

A positive approach brings positive results

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It has been another strong year for Vectura from both a financial and product perspective. In the five years since Vectura listed on the Stock Exchange, we have seen a seven-fold increase in our revenues to £31.2m, which has contributed towards our healthy cash balance of £74m at 31 March 2009.

Over the course of the next twelve months we expect to see significant pipeline progress as our key programmes advance into registration trials. With our strong cash position, credible partners developing several products, and a diversified product development strategy, we remain confident of Vectura's ability to generate long-term shareholder value. ”

Dr Chris Blackwell Chief Executive of Vectura





Revenues increased by 24% to £31.2m (2007/08: £25.2m)

Gross profit increased by 31% to £27.3m (2007/08: £20.8m)

Overview

In the current economic conditions, it is vital to maintain a strong financial position, as Vectura has, ending the financial year with £74m of cash and cash equivalents. Revenues increased by 24% to £31.2m (2007/08: £25.2m), gross profit increased 31% to £27.3m (2007/08: £20.8m) and, with a research and development investment of £32.3m (2007/08: £29.7m) we recorded a net cash outflow of £4.8m.

Vectura's strength lies in its specialism; the knowledge, experience and technical capabilities to develop inhaled pharmaceutical products. We have refined our focus to concentrate our efforts on developing our own range of inhaled products to treat lung diseases. Our late-stage pipeline is focused on the respiratory market, particularly the asthma and COPD segments, with an increasing emphasis on combination products. These markets are large, and growing, allowing several major products to generate very significant revenues.

Jack Cashman
Chairman



Our late-stage projects have continued to progress over the course of the year with NVA237 due to enter a Phase III trial in COPD patients in the second quarter of 2009. We believe that NVA237 will be the second once-daily long-acting muscarinic antagonist (LAMA) on the market, and that QVA149 will be the first once-daily LAMA/LABA (long-acting beta-agonist) combination available to patients. Simplicity and ease-of-use improves compliance, which enhances the benefits patients get from their medicines.



Chris Blackwell
Chief Executive

Novartis plans to present data from QVA149 during 2009 and expects to start the Phase III trial in the fourth quarter of 2009. NDA submissions for both NVA237 and QVA149 are expected to be filed by Novartis in 2011.

Chairman and Chief Executive's report (continued)

Our facilities

Vectura's headquarters and development operations are in Chippenham, Wiltshire, with further laboratories in Nottingham and a device development facility in Cambridge. At a time when other companies are closing down facilities, we were honoured in April to have the Economic and Business Minister responsible for bioscience and pharmaceuticals, Ian Pearson MP, and Dr Clive Dix, Chairman of the BioIndustry Association, officially open our new 13,000 sq ft, state-of-the-art facility in Chippenham. It is one of only a handful of facilities globally that has been specifically designed to manufacture inhaled products, enabling us to accelerate development projects. The facility will provide Vectura with additional space and the ability to produce later-stage clinical trial supplies, which will result in a more efficient business.

Our people

Our employees remain crucial to the success of Vectura and it is their skill and expertise that have enabled us to achieve our progress to date. We are committed to the development of a motivated and professional workforce in order to build a business that is constantly looking to innovate and evolve. On behalf of the Board, we thank all our staff for their hard work and continued support and commitment.

Our generic combination asthma/COPD products VR315 and VR632 are also progressing well. In April 2009, we received a €2.5m (£2.2m) European milestone payment from Sandoz, the generics division of Novartis, in relation to VR315. Increasing pressure on the regulatory authorities, particularly in the US, to approve cheaper generic drugs means that both programmes have significant revenue potential for Vectura. This is particularly true of VR315, for which Vectura has a profit-share agreement in the US market. Sandoz has made a significant investment in these programmes and has invested over \$50m in manufacturing facilities for VR315 and VR632.

The €7.5m (£6.2m) milestone receipt from Boehringer Ingelheim in November 2008 endorses the strength of our technological capabilities, as Boehringer Ingelheim moves closer to development of its own proprietary products in the Vectura dry powder inhaler (DPI) device we have developed with them. Boehringer Ingelheim is one of the world's leading companies developing therapies to treat asthma and COPD, for which the majority of treatments are delivered by inhalation, with Spiriva® being the most prescribed COPD medicine worldwide. Milestones and equity payments received from Boehringer Ingelheim since April 2006 now total €37.5m (£31.2m) and additional milestones will be payable to Vectura for each product developed in the inhaler, as well as royalties on global sales.



In addition to the asthma/COPD market, there are a significant number of other areas where we expect local delivery of drug to the lung to be of benefit. Vectura has an active development group looking at new opportunities. We initiated a Phase II proof-of-concept study with VR496 in CF during the year and expect to be able to report the results of this trial in early 2010. We aim to advance this programme through clinical development towards commercialisation, allowing us the opportunity to retain a greater proportion of the value; something we increasingly seek to achieve in all of our licensing agreements and collaborations. It is our belief that the mucolytic and anti-inflammatory properties we expect to see with VR496 will also provide benefit to patients with airway diseases such as asthma and COPD. If the current study demonstrates these properties, we will look to partner VR496 for these significant markets while developing the CF indication ourselves.

Licensing activities for Vectura's non-respiratory assets continue. While still planning to out-license our Parkinson's disease programme, VR040, we have initiated a Phase IIb "at-home" study, which we expect to report early in 2010.



Jack Cashman
Chairman

18 May 2009



Chris Blackwell
Chief Executive

Outlook

Vectura has a broad and innovative development portfolio which combines mid and late-stage pharmaceutical products with earlier-stage opportunities addressing fast-growing market sectors.

Vectura benefits from a steady stream of revenues from products marketed by Baxter and a flexible development model. We are focused on our financial goal of becoming a sustainably cash-generative business following the receipt of the substantial milestone and royalty revenues from our partnered late-stage respiratory programmes. In the short-term we will continue with careful cash management and increase investment in our own proprietary development activities using both current revenue streams and our cash resources.

It is an important time in Vectura's development, with Novartis advancing both NVA237 and QVA149 into Phase III development in the coming months, and further good progress expected with our generic asthma/COPD programmes partnered with Sandoz.

In March 2009 we joined the FTSE 250 index of the London Stock Exchange, which we believe has helped to raise our profile within the investment community as well as increase our share trading volumes. We have a healthy pipeline of products in development and a number of innovative opportunities for future development and plan to continue to drive these forward diligently in order to grow shareholder value as we move towards becoming a speciality pharmaceutical company.



1 2 3

- 1 Ian Pearson MP opening Vectura's new state-of-the-art facility
- 2 Vectura's new facility enables us to accelerate development projects
- 3 Vectura's skilled staff have enabled us to achieve our progress to date