CIRCASSIA PHARMACEUTICALS PLC
PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

- Positioned to deliver –
- Cat allergy phase III study on track to report Q2 2016 -
- Acquisitions validated; strong NIOX® sales growth and lead asthma product approved -
- Fully funded; successful £275 million fundraising completed June 2015 -

Oxford, UK – 11 March 2016: Circassia Pharmaceuticals plc ("Circassia" or "the Company") (LSE: CIR), a specialty biopharmaceutical company focused on allergy and respiratory medicine, today announces its preliminary results for the year ended 31 December 2015.

Commenting on the results, Steve Harris, Circassia's Chief Executive, said: *"Circassia is in a period of exciting transformation as we accelerate our strategy to become a self-sustaining specialty biopharmaceutical company. Our innovative allergy treatments continue to make good progress, and we remain on track to deliver our phase III results in the coming months. During the year, we successfully completed two strategic acquisitions, which give us established specialty commercial infrastructure targeting the key customers for our next-generation allergy immunotherapies, while also significantly broadening our pipeline. Importantly, these acquisitions have been validated by the significant sales growth of our acquired NIOX® products and the approval of our lead asthma treatment.*

In the coming year, we intend to build on this progress, expanding our commercial presence in preparation for the launch of our first allergy treatment, while further increasing sales of our approved products. We also plan to deliver on our wider pipeline, including moving our grass allergy treatment into a registration study. As a result, 2016 will be an important year for Circassia as we move towards our goal of building a leading specialty biopharmaceutical business."

OPERATIONAL HIGHLIGHTS

Allergy clinical programmes progressing

- Cat allergy phase III pivotal study (CATALYST) completed last patient dosing; results expected Q2 2016; pre-BLA meeting scheduled with FDA
- Cat allergy two-to-five year follow-up (CP007A) continuing enrolment; 424 subjects enrolled to date
- Cat allergy paediatric safety study (CP009) completed
- Grass allergy registration study on track to start H1 2016
- House dust mite allergy phase IIb field study (TH005) completed enrolment (n=715 subjects)
- Ragweed allergy phase IIb follow-up (TR006A) completed; treatment effect demonstrated for all regimens with 21% improvement in change in combined score across season for highest dose
- Ragweed allergy phase IIb dose-ranging study on track to begin recruitment in 2016 season
- Birch allergy first-in-human clinical study fully recruited and dosing complete; data expected Q3 2016

Asthma management products achieved strong growth

- NIOX® sales increased 32% to £10.3 million since acquisition (same period 2014 at CER: £7.8 million)[1]
- NIOX VERO® launched in China in August
- Study initiated to extend US indication to children aged four to six years old

Respiratory programmes advancing with lead product approved

- Lead asthma product targeting substitution of GSK's Flixotide® pMDI approved in UK under European Decentralised Procedure
- Seretide® pMDI substitute targeting filing 2017
- Triple combination first-in-human clinical study on track to report Q2 2016

Commercialisation on track with commercial organisation increased to over 100

- Direct specialty sales established in US and Germany; broad distribution network in additional territories
- Significant US sales team expansion; increased by 65% to 48 currently with further doubling planned by Q1 2017
- Expansion of European direct sales presence into key European markets underway
- Regional Medical Affairs team established in US and key European markets
- Market access, supply chain, marketing and sales operations teams in place
- New global NIOX® promotional campaign launched
- Cat allergy market research completed; proposed brand and scientific names finalised

FINANCIAL HIGHLIGHTS

- Placing and Open Offer successfully completed in June raising £275.0 million (gross) to fund strategic acquisitions
- Robust revenue growth since acquisitions to £10.8 million (2014: £nil)
- Research and development investment increased to £46.8 million (2014: £38.6 million)
- Loss for the year £50.0 million (2014: £35.1 million)
- Funded to deliver portfolio; £203.8 million cash[2] at 31 December 2015 (31 December 2014: £186.6 million)

[1]Acquisition completed 18 June; revenues recorded by Circassia 19 June – 31 December
[2]Cash, cash equivalents and short-term deposits; £30 million paid to Prosonix ex-shareholders January 2016 following lead product approval

- Ends -

Analyst meeting and webcast
An analyst meeting will take place today at 9.30am at FTI Consulting, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD. A webcast of the event will be available in the Media section of the Company's website at www.circassia.com.

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About Circassia
Circassia is a world-class specialty biopharmaceutical business focused on allergy and respiratory disease. The Company has an established commercial infrastructure, marketed products, a pipeline of near-term therapies and a portfolio of next generation treatments targeting multi-billion dollar market opportunities. Circassia sells its novel, market-leading products for asthma management directly to allergy / asthma specialists in the United States and Germany. Its products are also promoted in a number of other countries by the Company's international network of partners.

Circassia's broad-based development pipeline includes a range of treatments for allergy and respiratory disease. Circassia's most advanced next-generation immunotherapy is currently in phase III testing for cat allergy, and is the first in a new class of treatments, Synthetic Peptide Immuno-Regulatory Epitopes (SPIREs). Three other SPIREs, targeting house dust mite, ragweed and grass allergies, have completed clinical proof-of-concept phase IIb studies. Circassia's lead asthma treatment, which targets substitution of GSK's Flixotide® pMDI, is approved in the UK, and the Company is developing therapies targeting direct substitution of Seretide® pMDI and Serevent® pMDI. The Company is also developing a number of novel treatments, including a fixed dose 'triple' combination containing an inhaled corticosteroid, long-acting beta agonist and long-acting muscarinic antagonist. For more information on Circassia please visit www.circassia.com.

Forward-looking statements
This press release contains certain projections and other forward-looking statements with respect to the financial condition, results of operations, businesses and prospects of Circassia. The use of terms such as "may", "will", "should", "expect", "anticipate", "project", "estimate", "intend", "continue", "target" or "believe" and similar expressions (or the negatives thereof) are generally intended to identify forward-looking statements. These statements are based on current expectations and involve risk and uncertainty because they relate to events and depend upon circumstances that may or may not occur in the future. There are a number of

factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Any of the assumptions underlying these forward-looking statements could prove inaccurate or incorrect and therefore any results contemplated in the forward-looking statements may not actually be achieved. Nothing contained in this press release should be construed as a profit forecast or profit estimate. Investors or other recipients are cautioned not to place undue reliance on any forward-looking statements contained herein. Circassia undertakes no obligation to update or revise (publicly or otherwise) any forward-looking statement, whether as a result of new information, future events or other circumstances.

CHAIRMAN'S STATEMENT

The last year has been a period of significant progress for Circassia. We advanced our pipeline of innovative allergy therapies and the successful acquisitions of Aerocrine and Prosonix accelerated our strategy to commercialise these products independently in key markets, while also building a broad and balanced pipeline of specialty treatments. With a successful £275 million fundraising completed to support the acquisitions, the Company remains well funded to deliver across the newly-expanded business.

Three franchises; one common infrastructure

Our strategy to transform Circassia into a self-sustaining leader in the specialty pharmaceutical sector took a significant leap forward in 2015. The business now has three separate specialty franchises based on three innovative technologies, which come together under a single therapeutic focus and leverage a common commercial 'backbone' and out-sourced business model. While the Company remains centred around its revolutionary allergy products, it is also building significant additional value from its broader asthma and respiratory portfolio that can leverage its newly-established commercial infrastructure.

These acquisitions represent an important strategic milestone for Circassia. Crucially, they 'leapfrog' the requirement to build a commercial presence from scratch prior to our first product approval, thereby avoiding the major challenges associated with recruiting and retaining talented sales teams before they have products to sell and having to commit resources to major infrastructure ramp up before a revenue stream is established.

The acquisition of Aerocrine brings commercial operations in the world's two largest allergy markets, the US and Germany, and a network of distribution channels in other territories that we can bring in-house to expand our capabilities. Most importantly, the field forces already target our future core customers: the allergy specialists who will be responsible for the success of our immunotherapy portfolio. This established infrastructure provides an ideal foundation for our ambitious growth plans, while also providing an immediate and growing revenue stream from sales of its market-leading NIOX® products.

Circassia's commercial progress was complemented by the concurrent acquisition of Prosonix, which broadens and balances our pipeline. Its products fall into the same respiratory focus as Aerocrine, with a number of near-term asthma treatments. These are complemented by longer-term novel formulations targeting chronic obstructive pulmonary disease (COPD). These products can leverage our common commercial infrastructure, with late-stage asthma substitute treatments not requiring significant promotion but using our supply chain, reimbursement, compliance and analytic capabilities, while the success of the longer-term novel formulations can be greatly enhanced by directly targeting key opinion leaders and specialists.

Building momentum

Since completing these acquisitions in June 2015, we have made good progress advancing all three franchises of our business. In our immunotherapy franchise we are on track to complete our cat allergy pivotal trial in the near future and to initiate a registration study in grass allergy. Our commercial progress is underlined by solid sales growth in our acquired NIOX® franchise, while our most advanced acquired asthma treatment has now been approved by the UK regulator. Overall, we have continued the momentum created by our acquisitions, and have ambitious plans to build on this in the coming year.

Positive outlook

Circassia's future looks highly encouraging as our ambition to bring our portfolio to market is increasingly matched by our capability to do so. In the near-term, we look forward to completing our cat allergy phase III study, while expanding our commercialisation capabilities in preparation for its launch. With the allergy sector

continuing to attract attention, and current therapies that target the underlying disease remaining highly inadequate, we are well placed to exploit the commercial potential of this previously poorly-served market.

Looking to the longer-term, the future is equally positive. With three franchises, any of which has the potential to drive long-term success, we have the prospect of ongoing substantial sales growth, complemented by three potential product filings by the end of next year and eight potential product launches by the end of 2021. With a robust balance sheet to support our ambitious plans, we are well placed to achieve our goal of becoming a self-sustaining, world-class specialty biopharmaceutical business.

Dr Francesco Granata
Chairman

OPERATING REVIEW

Progressing our strategy

During 2015, we significantly accelerated our strategy to build a world-class, self-sustaining specialty biopharmaceutical business. In June, with our allergy portfolio continuing to make progress and our lead programme on track to deliver phase III results in the coming year, we acquired Aerocrine and its market-leading NIOX® asthma management products and established commercialisation infrastructure that was already targeting the key allergy / asthma specialists who will drive the successful launch of our first allergy treatment. At the same time, the acquisition of Prosonix broadened the Company's pipeline with a number of asthma and chronic obstructive pulmonary disease products, which offer the prospect of near-term revenues and longer-term high value novel formulations. We also completed a successful £275 million Placing and Open Offer to fund the acquisitions, and ensure the Company remains funded to deliver its pipeline.

Following the completion of the acquisitions, Circassia has made good progress across all three areas of its expanded business. Our allergy portfolio has continued to advance in the clinic, we have substantially increased NIOX® sales and the approval of the lead asthma treatment validates the acquisition strategy. As a result, our business is well positioned, combining marketed products, an exciting pipeline of next generation treatments and a strong balance sheet.

Allergy portfolio clinical progress

Cat allergy

Circassia's lead allergy programme continues on track to deliver phase III results in Q2 2016. The pivotal registration study (CATALYST) completed dosing of the final subject in the second half of 2015, and the primary endpoint will measure the combined improvement in allergy symptoms and rescue medication use one year after treatment initiation. A total of 1,409 cat allergy sufferers were randomised into the study, exceeding the target by 19%, and the study is fully powered for the primary efficacy analysis. As part of its preparations to ensure efficient regulatory filings following receipt of the phase III data, Circassia has scheduled a pre-BLA meeting with the FDA and also intends to meet with the European Medicines Agency prior to submission.

CATALYST's long-term follow-up (CP007A) also continues to make progress, with 424 subjects enrolled after completing the phase III study. The two-to-five year extension study is designed to confirm the ongoing efficacy of the cat allergy immunotherapy without further dosing, and offers the potential to extend the product's licence following initial approval.

During 2015, we undertook a number of activities to support licence applications for our lead allergy therapy. Preparation of the US and European regulatory filings is underway, and we have signed an agreement with long-term partner Bachem for commercial supply of the active pharmaceutical ingredient. In addition, we completed a pilot paediatric safety study (CP009) at the end of the year, which was required by the regulators to progress the product filing in Europe. We recently received preliminary results from the study conducted in 15 children aged 5 to 11 years old, which will support our filing and allow us to move to a larger paediatric study following a Marketing Authorisation Application. In the US, we will finalise the Pediatric Study Plan following product approval in line with the usual regulatory process.

Grass allergy
Grass pollen is the most common cause of hay fever. Circassia's grass allergy immunotherapy has previously demonstrated successful proof-of-concept in a phase IIb study, with symptom improvements maintained in subjects tested after each pollen season over three years, despite only a short course of treatment before the first season.

In preparation for the clinical programme to support the product's registration, the Company has now met with regulators in Europe and the US. Based on these discussions, the Company is initiating a single innovative adaptive-design registration study, which is designed to meet regulators' requirements on both sides of the Atlantic. The first stage of the study will recruit approximately 400 subjects, who will receive a course of 8 x 6nmol doses over 14 weeks, or placebo. The subjects will report on their allergy symptoms and use of rescue medications during the pollen season, and following favourable results, the second stage will include a pre-recruited expansion cohort. This will permit sizing of the study based on first-stage performance to achieve appropriate powering, and currently the Company anticipates including a further 1,100 subjects. The study remains on track to begin in H1 2016, with results anticipated in H2 2018.

During 2015, we also completed a successful safety study in controlled asthmatics with grass allergy (TG004). The product was well tolerated and no safety concerns were identified. Consequently, this important patient group can be included in the planned registration study.

House dust mite allergy
House dust mite proteins are the most common cause of allergy in Europe and the USA. Circassia's house dust mite allergy treatment achieved successful results in an earlier proof-of-concept phase IIb study, with subjects receiving 4 x 12nmol doses over 12 weeks experiencing a significant (p=0.02) reduction in symptoms when challenged one year after the start of treatment. In long-term follow-up, symptom improvements were maintained at the same level in patients assessed two years after the start of treatment, despite receiving no further dosing.

Following these encouraging results, we started a large field study (TH005) comparing the best performing regimen from the proof of concept study (4 x 12nmol) with an 8 x 12nmol regimen, and a higher dose. The study is ongoing in North America, Europe and South Africa, and at the end of 2015 we closed recruitment. As a result, randomisation into the study is now complete with 715 subjects enrolled, an increase of 8% over the initial target of 660. The study will assess the combined improvement in symptoms and rescue medication use one year after the start of treatment, and results are expected in H1 2017.

Ragweed allergy
Ragweed allergy is highly prevalent in North America where it is a common cause of hay fever. In Europe, the allergy is less common, but is affecting a growing proportion of the population. In 2015, Circassia conducted a follow-up field study (TR006A) of its ragweed allergy immunotherapy in subjects who completed the TR006 phase IIb trial in 2014. The follow-up study assessed the subjects' allergy symptoms and use of rescue medication two pollen seasons after the completion of treatment, despite no further dosing. The results show that all of the regimens demonstrated a treatment effect at the peak and across the whole season.

These recent results follow a successful 2011 proof-of-concept study, which indicated that higher doses of the ragweed allergy treatment have a greater clinical effect in an environmental exposure chamber challenge. In this study, the highest dose achieved significant improvements in subjects with more severe symptoms (p=0.04). Similarly, the TR006 study results showed evidence of a dose response, with the higher dose regimen achieving the best reduction in symptoms, despite a marked placebo effect. TR006 also assessed the combined improvement in symptoms and rescue medication use during a natural ragweed pollen season, and also showed that the highest dose had the greatest treatment effect. These conclusions are now supported by the TR006A follow-up study, in which the highest dose had the greatest effect in the field across the pollen season, achieving an improvement in the change in combined symptom and rescue medication score of 21% vs placebo.

Consequently, we are now planning to initiate a phase IIb dose-ranging study to identify the optimal dose to progress to phase III. The study will compare the best performing dose regimen from the earlier trials (8 x 12nmol) and a higher dose regimen (8 x 24nmol) in approximately 450 subjects. The study is on track to begin in 2016, with dosing planned for completion before the 2017 pollen season, and results anticipated in H1 2018.

Birch & Japanese cedar allergies

Tree pollens are a common cause of allergy and pollen released by birch and Japanese cedar can cause allergic reactions. Circassia is developing immunotherapies for these allergies and both programmes made good progress in 2015.

In the second half of the year, we moved our birch allergy treatment into clinical development, with a first-in-human study beginning in July. The study is now fully recruited (n=64) with dosing complete, and the trial is anticipated to report in the second half of the year following the end of the natural birch pollen season. Our treatment for Japanese cedar allergy also advanced during the year. The programme has completed pre-clinical development, and we have recently agreed the design of a first-in-human clinical study with the Japanese regulatory authorities.

NIOX® commercial progress

Strong sales growth

Following the acquisition of Aerocrine in June 2015, we have sold its unique NIOX® asthma products direct to allergy / asthma specialists in the US and Germany and through a network of partners internationally. NIOX MINO® and the next-generation NIOX VERO® are used to improve asthma diagnosis and management through monitoring of patients' fractional exhaled nitric oxide (FeNO) and are the only point-of-care devices available across major markets. FeNO measurement is recommended by the National Institute for Health and Care Excellence (NICE) to help guide asthma diagnosis and management and is included in the American Thoracic Society treatment guidelines, which are endorsed by the leading allergy / asthma professional societies. During 2015, the NIOX® franchise made impressive progress, with revenues growing strongly, and since our acquisition of the products in June sales have increased by 32% to £10.3 million at constant exchange rates compared with the same period the year before.

Chinese approval and launch

Asia is an important market for NIOX®, and in China the products are distributed by a network of local partners managed by Circassia's team of sales managers based in Beijing. During the summer, the China Food and Drug Administration issued regulatory clearance for the next-generation NIOX® product, NIOX VERO®, and at the end of August our Chinese commercial team held a launch meeting in Guangzhou. The launch included a scientific meeting chaired by asthma expert Professor Jiang-Tao Lin and attended by over 100 opinion leaders, and a separate session for distributors in preparation for the roll out of NIOX VERO® across China.

Label extension studies

During the year, we have reviewed development opportunities to continue the growth of the NIOX® franchise and subsequently planned two clinical studies to support label extensions.

The first study, which is currently ongoing, is designed to support the use of NIOX VERO® in children aged four to six years old in the US. Currently, the product is indicated for use in those aged four years and older in Europe, with the option of using a six second test for children unable to perform the normal ten second mode. However, the US approval does not include children aged under seven years or the use of the six second test. The study, which will include approximately 100 subjects, is designed to demonstrate the accuracy of the shorter test mode in children aged four, five and six years old. The results are anticipated in H2 2016.

The second study, which is currently awaiting local ethics approval before initiation, is designed to explore the potential to extend NIOX VERO®'s licence to include the diagnosis of primary ciliary dyskinesia. This disorder, which affects approximately 20,000 people in the US, is characterised by chronic respiratory tract infections, as well as abnormally positioned internal organs and infertility, and sufferers have year-round nasal congestion and a chronic cough. Diagnosis can be complex and include the use of genetic testing and electron microscopy of airway cilia samples. As a result, there is an opportunity for more straightforward diagnostic methods. Consequently, we have adapted our easy-to-use NIOX® device to sample nasal nitric oxide and designed the clinical study to determine the threshold for the diagnosis of primary ciliary dyskinesia. The study, which we plan to conduct in the US and Europe, will include approximately 50 subjects with confirmed primary ciliary dyskinesia and 100 healthy controls.

Respiratory portfolio progress

Flixotide® pMDI substitute approval

At the end of 2015, the UK's Medicines and Healthcare products Regulatory Agency (MHRA) confirmed the successful outcome of the European Decentralised Procedure for Circassia's fluticasone propionate pressurised metered dose inhaler (pMDI) for the prophylactic treatment of asthma. The product, which is part of a previously announced global licensing agreement with Mylan, targets direct substitution of GlaxoSmithKline's Flixotide® pMDI. The MHRA has now issued the Marketing Authorisation for the product, which covers all three strengths in which the originator is available (50µg, 125µg and 250µg).

Our fluticasone propionate pMDI was developed under the European regulatory guidelines on orally inhaled products that permit approval based on an *in vitro* demonstration of equivalence only, without the need for clinical data. This regulatory standard is extremely challenging to achieve, and we believe this is the first time it has been accomplished for a range of product strengths. This achievement is an important validation of our proprietary particle-engineering technology, which is designed to overcome the production and formulation challenges associated with traditionally produced respiratory pharmaceuticals.

Seretide® substitute filing

We are also using our particle-engineering technology to develop a wholly-owned fluticasone propionate / salmeterol xinafoate combination asthma treatment targeting direct substitution of GSK's Seretide® / Advair® pMDI. The market opportunity for the product is significant, with originator sales accounting for approximately $1.5 billion in 2015.

As a result, we progressed our *in vitro* development programme alongside parallel pharmacokinetic studies, which were set up in South Africa prior to the product's acquisition, to inform the clinical work required for a US filing and act as a contingency measure if required for a European submission. Recently, we received headline results from these studies, which indicate that the fluticasone component of the product is similar to the originator. The results also show that the total absorption of salmeterol was similar to the originator, although the peak plasma concentration did not match. These data suggest the formulation may contain insufficient fine particles of salmeterol. As a result, we have initiated a corrective plan to optimise the product and we anticipate the initial Marketing Authorisation Application will be filed in the second half of 2017.

Triple fixed dose combination clinical programme

Our 'triple' combination therapy for moderate-to-severe chronic obstructive pulmonary disease (COPD) contains an inhaled corticosteroid, long-acting beta agonist and long-acting muscarinic antagonist delivered via an easy-to-use pMDI. Currently, there are no triple therapies available, and consequently COPD patients require at least two devices with potentially different operating procedures and inhalation techniques to receive the equivalent medication. As a result, the 'triple' market has significant commercial potential, with independent forecasts predicting sales of nearly $8 billion in 2025.

In September 2015, we completed pre-clinical development for our novel 'triple' formulation and progressed the product into the clinic. The first-in-human clinical study is ongoing in Berlin, and the initial single-dose component in 20 healthy subjects is now complete. The results show that the product was well tolerated with a favourable safety profile and therefore the local ethics committee has approved the initiation of the repeat dose component, which is now fully recruited and nearing completion. Results from the full study are anticipated in the coming months.

Commercial strategy progress

Commercial infrastructure acceleration

During the first half of 2015, we made significant progress in expanding our nascent commercialisation capabilities in preparation for the launch of our first allergy immunotherapy. Having appointed our Chief Commercial Officer and incorporated our US subsidiary in 2014, we appointed Regional Medical Affairs Directors in the United States and Europe and established analytics, marketing and distribution management capabilities during the first half of 2015. We also finalised and submitted brand names for our cat allergy immunotherapy to EU regulators and completed market research to inform our launch positioning. The regulators have now approved both brand names and we have finalised our proposed scientific name.

During the second half of the year, we significantly accelerated our strategy to sell our products directly in key territories through the acquisition of Aerocrine. This brought established commercial infrastructure and sales forces targeting allergy / asthma specialists in the two most significant markets, the US and Germany. We have subsequently integrated the Aerocrine commercial organisation and significantly expanded our

capabilities. This will enable us to continue the growth of NIOX® sales and build broad market understanding of our revolutionary allergy technology ahead of our first product launch, in order to target accelerated uptake and higher peak sales. As a result, we have now increased our US sales force by 65% to 48, added managed markets expertise and at the end of the year we convened our first national sales conference. Our recruitment campaign had an extremely highly positive response, receiving over 2,000 applications for our 28 open positions. At the same time, we have expanded our marketing and market access team, who have completed the development and roll out of a compelling new NIOX® promotional campaign, commissioned specialists to target increased product reimbursement in the US and undertaken further market research to support the launch of our cat allergy treatment.

Expanding direct sales

In H2 2015, we initiated a territory review to determine the priority countries in which to establish direct sales organisations, complementing our growing presence in the US and Germany. These local teams will leverage our global marketing and supply chain capabilities and enable us to promote our NIOX® products more widely in the short-term while also broadening links with opinion leaders, educating specialists and mapping key accounts well in advance of the anticipated launch our cat allergy immunotherapy. We have now concluded the initial review in key European territories where we have distributors in place and have begun discussions to establish a direct presence in France. We anticipate concluding the process during the coming year.

Building our team

R&D and commercial team expansion

During the year, we continued to progress our allergy and respiratory product portfolio and explored options to expand the indications for our NIOX® products. As a result, we have initiated a number of clinical studies and put in place preparations to begin others. To support this work, we have expanded our R&D organisation, recruiting additional experts to our clinical, regulatory, quality and CMC teams, and during 2015 our R&D group increased by 75% to 77 employees.

We also made good progress accelerating the build of our commercial organisation, expanding the team dramatically during 2015. We now have in place the range of specialists required to commercialise products, including sales, medical affairs, compliance, distribution, regulatory and commercial administration. As a result, we now have over 100 employees in our commercial team, and much of our infrastructure can be leveraged across additional markets as we expand our direct sales territories.

Board expansion

During 2015, we strengthened our Board, with Lota S Zoth and Marvin S Samson joining as Non-Executive Directors. Ms Zoth, who now chairs the Company's Audit and Risk Committee, has significant financial experience gained in a number of global public companies, including as CFO at MedImmune. She also held senior positions at PSINet, Sodexho Marriott, PepsiCo and Ernst & Young. Mr Samson brings 50 years' experience of the specialty pharmaceutical industry, having established and led a number of successful companies. He is currently Founder and CEO of Samson Medical Technologies LLC, and was previously CEO of several specialty pharmaceutical companies, as well as Group Vice President of Injectables at Teva.

At the end of 2015, Paul R Edick informed the Company that he will retire from the Board on 17 May 2016 following several years as a Non-Executive Director. We thank Paul for his highly valuable contribution and strategic guidance during his time on the Board, and we look forward to his continued input over the coming months.

Intellectual property progress

During 2015, we continued to invest in our intellectual property to protect our ToleroMune® technology and allergy product portfolio. This investment was extended during the second half of the year, to cover our acquired NIOX® products and particle-engineering technology.

We have successfully upheld two European patents relating to our cat allergy therapy, and we were also successful at a European Patent Office hearing in November at which the Opposition Division upheld the validity of a patent relating to our cat allergy treatment's formulation. During 2015, we also created additional layers of protection, with 22 new patents relating to our allergy, NIOX® and particle-engineering technologies granted in the US, Europe, China and Japan. Of these, four relate to our cat allergy treatment, three to our grass allergy therapy, three to our house dust mite allergy product and three to our ragweed allergy immunotherapy. In addition, we succeeded in extending a key US patent relating to our house dust mite allergy treatment by 21 months.

Outlook

Delivering our allergy franchise

We anticipate that the coming year will be a period of significant progress across our entire business. In our allergy franchise, we plan to deliver results from our pivotal phase III cat allergy study, initiate the registration study for our grass allergy treatment and advance our house dust mite, ragweed, birch and Japanese cedar allergy programmes.

In parallel, we plan to continue the expansion of our commercial infrastructure in preparation for the launch of our revolutionary cat allergy therapy, targeting more rapid product penetration and higher peak sales. To achieve this, we plan to double our US field team to over 100 by Q1 2017, building on the highly successful recruitment campaign we conducted in the second half of 2015. This will ensure the team is in place with the training, supply chain and commercial preparations complete well in advance of the product launch. We also plan to expand our European presence in 2016 to support the launch in our target markets, extending our direct presence to additional key territories and growing our field force in Europe.

Progressing our NIOX® and respiratory franchises

In our NIOX® franchise, we plan to leverage our expanding commercial infrastructure to continue sales growth, and expand our direct sales to further territories. With the next-generation NIOX VERO® now launched in the key American, European, Japanese and Chinese markets, a strengthened market access team in place, a renewed focus on reimbursement and a refreshed promotional campaign underway, we are well placed to increase revenues in the coming years. The potential of NIOX® was further highlighted recently by the launch of an implementation project by NICE that includes the use of FeNO in primary care. The project is designed to ensure the effective and efficient introduction of NICE's forthcoming proposed asthma guideline, which recommends use of FeNO measurement in different diagnosis algorithms. Since the completion of our acquisition of NIOX®, the franchise's revenues have grown by 32%, well ahead of the 18% CAGR achieved over the previous five years, and as a result of our ongoing investment we anticipate continued strong growth in 2016.

In our respiratory portfolio, we also expect good progress in 2016. We plan to advance the development of our triple fixed dose combination COPD therapy and the first clinical trial is on track to complete in the coming months. We also plan to finalise the optimisation work for our Seretide® pMDI substitute product and complete manufacture of the registration batches in the coming months, as we move toward filing in 2017.

Positioned to deliver

During 2015, we dramatically accelerated our strategy to sell our products independently in key territories, build a broad and balanced portfolio complementing our innovative allergy immunotherapies and deliver our pipeline. As a result of this progress, we are now well positioned to bring our cat allergy product to market, and with sales teams in place selling to our core allergy / asthma specialist customers we are well placed to capture the full value of this revolutionary new therapy. With a strong balance sheet, we are also funded to deliver across our broader business, and anticipate reporting clinical results in our respiratory and NIOX® franchises, as well as continuing robust sales growth of currently marketed products and investment in our commercial infrastructure. With the recent acceleration in our strategy, 2016 is going to be an important year for Circassia as we continue to advance towards our ultimate objective of becoming a self-financing, world-class specialty biopharmaceutical company.

FINANCIAL REVIEW

Financially, the most significant event during the last year was the completion of a successful £275 million Placing and Open Offer to fund two acquisitions, both of which completed in June. The acquisition of Prosonix Limited completed on 15 June 2015 and Aerocrine AB on 18 June 2015.

The table below sets out the results for the Circassia Group, including the contribution from the acquired companies during the period of ownership and the acquisition costs.

	Circassia	Acquisitions	Acquisition costs	Group 2015	Circassia 2014
	£m	£m	£m	£m	£m
Revenue	-	10.8	-	**10.8**	-
Cost of goods sold	-	(4.3)	-	**(4.3)**	-
Gross profit	-	6.5	-	**6.5**	-
Sales and marketing	(5.2)	(8.3)	-	**(13.5)**	-
Research & development	(37.4)	(9.4)	-	**(46.8)**	(38.6)
Administrative expenditure	(6.6)	(3.1)	(4.0)	**(13.7)**	(7.2)
Other gains	1.1	-	-	**1.1**	-
Operating loss	(48.1)	(14.3)	(4.0)	**(66.4)**	(45.8)
Finance income/(costs) net	3.6	(0.1)	-	**3.5**	1.9
Share of profit/(loss) of joint venture	0.1	-	-	**0.1**	(0.1)
Loss before tax	(44.4)	(14.4)	(4.0)	**(62.8)**	(44.0)
Taxation	9.3	3.5	-	**12.8**	8.9
Loss for the financial year	(35.1)	(10.9)	(4.0)	**(50.0)**	(35.1)
Cash[1]	200.5	3.3	-	**203.8**	186.6

[1] Includes cash and cash equivalents and short-term deposits as at 31 December 2015 and 31 December 2014

Revenue

Revenue of £10.8 million, of which £10.3 million were sales of NIOX® from 19 June to 31 December, account for the Group's turnover for the period (2014: £nil). These revenues include sales of NIOX VERO® and NIOX MINO® for clinical use in the US, Europe and rest of world, and for use in pharmaceutical companies' clinical studies. The remaining £0.5 million relates to licence fee and milestone revenues from the respiratory business.

Gross profit

Gross profit on NIOX® sales was £6.1 million (2014: £nil), with a gross margin of 59%. This reflects the introduction of the NIOX VERO® in the US with pricing options to drive conversion from the previous MINO model.

Sales and marketing

During the period, sales and marketing expenditure was £13.5 million (2014: £nil). Of this, £8.3 million related to Aerocrine and the remainder reflects the build of Circassia's commercial management in the US, and in particular recruitment of nine medical affairs specialists of whom six are based in the United States. In addition the Aerocrine US sales force has increased from 29 to 48.

Research and development

Investment in research and development increased to £46.8 million (2014: £38.6 million). Of this, £37.4 million relates to the portfolio of allergy product candidates. This is similar to last year, however there have been changes in expenditure on the following allergy programmes:

- Cat allergy programme has decreased by £2.9 million from £12.7 million in 2014 to £9.8 million in 2015. This is because the cat allergy treatment phase III study (CATALYST) has now completed the last patient last dosing; also the two-to-five year follow-up (CP007A) was initiated in 2014 incurring a number of start-up costs, which have not recurred in 2015.
- House dust mite allergy programme has increased by £2.6 million from £11.6 million to £14.2 million. This is mainly because the phase IIb field study (TH005) completed enrolment in 2015 incurring costs of

£12.3 million compared to £6.4 million the previous year; this was partially offset by much lower expenditure on CMC related activity, which was substantially completed in 2014 in preparation for TH005.

- Ragweed allergy programme has decreased by £3.2 million from £4.8 million to £1.6 million. The higher costs in 2014 were related to the 280 subject phase IIb chamber and field study (TR006), which completed that year.
- Birch allergy programme has increased by £0.7 million from £0.4 million to £1.1 million mainly driven by the initiation of a first-in-human clinical study, which is now fully recruited.

A further £6.1 million has been invested in development of the respiratory portfolio and in particular a clinical study for the triple fixed dose combination, the first stage of which is now complete, and on pharmacokinetic testing for a Seretide® pMDI substitute.

Administrative expenditure

Administrative expenses, which include overheads specific to corporate functions, centrally managed support functions and corporate costs, increased to £13.7 million (2014: £7.2 million). The increase reflects one-off deal costs of £4.0 million relating to the Aerocrine and Prosonix acquisitions (total deal costs for the acquisitions were £12.8 million, with the remaining £8.8 million offset against the Share Premium Account). Underlying administrative expenditure decreased by £0.6 million to £6.6 million. This was mainly because commercial infrastructure build costs of £0.8 million were included in administrative expenditure in 2014. Commercial costs such as these which were incurred in 2015 are disclosed as sales and marketing costs.

Other gains

Other gains totalled £1.1 million (2014: £Nil). A gain of £1.1 million was made on forward contracts for Swedish krona and US dollars that were taken out to hedge against the purchase of Aerocrine and the associated repayment of a USD35 million loan that became due on change of control. The gain reflects the weakening of GBP Sterling against Swedish krona during the term of the contracts.

Financial income

Included in finance income is bank interest receivable of £1.7 million (2014: £1.7 million) and a net gain on foreign exchange of £1.8 million (2014: £0.2 million).

R&D tax credits on qualifying expenditure

A tax credit of £12.8 million (2014: £8.9 million) is recoverable under current legislation relating to R&D expenditure. The increase over the previous year reflects greater R&D investment following the acquisition of Prosonix and a lower tax credit rate for the first quarter of the 2014 period, before it increased from 11% to 14.5% on 1 April 2014.

Loss after tax and loss per share

Loss for the financial year was £50.0 million (2014: £35.1 million), of which £49.9m (2014: £35.1 million) was attributable to the owners of Circassia Pharmaceuticals plc. Basic loss per share attributable to the owners of Circassia Pharmaceuticals plc was 20p (2014: 21p). Although there has been an increase in the Company's Ordinary Share capital following the issue of 95.5 million shares under the Placing and Open Offer in June 2015, there has been little change in the basic loss per share because the loss for the financial year has increased proportionately.

Acquisition of Aerocrine and Prosonix

On 11 June 2015, the Company issued 95,469,537 Ordinary Shares, which funded the acquisitions of Aerocrine and Prosonix. The shares were offered at 288.05p each, raising gross proceeds of £275.0 million.

The consideration for Aerocrine's entire outstanding ordinary share capital and employee share options that vested on change of control, was £138.3 million. At 30 June 2015, 92.6% of the share capital had been purchased, and by 2 July 2015, following an extension of the initial offer period, this increased to 97.2%. By 31 December 2015 this had increased to 97.9%. The remaining 2.1% of the share capital will be purchased as part of the arbitration process. The arbitrator is expected to issue a decision within the next month on the amount which needs to be placed in escrow in order to allow the company to take advance title to the outstanding shares. On 29 June 2015, Circassia paid USD45.1 million (£28.7 million) to OrbiMed and Novo in settlement of Aerocrine's USD35 million loan that became due on change of control together with repayment costs and interest.

The purchase price for Prosonix' entire outstanding share capital was £100.0 million. Of this, £30.0 million was deferred and contingent upon receipt of UK marketing authorisation for Prosonix' lead product. This approval was received in December and payment of the deferred consideration was made in January 2016.

Deal costs relating to the acquisitions and the share issue were £12.8 million, of which £8.8 million was offset against the Share Premium Account and £4.0 million of indirect admission costs were included in the income statement.

Statement of financial position

The Group's net assets were £409.7 million at 31 December 2015 (2014: £190.8 million). The increase reflects the acquisition of Aerocrine and Prosonix, which has been included in the balance sheet at fair value. The detailed fair values for each company together with goodwill arising are set out in note 33. Deferred consideration of £30.0 million for the purchase of Prosonix has also been recorded. Following receipt of UK marketing authorisation for its lead product in December 2015, the deferred consideration was paid in January 2016 to the former shareholders of Prosonix.

Current tax assets were £11.8 million at 31 December 2015 (2014: £8.8 million), representing the R&D tax credit due from H M Revenue and Customs. A payment of £9.0 million was received in H2 2015 from HMRC. Of the £11.8 million, £9.0 million relates to expenditure on the allergy programmes and £2.8 million on the respiratory programmes.

Cash flow

The Group's cash position (including short-term deposits) increased from £186.6 million at 31 December 2014 to £203.8 million at 31 December 2015. Main cash flows were:

- Gross proceeds of £275.0 million from the Placing and Open Offer (2014: gross proceeds of £202.0 million from the IPO). Of the £8.8 million share issue costs offset against the Share Premium Account, all of these have been paid.
- Loan repayment of USD45.1 million that became due on the acquisition of Aerocrine. This comprised the USD35 million (£22.3 million) principal, repayment costs of USD9.0 million (£5.7 million), pre-acquisition interest of USD1.0 million (£0.6 million) and post-acquisition interest of USD0.1 million (£64,000).
- Cash paid to date for the acquisitions of Aerocrine and Prosonix, net of cash acquired, is £169.1 million, which is made up of the acquisition of the companies net of cash totalling £161.9 million, and transactions with non-controlling interests of £7.2 million. This total includes a payment of £70.0 million in respect of Prosonix and £136.8 million in respect of Aerocrine, offset in part by cash received on acquisition of £5.3 million and £32.4 million respectively.

Summary and outlook

During the next 12 months, the Company intends to ensure the allergy programmes remain on track. In addition, we plan to commit significant investment to our commercial infrastructure to prepare for the launch of our first allergy product and boost sales of our existing NIOX® products.

We continue to have a robust balance sheet, with cash of £203.8 million as at 31 December 2015. Consequently, we are funded to deliver our wider portfolio and bring our next generation allergy products to market.

Julien Cotta
Chief Financial Officer

Consolidated statement of comprehensive income
for the year ended 31 December 2015

	Notes	**2015 £m**	2014 £m
Revenue	4	**10.8**	-
Cost of sales		**(4.3)**	-
Gross profit		**6.5**	-
Research and development costs		**(46.8)**	(38.6)
Sales and marketing		**(13.5)**	-
Administrative expenses		**(13.7)**	(7.2)
Other gains	9	**1.1**	-
Operating loss	7	**(66.4)**	(45.8)
Finance income	6	**3.5**	1.9
Share of profit/(loss) of joint venture	16	**0.1**	(0.1)
Loss before tax		**(62.8)**	(44.0)
Taxation	10	**12.8**	8.9
Loss for the financial year		**(50.0)**	(35.1)
Loss attributable to:			
Owners of Circassia Pharmaceuticals plc		**(49.9)**	(35.1)
Non-controlling interests		**(0.1)**	-
Loss for the financial year		**(50.0)**	(35.1)
Items that may be subsequently reclassified to profit or loss			
Currency translation differences attributable to:			
Owners of Circassia Pharmaceuticals plc	27	**3.1**	-
Total other comprehensive income for the year		**3.1**	-
Total comprehensive expense for the year		**(46.9)**	(35.1)
Total comprehensive expense attributable to:			
Owners of Circassia Pharmaceuticals plc		**(46.8)**	(35.1)
Non-controlling interests		**(0.1)**	-
Total comprehensive expense for the year		**(46.9)**	(35.1)

Loss per share attributable to owners of the parent during the year (expressed in £ per share)

Basic and diluted loss per share

		£	£
Loss per share from continuing operations	11	**(0.20)**	(0.21)

The results for the financial years above are derived entirely from continuing operations.

The company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company profit and loss account.

The loss for the parent company for the year was £3.2m (2014: profit £0.5m).
The notes on pages 19 to 48 are an integral part of these consolidated financial statements.

Consolidated statement of financial position
as at 31 December 2015

	Notes	**2015** **£m**	2014 £m
Assets			
Non-current assets			
Property, plant and equipment	12	**1.3**	0.3
Goodwill	13	**81.2**	1.8
Intangible assets	14	**165.6**	0.2
Deferred tax assets	22	**17.2**	-
Investment in joint venture	16	**0.2**	0.1
		265.5	2.4
Current assets			
Inventories	17	**3.0**	-
Trade and other receivables	18	**5.1**	2.7
Current tax assets	10	**11.8**	8.8
Short-term bank deposits	19	**37.8**	156.9
Cash and cash equivalents	19	**166.0**	29.7
		223.7	198.1
Total assets		**489.2**	200.5
Equity and liabilities			
Ordinary shares	23	**0.2**	0.2
Share premium	25	**564.0**	297.9
Other reserves	27	**2.8**	1.3
Accumulated losses	26	**(158.5)**	(108.6)
		408.5	190.8
Non-controlling interests		**1.2**	-
Total equity		**409.7**	190.8
Liabilities			
Non-current liabilities			
Deferred tax liabilities	22	**31.2**	-
		31.2	-
Current liabilities			
Trade and other payables	20	**48.3**	9.7
		48.3	9.7
Total liabilities		**79.5**	9.7
Total equity and liabilities		**489.2**	200.5

The notes on pages 19 to 48 are an integral part of these consolidated financial statements.

The financial statements on pages 13 to 48 were authorised for issue by the Board of Directors on 11 March 2016 and were signed on its behalf by

Steven Harris
Chief Executive Officer
Circassia Pharmaceuticals plc

Julien Cotta
Chief Financial Officer
Circassia Pharmaceuticals plc

Registered number: 05822706

Parent company statement of financial position
as at 31 December 2015

	Notes	**2015** **£m**	2014 £m
Assets			
Non-current assets			
Investments in subsidiaries	15	**242.6**	3.0
		242.6	3.0
Current assets			
Trade and other receivables	18	**185.0**	122.5
Short-term bank deposits	19	**37.8**	156.9
Cash and cash equivalents	19	**130.7**	18.8
		353.5	298.2
Total assets		**596.1**	301.2
Equity and liabilities			
Equity attributable to the owners of the company			
Ordinary shares	23	**0.2**	0.2
Share premium	25	**564.0**	297.9
Other reserves	27	**3.7**	1.3
(Accumulated losses)/retained earnings	26	**(2.0)**	1.2
Total equity		**565.9**	300.6
Liabilities			
Current liabilities			
Trade and other payables	20	**30.2**	0.6
		30.2	0.6
Total equity and liabilities		**596.1**	301.2

The notes on pages 19 to 48 are an integral part of these financial statements.

The financial statements on pages 13 to 48 were authorised for issue by the Board of Directors on 11 March 2016 and were signed on its behalf by

Steven Harris
Chief Executive Officer
Circassia Pharmaceuticals plc

Julien Cotta
Chief Financial Officer
Circassia Pharmaceuticals plc

Registered number: 05822706

Consolidated and parent company statement of cash flows
for the year ended 31 December 2015

		Group		Company	
	Note	**2015 £m**	2014 £m	**2015 £m**	2014 £m
Cash flows from operating activities					
Cash used in operations	28	**(64.9)**	(41.0)	**(5.8)**	(28.7)
Tax credit received		**9.1**	4.1	**-**	-
Net cash used in operating activities		**(55.8)**	(36.9)	**(5.8)**	(28.7)
Cash flows from investing activities					
Acquisition of subsidiaries, net of cash acquired	33	**(161.9)**	-	**(206.8)**	-
Purchases of property, plant and equipment	12	**(0.2)**	(0.3)	**-**	-
Purchases of intangible assets	14	**(0.1)**	-	**-**	-
Interest received		**3.0**	0.2	**2.9**	0.2
Receipt on maturity of forward contract		**1.1**	-	**-**	-
Repayment of borrowings		**(28.1)**	-	**-**	-
Loans granted to subsidiary undertakings		**-**	-	**(63.5)**	-
Decrease/(increase) in short-term bank deposits		**119.1**	(149.8)	**119.1**	(149.8)
Net cash used in investing activities		**(67.1)**	(149.9)	**(148.3)**	(149.6)
Cash flows from financing activities					
Proceeds from issue of ordinary shares	23	**266.1**	192.5	**266.1**	192.5
Purchase of treasury shares	32	**(0.3)**	-	**-**	-
Transactions with non-controlling interests	27	**(7.2)**	-	**-**	-
Net cash generated from financing activities		**258.6**	192.5	**266.1**	192.5
Net increase in cash and cash equivalents		**135.7**	5.7	**112.0**	14.2
Cash and cash equivalents 1 January	19	**29.7**	23.5	**18.8**	3.8
Exchange gains/(losses) on cash and cash equivalents		**0.6**	0.5	**(0.1)**	0.8
Cash and cash equivalents at 31 December	19	**166.0**	29.7	**130.7**	18.8

The notes on pages 19 to 48 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2015

	Note	Share capital	Share premium	Other [1] reserves	Accumulated losses	Total	Non-controlling interests	Total equity
		£m	£m	£m	£m	£m	£m	£m
At 1 January 2014	23, 25, 26, 27	0.1	103.4	0.1	(73.5)	30.1	-	30.1
Comprehensive expense:								
Loss for the financial year		-	-	-	(35.1)	(35.1)	-	(35.1)
Total comprehensive expense	26	-	-	-	(35.1)	(35.1)	-	(35.1)
Transactions with owners:								
Issue of ordinary shares		0.1	194.5	-	-	194.6	-	194.6
Employee share option scheme	27	-	-	1.2	-	1.2	-	1.2
At 31 December 2014	23, 25, 26, 27	0.2	297.9	1.3	(108.6)	190.8	-	190.8
At 1 January 2015	23, 25, 26, 27	0.2	297.9	1.3	(108.6)	190.8	-	190.8
Loss for the financial year		-	-	-	(49.9)	(49.9)	(0.1)	(50.0)
Other comprehensive income	27	-	-	3.1	-	3.1	-	3.1
Total comprehensive expense	26, 27	-	-	3.1	(49.9)	(46.8)	(0.1)	(46.9)
Transactions with owners:								
Issue of ordinary shares	23	-	266.1	-	-	266.1	-	266.1
Purchase of own shares	27	-	-	(0.3)	-	(0.3)	-	(0.3)
Employee share option scheme	27	-	-	2.7	-	2.7	-	2.7
Non-controlling interests on acquisition of subsidiary	33	-	-	-	-	-	4.5	4.5
Transactions with non-controlling interests	27	-	-	(4.0)	-	(4.0)	(3.2)	(7.2)
At 31 December 2015	**23, 25, 26, 27**	**0.2**	**564.0**	**2.8**	**(158.5)**	**408.5**	**1.2**	**409.7**

[1] Other reserves include share option reserve, translation reserve, treasury shares reserve, and transactions with NCI reserve.

The notes on pages 19 to 48 are an integral part of these consolidated financial statements.

Parent company statement of changes in equity
for the year ended 31 December 2015

	Note	Share capital	Share premium	Share option reserve	Retained earnings /(Accumulated losses)	Total equity
		£m	£m	£m	£m	£m
At 1 January 2014	23, 25, 26, 27	0.1	103.4	0.1	0.7	104.3
Profit and total comprehensive income	26	-	-	-	0.5	0.5
Transactions with owners:						
Issue of ordinary shares		0.1	194.5	-	-	194.6
Employee share option scheme	27	-	-	1.2	-	1.2
At 31 December 2014	23, 25, 26, 27	0.2	297.9	1.3	1.2	300.6
At 1 January 2015	23, 25, 26, 27	0.2	297.9	1.3	1.2	300.6
Loss and total comprehensive expense	26	-	-	-	(3.2)	(3.2)
Transactions with owners:						
Issue of ordinary shares	23	-	266.1	-	-	266.1
Employee share option scheme	27	-	-	2.4	-	2.4
At 31 December 2015	**23, 25, 26, 27**	**0.2**	**564.0**	**3.7**	**(2.0)**	**565.9**

The notes on pages 19 to 48 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

General information

The Group is a specialty biopharmaceutical group focused on the development and commercialisation of a range of allergy, asthma and respiratory products.

Circassia Pharmaceuticals plc is a public limited company which is listed on the London Stock Exchange and incorporated and domiciled in England and Wales. The Company is resident in England and the registered office is The Magdalen Centre, Robert Robinson Avenue, Oxford Science Park, Oxford, Oxfordshire, England, OX4 4GA.

The principal accounting policies adopted in the preparation of this financial information are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated.

Basis of preparation

The financial information has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'), IFRS Interpretations Committee ('IFRIC IC') interpretations endorsed by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared using the historical cost convention modified by the revaluation of certain items, as stated in the accounting policies, and on a going concern basis.

Going concern

Though the Group continues to make losses, the Directors have reviewed the current and projected financial position of the Group, taking into account existing cash balances. On the basis of this review, the Directors have not identified any material uncertainties to the Group's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date of approval of the financial statements.

Changes in accounting policy and disclosures

a) New and amended standards adopted by the Group:

Annual improvements 2011-2013 (effective 1 July 2014) (endorsed for 1 January 2015)

b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:

IFRS 9 'Financial instruments', on 'Classification and measurement' (effective 1 January 2018, not EU endorsed). This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value.

A debt instrument is at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. Amortised cost accounting will also be applicable for most financial liabilities, with bifurcation of embedded derivatives. The main change is that in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess the impact of IFRS 9 on its financial information. The Group will also consider the impact of the remaining phases of IFRS 9.

IFRS 15 'Revenue from contract with customers' (effective from 1 January 2018, not EU endorsed), IFRIC 21 'Levies' (effective from 1 January) and IFRS 16 'Leases' (effective from 1 January 2019, not yet EU endorsed) is currently being assessed for the future impact on the Group.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Use of estimates and assumptions

The preparation of financial information in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial information and the reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continually made and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances.

Critical accounting estimates and assumptions

Where the Group makes estimates and assumptions concerning the future, the resulting accounting estimates will seldom exactly match actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Notes to the financial statements

1. Summary of significant accounting policies (continued)

Business combinations
The Group accounts for all business combinations under the acquisition method. Under the acquisition method, the identifiable assets acquired and liabilities and contingent liabilities assumed are measured at their fair value at the acquisition date. Judgements are made in determining the basis on which goodwill arising on business combinations is allocated to cash generating units (CGUs). Management have determined that the goodwill arising on the acquisition of Aerocrine should be allocated between the Aerocrine and Circassia CGUs in proportion to the discounted cash flows attributable to these CGUs, which are each expected to benefit from the sales force and commercial infrastructure available to the Group as a result of the acquisition of Aerocrine. Management have determined that the goodwill recognised on the acquisition of Prosonix Limited should be allocated to Prosonix Limited, being the CGU for impairment testing purposes. Estimates are made in relation to the cash flow forecasts, probability factors and discount rates used for this purpose.

Fair value of acquired assets
Intangibles - Technology
In estimating the fair value of Technology, a variation of the Income Approach called the Relief from Royalty Method is used. This methodology is considered the standard and preferred technique to value assets such as trademark, core technology and patents.

Intangibles - Customer Relationships and IPR&D
The Customer Relationships and IPR&D have been valued based on the Excess Earnings Method. This valuation method is based on discounting the cash flows that can be attributed to the intangible asset, after taking into account the contribution of other assets.

Deferred tax
Deferred tax assets have been recognised in relation to tax losses carried forward in Aerocrine and Prosonix, but only to the extent of deferred tax liabilities arising in the same jurisdictions as the brought forward losses. Management have concluded that it is not yet probable that taxable profits will be available in the relevant jurisdictions to utilise brought forward losses in excess of deferred tax liabilities. Judgement is required in making this determination. Management anticipate that taxable profits will be considered probable for the purposes of recognising deferred tax assets under IAS 12 only when there is a stable history of profitability in those tax jurisdictions.

Share issue costs
In June 2015 the Group completed an offer and placement of new shares to finance the acquisitions of Aerocrine and Prosonix. Under IFRS incremental costs that are directly attributable to an equity transaction that otherwise would have been avoided had the equity instruments not been issued are accounted for through equity. Any acquisition related costs (for example due diligence) must be expensed in the income statement. Note 23 provides further details. There is a level of judgement in determining which costs meet the criteria of an equity transaction.

Goodwill and other intangible assets
The Group tests annually whether goodwill and other intangible assets have suffered any impairment. The key assumptions used for the value in use calculations are given in note 13, and in particular the anticipated launch date of products currently under development. If the Group is unable to obtain regulatory approval or to commercialise its product candidates, or experiences significant delays in doing so, this could result in an impairment of the related goodwill and intellectual property rights.

Share based payments
Options were valued using the Black Scholes option pricing model or the Monte Carlo Simulation depending on the type of option issued. For each relevant option grant, individual valuation assumptions were assessed based upon conditions at the date of grant. The range of assumptions in the calculation of share based payments is given in note 24.

Consolidation
Subsidiaries
Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

Notes to the financial statements

1. Summary of significant accounting policies (continued)

Joint arrangements
The Group has applied IFRS 11 to all joint arrangements since 1 January 2013. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Circassia Pharmaceuticals plc has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Segmental reporting
The Group has three business segments, Allergy, Respiratory and NIOX®. This is consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance, has been identified as the Executive Directors, who make strategic decisions.

Clinical study expenses
Where payments to clinical study sites are made in advance for the purchase of stocks of materials for use in clinical studies, the relevant costs are included in receivables as prepaid clinical study expenses. Expenses are charged to the income statement as clinical study services are carried out by third party suppliers, or clinical study materials are received.

Financial instruments
The Group's financial instruments comprise cash and cash equivalents, short-term bank deposits, receivables and payables arising directly from operations.

Cash and cash equivalents comprise cash in hand and short-term deposits which have an original maturity of three months or less and are readily convertible into known amounts of cash. Such assets are classified as current, where management intend to dispose of the asset within 12 months of the end of the reporting period. Bank deposits with maturity of more than 12 months after the end of the reporting period are classified as non-current assets.

Where derivatives exist in the financial year, they are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each reporting date, with any resulting gain or loss recognised through profit or loss.

The Group does not have any committed borrowing facilities, as its cash, cash equivalents and short-term deposits are sufficient to finance its current operations. Cash balances are mainly held on short and medium term deposits with quality financial institutions, in line with the Group's policy to minimise the risk of loss. The main risks associated with the Group's financial instruments relate to interest rate risk and foreign currency risk (note 2).

Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

Goodwill and Intangible assets
Intangible fixed assets, relating to goodwill, customer relationships, technology and intellectual property rights acquired through licensing or assigning patents and know-how are carried at historic cost, less accumulated amortisation, where the useful economic life of the asset is finite and the asset will probably generate economic benefits exceeding costs.

Amortisation is calculated using the straight line method to allocate the cost of intangible assets over their estimated useful lives, as follows:

Intangible asset	Estimated useful lives
IPR&D	5 – 10 years
Customer Relationships	18 years
Technology	15 – 20 years

Notes to the financial statements

1. Summary of significant accounting policies (continued)

Goodwill arising on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Where an acquired intangible asset is not yet available for use in the manner intended by management, the asset is tested annually for impairment by allocating the assets to the CGUs to which they relate. Amortisation would commence when product candidates underpinned by the intellectual property rights become available for commercial use. Amortisation would be calculated on a straight line basis over the shorter of the remaining useful life of the intellectual property or the estimated sales life of the product candidates.

Expenditure on product development is capitalised as an intangible asset and amortised over the expected useful economic life of the product candidate concerned. Capitalisation commences from the point at which technical feasibility and commercial viability of the product candidate can be demonstrated and the Group is satisfied that it is probable that future economic benefits will result from the product candidate once completed. Capitalisation ceases when the product candidate receives regulatory approval for launch. No such costs have been capitalised to date.

Expenditure on research and development activities that do not meet the above criteria, including ongoing costs associated with acquired intellectual property rights and intellectual property rights generated internally by the Group, is charged to the income statement as incurred. Intellectual property and in-process research and development from acquisitions are recognised as intangible assets at fair value. Any residual excess of consideration over the fair value of net assets in an acquisition is recognised as goodwill in the financial statements.

Computer Software
Expenditure on software costs are capitalised as an intangible asset and amortised over the expected useful economic life of the software. Until such an asset is fully developed, the costs are capitalised and classified within intangibles assets as ‘Software in development’. These costs are not amortised until the software has been fully developed and operational, at which point the total cost of the software development is amortised over its estimated useful life.

Inventories
Inventories are valued at the lower of the acquisition cost and the net realisable value. The FIFO (first in, first out) principle is used to calculate the value of inventories. Inventories mainly comprise products for sale and stocks of components for the service activities in Sweden and the US. The acquisition value comprises all expenses for purchases. The net realisable value is the expected sale price less expected costs for preparation and selling.

Impairment of non-financial assets
Assets that have an indefinite useful life, for example goodwill or intangible assets not ready for use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Charges or credits for impairment are passed through the income statement.

Property, plant and equipment
Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of replaced parts is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Notes to the financial statements

1. Summary of significant accounting policies (continued)

Depreciation is calculated using the straight line method to allocate the cost of assets over their estimated useful lives, as follows:

Property, plant and equipment	Depreciation rate
Leasehold improvements	Over the life of the unbreakable portion of the lease
Plant and equipment	10% - 33%
Fixtures and fittings	20%

Individually significant tangible assets that are intended to be held by the Group for use in the production or supply of goods and services or for administrative purposes and that are expected to provide economic benefit for more than one year are capitalised. All other assets of insignificant value are charged to the income statement in the year of acquisition.

Costs incurred relating to an asset that is not yet complete are capitalised and held as Assets under construction until they are brought into use. The asset is then transferred to the appropriate asset class and depreciated in line with the policy above.

Trade and other receivables
Trade receivables are carried at original invoice amount less any provisions for doubtful debts. Provisions are made where there is evidence of a risk of non-payment, taking into account ageing, previous experience and general economic conditions. When a trade receivable is determined to be un-collectable, it is written off, firstly against any provision available and then to the income statement. Subsequent recoveries of amounts previously provided for are credited to the income statement. Other receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment. A provision for impairment of other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Trade payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are initially recognised at fair value and subsequently held at amortised cost. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Cash and cash equivalents
In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held on call with banks, and other short-term highly liquid investments with original maturities of three months or less from the date of original investment.

Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Employee benefit costs
The Group makes contributions to defined contribution personal pension schemes for its Directors and employees. The pension cost charge recognised in the year represents amounts payable by the Group to the funds. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Share based payments
The Group operates a number of equity-settled, share based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including the effect of any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Notes to the financial statements

1. Summary of significant accounting policies (continued)

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity financial statements.

The Group's employees participate in various share option schemes as disclosed in note 24. Equity settled share based payments are measured at fair value at the date of grant and expensed on a straight line basis over the vesting period of the award. At the end of each reporting period the Group revises its estimate of the number of options that are expected to become exercisable. The financial consequences of revisions to the original estimates, if any, are recognised in the income statement, with a corresponding adjustment to equity.

The fair value of share options is measured using either the Black Scholes option pricing model or the Monte Carlo Simulation. This is dependent on the conditions attached to each of the issued options. Where conditions are non-market based the Black Scholes option pricing model is used. Where market based conditions are attached to options, the fair value is determined using the Monte Carlo Simulation.

Other employee benefits
The expected cost of compensated short-term absence (e.g. holidays) is recognised when employees render services that increased their entitlement. An accrual is made for holidays earned but not taken, and prepayments recognised for holidays taken in excess of days earned.

Revenue
Revenue comprises the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax and trade discounts and after elimination of intra-Group sales. Income is reported as follows:

Sale of goods
The Group sells medical technology equipment that enables inflammation of the airways to be measured as well as consumable items and spare parts. Sales are reported as income when the significant risks and benefits have transferred to the buyer and the seller no longer has any significant control over the goods. The Group provides 12 month guarantees for certain products and includes a provision for estimated future claims.

Licence income
Technology and product licensing revenue represents amounts earned for licences granted under licensing agreements, including up-front payments, milestone payments and technology access fees. Revenues are recognised when this income becomes non-refundable under the terms of the licence and where the Group's obligations related to the revenues have been completed. Refundable licensing revenue is treated as deferred until such time that it is no longer refundable. In general, up-front payments are deferred and amortised in line with the period of development. Milestone payments relating to defined project achievements are recognised as income when the milestone is accomplished.

Royalty revenue is recognised on an accrued basis and represents income earned as a percentage of product sales in accordance with the relevant agreement net of any amounts contractually payable to others under the terms of the relevant royalty agreement.

Foreign currency translation
Monetary assets and liabilities in foreign currencies are translated into Sterling at the rates of exchange ruling at the end of the financial year. Transactions in foreign currencies are translated into Sterling at the rates of exchange ruling at the date of the transaction. Foreign exchange differences are taken to the statement of comprehensive income in the year in which they arise and presented within 'Finance costs or income'.

Foreign exchange differences on translation of foreign operations into the Group presentational currency, are recognised as a separate element of other comprehensive income. Cumulative exchange differences are presented in a separate component of equity entitled Translation reserve.

Notes to the financial statements

1. Summary of significant accounting policies (continued)

Taxation including deferred tax
The charge for current tax is based on the results for the year, adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted at the end of each reporting period.

The Group is entitled to claim tax credits in the United Kingdom for certain research and development expenditure. The amount included in the financial statements at the year end represents the credit receivable by the Group for the year and adjustments to prior years.

Deferred tax is accounted for using the liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the average tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

2. Financial and capital risk management

Capital risk management
The Group's objectives when managing capital are to safeguard the ability to continue as a going concern and ensure that sufficient capital is in place to fund the Group's research activities. The Group's principal method of adjusting the capital available is through issuing new shares. During the year, the Company issued 95,469,537 Ordinary shares which funded the acquisitions of Aerocrine and Prosonix. The shares were offered at 288.05p each, raising gross proceeds of £275.0 million. The Group's capital is comprised of share capital and share premium, which are disclosed in notes 23 and 25 respectively. The Group monitors the availability of capital with regard to its forecast future expenditure on an ongoing basis.

Transaction and translation risk
Foreign exchange fluctuations may adversely affect the Group's results and financial condition. The Group prepares its financial statements in pound sterling, but a significant proportion of its expenditure and subsidiary results are in various currencies including US dollars, Swedish krona, Canadian dollars, Swiss Francs and Euros. The Group does not currently hedge against translation risk.

Financial risk factors
The Group's simple structure and the lack of external debt financing reduces the range of financial risks to which it is exposed. Monitoring of financial risk is part of the Board's ongoing risk management, the effectiveness of which is reviewed annually. The Group's agreed policies are implemented by the Chief Executive Officer, who submits periodic reports to the Board.

Foreign exchange risk
The majority of operating costs are denominated in Sterling, United States dollars, Canadian dollars, Euro, Swiss francs or Swedish krona. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

In relation to foreign currency risk, the Group's policy is to hold the majority of its funds in Sterling, and to use short - medium term currency purchase options (including spot purchases and forward contracts) and interest-bearing foreign currency deposits to manage short - medium term fluctuations in exchange rates.

The Group sometimes uses short-term currency purchase options and interest-bearing deposits of Swiss francs and Euros to manage short-term fluctuations in exchange rates. The Group uses foreign currency forward contracts to manage medium term fluctuations in Swedish krona, Canadian and United States dollars exchange rates.

At 31 December 2015, if the Euro had weakened/strengthened by 5% against Sterling with all other variables held constant, the post tax loss for the year would have been £0.5 million (2014: £nil) lower/higher, as a result of net foreign exchange gains/losses on translation of Euro-denominated payables, receivables and foreign exchange losses/gains on translation of Euro-denominated bank balances.

Notes to the financial statements

2. Financial and capital risk management (continued)

The impact on post tax loss at 31 December 2015 of a 5% weakening/strengthening of the US dollar against Sterling with all other variables held constant would have been a decrease/increase of £1.3 million (2014: £nil).

The impact on post tax loss at 31 December 2015 of a 5% weakening/strengthening of the Canadian dollar against Sterling with all other variables held constant would have been a decrease/increase of £0.4 million (2014: £nil).

The impact on post tax loss at 31 December 2015 of a 5% weakening/strengthening of the Swiss franc against Sterling with all other variables held constant would have been a decrease/increase of £0.4 million (2014: £nil).

The impact on post tax loss at 31 December 2015 of a 5% weakening/strengthening of the Swedish krona against Sterling with all other variables held constant would have been a decrease/increase of £1.1 million (2014: £nil).

The change in foreign exchange rates that is assessed to be reasonably likely for each currency in 2015 is 5%.

The Group is also exposed to currency translation risk in respect of the foreign currency denominated assets and liabilities of its overseas subsidiaries. At present, the Group does not consider this to be a significant risk since the Group does not intend to move assets between Group companies.

Interest rate risk
The Group's policy in relation to interest rate risk is to monitor short and medium term interest rates and to place cash on deposit for periods that optimise the amount of interest earned while maintaining access to sufficient funds to meet day to day cash requirements.

The Group does not have any committed external borrowing facilities, as its cash and cash equivalents and short-term deposit balances are sufficient to finance its current operations. Consequently, there is no material exposure to interest rate risk in respect of interest payable.

If interest rates had been 10 basis points higher/lower the impact on net loss in 2015 would have been an increase/decrease of £0.2 million (2014: £0.2 million) due to changes in the amount of interest receivable.

Credit risks
The Group's policy following Admission to the London Stock Exchange is to place funds with financial institutions which have a minimum credit rating with Fitch IBCA of A- long term /F1 short-term. During 2015 the Group placed funds on deposit with 10 banks (2014: 12 banks). The Group does not allocate a quota to individual institutions but seeks to diversify its investments, where this is consistent with achieving competitive rates of return. It is the Group's policy to place not more than £35 million (or the equivalent in other currencies) with any one counterparty.

The value of financial instruments held represents the maximum exposure that the Group has to them. There is no collateral held for this type of credit risk.

No credit limits were exceeded during any of the periods reported, and management does not expect any material losses from non-performance by these counterparties.

Cash flow and liquidity risk
Funds are generally placed on deposit with the maturity profile of investments being structured to ensure that sufficient liquid funds are available to meet operating requirements. The Directors do not consider that there is presently a material cash flow or liquidity risk.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. There were no financial liabilities outstanding for periods greater than one year. The amounts disclosed in the table are the contracted undiscounted cash flows:

At 31 December	**Less than 1 year 2015 £m**	Less than 1 year 2014 £m
Trade and other payables	**48.3**	9.7
Total	**48.3**	9.7

Derivative financial instruments and hedging
There were no derivatives at 31 December 2015 or 31 December 2014.

Notes to the financial statements

3. Operating segments

The chief operating decision-maker (the Executive Directors) are responsible for making key operating decisions in the Group. Assessment of performance and decisions regarding the allocation of resources are made by operating segment.

The table below presents information regarding the Group's operating segments for the year ended 31 December 2015. The group had one single operating segment in the year ended 31 December 2014.

Allergy relates to a range of immunotherapy development products for the treatment of allergy. NIOX® relates to the portfolio of products used to improve asthma diagnosis and management by measuring fractional exhaled nitric oxide (FeNO) and Respiratory relates to the portfolio of asthma and chronic obstructive pulmonary disease product candidates.

Segment operating loss	**Allergy £m**	**NIOX® £m**	**Respiratory £m**	**Total £m**
Revenue (from external customers by country, based on the destination of the customer)				
US	-	3.6	0.3	3.9
EU	-	3.9	0.2	4.1
Other countries	-	2.8	-	2.8
Total segment revenue	**-**	**10.3**	**0.5**	**10.8**
Research and development	(37.3)	(2.0)	(5.5)	(44.8)
Sales and marketing	(5.2)	(7.5)	-	(12.7)
Administrative expenses	(10.6)	(2.2)	(0.9)	(13.7)
Depreciation and amortisation [(1)]	(0.1)	(2.2)	(0.6)	(2.9)
Other	1.1	(4.1)	(0.1)	(3.1)
Operating loss	**(52.1)**	**(7.7)**	**(6.6)**	**(66.4)**

[(1)] Depreciation and amortisation is included on the face of the statement of comprehensive income within 'Research and development costs' and 'Sales and marketing'

Assets by segment	**Allergy £m**	**NIOX® £m**	**Respiratory £m**	**Unallocated £m**	**Total £m**
Cash, cash equivalents and short term deposits	200.4	0.4	3.0	-	203.8
Property, plant and equipment	-	-	-	1.3	1.3
Goodwill	72.1	4.7	4.4	-	81.2
Intangible assets	0.4	57.7	107.5	-	165.6
Deferred tax assets	-	-	-	17.2	17.2
Investment in joint venture	-	-	-	0.2	0.2
Inventories	-	-	-	3.0	3.0
Trade and other receivables	-	-	-	5.1	5.1
Current tax assets	-	-	-	11.8	11.8
Total assets	**272.9**	**62.8**	**114.9**	**38.6**	**489.2**

4. Revenue

The Group derives the following types of revenue:

	2015 £m	2014 £m
Sale of goods	**10.3**	-
Licence and milestone revenue	**0.5**	-
Total revenue	**10.8**	-

Notes to the financial statements

5. Employees and directors

The average monthly number of persons (including Executive Directors) employed by the Group during the year was:

By activity	2015 Number	2014 Number
Office and management	**49**	15
Sales and marketing	**72**	-
Research and development	**83**	34
Total average headcount	**204**	49

The average number of administration staff employed by the Company during the year, including Executive Directors was 2 (2014: 2).

Employee benefit costs	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Wages and salaries	**13.2**	6.1	**1.5**	1.8
Social security costs	**2.2**	0.8	**0.1**	0.2
Other pension costs	**0.5**	0.4	**0.1**	0.1
Share options expense	**2.7**	1.2	**-**	-
Total employee benefit costs	**18.6**	8.5	**1.7**	2.1

The Group contributes to defined contribution pension schemes for its Executive Directors and employees. Contributions of £52,979 (included in other payables) were payable to the funds at the year end (2014: £29,876).

The details of Directors of the Group who received emoluments from the Group during the year are shown in the Annual report on remuneration in the Remuneration Committee report.

Key management personnel

Key management includes Directors (Executive and Non-executive), the VP of Commercial Operations (leave date 8 April 2015), the Chief Commercial Officer, the General Counsel, VP of Human Resources and the Chief Business Officer (start date 16 June 2015). The compensation paid or payable to key management is set out below.

	2015 £m	2014 £m
Short term employee benefits (including bonus)	**3.4**	3.3
Post-employment benefits	**0.2**	0.2
Share based payment	**1.1**	0.8
Total	**4.7**	4.3

6. Finance income

	2015 £m	2014 £m
Finance income:		
Bank interest receivable	**1.7**	1.7
Net gain on foreign exchange	**1.8**	0.2
Total finance income	**3.5**	1.9

Notes to the financial statements

7. Operating expenses

Operating loss is stated after charging the following:

	2015 £m	2014 £m
Employee benefit costs (note 5)	**18.6**	8.5
Externally contracted research & development	**36.4**	33.4
Legal and professional fees including patent costs	**6.8**	1.8
Depreciation[(1)]	**0.5**	-
Amortisation[(1)]	**2.4**	-
Operating lease	**0.8**	0.3

[(1)] Depreciation and amortisation is included on the face of the statement of comprehensive income within 'Research and development costs' and 'Sales and marketing'

8. Auditor's remuneration

Services provided by the Group's auditor and its associates
During the year the Group obtained services from the auditor as detailed below:

	2015 £m	2014 £m
Fees payable to the Group's auditor and its associates for the audit of the parent company and consolidated financial statements	**0.2**	0.1
Fees payable to the Group's auditor and its associates for other services:		
The audit of the Company's subsidiaries	**0.1**	-
Other assurance services[(1)]	**0.2**	0.2
Total	**0.5**	0.3

[(1)] Other assurance services in 2015 relate to services performed in respect of the acquisition of Aerocrine and Prosonix. These costs were offset against the share premium reserve.

9. Other gains

	2015 £m	2014 £m
Forward contract foreign exchange gain	**1.1**	-

Notes to the financial statements

10. Taxation

The Group is entitled to claim tax credits in the United Kingdom for certain research and development expenditure. The amount included in the financial statements for the years ended 31 December 2015 and 2014 represents the credit receivable by the Group for the year and adjustments to prior years. The 2015 amounts have not yet been agreed with the relevant tax authorities.

	2015 £m	2014 £m
United Kingdom corporation tax research and development credit	**(10.3)**	(8.8)
Adjustments in respect of prior year	**(0.3)**	(0.1)
Movement in deferred tax	**(2.2)**	-
Total tax	**(12.8)**	(8.9)

The tax credit for the year is higher (2014: lower) than the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%). The differences are explained below:

	2015 £m	2014 £m
Loss on ordinary activities before tax	**(62.8)**	(44.0)
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%)	**(12.7)**	(9.5)
Expenses not deductible for tax purposes (permanent differences)	**0.8**	(1.0)
Research & development relief uplift	**(4.0)**	(2.4)
Utilisation of losses not previously recognised	**(0.2)**	-
Adjustments in respect of prior year	**(0.3)**	(0.1)
Tax losses for which no deferred income tax asset was recognised	**3.6**	4.1
Current tax credit for the year	**(12.8)**	(8.9)

At 31 December 2015, the Group had tax losses to be carried forward of approximately £223.3 million (2014: £76.4 million).

At 31 December 2015, the Group has current tax assets arising from tax credits in the United Kingdom for certain research and development expenditure of £11.8 million (2014: £8.8 million).

A reduction in the rate of UK corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020 has been substantively enacted. UK deferred tax assets and liabilities are recognised at a rate of 18% (2014: 20%).

11. Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary equity holders of the Company by the weighted average number of Ordinary shares in issue during the year.

	2015	2014
Loss from continuing operations attributable to ordinary equity owners of the parent company (£m)	**(49.9)**	(35.1)
Weighted average number of Ordinary shares in issue (Number)	**249,578,520**	169,118,824
Loss per share	**£(0.20)**	£(0.21)

As net losses from continuing operations were recorded in 2015 and 2014, the dilutive potential shares are anti-dilutive for the earnings per share calculation.

Notes to the financial statements

12. Property, plant and equipment

Group	Leasehold improvements £m	Fixtures and fittings £m	Plant and machinery £m	Assets under construction £m	Total property, plant and equipment £m
At 1 January 2014					
Cost	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-
Net book amount	-	-	-	-	-
Year ended 31 December 2014					
Opening net book amount	-	-	-	-	-
Additions	0.3	-	-	-	0.3
Depreciation	-	-	-	-	-
Closing net book amount	0.3	-	-	-	0.3
At 31 December 2014					
Cost	0.3	-	-	-	0.3
Accumulated depreciation	-	-	-	-	-
Net book amount	0.3	-	-	-	0.3
Year ended 31 December 2015					
Opening net book amount	0.3	-	-	-	0.3
Acquisition of subsidiaries (note 33)	0.2	0.1	0.5	0.5	1.3
Additions	-	-	0.1	0.1	0.2
Depreciation	(0.2)	-	(0.3)	-	(0.5)
Transfers	-	-	0.6	(0.6)	-
Closing net book amount	**0.3**	**0.1**	**0.9**	**-**	**1.3**
At 31 December 2015					
Cost	0.5	0.1	1.2	-	1.8
Accumulated depreciation	(0.2)	-	(0.3)	-	(0.5)
Net book amount	**0.3**	**0.1**	**0.9**	**-**	**1.3**

Notes to the financial statements

13. Goodwill

	£m
At 1 January 2014 and 31 December 2014	
Cost	1.8
Accumulated impairment	-
Net book amount	1.8
Year ended 31 December 2015	
Opening net book amount	1.8
Acquisition of businesses (note 33)	77.2
Exchange differences	2.2
Closing net book amount	**81.2**
At 31 December 2015	
Cost	81.2
Accumulated impairment	-
Net book amount	**81.2**

During 2015, Circassia completed the acquisition of two businesses, resulting in the recognition of £77.2 million of goodwill. The majority of this goodwill related to the acquisition of Aerocrine AB. This goodwill was allocated to the Aerocrine and Circassia cash generating units (CGUs) for impairment testing purposes as the benefits of the Aerocrine acquisition are split between these CGUs. The goodwill recognised on the acquisition of Prosonix Limited has been allocated to Prosonix Limited, being the CGU for impairment testing purposes.

The goodwill in 2014 arose on the purchase of 100% of the share capital of Circassia Limited from Imperial Innovations Businesses LLP on 17 July 2006. The goodwill represents the excess of cost over the fair value of assets acquired.

The carrying value of goodwill, translated at year end-end exchange rates, is allocated to the following CGUs:

Cash generating unit	**2015 £m**	2014 £m
Circassia	**72.1**	1.8
Aerocrine	**4.7**	-
Prosonix	**4.4**	-
	81.2	1.8

The recoverable amounts of the CGUs are assessed using a value in use model. Value in use is calculated as the net present value of the projected risk-adjusted pre-tax cash flows plus a terminal value of the CGU to which the goodwill is allocated.

The goodwill arising on Aerocrine is attributable to the benefit of having an established sales force with future customer relationships. A large element of the advantages of having an established sales force will accrue to the Circassia business as its products can be cross sold to the same customers by this sales force. The acquisition of Aerocrine was based on a strategic benefit to Circassia in leveraging the existing sales force within the business to generate future sales within Circassia. Goodwill has been allocated based on the proportion of discounted cash flows attributable to each CGU. For this reason, 94% of the goodwill acquired on acquisition of Aerocrine has been allocated to the Circassia CGU.

The value in use for Aerocrine and Circassia was calculated over a nine year period using a discount factor of 10% (being a weighted average cost of capital rate for the Group used by some analysts covering the Group). The calculations use pre-tax cash flow projections. In light of the stage of development of the product candidates these cover a nine year period. Cash flows beyond the nine year period were extrapolated using the estimated terminal growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business. The discount rate used is pre-tax and reflects specific risks relating to the Group and uncertainties surrounding the cash flow projections, particularly in relation to the assumed successful launch of the Group's products in the expected timeframe and the resulting sales.

Notes to the financial statements

13. Goodwill (continued)

The key assumptions used for the value in use calculations for Circassia, Aerocrine and Prosonix are as follows:

Anticipated launch dates	Group product candidate portfolio	2016 – 2025
Research and development costs	Based on management forecasts of clinical study costs for its product candidates, as well as related expenses associated with the regulatory approval process and commercialisation	
Sales value, volume and growth rates	Estimates of sales value, volume and growth rates are internal forecasts based on both internal and external market information and market research commissioned by the Company	
Advertising and promotion investment	Based on management forecasts of advertising and promotion required in the key territories	
Profit margins	Margins reflect management's forecasts of sales values and costs of manufacture adjusted for its expectations of market developments	
Period of specified projected cash flows	9 years	
Terminal growth rate	Terminal growth rates based on management's estimate of future long term average growth rate 2015 - 1% 2014 – 0%	
Discount rate	Discount rates based on Group weighted average cost of capital, adjusted where appropriate. The discount factor in 2015 has been adjusted to reflect the change in the risk profile of the business following the acquisitions made during the year 2015 - 10% 2014 – 20%	

In each case the valuations indicate sufficient headroom such that a change to key assumptions that are reasonably possible is unlikely to result in an impairment of the related goodwill.

Impact of possible changes in key assumptions

Delayed launch of key product candidate in Prosonix

Management have in their sensitivity analysis assessed the impact of the possibility that the launch of one of the key product candidates in the Prosonix CGU is delayed by a year.

Reduced annual growth rates in Aerocrine

Management have in their sensitivity analysis assessed the impact of a reduced Compound Annual Growth Rate (CAGR) in Aerocrine.

Product failure in late stage clinical trials

Management have in their sensitivity analysis assessed the impact of a lead product failure in late stage clinical trials including failure of cat immunotherapy.

The Directors and management have considered and assessed reasonably possible changes for other key assumptions and have not identified any instances that could cause the carrying amount of the above CGUs to exceed their recoverable amount, with the exception of lead product failure in late stage clinical trials, which would be likely to result in lower than forecast sales and costs in the Circassia and/or Prosonix CGUs such that goodwill would be impaired.

Notes to the financial statements

14. Intangible assets

Group	IPR&D £m	Customer relationships £m	Technology £m	Other £m	Total intangible assets £m
At 1 January 2014 and 31 December 2014					
Cost	-	-	-	0.5	0.5
Accumulated amortisation and impairment	-	-	-	(0.3)	(0.3)
Net book amount	-	-	-	0.2	0.2
Year ended 31 December 2014:					
Opening and closing net book amount	-	-	-	0.2	0.2
Year ended 31 December 2015:					
Opening net book amount	-	-	-	0.2	0.2
Acquisition of businesses (note 33)	88.9	29.9	46.0	1.2	166.0
Additions	-	-	-	0.1	0.1
Amortisation charge	-	(0.9)	(0.9)	(0.6)	(2.4)
Exchange differences	-	0.9	0.8	-	1.7
Closing net book amount	**88.9**	**29.9**	**45.9**	**0.9**	**165.6**
At 31 December 2015					
Cost	88.9	30.8	46.8	1.8	168.3
Accumulated amortisation and impairment	-	(0.9)	(0.9)	(0.9)	(2.7)
Net book amount	**88.9**	**29.9**	**45.9**	**0.9**	**165.6**

An impairment test is performed annually based on the value in use of the intangible assets.

The Group tests annually whether goodwill and intangible assets have suffered any impairment and tests more frequently when events or circumstances indicate that the current carrying value may not be recoverable. No such adverse events or circumstances have arisen in the year. Key assumptions and sensitivities used in the impairment review are disclosed in note 13.

In-Process Research & Development (IPR&D)
IPR&D comprise a portfolio of asthma and chronic obstructive pulmonary disease product candidates still in development. Note 33 'Business combinations' gives details of additions through business combinations in the year.

The IPR&D has been initially valued using the Excess Earnings Method. This valuation method is based on discounting the cash flows that are attributable to the intangible asset, after taking into account the contribution of other assets. IPR&D assets are tested for impairment on the same basis.

Customer relationships
Customer Relationships represent the existing customers, as at the date of acquisition that are expected to continue to support the business. A remaining useful life of 18 years was determined at acquisition. Amortisation has been calculated on a straight line basis over this period from the date of acquisition.

Technology
Prosonix achieves a sophisticated level of control over the physicochemical properties of drug particles via an integrated platform of unique and proprietary particle engineering technologies and formulation processes. The Relief from Royalty Method was used to determine the fair value of the acquired Technology. In the Relief from Royalty Method, estimates of the value of these types of intangible assets are made by capitalising the royalties saved because the company owns the intangible asset. A remaining useful life of 20 years was determined at acquisition and amortisation will commence when the products underpinned by this technology become available for commercial use. A value in use model is used in testing for impairment.

Aerocrine has been developing its technology to measure fractional exhaled nitric oxide ("FeNO") since the mid-1990s. The Company was the first to develop an instrument for the measurement of FeNO and is continuously developing the measurement FeNO as a valuable tool in the management of airway inflammation. The valuation of the Technology was based on pre-determined hypothetical royalty rate attributable to the use of the Technology. The estimated remaining useful life of the Technology is 15 years. Amortisation has been calculated on a straight line basis over this period from the date of acquisition.

Notes to the financial statements

14. Intangible assets (continued)

Other

Other intangible assets relate to licences and software in development. The software in development relates to the development of a new financial reporting software platform that was not complete at the year end. Once this is complete and the system fully operational, it will be amortised over the determined useful economic life.

15. Investments in subsidiaries

	2015 £m	2014 £m
Investments in subsidiaries at 1 January	**3.0**	1.8
Investment in Prosonix Limited	**100.3**	-
Investment in Aerocrine AB	**136.9**	-
Equity settled instruments granted to employees of subsidiaries	**2.4**	1.2
Investments in subsidiaries at 31 December	**242.6**	3.0

The capital contribution relating to share based payment is for 5,532,518 (2014: 3,165,857) 0.08p share options granted by the Company to employees of subsidiary undertakings in the Group. Further details on the Group's share option schemes can be found in note 24.

Details of the Company's related entities are provided below. All subsidiaries are included in the consolidation and the Directors believe that the fair value of the investment in all subsidiaries exceeds their carrying values.

Name	**Country of Incorporation**	**Nature of business**	**Proportion of ordinary shares held**
Adiga Life Sciences	Canada	Pharmaceutical research	50%
Circassia Limited	UK	Pharmaceutical research	100%
Circassia Pharma Limited	UK	Pharmaceutical research	100%
Circassia Pharmaceuticals Inc	USA	Pharmaceutical research	100%
Prosonix Limited	UK	Pharmaceutical research	100%
Aerocrine AB	Sweden	Development and sale of devices for management of asthma	97.9%
Aerocrine Inc	USA	Development and sale of devices for management of asthma	97.9%
Aerocrine GmbH	Switzerland	Sale of devices for management of asthma	97.9%
Aerocrine AG	Germany	Sale of devices for management of asthma	97.9%
Aerocrine Limited	UK	Sale of devices for management of asthma	97.9%

16. Investment in joint venture

	2015 £m	2014 £m
At 1 January	**0.1**	0.2
Share of profit/(loss)	**0.1**	(0.1)
At 31 December	**0.2**	0.1

Nature of investment in joint venture 2015 and 2014

Name of entity	Place of business / country of incorporation	% of ownership interest	Nature of the relationship	Measurement method
Adiga Life Sciences	Canada	50	Note 1	Equity

Note 1.
Adiga Life Sciences ("Adiga") is a joint venture with McMaster University in Canada for early epitope and mechanistic clinical studies. Adiga is a private company and there is no quoted market price available for its shares.

There are no contingent liabilities or commitments relating to the Group's interest in the joint venture.

Notes to the financial statements

16. Investment in joint venture (continued)

Summarised financial information for joint venture
Set out below is the summarised financial information for Adiga which is accounted for using the equity method.

Summarised statement of financial position at 31 December	**2015 £m**	2014 £m
Current assets		
Trade and other receivables	**1.2**	0.1
Cash	**0.2**	0.7
	1.4	0.8
Current liabilities		
Trade payables	**(0.9)**	(0.5)
Other payables	**(0.1)**	(0.1)
	(1.0)	(0.6)
Net assets	**0.4**	0.2

Summarised statement of comprehensive income for the year ended 31 December	**2015 £m**	2014 £m
Revenue	**2.3**	4.9
Research & development costs	**(2.6)**	(5.9)
Administration expense	**(0.2)**	-
Loss from continuing operations	**(0.5)**	(1.0)
Income tax income	**0.7**	0.8
Post tax profit/(loss) from continuing operations	**0.2**	(0.2)
Total comprehensive income/(expense)	**0.2**	(0.2)

The information above reflects the amounts presented in the financial statements of the joint venture adjusted for differences in accounting policies between the Group and the joint venture (and not Circassia Pharmaceuticals plc's share of those amounts).

Reconciliation of summarised financial information
Reconciliation of the summarised financial information presented to the carrying amount of the Company's interest in the joint venture.

Summarised financial information	**2015 £m**	2014 £m
Opening net assets 1 January	**0.2**	0.4
Profit/(loss) for the year	**0.2**	(0.2)
Other comprehensive income/(expense)	**-**	-
Closing net assets	**0.4**	0.2
Interest in joint venture @ 50%	**0.2**	0.1
Carrying value	**0.2**	0.1

Notes to the financial statements

17. Inventories

	2015 £m	2014 £m
Finished goods	**3.0**	-

Inventories recognised as an expense during the year ended 31 December 2015 amounted to £3.6 million (2014: £nil). These were included in 'Cost of sales'.

Write-down of inventories to net realisable value amounted to £0.5 million (2014: £nil). These were recognised as an expense during the year ended 31 December 2015 and included in 'Cost of sales'.

18. Trade and other receivables

	Group		Company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Trade receivables	**3.0**	-	**-**	-
Other receivables	**1.4**	0.7	**0.3**	-
Prepayments and accrued interest	**0.7**	2.0	**0.2**	1.5
Receivables from subsidiary undertakings	**-**	-	**184.5**	121.0
Total trade and other receivables	**5.1**	2.7	**185.0**	122.5

The fair value of other receivables are their current book values. Included within receivables is £0.3million (2014: £nil) of trade receivables that were past due at the end of the reporting period but have not been impaired.

Receivables from subsidiary undertakings are amounts provided by the Company to its subsidiaries in order to undertake studies. The receivable is unsecured, interest free and has no fixed date of repayment. Recoverability of the amount is dependent on the success of those studies.

The carrying amounts of the Group and Company receivables, excluding prepayments and recoverable taxes, are denominated in the following currencies:

	Group		Company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
UK pound	**0.4**	1.5	**176.2**	122.5
United States dollar	**1.4**	-	**4.8**	-
Swedish krona	**0.9**	-	**2.0**	-
Euro	**1.1**	-	**2.0**	-
	3.8	1.5	**185.0**	122.5

19. Cash and cash equivalents and short-term bank deposits

	Group		Company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Short-term bank deposit, with original maturity:				
More than 3 months	**37.8**	156.9	**37.8**	156.9
Total short-term bank deposits	**37.8**	156.9	**37.8**	156.9
Cash and cash equivalents:				
Cash at bank and in hand	**166.0**	29.7	**130.7**	18.8
Total cash and cash equivalents	**166.0**	29.7	**130.7**	18.8

Notes to the financial statements

19. Cash and cash equivalents and short-term bank deposits (continued)

The Group and Company cash and cash equivalents and short-term deposits are held with institutions with the following Fitch IBCA long term rating:

	Group		Company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
AA-	**33.1**	51.5	**0.5**	40.6
A+	**72.7**	35.0	**70.0**	35.0
A	**90.7**	92.1	**90.7**	92.0
A-	**7.3**	8.0	**7.3**	8.1
	203.8	186.6	**168.5**	175.7

The Group and Company cash and cash equivalents and short-term deposits are held in the following currencies at 31 December:

	Group		Company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
UK pounds	**138.3**	157.9	**135.5**	154.5
United States dollar	**22.2**	11.7	**20.5**	11.3
Canadian dollar	**8.5**	9.5	**7.3**	8.0
Euro	**7.5**	2.0	**5.2**	1.9
Swiss franc	**7.1**	5.5	**-**	-
Swedish krona	**20.2**	-	**-**	-
	203.8	186.6	**168.5**	175.7

20. Trade and other payables

	Group		Company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Trade payables	**5.1**	2.7	**0.1**	0.3
Social security and other taxes	**0.3**	0.2	**-**	-
Accruals	**12.0**	6.8	**0.1**	0.3
Other payables	**0.9**	-	**-**	-
Contingent consideration[(1)]	**30.0**	-	**30.0**	-
Total trade and other payables	**48.3**	9.7	**30.2**	0.6

(1) Details regarding the contingent consideration are disclosed in note 33. The contingent consideration arrangement requires the Group to pay the former owners of Prosonix Limited £30.0 million upon the Company receiving a product marketing authorisation in respect of Prosonix Limited's lead product in the United Kingdom on or before 31 December 2016 or £15.0 million on or before 31 December 2017. UK marketing approval was received during the year and the contingent consideration of £30.0million was paid on 6 January 2016. The fair value of the contingent consideration is therefore considered to be equal to its book value and is no longer contingent.

Notes to the financial statements

21. Financial instruments

The Group's financial instruments comprise cash and cash equivalents, short-term bank deposits, trade and other receivables, trade and other payables and contingent consideration. Additional disclosures are set out in the accounting policies relating to financial and capital risk management (note 2).

The Group had the following financial instruments at 31 December each year:

Assets	**2015 £m**	2014 £m
Cash and cash equivalents	**166.0**	29.7
Short-term bank deposits	**37.8**	156.9
Trade and other receivables	**3.8**	1.5
Loans and receivables	**207.6**	188.1

Liabilities	**2015 £m**	2014 £m
Trade and other payables - current	**47.5**	9.7
Financial liabilities at amortised cost	**47.5**	9.7

The Company had the following financial instruments at 31 December each year:

Assets	**2015 £m**	2014 £m
Cash and cash equivalents	**130.7**	18.8
Short-term bank deposits	**37.8**	156.9
Other receivables	**0.5**	1.5
Receivable from subsidiary undertaking	**184.5**	121.0
Loans and receivables	**353.5**	298.2

Liabilities	**2015 £m**	2014 £m
Trade and other payables - current	**30.2**	0.6
Financial liabilities at amortised cost	**30.2**	0.6

Cash balances comprise floating rate instant access deposits earning interest at prevailing bank rates.
Short-term deposits earn interest at fixed rates.

In accordance with IAS 39 'Financial Instruments Recognition and Measurement' the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. There were no such derivatives identified at 31 December 2015 or 31 December 2014.

Fair value
The Directors consider that the fair values of the Group's financial instruments do not differ significantly from their book values.

Notes to the financial statements

22. Deferred taxation

	Intangibles £m	Tax losses £m	Net deferred tax liability £m
As at 1 January	-	-	-
Acquisitions	34.0	(17.8)	16.2
Change in rate	(2.2)	0.5	(1.7)
(Credit)/charge to the income statement	(0.6)	0.1	(0.5)
As at 31 December 2015	**31.2**	**(17.2)**	**14.0**

On acquisition of Aerocrine AB and Prosonix Limited, the Group recognised a net deferred tax liability of £16.2 million, comprising a deferred tax liability of £34.0 million, offset by a deferred tax asset arising in the same jurisdictions of £17.8 million.

	2015 £m	2014 £m
Deferred tax liabilities	**31.2**	-
Deferred tax assets	**(17.2)**	-
Total deferred tax position	**14.0**	**-**

The Group has the following unrecognised potential deferred tax assets as at 31 December:

	2015 £m	2014 £m
Losses	**40.2**	15.4
Accelerated capital allowances	**0.5**	-
Share based payments and provisions	**1.7**	1.3
Total unrecognised deferred tax asset	**42.4**	16.7

23. Share capital

Authorised, called up and fully paid	**2015 £m**	2014 £m
284,889,171 (2014: 189,419,634) Ordinary shares of 0.08p each	**0.2**	0.2

On 11 June 2015, the Company issued 95,469,537 Ordinary shares which funded the acquisitions of Aerocrine and Prosonix. The shares were offered at 288.05p each, raising gross proceeds of £275.0 million.
Deal costs relating to the acquisitions and the share issue were £12.8 million, of which £8.8 million was offset against the Share Premium Account and £4.0 million of indirect Admission costs were included in the income statement.

Notes to the financial statements

24. Share based payments

Share options

Options have been awarded under the Circassia PSP Share Option Scheme ("the PSP Scheme"), the Circassia EMI Share Option Scheme ("the EMI Scheme") and the Circassia Unapproved Share Option Scheme ("the Unapproved Scheme").

The share options outstanding can be summarised as follows:

	2015 Number of Ordinary shares ('000)	2014 Number of Ordinary shares ('000)
PSP Scheme[(i)]	**4,336**	1,969
EMI Scheme[(ii)]	**535**	535
Unapproved Scheme[(iii)]	**661**	661
	5,532	3,165

The contractual life of all options is 10 years and the options cannot normally be exercised before the third anniversary of the date of grant.

(i) Options granted under the PSP Scheme do not have a fixed exercise price and are subject to additional vesting performance conditions. The performance conditions state that a proportion of an award shall vest subject to the Company Total Shareholder Return (TSR) ranking against the Comparator Index TSR and the remaining shall vest subject to the meeting of certain strategic Company objectives.

(ii) Options granted under the EMI Scheme have a fixed exercise price based on the market price at the date of grant.

(iii) Options granted under the Unapproved Scheme also have a fixed exercise price based on the market price at the date of grant.

The movement in share options outstanding is summarised in the following table:

	2015 Number ('000)	**2015 Weighted average exercise price (£)**	2014 Number ('000)	2014 Weighted average exercise price (£)
Outstanding at 1 January	3,165	0.25	3,010	0.23
Granted	**2,853**	**0.0008**	2,439	0.23
Expired	**-**	**n/a**	-	n/a
Forfeited	**(486)**	**0.0003**	(420)	1.05
Exercised	**-**	**n/a**	(1,864)	0.0008
Outstanding at 31 December	**5,532**	**0.15**	3,165	0.25
Exercisable at 31 December	**708**	**0.0008**	631	0.0008

The exercise prices of the share options outstanding at the end of the period were £nil, £0.0008 and £2.42 (2014: £nil, £0.0008 and £2.42). The weighted average remaining contractual life of share options outstanding at the end of the period was 8.2 years (2014: 8.7 years).

There were no options exercised during the year.

In the prior year 1.9m shares were exercised. These were issued at a weighted average price of £0.0008 each and the related weighted average share price at the time of exercise was £2.23 per share.

Notes to the financial statements

24. Share based payments (continued)

Valuation models
The fair value of PSP share options granted during the period was determined using the Monte Carlo Simulation model and Black Scholes model dependent on the performance vesting conditions.

Black Scholes
There were no options granted during the year that were valued solely using the Black Scholes model. The following weighted average assumptions were used in the Black Scholes model in calculating the fair values of the options granted during the prior year:

	2014
Share price	£3.19
Exercise price	£0.23
Expected volatility	50%
Expected life	10 years
Expected dividends	0%
Risk free interest rate	3%

Monte Carlo Simulation
The following weighted average assumptions were used in the Monte Carlo Simulation model in calculating the fair values of the options granted during the year:

	2015	2014
Exercise price	**£0.0008**	£nil
Expected volatility	**32%**	31%
Expected life	**3 years**	3 years
Expected dividends	**0%**	0%
Risk free interest rate	**1%**	1%

The Monte Carlo Simulation model has been used to value the portion of the awards which have a market performance vesting condition (Total Shareholder Return (TSR)). The model incorporates a discount factor reflecting this performance condition into the fair value of this portion of the award.

The weighted average fair value of options granted during the period determined using the Monte Carlo Simulation model at the grant date was £2.04 per option (2014: £2.19).

For the options valued using the Monte Carlo Simulation, expected volatility is measured by calculating the standard deviation of the natural logarithm of share price movements of comparable companies. This is a standard approach to calculating volatility. The risk free rate of return is the rate of interest obtainable from government securities as at the date of grant (i.e. Gilts in the UK) over the expected term (i.e. three years).

Restricted shares
The Company previously made awards of Ordinary shares to employees and Non-Executive Directors by entering into a form of restricted share agreement with each participant, under which the participant subscribed for or purchased Ordinary shares in the Company at 10p per ordinary share (converted into 0.08p shares post capital reorganisation). These shares are subject to certain restrictions on transfer and forfeiture, as set out in the restricted share agreement. The restrictions lift on the earlier of a sale of the Company and the expiry of a vesting period of between two and three years (depending on the date of award of the restricted shares).

There were 0.6m Ordinary shares of 0.08p (2014: 1.8m Ordinary shares of 0.08p) in issue at 31 December 2015.

Deferred shares
During the year the Group awarded 110,845 (2014: Nil) deferred shares to Executive Directors as part of a deferred bonus for 2014. The shares are held by the Groups Employee Benefit Trust until the third anniversary of the grant date when they will transfer to the Executive Directors so long as they are still an officer or employee of the Group.

Income statement
See note 5 for the total expense recognised in the income statement in respect of the above equity settled instruments granted to Directors and employees.

Notes to the financial statements

25. Share premium

Group and Company	2015 £m	2014 £m
At 1 January	**297.9**	103.4
Conversion of loan notes into Ordinary shares	**-**	2.0
Issue of new shares	**274.9**	201.9
Expenses relating to share issue	**(8.8)**	(9.4)
At 31 December	**564.0**	297.9

26. (Accumulated losses)/retained earnings

	Group		Company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
At 1 January	**(108.6)**	(73.5)	**1.2**	0.7
(Loss)/profit for the year	**(49.9)**	(35.1)	**(3.2)**	0.5
At 31 December	**(158.5)**	(108.6)	**(2.0)**	1.2

27. Other reserves

Group	Share option reserve £m	Translation reserve £m	Treasury shares reserve £m	Transactions with non-controlling interests [a] £m	Total other reserves £m
At 1 January 2014	0.1	-	-	-	0.1
Employee share option scheme	1.2	-	-	-	1.2
At 31 December 2014	1.3	-	-	-	1.3
Employee share option scheme	2.7	-	-	-	2.7
Currency translation differences	-	3.1	-	-	3.1
Purchase of own shares (note 32)	-	-	(0.3)	-	(0.3)
Transactions with non-controlling interests	-	-	-	(4.0)	(4.0)
At 31 December 2015	**4.0**	**3.1**	**(0.3)**	**(4.0)**	**2.8**

[a] On 1 July and 4 July 2015, the group acquired an additional 4.6% and 0.7% respectively of the issued shares of Aerocrine AB for SEK94.3 million (£7.2 million). Immediately prior to the purchase, the carrying amount of the existing 7.4% non-controlling interests in Aerocrine AB was £4.5 million. The group recognised a decrease in non-controlling interests of £3.2 million and a decrease in equity attributable to owners of the parent of £4.0 million. The effect on the equity attributable to the owners of Circassia Pharmaceuticals plc during the year is summarised as follows:

	2015 £m
Carrying amount of non-controlling interests acquired	3.2
Consideration paid to non-controlling interests	(7.2)
Excess of consideration paid recognised in the transactions with non-controlling interests reserve within equity	**(4.0)**

There were no non-controlling interests in 2014.

Company	Share option reserve	Total other reserves
	£m	**£m**
At 1 January 2014	**0.1**	**0.1**
Employee share option scheme	1.2	1.2
At 31 December 2014	**1.3**	**1.3**
Employee share option scheme	2.4	2.4
At 31 December 2015	**3.7**	**3.7**

Notes to the financial statements

28. Cash used in operations

Reconciliation of (loss)/profit before tax to net cash used in operations

	Group		Company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Continuing operations				
(Loss)/profit before tax	**(62.8)**	(44.0)	**(3.2)**	0.5
Adjustment for:				
Interest income	**(1.7)**	(1.7)	**(1.6)**	(1.7)
Depreciation	**0.5**	-	**-**	-
Amortisation	**2.4**	-	**-**	-
Share of joint venture (profit)/loss	**(0.1)**	0.1	**-**	-
Fair value gain on forward contract	**(1.1)**	-	**-**	-
Share based payment charge	**2.7**	1.2	**-**	-
Foreign exchange on non-operating cash flows	**(1.1)**	(0.5)	**0.1**	(0.7)
Changes in working capital:				
Decrease/(increase) in trade and other receivables	**1.5**	0.1	**(0.3)**	(26.9)
Increase in inventories	**(0.4)**	-	-	-
(Decrease)/increase in trade and other payables	**(4.8)**	3.8	**(0.8)**	0.1
Net cash used in operations	**(64.9)**	(41.0)	**(5.8)**	(28.7)

29. Contingent liabilities

There were no contingent liabilities at 31 December 2015 or at 31 December 2014.

30. Operating lease commitments

The total of future minimum lease payments payable under the entity's non-cancellable operating lease for each of the following periods is as follows:

	2015 £m	2014 £m
Due within one year	**1.0**	0.3
Due between one and five years	**0.8**	0.3

The group leases various offices and warehouses under non-cancellable operating leases expiring within one to five years.

31. Capital commitments

The Group had no capital commitments at 31 December 2015 or at 31 December 2014.

Notes to the financial statements

32. Related party transactions

Group
There is no ultimate controlling party of the Group as ownership is split between the Company's shareholders. The most significant shareholders as at 31 December 2015 are as follows: Invesco Asset Management (35.13% of total voting rights); Woodford Investment Management (15.98% of total voting rights); Oppenheimer Funds Inc (10.67% of total voting rights); Imperial Innovations Businesses LLP (9.30% of total voting rights); Aviva Investors (6.57% of total voting rights).

Transactions with related parties during the year and balances with related parties at 31 December are as follows:

Related party	**2015 Purchases £'000**	2014 Purchases £'000	**2015 Payables £'000**	2014 Payables £'000
Adiga Life Sciences (Joint venture)	**1,370**	4,920	**7**	-
Imperial Innovations Businesses LLP[1]	**42**	38	**-**	-
Iterum Pharmaceuticals LLC[2]	**89**	-	**-**	-

[1] 'Purchases' includes compensation paid or payable in respect of services provided by Russ Cummings as Non-Executive Director of the Company.
[2] Iterum Pharmaceuticals LLC is considered a related party by virtue of Paul Edick, a Non-Executive Director of the Company, being the Chairman of the Board.

Disclosure of compensation provided to Directors is given in the Annual Report on Remuneration and in note 5 for key management. Included within key management personnel is Chief Commercial Officer Linda Szyper. Linda is the spouse of Paul Edick, a Non-Executive Director of the Company. The compensation paid or payable to Linda is shown below:

	2015 £m	2014 £m
Linda Szyper:		
Short-term employee benefits (including bonus)	**0.5**	0.1
Share based payment	**0.1**	-
Total	**0.6**	0.1

Company
The following transactions with subsidiaries occurred in the year:

Related party	**2015 £m**	2014 £m
Rendering of services to Circassia Limited [1]	**1.3**	1.6
Settlement of liabilities on behalf of the subsidiaries	**(139.2)**	(3.0)
Net transfer of funds to subsidiaries	**201.4**	28.7
	63.5	27.3

[1] Remuneration costs (excluding share options charges) relating to Steven Harris and Julien Cotta in respect of services rendered to Circassia Limited.

	2015 £m	2014 £m
Balances due from subsidiary companies	**184.5**	121.0

The amount due is unsecured, interest free and has no fixed date of repayment.

Employee benefit trust
During the prior year the Company set up an Employee benefit trust for the purposes of buying and selling shares on the employees' behalf. A total of £291,081 of funding was paid into the Trust by the Company during the year ended 31 December 2015 (2014: £5,100).

A total of 110,845 shares (0.08p nominal value each) were purchased by the Trust during the year ended 31 December 2015 (2014: Nil). As at 31 December 2015 a cash balance of £5,080 (2014: £5,100) was held by the Trust.

Notes to the financial statements

33. Business combinations

During the year, Prosonix Limited and Aerocrine AB were acquired by the Group. The acquisitions were made in order to accelerate Circassia's strategy to become a self-sustaining specialty biopharmaceutical company and to provide the capability and resources to commercialise an enlarged late-stage pipeline of potential new allergy and asthma products, once approved.

Prosonix Limited
On 15 June 2015, the Group acquired 100% of the share capital of Prosonix Limited, a specialty pharmaceutical company focused on the development of a portfolio of asthma and chronic obstructive pulmonary disease product candidates. The total consideration was £100.0 million. None of the goodwill is expected to be deductible for tax purposes.

The goodwill of £4.4 million is attributable to the existing Prosonix Limited workforce (which cannot be separately valued under accounting standards).

The following table summarises the consideration paid for Prosonix Limited, and the amounts of the assets acquired and liabilities assumed.

Consideration	**£m**
Cash	70.0
Contingent consideration	30.0
Total consideration	**100.0**

Recognised amounts of identifiable assets acquired and liabilities assumed	**£m**
Cash and cash equivalents	5.3
Property, plant and equipment	0.8
Intangible assets (Technology)	19.0
Intangible assets (IPR&D)	88.7
Intangible assets (Other)	0.2
Trade and other receivables	2.1
Trade and other payables	(4.3)
Net deferred tax liabilities	(16.2)
Total identifiable net assets	**95.6**
Goodwill	4.4
Total consideration	**100.0**

The contingent consideration arrangement requires the Group to pay the former owners of Prosonix Limited £30.0 million upon the Company receiving a product marketing authorisation in respect of Prosonix Limited's lead product in the United Kingdom on or before 31 December 2016 or £15.0 million on or before 31 December 2017.

UK marketing approval was received during the year and the contingent consideration of £30.0 million was paid on 6 January 2016. The fair value of the contingent consideration is therefore considered to be equal to its book value and is no longer contingent.

The fair value of trade and other receivables is £2.1 million and includes trade receivables with a fair value of £0.1 million. The gross contractual amount for trade receivables due is £0.1 million.

The revenue included in the consolidated income statement from 16 June 2015 to 31 December 2015 contributed by Prosonix Limited was £0.5 million. Prosonix Limited contributed a loss before tax of £6.6 million for the same period.

Had Prosonix Limited been consolidated from 1 January 2015, the consolidated income statement for the year would show pro-forma revenue in respect of Prosonix Limited of £1.8 million and pro-forma operating loss of £3.8 million.

Measurement period adjustments
The fair value of the trade and other receivables at the acquisition date has been increased by £0.4 million to reflect an increase in the R&D tax credit receivable. A deferred tax asset of £5.3 million has been recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The above adjustments have resulted in a corresponding decrease in goodwill.

Notes to the financial statements

33. Business combinations (continued)

Aerocrine AB

On 18 June 2015, the Group acquired 92.6% of the share capital of Aerocrine AB, and by 7 July 2015, the Group acquired a further 5.3% of the share capital, bringing its investment in Aerocrine AB to 97.9%. The company offers market-leading products, which are sold to the Group's core customers of allergy / asthma specialists by an established commercial infrastructure in the US and Germany (Europe's largest allergy market), and by a network of partners in additional territories. The products, NIOX® MINO® and NIOX VERO®, are used to improve asthma diagnosis and management by measuring fractional exhaled nitric oxide (FeNO), and NIOX® is the only device available across major markets.

The products are an ideal strategic fit with the Group's commercialisation approach, with sales forces targeting specialists in key markets, partners undertaking promotion in other countries and the potential for primary care sales through partnering.

With a strong commercial infrastructure already established, with reimbursement, market access, supply chain and marketing expertise in place, there is an opportunity to scale up this presence in the near-term as well as expanding into further EU territories. The Group plans to increase the existing field forces, complete training on the Group's allergy products, map out key accounts and build customer relationships well in advance of the launch of the Group's cat allergy product. As a result, the Group aims to accelerate uptake of its cat allergy product and achieve higher peak sales, which research suggests have the potential to reach over $500 million per annum. In addition, this commercial investment is expected to drive greater NIOX® sales, which are targeting a market opportunity of approximately $190 million in the US allergy / asthma specialist segment alone.

The consideration paid was 1.7 billion SEK, equivalent to £129.6 million. None of the goodwill is expected to be deductible for tax purposes.

The goodwill at acquisition of £72.8 million arises from future customer relationships and sales force synergies.

The following table summarises the consideration paid for Aerocrine AB, and the amounts of the assets acquired and liabilities assumed.

Consideration	**£m**
Cash	129.6
Total consideration	**129.6**

Recognised amounts of identifiable assets acquired and liabilities assumed	**£m**
Cash and cash equivalents	32.4
Property, plant and equipment	0.5
Intangible assets (Customer relationships)	29.9
Intangible assets (Technology)	27.0
Intangible assets (IPR&D)	0.2
Intangible assets (Other)	1.0
Inventories	2.3
Trade and other receivables	4.2
Trade and other payables	(8.0)
Other financial investments	0.2
Borrowings	(28.4)
Total identifiable net assets	**61.3**
Non-controlling interests	**(4.5)**
Goodwill	72.8
Total consideration	**129.6**

The non-controlling interests have been recognised as a proportion of net assets acquired.

The revenue included in the consolidated income statement from 19 June 2015 to 31 December 2015 and contributed by Aerocrine AB was £10.3 million. Aerocrine AB also contributed an operating loss of £7.7 million over the same period.

Had Aerocrine AB been consolidated from 1 January 2015, the consolidated income statement for the year would show pro-forma revenue in respect of Aerocrine AB of £18.8 million and pro-forma operating loss of £26.6 million.

Notes to the financial statements

33. Business combinations (continued)

Measurement period adjustments
The fair value of the consideration at the acquisition date has increased by £0.9 million in respect of vested share options with a change of control clause. The deferred tax rate has decreased from 35% (US tax rate) to 22% (Swedish tax rate) resulting in a deferred tax liability of £12.5 million compared to £19.9 million at acquisition. A deferred tax asset of £12.5 million has been recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The above adjustments have resulted in decrease of £17.5 million in goodwill and an increase of £1.4 million in Non-controlling interests.