the year ended 31 December 2020.

Financial summary

	2020	2019 (Restated)	% change
Revenue	£190.6m	£178.3m	6.9%
Gross profit	**£101.4m**	**£95.3m**	**6.4%**
Research and development[1] ('R&D') expenses	(£23.8m)	(£36.6m)	(35.0%)
General and administrative[1] expenses	(£28.7m)	(£27.3m)	5.1%
Adjusted EBITDA[2]	**£61.5m**	**£43.4m**	**41.7%**
Operating profit/(loss)[3]	**£132.8m**	**(£27.0m)**	n/m
Basic earnings/(loss) per share[3]	20.5p	(3.4p)	n/m
Cash generated from operating activities	£31.5m	£19.3m	63.2%
Free cash flow[4]	£24.1m	£12.5m	92.8%

	31 Dec 2020	31 Dec 2019	% change
Cash and cash equivalents	**£78.6m**	£74.1m	6.1%

Operational highlights

- Strong execution of strategy to become an industry-leading inhalation CDMO
  - o New Business Development team now established with presence in East and West Coast US, Europe and UK
  - o 18 new CDMO contracts signed during the year, contributing £3.0m to revenues in H2 2020
- Progress across co-development pipeline
  - o Approval of VR315 (US), generic Advair® programme partnered with Hikma, in December 2020 triggered milestones of $11m
  - o Approval of Enerzair® Breezhaler® in Japan and Europe triggered milestones of $6.25m
- Operational transformation continues, with phased transition of R&D operations from Switzerland to the UK now underway
- US jury verdict upheld at appeal in patent litigation against GSK; £127.6m received to-date in 2021, with further royalties due for Q1 and Q2 2021
- Post period update: Following a review of the Group's capital allocation priorities, the Board has approved, in principle, a special dividend of approximately £115m intended to be paid during 2021

Financial highlights

- Total revenue of £190.6m increased by 6.9% versus prior year (2019: £178.3m)
  - o Product supply revenue decreased by 4.4% to £109.9m; *flutiform*® product supply revenues marginally ahead of guidance at £95.8m
  - o Development services revenues increased by 4.4% to £11.9m (2019: £11.4m), reflecting contribution from new CDMO contracts in H2 2020
  - o Royalty and other marketed revenues increased by 32.6% to £68.8m (2019: £51.9m), driven by milestones and Q4 GSK Ellipta® royalties of £6.5m following successful US litigation outcome
- Gross profit increased by 6.4% to £101.4m (2019: £95.3m)
- Adjusted EBITDA[2] increased by 41.7% to £61.5m (2019: £43.4m), reflecting an increase in Royalty and other marketed revenues and a material decrease in R&D investment
- Operating profit of £132.8m (2019: £27.0m loss) driven by the recognition of £121.1m exceptional income for damages and interest associated with the enforcement of a patent covering three US GSK Ellipta® products and improved adjusted EBITDA performance
- Strong liquidity maintained with closing cash and cash equivalents of £78.6m (2019: £74.1m), reflecting free cash flow generation of £24.1m and a share buyback of approximately £16.4m during 2020

Commenting on the results, Will Downie, Chief Executive Officer of Vectura, said:
"*The business has performed well during 2020, delivering financial performance ahead of expectations. We are pleased with the progress we have made against our inhalation CDMO strategy, signing 18 deals during 2020, with £3.0m revenue recognised in the second half of the year.*

"*After the positive outcome of the appeal in the GSK US patent litigation, initial proceeds were received by Vectura in January 2021. Following a review of the Group's allocation priorities, we have today announced that the Board has approved, in principle, a special dividend of approximately £115m which is intended to be paid to shareholders during 2021.*

"*This is an exciting time for the Group and with continued momentum expected from our CDMO business, we look*

forward to a positive 2021."

Analyst webcast and conference call today
Vectura will present its Preliminary Results via live webcast today from 9.30am to 10.30am GMT. There will be a simultaneous live conference call.

The live webcast and the presentation slides can be accessed on Vectura's website:
https://www.vectura.com/investors/presentations-and-webcasts

Dial-in details are:

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- Ends -

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About Vectura
Vectura is a leading specialist inhalation CDMO that provides innovative inhaled drug delivery solutions that enable customers to bring their medicines to patients. With differentiated proprietary technology and pharmaceutical development expertise, Vectura is one of the few companies globally with the device, formulation and development capabilities to deliver a broad range of complex inhaled therapies.

Vectura has twelve key inhaled and eleven non-inhaled products marketed by partners with global royalty streams, and a diverse partnered portfolio of drugs in clinical development. Our partners include Hikma, Novartis, Sandoz (a division of Novartis AG), Mundipharma, Kyorin, GSK, Bayer, Chiesi, Almirall, and Tianjin KingYork.

For further information, please visit Vectura's website at www.vectura.com

Forward-looking statements
This press release contains forward-looking statements, including statements about the commercialisation of products and the successful execution of the Group's strategy to win new customer contracts for development services. Various risks may cause Vectura's actual results to differ materially from those expressed or implied by the forward looking statements, including: failure to develop a strong pipeline of new CDMO opportunities and to successfully convert these opportunities into new revenues with an acceptable margin profile; the requirement for substantial funding to conduct research and development to maintain a competitive service offering; commercial limitations imposed by patents owned or controlled by third parties; dependence upon strategic alliance partners to develop and commercialise products and services; difficulties or delays in obtaining regulatory approvals to market products and services resulting from development efforts; and product initiatives by competitors. As a result of these factors, prospective investors are cautioned not to rely on any forward-looking statements. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Operational Review

Transforming into an inhalation CDMO
It is our ambition to build the market-leading company in the inhalation contract development and manufacturing organisation (CDMO) space. With differentiated proprietary technology, pharmaceutical development expertise and a strong track record in creating value for customers, Vectura is well placed to capture value in this growing market. Globally, the CDMO market continues to demonstrate strong growth, currently growing at a rate of c.7% per annum reflecting the ongoing shift toward increased outsourcing in the Healthcare sector.[5]

We have made important progress against our strategic goals in 2020. We have created a strong commercial engine for our business and our global Business Development team is now established, with a presence in the East and West Coast of the United States as well as in Europe and the United Kingdom. Led by Mark Bridgewater, our Chief Commercial Officer, the team has continued to engage with customers and potential customers through digital communication channels, given the travel restrictions in place as a result of COVID-19. Supporting these business development activities, a number of marketing and communications initiatives have been delivered to further raise our profile as an inhalation CDMO including digital advertising, a new website, scientific webinars and a thought leadership and media programme.

The Group signed 18 new CDMO contracts during 2020, addressing a diverse range of client needs across a wide range of indications and molecules. The breadth of the deals signed demonstrates the applicability of our unique inhalation expertise beyond the larger indications such as Asthma and Chronic Obstructive Pulmonary Disease (COPD), and our scientists are now supporting new customers on programmes spanning a range of disease areas from specialist respiratory[6] diseases to lung-cancer and COVID-19 treatments.

In-line with our "follow-the-molecule" strategy, 14 of the deals signed are feasibility programmes which, in the event of a successful feasibility outcome, have the potential to generate an increasing contribution to revenues as they move through the development lifecycle. We also signed four development deals; two Phase I/II development deals and a further two full development deals which have the potential for royalties and licensing milestones downstream.

New CDMO contracts signed during 2020 contributed £3.0m to revenue in the financial year, which reflects both the early-stage nature and the timing of the deals signed, with the significant majority of the deals being signed in the second half of the financial year. We expect to see momentum from new CDMO contracts build during 2021, with associated revenue expected to more than triple compared to 2020. Overall, we are pleased with the progress made so far, which reinforces our confidence in the attractiveness of Vectura's inhalation platform in the CDMO market.

Our industry leading development capabilities were further validated by the FDA approval of our generic Advair® programme, partnered with Hikma, in December 2020. This substitutable product, which utilises one of Vectura's proprietary DPI devices, was a complex development programme with multiple variables requiring specialist

capabilities, IP and know-how. The approval of our generic Advair® programme paves the way for our substitutable generic GSK Ellipta® development portfolio, in the coming years.

From an operational perspective, we have continued to deliver on our business transformation initiative, led by Sharon Johnson, EVP - Delivery Management, and other members of the Executive Leadership Team. Work has focused the core business processes that support the customer experience, from initial quote through to project delivery and revenue recognition. A number of key hires have been made to further enhance Vectura talent in both front and back office functions.

We also undertook a strategic review of our site footprint to ensure an optimal operational structure which provides high quality customer service in a lean and cost-efficient manner. Our facility in Munich closed in December 2020, and we transferred our nebuliser device capability to Cambridge in the UK. During 2021, we have begun to implement a phased reduction of our operations in Switzerland, transitioning our R&D activities to the UK. This initiative is expected to deliver a modest benefit to the operational cost base in 2021, with a £5-7m reduction in annual operating cost expected by the end of 2022.

Resilient base business
The focus on growing CDMO revenues is underpinned by a resilient base business, which delivered performance ahead of expectations for 2020.

Reported revenue increased by 6.9% to £190.6m (2019: £178.3m), largely driven by a significant increase in Royalty and other marketed revenues following important product approvals. Royalty and other marketed revenues grew by 32.6% to £68.8m (2019: £51.9m), reflecting milestones of $11.0m and $6.25m earned following approval of our generic Advair® programme (VR315 (US)), partnered with Hikma, and Novartis' Enerzair® Breezhaler® (QVM149) respectively. Royalty revenues also benefited from recognition of £6.5m royalties earned in respect of Q4 2020 sales of three of GSK Ellipta® products in the US, following the successful litigation outcome.

Development revenues increased by 4.4% to £11.9m (2019: £11.4m), with lower co-development revenues offset by growth from new CDMO contracts signed in 2020. New CDMO contracts contributed revenue of £3.0m during the second half of the financial year.

Conversely, product supply revenues fell by 4.4% to £109.9m (2019: £115.0m), driven by a reduction in *flutiform*® revenues. *flutiform*® product supply contributed revenues of £95.8m, slightly ahead of our guidance for the year, but 5.5% behind 2019 which benefited from material stock building by partners as they moved to more conservative stock holding policies given supply chain uncertainties, including Brexit.

***flutiform*® (Mundipharma, Europe and Rest of world (excl. North America) / Kyorin, Japan) for the treatment of asthma** performed well in the core Europe and Japan territories, despite a more volatile market back drop in 2020. Overall, the product generated total in-market sales of €245.9m (constant exchange rates 'CER') during 2020, declining by 1.3% in value and 1.1% in volume, with growth in Europe and Japan offset by volume and value decline in Rest of World (RoW) territories.[7],8

- In Europe, the highly competitive and genericised ICS/LABA market grew by 3.8% in volume during 2020.[8] ICS/LABA market volumes grew particularly strongly at 6.6% during H1, offset by slower growth of 0.8% in H2.8 *flutiform*® volumes grew ahead of the market, increasing by 5.5% overall in 2020, with strong growth of 12.1% during H1 offset by a 1.1% decline in H2.8 The market and product trends seen in 2020 are thought to be the result of changing prescribing and pharmacy stocking behaviours during the COVID-19 outbreak.

- Market trends in Japan reflected a similar pattern to Europe. ICS/LABA market volumes grew by 0.8% overall in 2020, with 3.6% growth in H1 offset by a 1.8% decline in H2. *flutiform*® volumes were aligned to these market trends, growing by 1.1% overall during 2020, with H1 growth of 6.2% offset by a decline of 3.6% in H2.8

- In RoW territories, volumes declined by 31.4% in 2020, with in-market sales of €18.3m (CER).7,8 RoW territories are more reliant on tender driven markets and therefore, in addition to COVID-19 effects, growth continues to be more volatile than the European and Japanese markets.

Group reported gross margin was maintained at 53.2% (2019: 53.4%). The increased gross profit contribution from royalty and other marketed revenues was largely offset by one-off costs incurred to improve Breelib™ manufacturing performance, in addition to the strong growth of the oral development services business which contributed a negative margin in 2020.

Following the strategic shift to become an inhalation CDMO, Vectura has updated the presentation of expenses on the Income Statement to better reflect the Group's business model. Under the new presentation, which is intended to aid comparison against other CDMO companies, R&D costs comprise the costs of delivering existing co-development programmes, most notably VR2081 with Sandoz and the generic Ellipta® co-development agreement with Hikma, which continue to progress, and the cost of investment in platform technologies to support new business growth. On a like-for-like basis, R&D has decreased by 35.0% to £23.8m (2019 restated: £36.6m), reflecting the termination of the Group's investment in its proprietary pipeline of nebulised therapies, primarily VR647. Further details regarding the change in accounting policy are provided in the Financial Review.

Adjusted EBITDA[2] margin of 32.3% was 8.0 percentage points higher than the prior period (2019 EBITDA: £43.4m, EBITDA margin: 24.3%), as continued strong cost management enhanced operational leverage.

Guidance and outlook
The operational focus of the business in 2021 continues to be on the execution of our services based strategy. Building on the positive momentum seen in 2020, Vectura expects the revenue contribution from CDMO service based agreements to more than triple versus 2020. Revenues from co-development contracts are expected to remain broadly in-line with 2020.

As previously announced, *flutiform*® product supply revenues benefited from partner stock builds in both 2019 and 2020, driven by moves towards more conservative stock holding policies given supply chain uncertainties, including Brexit, and in the case of Japan a move from air to sea freight. These stock builds are not expected to recur in 2021, with partner demand forecasts indicating Vectura product supply revenue in the range of £75m - £80m. From 2022 onwards, Vectura product supply volumes are expected to align more closely with underlying growth of in-market sales.

Royalties and other marketed revenues benefited from $17.3m approval milestones in 2020, following approval of generic Advair® and Enerzair® Breezhaler®. Excluding milestones and any 2021 royalty contributions from Hikma and GSK, underlying royalties for 2021 will remain broadly in-line with 2020 (2020: £40.1m).

R&D is expected to be within a £22m - £25m range, comprising continued investment in the generic Ellipta®

programme with Hikma, and focused investment in our platform technologies and capabilities to maintain our specialised and broad-spectrum of inhalation capabilities.

Reflecting the Group's transition towards a development services model and restructuring of the Group's operational footprint, the Group expects to incur low-single digit £'millions of exceptional cash costs in 2021.

GSK litigation - US
As announced on 19 November 2020, the United States Court of Appeals for the Federal Circuit denied GlaxoSmithKline's (GSK) motions for judgement as a matter of law, a new trial on infringement and for a new trial on damages in litigation concerning Vectura's US patent 8303991, which covers three of GSK's Ellipta® products sold in the US.

GSK did not subsequently petition the US Court of Appeals for a re-hearing and paid £121.1m to Vectura in January 2021. This amount reflects damages, associated interest and royalties accrued up to the period ending Q3 2020.

Within the 2020 financial results, Royalty and other marketed revenues include a total of £6.5m royalties recognised for Q4 2020 in respect of this award and the cash settlement for these royalties was received in February 2021. Additional royalties are payable for Q1 and Q2 2021, and amounts will be received in the quarter following reported sales.

Amounts received are subject to taxation in the UK. Vectura expects to pay tax at rate of approximately 10% on these proceeds.

GSK may petition the US Supreme Court to review the decision. Such a petition would not impact the timing of GSK making payments on the award. The Board consider that the likelihood of the US Supreme Court overturning the previous decisions is remote, based on the average acceptance rate of cases petitioned to US Supreme Court and the merits of the case.

Strategy and Capital allocation
To date, the Group has received £127.6m from GSK in respect of the US patent litigation which comprises payment for the settlement of damages, associated interest and royalties accrued up to Q3 2020, and a payment for Q4 2020 ongoing royalties. The Board has determined that the Group is in a strong position to execute on its growth plans without the need to utilise these proceeds, and therefore has approved, in principle, a special dividend of approximately £115m, to be paid during 2021. This return to shareholders represents the approximate after tax proceeds received from GSK to-date. Further details regarding the proposed return of capital will be provided in late April, after the window in which GSK can petition the Supreme Court has expired.

When considering the Group's wider capital allocation priorities, the Board sees clear opportunities to accelerate the growth of the CDMO business through both organic and inorganic means.

To support organic growth, the Group will continue to make focused investment in technology and innovation to enhance our leading position within the inhalation space and to meet the future demands of customers. These annual investments will be typically funded through in year free cash flow generation.

Targeted M&A offers the opportunity to deliver attractive returns to shareholders by further enhancing our global platform and accelerating growth. In order to provide strategic optionality, Vectura will maintain a strong balance sheet, net of ongoing working capital requirements, and will utilise debt, as necessary.

Further returns to shareholders, either special or ordinary, will be kept under review as the business evolves and the CDMO model matures.

COVID-19
Protecting the health, safety and wellbeing of our employees and ensuring the continued supply of important medicines, such as *flutiform*®, to our partners, have remained Vectura's top priorities throughout the COVID-19 outbreak.

Informed by robust crisis management and business continuity plans, our laboratories and manufacturing site have remained open and operational throughout national lockdowns, with social distancing and stringent hygiene protocols in place to protect employees. Where possible, extensive home working utilising digital platforms has been encouraged, and as a consequence 98% of our employees have been able to work throughout the crisis, either onsite or remotely. We would like to thank our employees for their continued diligence, agility and commitment throughout this difficult time.

Whilst the situation continues to evolve, the Group is now in the 'return' phase of its four-step business continuity plan, with a phased increase in on-site working now underway. As we move through the next phases of our plan, we will consider the learnings taken from the COVID-19 pandemic and reflect these in our long-term plans to shape an even stronger and more agile organisation.

With a strong balance sheet and an undrawn £50m Revolving Credit Facility ('RCF'), Vectura continues to be a resilient business in the face of the risks posed by COVID-19.

The Group's current RCF facility expires in August 2022.

Leadership and Board changes
To support the Group's ambition to become the market-leading company in the CDMO space, two key executives were appointed to the Executive Leadership Team in 2020. Sharon Johnson joined Vectura as EVP - Delivery Management, and Mark Bridgewater joined as Chief Commercial Officer.

Neil Warner stepped down as Non-Executive Director and Chairman of the Audit Committee on 27 May 2020. The Board would like to thank Neil for his significant contribution to Vectura and his commitment to the Group during his tenure. The role of Audit Committee Chair has transitioned to Juliet Thompson who has been a member of the Committee since December 2017. Reflecting Juliet's new role as Audit Committee Chair, Dr Kevin Matthews has taken on the role of Chair of the Remuneration Committee, although Juliet remains on the Committee in her role as Non-Executive Director. On 7 July 2020, Kevin also became a member of the Audit Committee. In September 2020, Dr Per-Olof Andersson, a Non-Executive Director, became a member of the Remuneration Committee.

In December 2020, we were pleased to announce the appointment of two new Non-Executive Directors, Jeanne Taylor Hecht and Jeanne Thoma. They bring significant experience in global drug development services, and commercial, HR and business leadership in pharmaceutical services, which will add significant expertise to our Board.

Financial Review

Following the Group's shift in business model towards a contract development and manufacturing organisation (CDMO), the Board has reviewed the presentation of the Condensed consolidated income statement to assess whether it continues to provide reliable and relevant information about the effects of transactions, or other events or conditions, on the financial performance of the Group.

The previous Condensed consolidated income statement presentation was relevant when the Group's primary focus was on developing, or co-developing, a proprietary product pipeline of respiratory therapies or complex generics.

With this shift in business model, and the ceasing of investment in the development of proprietary respiratory therapies, the Board has determined that it was appropriate to update the Group's accounting policy relating to the categorisation of Research and development (R&D) costs and General and administrative (G&A) costs to be more in line with peers and to provide a better understanding of the Group's performance. As a result of this change the costs of support functions that were focused on supporting the Group's R&D efforts under its previous strategy, and therefore reported as an R&D expense, are now reported within G&A expenses, reflecting the fact that these functions are focused on supporting a wider number of business priorities. The impact of this change in accounting policy is detailed in note 13 to the Condensed consolidated financial statements.

This change is intended to improve the relevance of our financial statements by enabling users of the accounts to better interpret the Group's performance versus CDMO peers. The scope of R&D, as now defined, will also be more closely aligned to Group decision making around investments, which are intended to provide longer term returns through innovation, differentiation and the creation of intellectual property.

Summary financial information for the year ended 31st December 2020

	2020	2019 Restated	% change
	£m	£m	
Product supply revenues	**109.9**	115.0	(4.4%)
Royalty and other marketed revenues	**68.8**	51.9	32.6%
Development revenues	**11.9**	11.4	4.4%
Revenue	**190.6**	178.3	6.9%
Cost of sales	**(89.2)**	(83.0)	7.5%
Gross profit	**101.4**	95.3	6.4%
Gross profit margin	***53.2%***	*53.4%*	*(0.2) ppts*
Research and development expenditure	**(23.8)**	(36.6)	(35.0%)
Selling and marketing expenditure	**(4.1)**	(3.0)	36.7%
General and administrative expenditure	**(28.7)**	(27.3)	5.1%
Other operating expenditure and income	**3.4**	1.7	100.0%
Exceptional items	**124.9**	(3.5)	n/m
Amortisation and impairment	**(40.3)**	(53.6)	(24.8%)
Operating profit/(loss)	**132.8**	(27.0)	n/m
Adjusted EBITDA	**61.5**	43.4	41.7%
Adjusted EBITDA margin %	***32.3%***	*24.3%*	*8.0 ppts*
Basic earnings/(loss) per share	**20.5p**	(3.4p)	n/m
Diluted earnings/(loss) per share	**20.1p**	(3.4p)	n/m

Overall revenue increased by 6.9% versus 2019, driven by a significant increase in Royalty and other marketed revenues. Product supply revenues of £109.9m (2019: £115.0m) largely relate to *flutiform*® which delivered revenue of £95.8m (2019: £101.4m), marginally ahead of our guidance for the year. Whilst *flutiform*® product supply revenues in 2020 continued to benefit from partner stock builds, they declined by 5.5% versus the prior year, reflecting a very strong performance in 2019 which benefited from material stock building from our partners as they moved to more conservative stock holding policies given supply chain uncertainties, including Brexit.

Royalty and other marketed revenues of £68.8m, grew 32.6% versus the prior year (2019: £51.9m). This growth was largely driven by milestones earned following important product approvals for the Novartis Enerzair® Breezhaler®[9] (QVM149), and for our generic Advair® programme with Hikma (VR315 (US)). In addition, royalties of £6.5m were recognised in respect of Q4 2020 GSK Ellipta® US sales, following the successful outcome of the US GSK litigation. Development revenues of £11.9m (2019: £11.4m) increased by 4.4%, driven by new CDMO contracts signed in 2020 which contributed revenue of £3.0m during the second half of the financial year.

flutiform® product supply delivered an underlying gross margin of 33.6% in 2020, down 2.2 percentage points, as a result of higher compliance costs associated with Brexit, agreed price changes in some territories, and overall adverse mix changes. These effects were more than offset by supplier credits totalling £2.8m primarily relating to historical process improvements and volume discounts. This resulted in reported gross profit of £35.0m (2019: £36.3m), representing a 36.5% gross margin, up 0.7 percentage points. Group gross margin was maintained at 53.2% (2019: 53.4%), with the increase in Royalty and other marketed revenues offset by strong growth of oral development services business, which to date contributes a negative margin, and one-off costs incurred to improve Breelib™ manufacturing performance.

R&D expenses declined 35.0% to £23.8m (2019: £36.6m), mainly due to the reduction in costs associated with development of the Group's proprietary nebulised therapies, primarily VR647, as the Group ceased investment in its own proprietary product pipeline. In line with our strategy, R&D investment is now focused on existing co-development agreements, principally generic Ellipta® (Hikma) and VR2081 (Sandoz), and investments in proprietary device and formulation technology platforms to support future CDMO revenue opportunities.

Selling and marketing costs of £4.1m grew by £1.1m reflecting the build out of the Business Development function, and increased promotional and marketing activities. G&A expenses of £28.7m increased by £1.4m, primarily due to increased non-cash share-based compensation charges following an increase in estimated vesting levels, and the recruitment of senior hires.

As announced on 19 November 2020, the United States Court of Appeals for the Federal Circuit denied GlaxoSmithKline's (GSK's) motions for judgement as a matter of law, a new trial on infringement and a new trial on damages in litigation concerning Vectura's US patent 8303991, which is infringed by GSK's US sales of three Ellipta® products. In January 2021, GSK paid Vectura $164.2m (£121.1m) reflecting all damages and associated interest due to the Group to the end of Q3 2020. These amounts are recognised within exceptional income, with corresponding amounts recognised on the balance sheet. From the beginning of Q4 2020 onwards, GSK has undertaken to pay Vectura amounts equivalent to a 3% uncapped royalty on the net sales of infringing products. Vectura will recognise such payments as royalty revenue, beginning with the payment related to Q4 2020. Royalty and other marketed revenues recognised in 2020 therefore include £6.5m of royalties recognised in respect of the three GSK Ellipta® products.

Adjusted EBITDA, a measure of underlying performance, increased by 41.7% to £61.5m (2019: £43.4m), impacted by an increase in Royalty and other marketed revenues and a significant decrease in R&D investment. The Group delivered operating profit of £132.8m (2019: loss of £27.0m) driven by the recognition of damages and associated interest from the enforcement of a Vectura patent in respect of three GSK Ellipta® products in the US, and improved adjusted

EBITDA performance compared to the prior year.

1. Revenue

1.1 Product supply revenue
The Group generates significant revenues from the supply to commercial distribution partners of finished or semi-finished products, largely manufactured by third-party suppliers. The costs incurred to deliver these revenues are reported under Cost of sales. These revenues fell by 4.4% in 2020, driven by a reduction in *flutiform*® revenues versus the prior period. Overall product supply gross profit margin fell by 2.8 percentage points due to a change in product mix towards lower margin brands, and to one-off costs incurred to improve Breelib™ manufacturing performance.

Total Product supply revenues and gross margin

	2020 £m	2019 £m	% change
flutiform®	**95.8**	101.4	(5.5%)
Other inhaled products	**3.6**	3.2	12.5%
Non-inhaled products	**10.5**	10.4	1.0%
Revenue	**109.9**	115.0	(4.4%)
Cost of sales	**(82.4)**	(83.0)	(0.7%)
Gross profit	**27.5**	32.0	(14.1%)
Gross profit margin %	***25.0%***	*27.8%*	*(2.8) ppts*

***flutiform*®**
flutiform® product supply revenues of £95.8m (2019: £101.4m) were marginally ahead of our guidance for the year. In Europe and Japan the ICS/LABA market showed very strong growth in H1 2020, followed by a decline in H2 2020. These dynamics are thought to be the result of changing prescribing and pharmacy stocking behaviours during the COVID-19 outbreak.

flutiform® in-market sales volumes in these two regions reflected this market movement and were able to retain volume market share. *flutiform*® remains at an early stage of its lifecycle in Rest of World (RoW) territories and volumes declined by 31.4% versus 2019. RoW territories are more reliant on tender driven markets and therefore, aside from any COVID-19 effects, growth has been more volatile than in the European and Japanese markets.

Whilst *flutiform*® product supply revenues in 2020 continued to benefit from partner stock builds, they declined by 5.5% versus the prior year, reflecting a very strong performance in 2019 which benefited from material stock building from our partners as they moved to more conservative stock holding policies given supply chain uncertainties, including Brexit.

***flutiform*® revenues**

In-market *flutiform*® volumes[1]	**2020 '000 units**	2019 '000 units	% change
Territory			
Europe	**3,811**	3,612	5.5%
Japan	**3,206**	3,171	1.1%
RoW (ex. North America)	**695**	1,012	(31.4%)
Total in-market volumes	**7,712**	7,795	(1.1%)

Vectura product supply revenues and gross profit	**2020 £m**	2019 £m	% change
flutiform® product supply revenue	**95.8**	101.4	(5.5%)
Cost of sales	**(63.6)**	(65.1)	(2.3%)
Non-underlying margin credit	**2.8**	-	n/m
Gross profit	**35.0**	36.3	(3.6%)
Gross profit margin %	***36.5%***	*35.8%*	0.7 ppts
Gross profit margin % (ex. non-underlying credits)	***33.6%***	*35.8%*	*(2.2) ppts*

[1] IQVIA SMART MIDAS volume data.

flutiform® product supply delivered an underlying gross margin of 33.6% in 2020, down 2.2 percentage points versus 2019, as a result of higher compliance costs associated with Brexit, agreed price changes in some territories, and overall adverse mix changes. These effects were more than offset by supplier credits totalling £2.8m, delivering reported gross profit of £35.0m (2019: £36.3m), and representing a 36.5% gross margin, up 0.7 percentage points versus 2019.

The Group also earns royalties on *flutiform*® sales made by Kyorin in Japan. Including these royalties, total revenues for *flutiform*® were £102.1m (2019: £107.7m).

Other inhaled products
The Group earns revenue from the supply of GyroHaler® and GyroPLUS® device components to Sandoz for use in the AirFluSal® and AirBuFo® Forspiro® products, and from the supply of FOX® devices to Bayer for use in its Breelib™ product. This revenue stream contributed £3.6m, an increase of 12.5% compared to the prior year.

Non-inhaled products
The Group's oral manufacturing facility in Lyon, France, generates product supply revenues from sales of oral products to partners. The site has focused efforts on bringing new manufacturing contracts to the site to help mitigate the volume declines and operating losses from older products. In 2020, product supply revenues from Lyon were £10.5m, virtually flat compared to the prior year (2019: £10.4m).

The Group earns royalties on some of the products manufactured at the Lyon site, reported separately.

1.2 Royalty and other marketed revenues
The Group also generates revenues from products marketed by partners which incorporate Vectura's intellectual property. These revenues typically comprise royalties, sales-based milestones, and product approval and launch milestones. These revenues reflect financial returns from historical R&D investments in partnered programmes. These revenues are earned without further material costs being incurred by the Group.

Total royalty and other marketed revenues

	2020 £m	2019 £m	% change
Novartis Breezhaler® products[9]	**17.3**	18.4	(6.0%)
GSK Ellipta® (Skyepharma)	**9.0**	9.0	-
GSK Ellipta® (Vectura)	**6.5**	-	n/m
flutiform®	**6.3**	6.3	-
AirFluSal® Forspiro®	**2.7**	2.3	17.4%
Other inhaled royalties	**0.1**	0.3	(66.7%)
Non-inhaled royalties	**12.2**	14.2	(14.1%)
Royalty revenue	**54.1**	50.5	7.1%
Other marketed revenues	**14.7**	1.4	n/m
Royalty and other marketed revenues	**68.8**	51.9	32.6%

Vectura royalty revenues from **Novartis Breezhaler®** products, which include Ultibro®, Seebri® and Enerzair® Breezhaler®[9], are derived from a percentage of net sales reported by Novartis and are also subject to certain contractual adjustments. Royalties from Novartis Breezhaler® products fell 6.0% in 2020, and by 5.5% on a CER basis, as Ultibro® and Seebri® continued to decline, and Enerzair® is still in the early stages of its launch.

In respect of GSK's Ellipta® products Vectura has recognised the capped annual royalty of £9.0m for the legacy Skyepharma patent. This is in addition to £6.5m recognised for Q4 2020 in relation to a legacy Vectura US patent, which will continue to be earned until the end of the second quarter of 2021.

***flutiform*®** royalties are received in respect of sales made in Japan. *flutiform*® in-market sales in Japan (CER) increased by 2.6% versus the prior year (2019: 11.4% annual growth), reflecting a more volatile market backdrop in 2020 given the COVID-19 pandemic. Royalties received from Japan remained flat at £6.3m (CER 1.6% decline) compared to the prior year (2019: £6.3m).

Non-inhaled royalties comprise royalties earned on oral and other non-inhaled products, which incorporate the Group's intellectual property. Many of these products are manufactured at the Group's production facility in Lyon.

Total non-inhaled royalties decreased by 14.1% primarily due to market conditions, including COVID-19. The Group remains eligible to receive a non-patent-dependent $32m sales milestone when twelve-month net sales of EXPAREL® reach $500m on a cash received basis. Net product sales of EXPAREL® were $413.3m for the twelve months ended 31 December 2020 (2019: $407.9m).

Other marketed revenues of £14.7m include milestones of $11.0m (£8.1m) following approval of generic Advair® (VR315 (US)) partnered with Hikma, and milestones of $5.0m (£4.1m) and $1.25m (£1.0m) following approval of Enerzair® Breezhaler® (QVM149) for use in Europe and Japan respectively.

Other marketed revenues also include a €1.0m (£0.9m) milestone received on the anniversary of the first European launch of Breelib™. Under the terms of its agreement with Bayer, the Group is eligible to receive a further €1.75m in milestones spread over the next three years, paid annually.

1.3 Development revenues

The Group also earns revenues from contracted development activities provided to customers and partners. These activities draw on the Group's device and formulation capabilities to help deliver commercially attractive inhalation products.

Historically these contracts have primarily been co-development agreements, under which the risks, costs and rewards of product development are materially shared between the parties. Under these types of agreements, Vectura would typically receive a series of cash flows in consideration for a variety of activities. These cash flows would often comprise an upfront fee as consideration for a licence to access intellectual property (licensing revenues) and milestone payments for specific clinical or other development-based outcomes or fees billed directly for work performed (inhaled development services).

Revenues are recognised when contractual performance obligations are deemed to have been met, with the profile of these revenues varying by programme and over time. Under co-development agreements, revenues would normally be structured to cover the Group's costs during the development phase, with the majority of returns earned later from approval and launch milestone payments, and royalties.

Given their co-development nature, costs to deliver these revenues continue to be reported under research and development expenses in the Condensed consolidated income statement.

Following a shift in business model in 2019, the Group is focused on generating revenues from service-based (CDMO) contracts, where the material risks, costs and rewards of development remain with the customer. Under these contracts, revenues to Vectura will normally be derived from fees billed directly for work performed, including a profit margin, rather than milestone payments which are contingent on specific clinical or development-based outcomes. The costs to generate these "fee-for-service" based revenues are reported under cost of sales in the Condensed consolidated income statement.

Contracts may still involve a customer paying to access the Group's device and/or formulation intellectual property. This may result in upfront licence fees, milestones and royalty payments. These licensing revenues will be reported under development revenues where they relate to the development phase. Any subsequent approval, launch or sales milestones, or royalty payments, relating to this licence will be reported as Royalty and marketed revenues.

Development revenues

	2020 £m	2019 £m	% change
Development revenues from co-development contracts			
Inhaled development services	**5.7**	6.9	(17.4%)
Licensing milestones	**-**	2.4	n/m
Total revenues from co-development contracts	**5.7**	9.3	(38.7%)

Development revenues from CDMO contracts

Inhaled development services	**2.4**	-	n/m
Licensing milestones	**0.6**	-	n/m
Total revenues from CDMO contracts	**3.0**	-	n/m
Revenues from non-inhaled development services	**3.2**	2.1	52.4%
Total development revenues	**11.9**	11.4	4.4%

Revenues from co-development contracts
The Group earned development services revenues of £5.7m (2019: £6.9m) from co-development agreements in 2020, principally from work related to the progression of the generic Ellipta® and VR2081 programmes. The decrease of £1.2m is driven by lower activity related to Mundipharma's *flutiform*® K-haler®, following its launch at the end of 2018.

Licensing milestone revenue of £2.4m in the prior year primarily relates to a $2.5m (£1.9m) milestone earned under an exclusive licensing agreement with Novartis AG following EU Regulatory Authorities acceptance in May 2019 of a valid Marketing Authorisation Application (MAA) made by Novartis for its Enerzair® Breezhaler® (QVM149) product. As detailed above the Group has received further milestones related to Enerzair® Breezhaler® approvals in Japan and Europe in 2020, which are recognised within Royalty and other marketed revenues.

Costs to deliver revenues from co-development contracts are reported under research and development (R&D) expenditure in the Condensed consolidated income statement.

Revenues from CDMO contracts
During the first six months of 2020, the Group signed four new CDMO contracts, with a further 14 contracts signed in the second half of the year. These contracts began to contribute to revenues during the second half of the financial year, delivering £3.0m revenue in total.

We expect to see momentum from new CDMO contracts build during 2021, with revenue from new CDMO contracts expected to more than triple compared to 2020.

Costs to deliver these revenues are reported under Cost of sales.

Non-inhaled development services
The Group earned £3.2m in 2020 (2019: £2.1m) from the provision of development services by Skyepharma SAS (Lyon, France) related to oral products. Costs to deliver these revenues are reported under cost of sales.

2. Research and development (R&D) expenditure

Following a voluntary change in accounting policy, support function costs, including HR, Finance and IT, which were previously considered as dedicated to R&D, are now included within G&A costs reflecting that these functions are now supporting a broader range of activities across the Group. Costs for 2019 have been restated in line with this new policy. Refer to note 13 of the Condensed consolidated financial statements.

R&D expenses declined 35.0%, mainly due to the reduction in costs associated with ceasing development of the Group's proprietary nebulised therapies, primarily VR647.

The scope of R&D expenses now comprises expenditure relating to:

a) Co-development R&D - this category is the equivalent to the previously reported "Partnered" category and represents R&D expenses related to co-development agreements. These expenses are principally funded by development milestone payments from partners, which may be contingent upon programme progression.

b) Technology platforms - this category represents development and improvement of the Group's own proprietary device and formulation technologies. This investment provides the basis for generating future partnering and licensing revenue opportunities.

Total R&D expenditure by category

	2020 £m	2019 Restated £m	% change
Co-development R&D and technology platforms	**23.8**	22.8	4.4%
Proprietary product pipeline programmes	**-**	13.8	n/m
Total R&D	**23.8**	36.6	(35.0%)

Co-development R&D and technology platforms
The majority of 2020 co-development R&D costs are focused on the generic Ellipta® (Hikma) and VR2081 programmes. There has been a reduction in spend versus last year driven by work on VR315 (US) and *flutiform*® K-haler® reaching conclusion.

The Group has increased investment in technology platforms in 2020 compared to the prior year, including additional investments in the innovative FOX® handheld nebuliser, its dry-powder device platforms and formulation technologies. These investments were partially offset by reductions in Group R&D investment in non-inhaled processes and capabilities, which are now being leveraged to generate increased oral development revenues.

Proprietary product pipeline programmes
In 2019, expenditure related to the Group's proprietary product pipeline of nebulised therapies, including VR647, was previously presented as "pre-partnered" R&D. From the end of 2019, all investment in this pipeline has ceased, and the category of "pre-partnered" R&D will no longer be used for presentation of the Group's results.

3. General and administrative (G&A) expenditure
Following the voluntary change in accounting policy, support function costs, including HR, Finance and IT, which were previously considered as dedicated to R&D, are now included within G&A costs. This change reflects the fact that these functions now support a broad range of Group activities. Costs for 2019 have been restated in line with this new policy.

G&A expenditure of £28.7m increased by 5.1% compared to the prior year, primarily due to increased non-cash share-based compensation charges following an increase in estimated vesting levels, and the recruitment of senior hires (2020: £4.2m; 2019: £2.7m).

4. Selling and marketing expenditure
Selling and marketing expenses of £4.1m have increased versus 2019 due to the build out of the new Business Development team in Europe and North America, as well as increased promotional activities.

5. Other operating expenditure and income
Other operating income includes R&D tax credits of £2.4m (2019: £1.7m) primarily driven by an increase in qualifying development expenditure in Lyon, and a £1.0m gain recognised on the receipt of an asset as part of the terms of the termination of a historical co-development agreement.

6. Amortisation and impairment
The Group recognised a £40.3m charge for amortisation and impairment of intangible assets, compared to £53.6m in the prior year. The lower charge in 2020 is largely the result of lower *flutiform*® amortisation following an extension to certain Japanese patents (2020: £20.9m; 2019: £33.5m), the full amortisation (£6.6m) of the GSK Ellipta® intangible asset in 2019, and the full amortisation and impairment of VR647 in 2019 (£8.1m). This decrease is offset by a £15.6m impairment of goodwill in 2020 relating to the Group's Swiss operations.

The impairment charge recognised in respect of the Swiss Group of cash generating units (CGUs) is the result of an assumed restructuring of operations, including the transition of R&D activities to the UK. As a consequence, future revenue expectations for the Swiss Group of CGUs have reduced materially, with a corresponding increase in the future revenue expectations for the UK and Germany CGU.

7. Exceptional items
Exceptional income of £124.9m in 2020 (2019: exceptional expenses of £3.5m) largely consists of £121.1m received for damages and associated interest awarded to Vectura for the period to the end of Q3 2020. These receipts followed the announcement on 19 November 2020 that the United States Court of Appeals for the Federal Circuit denied GSK's motions for judgement as a matter of law, a new trial on infringement and for a new trial on damages in litigation concerning Vectura's US patent 8303991, which covers three of GSK's Ellipta® products sold in the US. Associated legal fees of £0.9m (2019: £3.0m) have been recognised as exceptional expenses.

Exceptional items for 2020 also include a £3.5m gain recognised following the release of a commercial provision with a partner, and a £1.4m gain on disposal of one of the Group's properties in Switzerland. Following the Group's decision to reduce R&D operations in Switzerland a £2.8m gain has been recognised due to the partial release of the Swiss pension liability due to pension curtailments, offset by restructuring provisions of £2.4m. A further £0.6m of exceptional costs have been recognised for the closure of the Group's operating site in Gauting, Germany, completed in Q4 2020.

8. Adjusted EBITDA
Adjusted EBITDA is a non-statutory measure that demonstrates the underlying performance of the Group. It is used by management and the Board to monitor the Group's performance over time.

As shown in note 5 to the Condensed consolidated financial statements, adjusted EBITDA is calculated by adjusting the operating profit for the non-cash items of depreciation, amortisation and share-based compensation, and for items that are reported as exceptional items. These adjustments are not affected by the Group's change in accounting policy or restatement of the Condensed consolidated income statement.

Adjusted EBITDA of £61.5m (2019: £43.4m) increased by 41.7% compared to the prior year primarily due to the recognition of approval milestones, and GSK Ellipta® revenues in the second half of the year, as well as reductions in R&D costs.

The mix of revenues towards royalties and marketed revenues also improved adjusted EBITDA margin by 8.0 percentage points to 32.3%.

9. Net finance expenses
Net finance expenses of £1.5m in 2020 (2019: income of £0.9m) increased primarily due to foreign exchange.

10. Profit/(loss) before tax
The Group's statutory profit before tax of £131.3m has improved from a loss of £26.1m in 2019 largely as a result of the recognition of £124.9m in exceptional income, as well as an increase in royalties and other marketed revenues, a reduction in research and development expenditure, and a £13.3m decrease in amortisation and impairment charges.

11. Tax
The Group's net tax charge has moved from a net tax credit in the prior period due to the increase in the current tax charge and a decrease in deferred tax credits. The £8.7m increase in the current tax charge to £12.8m (2019: £4.1m) is primarily due to tax payable on the GSK US patent litigation award. Deferred tax credits have decreased by £4.2m (2020: £3.9m; 2019: £8.1m) due to lower amortisation of intangible assets leading to a reduction in the unwinding of associated deferred tax liabilities.

12. Earnings per share
The Group has achieved earnings per share of 20.5p compared to a loss per share of 3.4p in 2019. The Group has made a profit after tax in 2020, which is largely due to the recognition of exceptional income related to the GSK US patent litigation.

13. Foreign exchange exposure

The Group receives revenue and incurs expenses in a number of foreign currencies and, as such, movements in foreign exchange rates can materially impact the Group's financial results. Had foreign currency rates in 2020 remained constant with those of 2019, the Group's reported adjusted EBITDA would have been approximately £0.1m higher.

As an indication, a 5% strengthening or weakening of sterling against the euro, US dollar and Swiss franc would have had an impact of between £4.0m and £4.4m on the Group's adjusted EBITDA in 2020.

Balance sheet

Goodwill
The decrease of £12.6m in goodwill to £149.6m at 31 December 2020 is due to a £15.6m impairment of the goodwill allocated to Switzerland. The impairment charge recognised in respect of the Swiss Group of CGUs is the result of assumed restructuring of operations, including the transition of R&D activities to the UK. As a consequence, future revenue expectations for the Swiss Group of CGUs have reduced materially, with a corresponding increase in the future revenue expectations for the UK and Germany CGU. The impairment has been offset by a £3.0m foreign exchange gain upon revaluation of goodwill denominated in foreign currencies, primarily the Swiss franc.

Intangible assets
The £14.0m decrease in the carrying value of intangible assets is due to amortisation of £24.7m offset by foreign exchange gains of £9.7m and other intangible additions of £1.0m.

Property, plant and equipment
The net book value of property, plant and equipment is £56.4m, £1.3m higher than at 31 December 2019. The key movements are £9.1m of depreciation offset by £2.5m of foreign exchange gains, £11.9m of additions and £4.0m of disposals, which mostly relate to the sale of part of the Group's property in Switzerland. The additions include £2.7m of non-cash additions which relate to the recognition of right-of-use property assets under IFRS 16, and the receipt of an asset from a partner.

Inventory
Inventory is £1.1m higher with approximately 90% of the £28.8m carrying value at 31 December 2020 attributable to *flutiform®*.

Cash and liquidity
The Group ended the year with cash and cash equivalents of £78.6m (2019: £74.1m). Cash generated from operating activities of £31.5m (2019: £19.3m) has been largely offset by capital returns of £16.4m (2019: £3.4m), the repayment of property mortgages of £4.3m (2019: £0.1m) in Switzerland, and net tax payments for the year totalling £6.7m (2019: net tax receipts of £1.1m). Tax payments of £4.1m relate to a payment that was due to be paid towards the end of 2019, but was paid in early 2020 due to a late request by the Swiss tax authorities.

The Group also received a reimbursement of £8.0m for historical purchases of capital equipment made by the Group on behalf of a customer as part of a co-development agreement, and a £5.3m receipt for the sale of one of the Group's properties in Switzerland. These inflows have been offset by capital expenditure in the year of £13.0m.

The Group generated free cash flow of £24.1m (2019: £12.5m). Free cash flow (FCF) is a non-statutory measure used by the Board and the senior management team to measure the ability of the Group to support future business expansion, distributions or financing. FCF is defined as net cash flow from operating and investing activities (£24.8m and £0.4m respectively) less repayment of lease liabilities (£1.1m).

Cash generated from operating activities was £31.5m in 2020 (2019: £19.3m), compared to an adjusted EBITDA for the year of £61.5m. After accounting for presentational differences, this represents a conversion of adjusted EBITDA to operating cash of 51% (2019: 44.5%). Both the approval milestone for generic Advair® (VR315 (US)) and fourth quarter GSK Ellipta® revenues were recognised in 2020, but the related cash was not received until Q1 2021. The increase versus 2019 is mainly due to an improvement in the December trade payables position versus the prior year. The reconciliation of adjusted EBITDA to operating cash is presented in the table below.

	2020	2019
	£m	£m
Adjusted EBITDA	**61.5**	43.4
Presentational		
- Exceptionals cash outflow - GSK litigation	**0.4**	(3.0)
- Research and development tax credit income presented outside of operating cash	**(2.4)**	(1.7)
Working capital		
- GSK Ellipta® Q4 2020 revenue recognition timing	**(6.5)**	-
- VR315 (US) milestone revenue recognition timing	**(8.1)**	-
- Generic Ellipta® (Hikma) and VR2081 revenue recognition timing	**(1.8)**	(3.5)
- Decrease in payables	**(6.8)**	(11.1)
- Increase in receivables	**(4.9)**	(3.5)
- Other working capital	**0.1**	(1.3)
Cash generated from operating activities	**31.5**	19.3

The Group has access to a £50.0m multi-currency revolving credit facility with Barclays Bank PLC and HSBC Bank PLC. This facility expires in August 2022 and remains undrawn.

By order of the Board

Paul Fry
Chief Financial Officer

Condensed consolidated income statement

For the year ended 31 December 2020

		2020	2019 Restated*
	Note	**£m**	£m
Revenue	3	**190.6**	178.3
Cost of sales		**(89.2)**	(83.0)
Gross profit		**101.4**	95.3
Selling and marketing expenses		**(4.1)**	(3.0)
Research and development expenses	4	**(23.8)**	(36.6)
General and administrative expenses		**(28.7)**	(27.3)
Other operating income		**3.4**	1.7
Operating profit before exceptional items, amortisation and impairment		**48.2**	30.1
Amortisation and impairment	5	**(40.3)**	(53.6)
Exceptional items	6	**124.9**	(3.5)
Operating profit/(loss)		**132.8**	(27.0)
Finance income		**0.1**	1.5
Finance expense		**(1.6)**	(0.6)
Profit/(loss) before tax		**131.3**	(26.1)

Net tax (charge)/credit	7	**(8.9)**	4.0
Profit/(loss) for the financial year		**122.4**	(22.1)
Adjusted EBITDA**	5	**61.5**	43.4
Earnings/(loss) per share			
Basic	8	**20.5p**	(3.4p)
Diluted	8	**20.1p**	(3.4p)

All results are attributable to shareholders of Vectura Group plc and are derived from continuing operations.

*Comparative expenses have been restated due to a voluntary change in accounting policies, to reclassify certain costs from Research and development expenses to General and administrative expenses. There was no impact from the voluntary change on Gross profit or Operating profit before exceptional items, amortisation and impairment. Refer to note 13 "*Voluntary change in accounting polic*y".

**Adjusted EBITDA is a non-IFRS measure comprising operating profit/(loss), adding back amortisation and impairment, depreciation, share-based payments and exceptional items. Refer to note 5 "*Adjusted EBITDA*".

The accompanying notes form an integral part of these Condensed consolidated financial statements.

Condensed consolidated statement of other comprehensive income

For the year ended 31 December 2020

	2020	2019
	£m	£m
Profit/(loss) for the financial year	**122.4**	(22.1)
Items that are or may be reclassified subsequently to the income statement:		
Net exchange difference on translation of foreign operations	**16.2**	(7.9)
Tax on items recognised directly in equity that may be reclassified	**-**	0.4
Increase in deferred tax rate on overseas permanent funding	**-**	(2.5)
Items that will not be reclassified to the income statement:		
Remeasurement of net retirement benefit obligations	**(0.2)**	(1.4)
Other comprehensive income/(loss)	**16.0**	(11.4)
Total comprehensive income/(loss) for the year	**138.4**	(33.5)

All results are attributable to shareholders of Vectura Group plc and are derived from continuing operations.

The accompanying notes form an integral part of these Condensed consolidated financial statements.

Condensed consolidated balance sheet

As at 31 December 2020

	Note	**2020**	2019
		£m	£m
ASSETS			
Non-current assets			
Goodwill	9	**149.6**	162.2
Intangible assets	10	**150.1**	164.1
Property, plant and equipment		**56.4**	55.1
Deferred tax assets		**3.8**	2.7
Other non-current assets		**0.5**	0.5
Total non-current assets		**360.4**	384.6
Current assets			
Inventories		**28.8**	27.7
Trade and other receivables		**198.2**	44.3
Cash and cash equivalents		**78.6**	74.1
Total current assets		**305.6**	146.1
Total assets		**666.0**	530.7
LIABILITIES			
Current liabilities			

Trade and other payables		**(64.6)**	(48.8)
Corporation tax payable		**(16.6)**	(12.5)
Borrowings		**(1.2)**	(1.2)
Provisions		**(2.8)**	(1.6)
Total current liabilities		**(85.2)**	(64.1)
Non-current liabilities			
Borrowings		**(3.0)**	(6.4)
Provisions		**(4.1)**	(7.9)
Retirement benefit obligations		**(2.1)**	(4.5)
Deferred tax liabilities		**(27.2)**	(28.4)
Total non-current liabilities		**(36.4)**	(47.2)
Total liabilities		**(121.6)**	(111.3)
Net assets		**544.4**	419.4
SHAREHOLDERS' EQUITY			
Share capital	11	**0.2**	0.2
Share premium		**61.7**	61.6
Translation reserve		**46.2**	30.0
Other reserves		**320.4**	320.2
Retained earnings		**115.9**	7.4
Total shareholders' equity		**544.4**	419.4

The accompanying notes form an integral part of these Condensed consolidated financial statements. The Condensed consolidated financial statements of Vectura Group plc were approved by the Board of Directors on 17 March 2021 and were signed on its behalf by:

W Downie
Chief Executive Officer

P Fry
Chief Financial Officer

Condensed consolidated statement of changes in equity

For the year ended 31 December 2020

				Other reserves				
	Note	Share capital £m	Share premium £m	Merger reserve £m	Own shares reserve £m	Share-based payment reserve £m	Translation reserve £m	Retained (losses)/ earnings £m	Total equity £m
At 1 January 2019		0.2	61.6	441.2	(2.2)	8.3	40.0	(55.2)	493.9
Loss for the financial year		-	-	-	-	-	-	(22.1)	(22.1)
Other comprehensive loss		-	-	-	-	-	(10.0)	(1.4)	(11.4)
Total comprehensive loss for the year		-	-	-	-	-	(10.0)	(23.5)	(33.5)
Share buyback programmes		-	-	-	-	-	-	(3.6)	(3.6)
Dividends paid		-	-	-	-	-	-	(40.1)	(40.1)
Share-based payments		-	-	-	-	3.2	-	-	3.2
Employee share schemes		-	-	-	(0.1)	(5.1)	-	4.7	(0.5)
Merger reserve release		-	-	(125.1)	-	-	-	125.1	-
At 31 December 2019		0.2	61.6	316.1	(2.3)	6.4	30.0	7.4	419.4
Profit for the financial year		-	-	-	-	-	-	122.4	122.4
Other comprehensive income/(loss)		-	-	-	-	-	16.2	(0.2)	16.0
Total comprehensive income for the year		-	-	-	-	-	16.2	122.2	138.4

Share buyback programmes	**11**	-	-	-	-	-	-	(16.6)	(16.6)
Share-based payments		-	-	-	-	4.4	-	-	4.4
Employee share schemes		-	0.1	-	(0.1)	(4.1)	-	2.9	(1.2)
At 31 December 2020		**0.2**	**61.7**	**316.1**	**(2.4)**	**6.7**	**46.2**	**115.9**	**544.4**

The accompanying notes form an integral part of these condensed consolidated financial statements.

Condensed consolidated cash flow statement

For the year ended 31 December 2020

	Note	**2020**	2019
		£m	£m
Cash flows from operating activities			
Profit/(loss) for the financial year		**122.4**	(22.1)
Adjustments reconciling profit/(loss) after tax to operating cash flows	12	**(90.9)**	41.4
Cash generated from operating activities		**31.5**	19.3
Research and development tax credits received		**1.2**	2.4
Corporation tax paid		**(7.9)**	(1.3)
Net cash inflow from operating activities		**24.8**	**20.4**
Cash flows from investing activities			
Purchase of intangible assets		**(1.2)**	(1.4)
Purchase of property, plant and equipment		**(11.8)**	(5.8)
Proceeds from sale of property, plant and equipment		**5.3**	-
Receipt from sale of long-term asset	12	**8.0**	-
Interest received		**0.1**	0.4
Net cash inflow/(outflow) from investing activities		**0.4**	(6.8)
Cash flows from financing activities			
Share buyback programmes	11	**(16.6)**	(3.6)
Special dividend paid		**-**	(40.1)
Funding relating to share issue and employees' share schemes		**(1.2)**	(0.5)
Repayment of lease liabilities	12	**(1.1)**	(1.1)
Repayment of property mortgages	12	**(4.3)**	(0.1)
Other finance charges		**(0.4)**	(0.4)
Net cash outflow from financing activities		**(23.6)**	(45.8)
Effects of foreign exchange fluctuations on cash held		**2.9**	(1.9)
Increase/(decrease) in cash and cash equivalents		**4.5**	(34.1)
Cash and cash equivalents at the beginning of the year		**74.1**	108.2
Cash and cash equivalents at the end of the year		**78.6**	74.1

The accompanying notes form an integral part of these Condensed consolidated financial statements.

Notes to the Condensed consolidated financial statements for the year ended 31 December 2020

1. Presentation of the Condensed consolidated financial statements

Corporate information
Vectura Group plc (the "Company") is a public limited company incorporated and domiciled in the United Kingdom. The registered office is One Prospect West, Chippenham, Wiltshire SN14 6FH. The "Group" is defined as the Company, its subsidiaries and equity-accounted associates. The Group's operations and principal activities are described in the Strategic report. Previously issued financial information and other relevant resources are made available on our website: www.vectura.com.

Basis of preparation
The Condensed consolidated financial statements have been prepared in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRS") and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The Condensed financial statements have been prepared on a historical cost basis modified to include revaluation to fair value of certain financial instruments and the recognition of net assets acquired including contingent liabilities assumed through business combinations at their fair value on the acquisition date modified by the revaluation of certain items, as stated in the accounting policies. All financial information is presented in sterling, and is rounded to the nearest £0.1m unless otherwise stated.

The financial information, which comprises the Condensed consolidated income statement, Condensed consolidated statement of comprehensive income, Condensed consolidated statement of financial position, Condensed consolidated statement of cash flows, Condensed consolidated statement of changes in equity and related notes, is derived from the full Group financial statements for the year ended 30 December 2020 and does not constitute full accounts within the meaning of section 435 (1) and (2) of the Companies Act 2006.

Statutory accounts for 2019 have been delivered to the Registrar of Companies and those for 2020 will be delivered in due course. The external auditor has reported on those accounts; the report was (i) unqualified, (ii) did not include references to any matters to which the external auditor drew attention by way of emphasis without qualifying the reports and (iii) did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The Condensed consolidated income statement is presented by function, with the exception of amortisation and impairment of intangible assets which are presented in accordance with the nature of the expense. If amortisation and impairment were to be presented by function, £23.8m (2019: £42.8m) would have been classified as cost of sales, £nil (2019: £10.4m) as Research and development expenses and £15.8m (2019: £0.4m) as General and administrative expenses.

Going concern
The Group made a profit of £122.4m for the year and continues to be cash generative before distributions to shareholders. A summary of the Group's financial position, cash generated in the year and accounting profit made is included within the Financial review. The Group has considerable financial resources together with long-term contracts with a number of customers across different geographic areas and jurisdictions. The Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook due, primarily, to the COVID-19 outbreak.

The transition period of the UK leaving the European Union, under the Withdrawal Agreement Act 2020, completed on 31 December 2020. The UK has reached a trading agreement with the EU and non-EU countries. Management put in place a series of mitigation plans to ensure that ongoing EU regulatory requirements for medicinal products and devices were maintained. The Group experienced no material impact of the UK leaving the European Union in 2020 and does not foresee significant ongoing impact.

As part of the going concern review, the Directors have considered severe, but plausible, downside scenarios to stress test the viability of the business. The scenarios included modifying cash flow assumptions to include significant reductions in future royalty revenues, supply chain disruptions, termination of the Group's co-development programmes and failure to grow the revenues of the CDMO business in line with current projections.

In addition, whilst COVID-19 has not to date had any significant impact on the Group's performance, it has been considered as part of the stress testing scenarios, as mentioned above, of the going concern model. This included a potential COVID-19-related reduction in inhalation and other products for which the Group receives royalties. This stress testing showed that the Group is able to continue trading without taking significant mitigating actions. The Group held £78.6m in cash and cash equivalents as at 31 December 2020, and has no material debt. Furthermore, the Group has access to a £50.0m multi-currency revolving credit facility with Barclays Bank PLC and HSBC Bank PLC. This facility expires in August 2022 and remains undrawn. No events have taken place since the balance sheet date which have had a significant negative impact on the Group's liquidity. The Group continues to operate robust cash management stewardship and regularly assesses the cash needs of the Group.

Consequently, the Directors are confident that the Group and Company will have sufficient funds to continue to meet their liabilities as they fall due for at least twelve months from the date of approval of the condensed consolidated financial statements and therefore have prepared the condensed consolidated financial statements on a going concern basis.

Changes in accounting policies and disclosures
The accounting policies applied are consistent with those adopted and disclosed in the consolidated financial statements for the year ended 31 December 2019 except for those otherwise stated in note 13 "*Voluntary change in accounting policy*".

There are a number of amendments to accounting standards that became applicable for annual reporting periods commencing on or after 1 January 2020, but they do not currently have a material effect on the Group's financial statements:

(a) Definition of Material - Amendments to IAS 1 and IAS 8

(b) Definition of a Business - Amendments to IFRS 3

(c) Revised Conceptual Framework for Financial Reporting

(d) Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7

(e) COVID-19-Related Rent Concessions - Amendments to IFRS 16

1.1 Alternative performance measures (APMs)

When assessing and discussing the Group's reported financial performance, management makes reference to

alternative performance measures. These measures are also used in discussions with the investment community. APMs are not displayed with more prominence, emphasis or authority than IFRS measures.

Adjusted EBITDA is defined as operating profit/(loss) adding back amortisation and impairment, depreciation, share-based payments and exceptional items. Refer to note 5 "*Adjusted EBITDA*".

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 years. Items which are included within the exceptional category include:

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

Furthermore, significant and unusual items of restructuring and significant and unusual items which individually distort the underlying performance of the business and therefore warrant highlighting separately to the users of the accounts are also included within exceptional items. Refer to note 6 "*Exceptional items*".

Free cash flow is defined as net cash flow from operating and investing activities, less repayment of lease liabilities. It is a non-statutory measure used by the Board and the senior management team to measure of the ability of the Group to support future business expansion, distributions or financing.

2. Critical accounting areas of judgement and estimation

In preparing these Condensed consolidated financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported figures. Moreover, any changes in critical estimates and assumptions made could materially impact the amounts of assets, liabilities, revenue and expenses reported next year as actual amounts and results could differ from those estimates or those estimates could change in the future. The impact of COVID-19 on all accounting areas of judgement and estimation has been considered and no additional critical areas have been identified as a result of the ongoing pandemic.

Critical judgements
The following critical judgements are those which have the most significant effect on the amounts recognised in the Condensed financial statements:

Applying IFRS - 15 - Revenue from Contracts with Customers to long-term collaborative agreements
Collaborative development and marketing agreements which license the Group'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 that constitute contracts with customers. At present, the agreements relevant to the IFRS 15 judgements outlined below are with Sandoz (VR2081) entered into in June 2017 and Hikma (generic of GSK Ellipta® products) entered in November 2018. These judgements were made at contract inception. Two contracts containing out-licence agreements were entered into during the year; whilst the revenue recognised in the year is not material, the future potential income arising from royalties and milestone payments could be significant.

(a) Assessment of contract existence criteria
A contract with a customer is in the scope of the standard when it is legally enforceable, it has commercial substance, payment terms can be identified, 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 Group or the customer is committed to these services throughout the service period, before a successful outcome is assured.

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 Vectura's intellectual property and the provision of services for development of Vectura's 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. The threshold for these five products to be considered as revenue contracts under IFRS 15, that is, receipts of revenue being considered as being probable, has not yet been reached and therefore no revenue has been recognised, to date. The associated expenses under the agreement have been treated as co-development R&D expenses.

(b) Whether a licence to the Group's intellectual property is a separate distinct performance obligation
A licence granted by the Group 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.

If the licence provided was not capable of being separately sold at the grant date then the revenue for the licence is recognised over time as required development services accrue. This treatment applies to the development of VR2081 with Sandoz.

(c) Allocation of the transaction price based on standalone selling prices at contract inception
For collaborative agreements containing multiple performance obligations, the Group 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.

GSK US litigation outcome (GSK Ellipta® legacy Vectura product)
As announced on 19 November 2020, the United States Court of Appeals for the Federal Circuit denied GlaxoSmithKline's (GSK) motions for judgment as a matter of law, a new trial on infringement and for a new trial on damages in litigation concerning Vectura's US patent 8303991, which is infringed by GlaxoSmithKline's (GSK) US sales of three Ellipta® products. On 28 December 2020 the Court issued a mandate obligating GSK to pay Vectura the damages for patent infringement, associated interest and ongoing royalties. GSK has the right to petition the US

Supreme Court to review the decisions. This is the final option available to GSK to challenge the award.

In Management's view, the likelihood of the US Supreme Court overturning the previous decisions is remote, based on the average acceptance rate of cases petitioned to the US Supreme Court and the merits of the case. Further elements of significant judgement are whether the realisation of income is virtually certain and therefore the recognition of an asset arising from the current court ruling is appropriate (previously disclosed as contingent as at the prior year's balance sheet date) and the classification of the income in the income statement.

The Group has determined that the realisation of income is virtually certain based on the issuance of a court mandate on 28 December 2020 obligating GSK to pay the Group damages for patent infringement, associated interest and ongoing royalties. This resulted in the recognition of a receivable in the amount of £121.1m, which was subsequently paid after the balance sheet date. The Group also applied significant judgement regarding the nature of the income received. Management concluded that amounts attributable up to and including the third quarter of 2020 were, by nature, damages for patent infringement. Management also determined that the associated interest is, from an accounting perspective, similar in nature to the damages in that it is additional compensation for late payment of the damages themselves. Management has considered whether the associated interest would meet the definition of finance income, and has concluded that the prerequisites are not met as no relevant financial asset had been recognised over the related period.

As such, both the damages and the associated interest, have been recognised as exceptional income because the income relates to a one-off event, is sufficiently significant to merit separate presentation for purposes of comparison and otherwise meets the criteria in the Group's accounting policy on exceptional items.

Payments relating to royalties earned in the fourth quarter 2020 have been assessed as meeting the IFRS 15 requirements for revenue recognition, as will any future similar payments. This is because a normal commercial royalty relationship is considered to be in place from an accounting perspective following the Court of Appeal decision on 19 November 2020 which enforced the payment terms of the ongoing royalties, resulting in the first royalty statement and payment due under this relationship covering the fourth quarter in full.

Critical estimates

The following critical estimates, if changed in 2021, would materially impact reported performance**:**

Revenue - variable consideration included in revenue contracts

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 variable consideration 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 consideration for the development of the generic GSK Ellipta® portfolio with Hikma was assessed at contract inception in 2018 as $20.0m. This includes an upfront $15.0m non-refundable milestone on signing of the agreement which was recognised in 2018, and a second $5.0m milestone due on completion of the device development services. As at the 2020 balance sheet date, the second milestone has been excluded from the transaction price and continues to be constrained (i.e. not recognised) until completion is considered highly probable. If the $5.0m milestone constraint had been released in 2020, the full amount would have been recognised in revenue in 2020. The constraint is expected to be released in 2021.

The Group has reassessed the transaction price for the VR2081 project with Sandoz. A $1.0m milestone payment due on completion of the formulation technology transfer has been constrained and therefore excluded from the transaction price as, during 2020, it was not considered highly probable that this milestone would be achieved. The constraint is expected to be released in 2021. The remaining milestone payments of $4.0m are associated with regulatory approval and have been constrained until the Group believes it is highly probable that a significant reversal of revenue will not occur. If the $5.0m associated with milestone payments had not been constrained as at 31 December 2020, $0.9m additional revenue would have been recognised in 2020.

Impairment of goodwill and intangible assets acquired through business combinations

Goodwill arising on a business combination is not amortised, but is tested annually for impairment. This testing requires judgement as to the fair value less costs of disposal of the cash-generating units (CGUs) to which goodwill has been allocated. The actual performance of CGUs may differ from the valuations derived through this exercise.

The sensitivity to changes in estimates and details of the goodwill impairment assessment are disclosed in note 14 "*Goodwill*".

Intangible assets are reviewed for indicators of impairment and where such indicators exist a full impairment test is performed to ensure the recoverable amount is higher than the carrying value. Impairment tests are based on internal risk-adjusted future cash flows discounted to present value. Some of the more significant assumptions include the product supply volume forecast, associated margin (depending on pricing assumptions, raw material costs and cost of manufacture) and the appropriate discount rate to measure the inherent risks in the cash flows.

These valuations are inherently subjective. The sensitivity of the *flutiform*® intangible, being the Group's largest intangible asset, to downside scenarios is presented within note 10 "*Intangible assets*".

Useful economic lives of intangible assets acquired through business combinations

Intangible assets relating to in-market products are predominantly amortised with reference to average patent lives in the most applicable territories. The key estimate is which patent or midpoint of the patents to use, due to the varying strength of the patents and different time periods for different territories. Given the quantum of the intangible assets, any change in assumptions would have a significant impact on the amortisation charge. No significant change has been to this estimate in the current year.

The sensitivity to changes in the useful economic lives is presented within note 10 "*Intangible assets*".

Actuarial assumptions applied to the Swiss pension benefits in the application of accounting policies

The Group operates a pension scheme in respect of its employees in Switzerland. As some of the risks of the scheme match the criteria under IAS 19-Employee Benefits for a defined benefit plan, the scheme is accounted for as such. Application of IAS 19 involves estimates around uncertain future events based on independent actuarial valuation reports. The defined benefit obligation is sensitive to the actuarial assumptions and the redundancy assumptions associated with the decision to significantly reduce R&D operations in Muttenz by 2022.

3. Revenue

	2020 £m	2019 £m
Product supply revenues	**109.9**	115.0
Royalty and other marketed revenues	**68.8**	51.9
Development revenues	**11.9**	11.4
Total revenues	**190.6**	178.3

Detailed analysis and commentary on revenue are provided in the Financial review.

(a) Product supply revenues

The Group generates significant revenues from the supply of finished or semi-finished products, largely manufactured by third-party suppliers, to commercial distribution partners.

	2020 £m	2019 £m
flutiform®	**95.8**	101.4
Other inhaled products	**3.6**	3.2
Non-inhaled products	**10.5**	10.4
Product supply revenues	**109.9**	115.0

(b) Royalty and other marketed revenues

The Group generates revenues from products marketed by partners which incorporate Vectura's intellectual property. These revenues typically comprise royalties, sales-based milestones, and product approval and launch milestones. These revenues reflect financial returns from historical R&D investments in partnered programmes and are earned without further material costs being incurred by the Group.

	2020 £m	2019 £m
Novartis Breezhaler® products	**17.3**	18.4
GSK Ellipta® (Skyepharma)	**9.0**	9.0
GSK Ellipta® (Vectura)	**6.5**	-
flutiform®	**6.3**	6.3
AirFluSal® Forspiro®	**2.7**	2.3
Other inhaled royalties	**0.1**	0.3
Non-inhaled royalties	**12.2**	14.2
Royalty revenues	**54.1**	50.5
Other marketed revenues	**14.7**	1.4
Royalty and other marketed revenues	**68.8**	51.9

(c) Development revenues

The Group earns revenue from contracted development activities provided to customers and partners. These activities draw on the Group's device and formulation capabilities to help deliver commercially attractive inhalation products.

The contracts with customers for development services are categorised as co-development arrangements or CDMO services arrangements. Under these agreements, during the development phase Vectura typically receives a series of cash flows in consideration for a variety of activities, which may comprise an upfront fee as consideration for the licence to access intellectual property (licensing revenues), milestone payments for specific clinical or other development-based outcomes, or fees billed directly for work performed (development services).

	2020 £m	2019 £m
Development revenues from co-development contracts		
Inhaled development services	**5.7**	6.9
Licensing milestones	-	2.4
Revenues from co-development contracts	**5.7**	9.3
Development revenues from CDMO contracts		
Inhaled development services	**2.4**	-
Licensing milestones	**0.6**	-
Revenues from CDMO contracts	**3.0**	-
Revenues from non-inhaled development services	**3.2**	2.1
Development revenues	**11.9**	11.4

Disaggregation of revenues

In the following table revenue from contracts with customers is disaggregated by primary geographical market, major product and service line and timing of revenue recognition.

	Product supply		Royalties and other marketed		Development services		Total	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m

Primary geographical markets								
United Kingdom	**50.6**	53.7	**16.2**	10.1	**0.6**	0.5	**67.4**	64.3
Japan	**45.2**	47.8	**6.3**	6.3	**-**	-	**51.5**	54.1
Switzerland	**4.1**	5.3	**25.9**	22.6	**0.3**	4.0	**30.3**	31.9
Rest of Europe	**9.3**	7.3	**9.9**	8.5	**5.2**	2.3	**24.4**	18.1
United States of America	**0.7**	0.9	**8.1**	0.2	**4.6**	4.6	**13.4**	5.7
Rest of World	**-**	-	**2.4**	4.2	**1.2**	-	**3.6**	4.2
Total revenues	**109.9**	115.0	**68.8**	51.9	**11.9**	11.4	**190.6**	178.3
Timing of revenue recognition								
Point in time	**109.9**	115.0	**68.8**	51.9	**1.1**	7.1	**179.8**	174.0
Over time	**-**	**-**	**-**	**-**	**10.8**	4.3	**10.8**	4.3
Total revenues	**109.9**	115.0	**68.8**	51.9	**11.9**	11.4	**190.6**	178.3

Geographical market is derived from customer invoicing points as opposed to the location of patients receiving treatment from the Group's licensed products.

Point in time development services revenue includes £13.2m (2019: £1.9m) in relation to performance obligations satisfied in prior years. The outstanding transaction price on unsatisfied performance obligations as at 31 December 2020 is £1.9m (2019: £6.8m), which is expected to be recognised in full in 2021.

Revenue from major customers
Three major customers contributed individually in excess of 10% of total Group revenues: Customer A - £51.5m (2019: £54.1m), Customer B - £47.5m (2019: £55.1m) and Customer C - £22.4 m (2019: £21.7m).

Customer contract balances
Trade receivables are recognised when there is an unconditional right to payment except for the passage of time. The Group's unbilled trade receivables relate to accrued royalty income and are transferred to trade receivables when the right to payment becomes unconditional upon receipt of royalty statements. The royalty statements and subsequent payments are typically received in the following quarter. Unbilled trade receivables as at 31 December 2019 of £12.0m related to Q4 2019 royalty statements, which were subsequently received in full during 2020. Unbilled trade receivables as at 31 December 2020 of £17.0m relate primarily to Q4 2020 royalty statements and are expected to be received in full in the first half of 2021.

Contract assets represent the Group's right to consideration from a customer for work performed on partially completed contracts. Contract assets are transferred to receivables when the Group's right to consideration is unconditional. Contract assets are assessed for impairment in line with IFRS 9.

Contract liabilities consists of advance payments from customers for early-stage development services, with revenues being recognised over time.

The following table provides information about contract assets and contract liabilities from contracts with customers:

	2020	2019
	£m	£m
Contract liabilities at 1 January	**(2.3)**	(6.5)
Advance payments received from customers	**(1.2)**	-
Foreign exchange	**-**	(0.1)
Recognised as development services revenue	**3.3**	4.3
Net contract assets/(liabilities)	**(0.2)**	(2.3)

4. Research and development expenses (R&D)

	2020	2019 Restated*
	£m	£m
Co-development R&D and technology platforms	**23.8**	22.8
Proprietary product pipeline programmes	**-**	13.8
Total research and development expenses	**23.8**	36.6

*Following the voluntary change in accounting policy, support function costs including HR, Finance and IT that were previously supporting R&D are now included within general and administrative expenses reflecting that these functions are now supporting all activities of the Group. Refer to note 13 "*Voluntary change in accounting policy*".

Due to the shift in strategy the 2019 restated R&D expenses have reduced from £36.6m in 2019 to £23.8m in 2020 as the focus of the Group has moved towards generating revenues from service-based contracts, where the material risks, costs and rewards of development remain with the client, and investment in own proprietary product pipeline of respiratory therapies has ceased.

Historically the Group's R&D expenses have been presented under two distinct categories: partnered which represents expenditure to progress partner programmes and is funded by development revenues earned from the partner, and pre-partnered which reflects investments funded by the Group on programmes yet to be partnered, as well as investments in its own innovative proprietary technology platforms.

Following the shift in strategy, the Group will incur the following types of R&D expenses:

(a) Co-development R&D - this category is the equivalent to the previously reported 'Partnered' category and represents R&D expenses related to co-development agreements. These expenses are principally funded by development milestone payments from partners, which may be contingent upon programme progression.

(b) Technology platform - this category represents development and improvement of the Group's own proprietary device and formulation technologies. This investment provides the basis for generating future partnering and licensing revenue opportunities.

5. Adjusted EBITDA

Adjusted EBITDA is a non-statutory alternative performance measure used by management and the Board to monitor the Group's performance. See note 1.1 "*Alternative performance measures*".

		2020	2019
		£m	£m
Operating profit/(loss)		**132.8**	(27.0)
Exceptional items	10	**(124.9)**	3.5
Amortisation and impairment of intangible assets	15	**40.3**	53.6
Depreciation and impairment of property, plant and equipment	16	**9.1**	10.6
Share-based payments	27	**4.2**	2.7
Adjusted EBITDA		**61.5**	43.4

6. Exceptional items

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

	2020	2019
	£m	£m
Litigation award[(1)]	**121.1**	-
Site footprint rationalisation - gain on pension curtailment[(2)]	**2.8**	-
Release of commercial provisions[(3)]	**3.5**	-
Gain on disposal of property, plant and equipment [(3)]	**1.4**	-
Total exceptional income	**128.8**	-
Legal fees in relation to litigation award[(4)]	**(0.9)**	(3.0)
Site footprint rationalisation costs[(2)]	**(3.0)**	(0.3)
Other exceptional items[(4)]	**-**	(0.2)
Total exceptional costs	**(3.9)**	(3.5)
Total exceptional items	**124.9**	(3.5)

If the exceptional items were not presented as exceptional, the classification would be as follows: (1), (3) classified as other operating income; (2) classified separately as net restructuring charges; and (4) classified as general and administrative expenses.

Litigation award
As announced on 19 November 2020, the United States Court of Appeals for the Federal Circuit denied GlaxoSmithKline's (GSK's) motions for judgment as a matter of law, a new trial on infringement and for a new trial on damages in litigation concerning Ventura's US patent 8303991, which is infringed by GSK's US sales of three Ellipta® products. On 28 December 2020 the Court issued a mandate obligating GSK to pay Ventura the damages for patent infringement, associated interest and ongoing royalties. An amount of £121.1m relating to damages and associated interest thereon has been recognised as exceptional income in 2020. Payments relating to royalties earned in the fourth quarter 2020 have been assessed as meeting the IFRS 15 requirements for revenue recognition, as will any future similar payments. This revenue has been earned pursuant the decision of the United States District Court for the District of Delaware and was upheld by the US Court of Appeals, which, amongst other damages, awarded Ventura ongoing royalties of 3% on US sales of three infringing GSK Ellipta® products.

Legal fees of £0.9m (2019: £3.0m) relate to the costs associated with these legal proceedings.

Site footprint rationalisation
In November 2020, the Board announced its decision to significantly reduce the R&D operations in Muttenz, Switzerland, by 2022. Associated costs of £2.4m, which primarily include redundancies and retention packages, have been recognised as exceptional costs. A corresponding provision has been recognised on the balance sheet.

A further £0.2m (2019: £0.3m) of site rationalisation costs relates to the final share-based payment charges for the retention of staff and £0.4m for the final redundancy costs associated with the closure of the Group's operating site in Gauting, Germany.

A pension curtailment gain of £2.8m has been recognised due to the employees leaving the pension scheme as a result of the Muttenz site rationalisation. A corresponding reduction in the retirement benefit obligation has been recognised on the balance sheet.

Release of commercial provisions
During the year, the Group signed an amendment with a commercial partner to formally cancel £3.5m of an obligation, which was released to the income statement. This obligation had previously been recognised as a provision, as it arose from the business combination with Skyepharma in 2016.

Gain on disposal of property, plant and equipment
The gain on disposal of property, plant and equipment of £1.4m (2019: £nil) relates to the sale of office property and a warehouse at the Group's Swiss site, outside the normal course of business of the Group.

Other exceptional items
Other exceptional items of £0.2m in the comparative period relate to final IFRS 2 charges for retention shares that were issued post the 2016 merger and vested on 22 September 2019.

7. Tax

	2020 £m	2019 £m
Current income tax	**(13.2)**	(4.4)
Prior year adjustments	**0.4**	0.3
Total current income tax charge	**(12.8)**	(4.1)
Deferred tax credit	**4.0**	8.1
Prior year adjustments	**(0.1)**	-
Total deferred tax credit	**3.9**	8.1
Net tax credit reported in the income statement	**(8.9)**	4.0

No deferred tax (2019: £2.1m charge) was recognised in other comprehensive income.

Current tax arises from profits generated in the UK and Switzerland (2019: Switzerland). Deferred tax relates predominantly to credits arising on the unwinding of tax liabilities on acquired intangible assets and the recognition of deferred tax assets in respect of brought forward tax losses that can reduce future corporation tax in the UK.

The Group's effective tax rate (ETR) before other comprehensive income (OCI) is a 6.8% charge (2019: 15.3% credit). This equates to the applicable UK tax rate of 19%, adjusted for a number of factors discussed below.

UK tax
The UK sub-group is tax paying in this period as a result of the GSK litigation income recognised which has only been partially offset by corporation tax losses brought forward. The UK sub-group will continue to benefit from the R&D expenditure credit (RDEC). The RDEC is subject to UK corporation tax and therefore is included within the Condensed consolidated income statement and presented as other operating income. In addition, certain UK companies are able to participate in the UK Patent Box regime.

Swiss tax
The Group continues to be tax paying in Switzerland. The effective date of the Swiss tax reform was 1 January 2020. This will increase the ETR for the Swiss group to approximately 13.45% in 2025 after the transitional period has concluded. During this time the Group will mitigate this increase through applying for temporary transitional reliefs which are anticipated to reduce the Swiss group ETR to approximately 10.43%.

Effective tax rate (ETR)
The receipt of significant income in the UK relating to the GSK litigation has resulted in significant profits in the UK in 2020. These profits are sheltered significantly by brought forward corporation tax losses previously not recognised for deferred tax. In Switzerland (2019: Switzerland), the Group is profitable and subject to tax at the local rates (Swiss ETR 10.19% charge (2019: 9.5% charge)). In 2020, the US corporate rate applied was 21% (2019: 21%). The uncertain tax position disclosed has decreased by £2.6m in the year due to the expiry of the statute of limitation in respect to this element of the uncertain tax position.

These charges are offset slightly by a deferred tax credit relating to deferred tax assets recognised in the period in respect of brought forward corporation tax losses in the UK that may be used in future accounting periods and to deferred tax liabilities on intangible assets. Together these attributes contribute to a Group's ETR charge of 6.8% (2019: 15.3% credit).

	2020 £m	2019 £m
Profit/(loss) before tax	**131.3**	(26.1)
Profit/(loss) before tax calculated at the UK corporation tax of 19% (2019: 19%)	**(24.9)**	5.0
Tax effects of:		
Expenses not deductible for tax purposes	**(1.7)**	(0.1)
Unrecognised deferred tax*	**-**	(5.6)
Prior year deferred tax	**-**	0.1
Tax losses utilised, not previously recognised for deferred tax	**12.1**	-
Recognition of deferred tax on prior year losses	**1.4**	0.2
Differences arising from prior period computations	**3.0**	0.3
Differences in effective overseas tax rates	**1.2**	3.0
Impact of deferred tax rate change	**-**	1.1
Total tax (charge)/credit for the year	**(8.9)**	4.0

* Unrecognised deferred tax mainly relates to losses incurred for which no deferred tax assets have been recognised as future recovery, or timing of recovery, cannot be supported.

The ETR (excluding the future release of the uncertain tax position) is expected to be in the range of a 10 - 15% charge for 2021 as a result of taxable Swiss and UK profits being offset by significant credits in respect of deferred tax liabilities on acquired intangibles.

The March 2020 Budget announced that the previously enacted UK corporation tax rate reduction to 17% would no longer come into effect and that the 19% UK corporation tax rate would be maintained. The March 2021 Budget announced the intention to increase the rate of UK corporation tax to 25% from April 2023 from the current corporation tax rate of 19%. The corporation tax rate change has not been substantively enacted at the reporting date and is not expected to materially impact the Condensed consolidated financial statements.

8. Earnings per share

	2020	2019
Basic earnings/(loss) per share	20.5p	(3.4p)

Diluted earnings/(loss) per share	20.1p	(3.4p)

Basic earnings per share has been calculated by dividing the profit attributable to shareholders by the weighted average number of shares in issue during the period after deducting shares held by the ESOP Trusts.

Diluted earnings per share has been calculated after adjusting the weighted average number of shares used in the basic calculation to assume the conversion of all potentially dilutive shares. These potentially dilutive shares are options granted under employee share plans, where the exercise price is below the market price of Vectura. For the purposes of diluted earnings per share it is assumed that any performance conditions attached to the schemes have been met at the balance sheet date.

The numbers of shares used in calculating basic and diluted earnings per share are presented in the below table:

	2020	2019
Profit/(loss) after tax (£m)	**122.4**	(22.1)
Weighted average number of shares in issue (m) - basic	**596.6**	651.9
Dilution for share options and awards (m)	**11.8**	n/a
Diluted (m)	**608.4**	651.9

9. Goodwill

	2020	2019
At the beginning of the year	**162.2**	163.4
Foreign exchange	**3.0**	(1.2)
Impairment charge	**(15.6)**	-
At the end of the year	**149.6**	162.2
Allocation to cash-generating units (CGUs)		
UK and Germany	**100.1**	99.8
Switzerland	**49.5**	62.4
At the end of the year	**149.6**	162.2

Goodwill has been allocated to cash-generating units (CGUs), being the Group's geographic locations for operations and intellectual property. The recoverable amount of each CGU is assessed using a fair value less costs of disposal model. This is calculated using a discounted cash flow approach, with a post-tax discount rate applied to the projected post-tax cash flows and terminal value.

The Group's weighted average cost of capital (WACC) of 8.75% (2019: 10.25%) is used in the calculation to discount the cash flows to reflect the impact of risks relevant to the Group and the time value of money. The Group rate is then adjusted for risks specific to each CGU.

Cash flows relating to the Swiss Group of CGUs are discounted at 8% (2019: 8%). The discount rate used for UK and Germany CGU cash flows is 9.5% (2019: 12%). Whilst no specific COVID-19 adjustment is made to the discount rates, market volatility caused by the COVID-19 outbreak is incorporated into risk-free rates, equity market returns and economic expectations.

The Group uses the budget and the five-year Long Range Plan (LRP) as approved by the Board as the basis for the discounted cash flow models. These cash flows are expanded upon in order to model the future multi-period earnings of the CGU and to evaluate its fair value less cost of disposal. Details relating to the discounted cash flow models used in the impairment tests of the cash-generating units are as follows:

Valuation basis	Fair value less cost of disposal
Key assumptions	Time to develop and launch pipeline products Net sales forecasts and related royalty inflows Gross profit margins on product supply Future cash-flows related to Oral operations Level of R&D expenditure in near term to support the growth of the new business Terminal growth rate Discount rate COVID-19 impact
Determination of assumptions	Forecast development plans Net sales forecasts are determined from partner forecasts and external market data Milestone amounts and royalty rates reflect past experience and forecast sales from market data Margins reflect past experience, adjusted for expected future changes Discount rates based on Group WACC, adjusted for country-specific risks Taxation rates based on appropriate rates for each region
Projected cash flow years	Various; based on patent expiry dates and thereafter the projected period until reaching steady state

Terminal growth rate	UK and Germany: nil (2019: nil) Switzerland: nil (2019: decline of 10.0%) The variation in the decline rate assumptions of the Swiss Group of CGU's as compared to the prior year is explained by the application of a more granular approach to decline rates in cash flows in future periods than in the previous year. In light of the updated methodology, removing a decline rate from the terminal values is appropriate as the terminal value is now applied at a later point, being when a steady state is assumed to be reached
Discount rate	UK and Germany: 9.5% (2019:12%) Switzerland: 8% (2019: 8%)

The decrease of £12.6m in goodwill to £149.6m at 31 December 2020 is due to a £15.6m impairment of the goodwill allocated to Switzerland. The impairment charge recognised in respect of the Swiss Group of CGUs is the result of an assumed restructuring of operations, including the transition of R&D activities to the UK. As a consequence, future revenue expectations for the Swiss Group of CGUs have reduced materially, with a corresponding increase in the future revenue expectations for the UK and Germany CGU.

Given that the Swiss Group of CGUs has no headroom, as the goodwill allocated to it has been impaired, any reasonable adverse change in key assumptions or cash flow forecast items will likely result in an increase of the impairment charge. The Group has carried out a range of sensitivity analyses on key assumptions in the impairment model that are subject to areas of significant judgement and estimate. The Group views the discount rate and terminal value factors as relevant to the impairment testing model because the valuation methodology accepts a range of inputs to these factors. Additionally, the Group regards margins as a key quantitative input and recognises that a reasonably possible decline in margins can have a significant impact on the fair value. If the Group applied a 10% decline rate to terminal value calculations an impairment charge of £23.5m would arise. A 2% reduction in margins would lead to a £21.7m impairment charge, while a 0.5% increase to the discount rate would give rise to an impairment charge of £23.9m. The group view these sensitivities as reasonably possible. They have been stated individually and assume all other factors remain equal.

The Group's UK and Germany CGU has significant headroom. The Group conducted a sensitivity analysis on the impairment test of the UK and Germany CGU's carrying value. The UK and Germany CGU valuation indicates significant headroom such that a plausible change in any key assumption is unlikely to result in an impairment of the related goodwill. The forecast cash flows would need to reduce in excess of 60% (2019: 50%) before impairment arises. This is primarily because this CGU comprises a significant number of internally generated intangible assets.

The potential impact of the COVID-19 outbreak was also considered, but management assessed that no further downside scenarios are appropriate.

10. Intangible assets

	Inhaled in-market assets £m	Smart nebuliser technology £m	Non-inhaled in-market assets £m	Other £m	Total £m
Cost					
At 1 January 2019	324.9	139.9	81.0	17.8	563.6
Additions	-	-	-	1.3	1.3
Foreign exchange	(5.8)	(7.5)	(2.1)	(0.3)	(15.7)
At 31 December 2019	319.1	132.4	78.9	18.8	549.2
Additions	-	-	-	1.0	1.0
Disposals	-	-	-	(0.1)	(0.1)
Foreign exchange	19.1	7.5	1.1	1.1	28.8
At 31 December 2020	**338.2**	**139.9**	**80.0**	**20.8**	**578.9**
Amortisation					
At 1 January 2019	(127.8)	(129.4)	(69.8)	(16.7)	(343.7)
Amortisation	(40.1)	(2.2)	(2.7)	(0.4)	(45.4)
Impairment	-	(8.2)	-	-	(8.2)
Foreign exchange	2.5	7.4	1.8	0.5	12.2
At 31 December 2019	(165.4)	(132.4)	(70.7)	(16.6)	(385.1)
Amortisation	(20.9)	-	(2.9)	(0.9)	(24.7)
Disposals	-	-	-	0.1	0.1
Foreign exchange	(10.1)	(7.5)	(0.6)	(0.9)	(19.1)
At 31 December 2020	**(196.4)**	**(139.9)**	**(74.2)**	**(18.3)**	**(428.8)**
Net book value					
At 31 December 2020	**141.8**	**-**	**5.8**	**2.5**	**150.1**
At 31 December 2019	153.7	-	8.2	2.2	164.1

Non-inhaled in-market assets include several near end of life licences, patents, know-how agreements and marketing rights recognised on the Skyepharma merger, which are in use and from which the Group continues to receive royalties.

Impairment tests on intangible assets are undertaken if events occur which call into question the carrying values of the assets. The assumptions relating to future cash flows, estimated useful lives and discount rates are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these impairment tests to change with a consequent adverse effect on the future results of the Group.

For the purposes of impairment testing, a value in use approach is applied. The *flutiform*® intangible asset does not generate independent cash inflows and therefore it has been tested for impairment with the ancillary assets required to generate cash inflows. Details relating to the value in use calculations used for the impairment testing are as follows:

Intangible type	Inhaled in-market assets
Specific asset	*flutiform*®
Key assumptions	- Product supply volume forecast - Margin (depending on pricing assumptions, raw material costs and cost of manufacture) - Discount rate
Determination of key assumptions	- Internal forecasts with input from partners and external market data - Margins reflect past experience, adjusted for expected changes in pricing, raw material costs and cost of manufacture - Discount rate based on Group WACC, adjusted for country-specific risks
Discount rate	8% (2019: 8%)

No impairment charge is required in 2020. A sensitivity analysis has been performed as follows: (1) an increase in the discount rate by 2.5% would result in impairment; (2) a decrease in product supply volumes by more than 6% gives rise to an impairment charge; and (3) a 2% annual reduction in margin does not result in an impairment of the intangible asset.

The potential impact of the COVID-19 outbreak to *flutiform*® demand was also considered. No reduction in demand has been observed and as such no further downside scenarios were considered.

The risk of future impairment of the *flutiform*® intangible is mitigated by further amortisation of the asset. The Group's intangibles are amortised on a straight-line basis using the following useful economic lives (UELs):

	Acquisition date	**Useful economic life from acquisition date**
Inhaled in-market assets	June 2016	10.5 years
Non-inhaled in-market assets	June 2016	6.5 years

The Group's sensitivity analysis shows that, had UELs been extended for 2020 by one year, then the amortisation charge would be £2.9m lower. Had UELs been reduced for 2020 by one year, then the amortisation charge would be £3.9m higher.

On 9 August 2019, certain Japanese patent extensions were granted. As a result, the UEL of the *flutiform*® inhaled in-market asset was extended by an additional four and a half years.

11. Ordinary share capital

Allotted, called up and fully paid	**£m**	**Number of shares**
Ordinary shares of 0.0271p, each at 1 January 2020	**0.2**	**611,496,773**
Issued to satisfy Vectura employee share plans		**1,429,503**
Share buyback programmes - cancellations		**(16,966,795)**
Ordinary shares of 0.0271p, each at 31 December 2020	**0.2**	**595,959,481**

Redeemable preference shares of 34,000 at £1 par value have no associated voting, dividend or coupon rights but are eligible to be repaid before any distribution to shareholders; the shares can be repaid by the Group at any time.

In October 2019, the Group announced that the Board had approved a share buyback programme to return up to £10m to shareholders, which concluded in March 2020. A second share buyback was announced in May 2020 for a further £10m which concluded in September 2020. In total during the year, £16.4m of capital was returned to shareholders at a weighted average price of 97.0p per share. Directly attributable costs of £0.2m have been expensed to equity.

The Group has not made a distribution to shareholders in the period (2019: special dividend of c.£40m).

During the year, the Group allotted 1,429,503 (2019: 1,512,754) ordinary shares related to employee share option awards.

12. Cash flow information

Cash generated from operating activities

	2020 £m	2019 £m
Cash flows from operating activities		
Profit/(loss) after taxation	**122.4**	(22.1)
Adjustments		
Net tax charge/(credit)	**8.9**	(4.0)
Amortisation and intangible asset impairment	**40.3**	53.6
Depreciation and fixed asset impairment	**9.1**	10.6
Net finance income	**1.5**	(0.9)
Share-based payments (including those in exceptional items)	**4.3**	3.2
Decrease/(increase) in inventories	**0.7**	(1.3)
Decrease/(increase) in trade and other receivables	**(163.4)**	(6.0)
Increase/(decrease) in trade and other payables	**10.9**	(13.9)
Reclassification of gain on sale of PPE	**(1.4)**	-
Non-cash gain on receipt of PPE	**(1.0)**	-

Other non-cash items	**(0.8)**	0.1
Total adjustments	**(90.9)**	41.4
Cash generated from operating activities	**31.5**	19.3

Analysis of movement in financial liabilities

		2020		2019
	£m	**£m**	£m	£m
At the beginning of the period		**7.6**		4.0
Adoption of IFRS 16		**-**		4.7
Repayments of property mortgage	**(4.3)**		(0.1)	
Net repayment of obligations under leases	**(1.1)**		(1.1)	
Total changes from financing cash flows		**(5.4)**		(1.2)
New lease liabilities		**1.5**		-
Interest expense		**0.1**		0.2
Foreign exchange movements		**0.2**		(0.1)
At the end of the period		**4.0**		7.6

Financial liabilities as at 31 December 2020 relate to lease liabilities recognised under IFRS 16. As at 31 December 2019, the Group also had recognised financial liabilities related to Swiss property mortgage secured on the Swiss R&D facility that was fully repaid during the year.

Cash flows from investing activities
In 2020, the Group has received an amount of £8.0m (2019: £nil) for the sale of a long-term asset to a partner. This amount was previously recognised on the balance sheet as a receivable.

13. Voluntary change in accounting policy

Reclassification of expenses from research and development to general and administrative
In the context of the new Contract Development and Manufacturing Organisation (CDMO) strategy, management has reviewed the presentation of the income statement and considered whether it continues to provide relevant and reliable information to stakeholders. It was concluded that there should be an update to how certain expenses were classified and therefore the Group is voluntarily changing its accounting policy for expense classifications for Research and Development (R&D) expenses and General and Administrative (G&A) expenses (previously referred to as Corporate and administrative expenses).

Under the prior year accounting policy, expenses which were considered to be dedicated to progressing or supporting R&D activities were reported as R&D expenses. Under this definition support costs, including for example those Finance, HR or IT costs that were considered dedicated to R&D, were reported as R&D expenses. This approach was consistent with the primary activity of the Group, which was the research and development of proprietary therapies or the co-development of pharmaceutical products, where the risks, costs and rewards of development were materially shared with partners. With the change in strategy, R&D is no longer the primary activity of the Group and therefore the expense classifications should more accurately reflect the change towards a CDMO model.

These changes are intended to improve the relevance of the Group's financial statements in the context of the change in strategy, enabling users of the accounts to better interpret performance versus CDMO peers. The definitions of key metrics, for example R&D as a proportion of revenue and G&A as a proportion of revenue, are more closely aligned to CDMO peer definitions and will therefore reflect more accurately the activities of the Group and enable more relevant peer comparison.

This change in accounting policy has been accounted for retrospectively and the comparative information has been restated. The restatement has no overall impact on gross profit, operating profit or adjusted EBITDA. The effect of the change is shown in the table below for 2019:

	2019 As reported	**Change in accounting policy**	**2019 Restated**
	£m	**£m**	**£m**
Revenue	178.3	**-**	**178.3**
Cost of sales	(83.0)	**-**	**(83.0)**
Gross profit	95.3	**-**	**95.3**
Selling and marketing expenses	(3.0)		**(3.0)**
Research and development expenses	(50.2)	13.6	**(36.6)**
General and administrative expenses	(13.7)	(13.6)	**(27.3)**
Other operating income	1.7		**1.7**
Operating profit before exceptional items, amortisation and impairment	30.1	**-**	**30.1**
Amortisation and impairment	(53.6)		**(53.6)**
Exceptional items	(3.5)		**(3.5)**
Operating loss	(27.0)	**-**	**(27.0)**

The new accounting policies are as follows:

Research and development expenses
R&D comprises activities performed in relation to the Group's own intellectual property (IP) and technology platforms,

or as part of a co-development programme where the risks, costs and rewards are materially shared with a third party. The expenses include internal employee costs, indirectly attributable labour costs and external costs, for example procurement and facilities allocations, depreciation of R&D facilities, including R&D sites, and applicable third-party service costs.

These expenses are recognised on an accruals basis in the year in which they are incurred.

General and administrative expenses (previously corporate and administrative)
General and administrative expenses represent shared costs incurred in managing the activities of the Group; these include indirect overhead costs, administrative support costs for the Group including employee costs and external costs of HR, IT, Legal (including the registration and maintenance of intellectual property), and Finance, Head Office costs, and associated depreciation and utility costs. This category also includes share-based payment charges in accordance with IFRS 2.

These expenses are recognised on an accruals basis in the period in which they are incurred.

14. Related-party transactions

During the year, the Group has signed two agreements with Aerami Therapeutics Inc ("Aerami"). Anne Whittaker, a former Non-Executive Director of Vectura, is the CEO of Aerami. The Director's concluded that this was not a related party transaction in accordance with IAS 24 paragraph 11, which specifies that two entities are not considered to be related parties simply because they have a Director in common. Anne resigned as a Non-Executive Director of Vectura in September 2020.

Remuneration of key management personnel
The remuneration of the Directors, who are the key management personnel of the Group, was £2.5m and is set out below:

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Short-term employee benefits	**0.8**	1.4
Annual incentive plan	**0.9**	0.7
Non-Executive Directors' fees	**0.5**	0.6
Post-employment benefits	**0.1**	0.1
Other	**0.2**	0.2
Total remuneration of key management personnel	**2.5**	3.0

Please refer to the Remuneration report for the remuneration of each Director. The Remuneration report only includes Directors who held office in 2020.

Risks and uncertainties
During the year, the Directors carried out a robust assessment of the principal risks and uncertainties facing the Group, including those that would threaten its business model, future performance, solvency, liquidity and viability.

This year we have seen risk scores for our principal risks increase relative to 2019. This primarily reflects the fact that the business is in a transitionary phase as it pivots towards the new CDMO business model, as well as the impact of a number of changes in the macro environment, most notably the COVID-19 pandemic and the increased frequency of cyber-attacks.

A new principal risk, "COVID-19", has been added to the Group's risk register since the Annual Report and Accounts 2019, reflecting the current pandemic situation. Whilst to date there have been no material adverse impacts of COVID-19 on the Group, the situation is constantly evolving and will now be monitored as a principal risk.

Following the UK exiting the EU on 31 December 2020, it is no longer considered necessary to have specific Brexit-related risks as they have either materialised, or the remaining risks are considered to be adequately managed under other existing principal risks, for example "Supply chain and product quality". The previous principal risk, "Failure of partners to deliver on their obligations" has been disaggregated into "Co-development partner risk" and "*flutiform*® partner risk", as it more appropriately reflects how these risks are managed within the Group.

Following the FDA approval for generic Advair® in December 2020, the principal risk "Failure to launch VR315 in a competitive timeframe" has been removed from the risk register. Reflecting the change in the strategic emphasis of the Group, the risk register has been further simplified with the consolidation of the principal risk "Failure or delay in achieving development milestones required to advance the generic product pipeline" into "Co-development partner risk".

The Audit Committee and Board also considered emerging risks relating to climate change as part of their annual risk reviews. Rather than climate change being a single principal risk for the Group, climate change has the potential to impact on a range of business processes in different ways, requiring a varied set of mitigations. To reflect this, climate change risks are therefore presented and managed under a number of principal risk headings in the risk register.

The principal Group risks are summarised as follows:

- Damage to *flutiform*® performance or long-term value due to actions or omissions or licensee partners
- Failure to be able to offer robust, differentiated technologies, which meet present and future customer needs.
- Failure of co-development partners to deliver on their obligations
- Inability to deliver inhaled CDMO market share, revenue growth and profitability expectations.
- Failure to generate sufficient financial returns from CDMO contracts, to lose new future or repeat business or to suffer reputational damage.
- Failure to protect critical and sensitive data and systems
- Supply chain disruption and product quality
- Failure to attract or retain talent/key personnel
- Failure to protect intellectual property
- Disruption due to COVID-19

- Changes in the regulatory, operating or pricing environment

A summary of all the Group's principal risks which are monitored by the Board will be included in the Annual Report for the year ended 31 December 2020.

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[1] 'Research and development' and 'General and administrative' expenses for 2019 have been restated to reflect a voluntary change in accounting policy which has been implemented to provide a better understanding of the Group's performance and to provide consistency with CDMO peer group companies. For details on the nature of the accounting policy changes that have been implemented, refer to note 13 to the Condensed consolidated financial statements.

[2] Adjusted EBITDA is a non-IFRS measure defined as operating profit before exceptional items, amortisation and impairment, adjusted by adding back charges for depreciation and share-based payments. A reconciliation of operating loss to adjusted EBITDA is presented in note 5 to the Condensed consolidated financial statements.

[3] Percentage movement considered "not meaningful" (n/m) as metric has moved from a loss in the prior period to a profit in current period.

[4] Free cash flow is a non-IFRS measure defined as net cash flow from operating and investing activities, less repayment of lease liabilities.

[5] Results Healthcare - November 2020 Whitepaper.

[6] Specialist respiratory diseases include Cystic Fibrosis, Idiopathic Pulmonary Fibrosis and Pulmonary Arterial Hypertension.

[7] IQVIA SMART MIDAS constant currency sales. Royalties payable by partners to the Group are based on agreed contractual definitions of net sales, which differ from IQVIA reported sales and may include other adjustments or deductions.

[8] IQVIA SMART MIDAS volume data. European ICS/LABA data provided only for the specific territories in which *flutiform*® is sold, not all European territories. Data for panels which were not complete by 12 February 2021 have been mirrored based on Q3 2020.

[9] Seebri®, Ultibro®, Enerzair® and Breezhaler® are registered trademarks of Novartis AG

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