CIRCASSIA PHARMACEUTICALS PLC
INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

Strong NIOX® sales growth
Duaklir® NDA filing on track following positive phase III results
AstraZeneca US commercial collaboration progressing well
Respiratory pipeline advancing

Oxford, UK – 27 September 2017: Circassia Pharmaceuticals plc ("Circassia" or "the Company") (LSE: CIR), a specialty pharmaceutical company focused on respiratory disease, today announces its interim results for the six months ended 30 June 2017 and a post-period update.

FINANCIAL HIGHLIGHTS

- Revenues increased 65% to £18.3 million (H1 2016: £11.1 million)
- R&D expenditure, including £14.6 million R&D contribution to AstraZeneca collaboration, increased to £27.2 million (H1 2016: £25.1 million)
- Loss for period reduced to £34.3 million (H1 2016: £101.8 million[1] which includes £74.8 million of allergy-related impairments)
- Strong balance sheet with £82.9 million cash[2] at 30 June 2017 (31 December 2016: £117.4 million)

OPERATIONAL HIGHLIGHTS

Strong NIOX® sales growth

- Sales increased 19% (8% at CER[3]) to £13.1 million (H1 2016 CER[3]: £12.1 million)
- Direct clinical sales[4] increased 26% (15% CER[3]) compared with H1 2016
- US clinical sales increased 39% (22% CER[3]) vs H1 2016; reimbursement and key accounts expanded
- UK sales growth 100% vs H1 2016 following launch of direct sales team
- Global commercial team and commercialisation activities strengthened

AstraZeneca US commercial collaboration progressing well

- Duaklir®[5] phase III study AMPLIFY met co-primary endpoints
- NDA planned H1 2018; supported by successful Duaklir® dose-ranging study ACHIEVE
- Encouraging stabilisation in Tudorza® US prescriptions
- US commercial team expansion completed ahead of schedule; 200-strong sales force launched 5 June

Respiratory portfolio advancing

- Seretide® pMDI substitute targeting initial filing H1 2019
- Spiriva® DPI substitute pharmacokinetic study on track to start H1 2018
- Smart nebuliser technology in-licensed from Philips
- Nebulised LABA / LAMA formulation on track to begin clinical study 2018
- Flixotide® pMDI substitute EU rights not returned; launch activities halted

Cost reductions implemented

- Allergy investment halted
- In-house R&D positions reduced by further 30%

Steve Harris, Circassia's Chief Executive, said: *"Circassia has made great progress so far in 2017, continuing NIOX®'s strong sales growth and culminating in the recent successful results from Duaklir®'s phase III AMPLIFY study, which pave the way for an NDA in the first half of next year. We are building impressive momentum in our US commercial collaboration with AstraZeneca, and as part of this flagship partnership we launched our significantly expanded US sales force in June, and Tudorza® prescription levels are responding positively. During the period we also continued to advance our broader respiratory pipeline. We recently licensed innovative 'smart' nebuliser technology from Philips, which we are incorporating into our novel LAMA / LABA formulation development programme, and our range of substitute products remain on track."*

"We intend to build on this success in the coming months. In particular, we plan to capitalise on our significantly expanded commercial capabilities to accelerate our NIOX® revenues and our AstraZeneca collaboration, while also pursuing additional opportunities to broaden our portfolio through in-licensing, acquisition and partnering. With a period of dramatic change behind us, Circassia has a strong commercial infrastructure, growing revenues, advancing pipeline and robust balance sheet. As a result, we are well placed to complete our transformation into a self-sustaining, world-class specialty pharmaceutical business."

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 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 pharmaceutical business focused on respiratory disease. Circassia sells its novel, market-leading NIOX® asthma management products directly to specialists in the United States, United Kingdom and Germany, and in a wide range of other countries through its network of partners. The Company recently established a collaboration with AstraZeneca in the US in which it promotes the chronic obstructive pulmonary disease (COPD) treatment Tudorza®, and has the US commercial rights to late-stage COPD product Duaklir®.

Circassia's development pipeline includes a range of respiratory medicines. The Company's lead asthma treatment targets substitution of GSK's Flixotide® pMDI and was approved in the UK. Circassia is also developing a direct substitute for Seretide® pMDI, and its pipeline includes a number of inhaled medicines for COPD, including single and combination dose products. For more information on Circassia please visit www.circassia.com.

[1]Includes goodwill and other intangible assets impairment of £74.8 million associated with discontinued allergy programmes
[2]Cash, cash equivalents and short-term deposits
[3]Constant exchange rates (CER) for H1 2016 represent reported numbers re-stated using H1 2017 average exchange rates; management believes constant currency numbers better represent the underlying performance of the Group due to subsidiary functional currency fluctuations against Sterling
[4]Direct clinical sales to clinicians, hospitals and distributors; research sales to pharmaceutical companies for use in clinical studies
[5]Duaklir® is a registered trademark in Europe and other markets; the US trademark is subject to review and approval by the FDA

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.

OPERATING AND STRATEGY REVIEW

During the first half of 2017 Circassia capitalised on the significant refocusing the Company initiated in the previous six months. With a greatly expanded commercial presence focused on the respiratory field, we established a transformational US collaboration with AstraZeneca. The inevitable operational disruption this caused is now drawing to a close with our US sales force expansion, territory realignment and product training complete. With the team focused on accelerating NIOX® and Tudorza® sales we are building encouraging momentum.

We also made good commercial progress elsewhere, strengthening our local and global capabilities and building on the launch of our dedicated sales team in the UK. At the same time, Circassia's pipeline continued to advance. We recently received positive Duaklir® clinical results from the phase III AMPLIFY study, which support a New Drug Application (NDA) planned for the first half of next year. In addition, development of our particle-engineered substitutes targeting market-leading respiratory products continues on track.

NIOX® sales growth

NIOX® is the leading point-of-care product used across major markets to assess airway inflammation through the measurement of fractional exhaled nitric oxide (FeNO). As a result, physicians around the world use NIOX® to diagnose and manage asthma.

During the first half of 2017, NIOX® sales continued to grow strongly, with total revenues increasing to £13.1 million, 19% above the same period in 2016 (8% CER). Sales for use in regular clinical practise, rather than pharmaceutical company studies, are more directly influenced by Circassia's commercialisation activities and these continued to demonstrate good growth during the period. For the first half of 2017, clinical sales increased by 26% (15% CER) compared with the same period the year before. This was offset to some extent by less predictable research sales for use in clinical studies, which declined during the period by 6% (14% CER).

In the United States, the Company's significantly expanded sales force made impressive progress, with an overall increase in NIOX® revenues of 39% (22% CER) compared with the same period the previous year. During the first half of 2017 the UK team also delivered an encouraging performance. Previously, UK commercialisation was managed by a distributor, which was replaced by Circassia's direct sales force at the end of December 2016. The team has rapidly established itself in the market, and sales are 100% ahead of Circassia's revenues during the same period in 2016.

US market access progress

Circassia's US managed markets and key accounts teams have performed well since their establishment in the second half of 2016. During 2017, the team increased reimbursement levels and consequently over 6 million additional Americans now have NIOX® coverage via a number of health plans. In parallel, Circassia's key accounts team identified and targeted large multi-site health providers. As a result, the team signed 29 major account contracts during 2017, providing physicians in these facilities with easy access to NIOX®.

Customer evaluation programmes

During 2017, the US team evolved its NIOX® experience programme to focus on objectively demonstrating the value of FeNO measurement to potential customers. The programme offers a 90-day trial at an introductory price and provides healthcare professionals with weekly 'Impact Reports' detailing their FeNO-guided treatment changes alongside comparisons with national averages and the medical literature.

Circassia's commercial teams in the UK and Germany have also introduced local evaluation programmes. In Germany, the initiative is conducted in collaboration with the national pulmonology society and aims to increase the accessibility of FeNO measurement for patients. In the UK, the programme is currently running across five regions, with physicians trialling NIOX® to demonstrate the benefits of FeNO monitoring for their patients, practices and local healthcare commissioners.

Distribution management

Circassia commercialises NIOX® directly in the United States, Germany and the UK, and its commercial team in Beijing manages local distributors in China. In addition, NIOX® is available through distributors in a wide range of other countries where the Company does not have a direct commercial presence. Relationships with these distributors are managed by a recently-expanded specialist team based at Circassia's headquarters in Oxford, which is working to increase sales, boost local performance and monitor sales and marketing efforts. During the last few months the distributor management team has appointed new partners in a number of

countries in the Middle East and is pursuing a number of opportunities in Asia. In Europe, newly-appointed distributors in France and Italy have re-launched NIOX® following a period of underperformance by the previous distributor, and Circassia is further supporting French commercialisation through the appointment of a dedicated local market expert.

NIOX® registration extensions
During 2017, Circassia built on two clinical studies it successfully completed in 2016, which were designed to extend the use of NIOX VERO®. The Company recently completed the product's European certification for use in the screening of primary ciliary dyskensia (PCD), an orphan condition that affects approximately 50,000 people in the EU. We recently launched this new application at the European Respiratory Society annual meeting, where the Company presented the results of its PCD clinical study and unveiled NIOX®'s new software and nasal breath sampling kit at a dedicated workshop.

During the first half of 2017, Circassia also filed an application to extend NIOX VERO®'s US registration to include its six second test mode, which has the potential to increase use in children compared with the currently approved 10 second mode. The Company hopes to receive approval for this shorter test in the coming months.

As well as extending the utility of the NIOX® system, Circassia is working to increase the number of countries in which it is registered. During the first half of 2017 the Company received regulatory approval for NIOX VERO® from Health Canada, and submitted filings in Taiwan and Singapore.

NIOX® development programme
Circassia is developing the next generation of NIOX® to retain its market leadership position. As part of this development programme, the Company has established a dedicated device development team and specialist laboratory in Oxford, which recently completed a successful external audit as part of the NIOX® ISO accreditation process. The development team is currently working with commercial colleagues on product concept refinement for future NIOX® systems, based on both market requirements and new technologies.

Commercial collaboration with AstraZeneca

In April 2017, Circassia established a transformational transaction with AstraZeneca, which brings the Company two exciting respiratory products in the United States. Under the initial commercial collaboration, we promote the chronic obstructive pulmonary disease (COPD) product Tudorza® through our significantly expanded sales force. In addition, Circassia has exclusive US commercialisation rights to Duaklir®, which recently completed a successful phase III study supporting an NDA filing planned for the first half of next year.

In addition to the products, the structure of the transaction is attractive. AstraZeneca has joined Circassia's share register, taking a 14% shareholding in the Company in payment for the upfront consideration of $50 million, while the transaction's remaining consideration is deferred with the exact amount payable dependent on the success of Tudorza® and Duaklir®. We will seek third-party funding to cover these deferred payments, and in the event financing is not available we have agreed a vendor loan with AstraZeneca to address this consideration. Additionally, we anticipate the Tudorza® commercial collaboration will fund the expansion of our US commercial team and our R&D contribution to the products' clinical studies.

Tudorza® collaboration
Tudorza® (aclidinium bromide 400 µg twice daily) is a long-acting muscarinic antagonist (LAMA) indicated for the long-term maintenance treatment of bronchospasm associated with COPD, including chronic bronchitis and emphysema. Following completion of the transaction with AstraZeneca, Circassia assumed responsibility for the promotion of Tudorza® in the United States, and is building encouraging momentum. The Company's existing US sales force completed Tudorza® product training and began promotion at the beginning of May 2017. In parallel, we doubled the number of our sales representatives to 200, selecting from over 4,000 applications. This greatly expanded team, which includes a large number of experienced respiratory specialists, began Tudorza® promotion at the start of June, eight weeks ahead of schedule. We also complemented this sales team growth with additional marketing, medical, training and analysis expertise.

As part of the overall expansion programme, sales territories were redefined, reallocated and aligned with our expanded resources. Additionally, potential new customers have been identified and targeted, and contact established with the existing Tudorza® customer base. As a result of these changes, we experienced inevitable disruption for a number of months, which is now drawing to a close. With the team increasingly established in the marketplace we are making good progress and are exceeding our Tudorza® physician call targets.

Our promotional strategy targets prescribers who account for the majority of Tudorza® prescriptions, as well as the modest number of physicians who are responsible for the greatest number of COPD prescriptions. In the short period since Circassia assumed responsibility for Tudorza®'s promotion, the market is showing encouraging early results. Following previous sustained declines in Tudorza® prescription levels, Circassia has now stabilised product uptake in recent weeks, and anticipates returning it to growth in the coming months.

Duaklir® development programme
Under the terms of the transaction with AstraZeneca, Circassia secured the US commercial rights to Duaklir®, a fixed dose long-acting muscarinic antagonist / long-acting beta agonist (LAMA / LABA) combination (400 µg aclidinium bromide / 12 µg formoterol fumarate twice daily). In recent months, Duaklir® has made significant progress and recently completed a successful phase III trial, AMPLIFY, meeting its co-primary efficacy endpoints with clinically relevant improvements in patients' lung function. These results are supported by another recently completed study, ACHIEVE, which confirmed the 12 µg dose of formoterol included in the AMPLIFY study as the optimal dose for the product. As a result, AstraZeneca plans to submit a New Drug Application to the FDA in the first half of 2018.

Positive clinical data
During the first half of 2017, several studies were published supporting Tudorza®, Duaklir® and the novel Pressair® inhaler used to deliver both products. Pressair® offers a number of competitive advantages and previous studies show a clear patient preference for the inhaler versus a number of competing devices.

In June, a post-hoc analysis from a Tudorza® phase III study was published in the International Journal of COPD*. This compared Tudorza® treatment with the market-leading LAMA, Spiriva®, in patients with symptomatic moderate-to-severe COPD. The results showed that Tudorza® provided additional improvements in bronchodilation, particularly during the night, and in daily COPD symptoms, early-morning and night-time symptoms and early-morning activity limitation.

This publication followed a number of presentations at the American Thoracic Society conference in May, which highlighted data from several studies.

- Tudorza® showed greater improvements in symptoms and quality-of-life measures with lower exacerbation frequency in patients with moderate-to-severe COPD compared with Spiriva®.
- Tudorza® significantly improved daily COPD symptoms as well as cough and sputum symptoms compared with placebo.
- Duaklir® significantly improved exercise capacity and lung hyperinflation versus placebo, with significant early improvements in physical activity, in patients with moderate-to-severe COPD.
- Pressair®** required less training and patients had fewer errors, higher satisfaction and greater willingness to continue using the inhaler compared with Spiriva®'s Respimat® device.

During the second half of 2017, Circassia is anticipating further Tudorza® clinical results when the currently ongoing ASCENT post-marketing study completes. This study, in which AstraZeneca enrolled over 3,500 COPD patients in North America, is exploring the effect of Tudorza® treatment on the time to a first major cardiovascular event and the rate of moderate or severe COPD exacerbations. Positive results from the study may support a supplemental filing to include the data in Tudorza®'s label.

Significant market opportunity
COPD is a highly prevalent and serious disease that causes long-term disability. In the United States, over 15 million people have been diagnosed with COPD and the disease is the third largest cause of death, killing over 135,000 Americans each year. As a result, the COPD treatment market is significant, with US sales estimated at more than $5 billion in 2016.

This major market opportunity is further supported by recent changes to the Global Initiative for Chronic Obstructive Lung Disease (GOLD) treatment guidelines. Notably, these advocate a move away from treatment with inhaled corticosteroids and now recommend LAMA-containing products, such as Tudorza® and Duaklir®, as preferred initial treatments for every patient group.

Commercial growth platform

Over the last 12 months, Circassia has completed its transformation into a fully-fledged specialty commercialisation company with growing capabilities in key markets. In the United States, we expanded our sales management, training, marketing and operational capabilities alongside the doubling of our field force.

We have also boosted our infrastructure in Europe, where our UK and German teams are complemented by marketing, market access and in-house training expertise. Additionally, our distributor management team now incorporates market access support to assist local reimbursement activities. With these expanded capabilities now in place, Circassia is building a robust presence in the marketplace, including significant brand building activities at leading global respiratory conferences. This investment strategy has a dual objective, targeting increased product sales as well as building a strategic growth platform on which to broaden our portfolio through acquisition, in-licensing or partnering.

Respiratory portfolio

Seretide® pMDI and Spiriva® DPI substitutes progressing

Circassia is developing products targeting direct substitution of GSK's Seretide® pMDI and Boehringer Ingelheim's Spiriva® DPI. In 2016, the originators' products accounted for global revenues of approximately $4.7 billion and $3.3 billion respectively in a range of inhalers. Circassia's development programmes are continuing to advance, and we are targeting a European filing in H1 2019 for our Seretide® substitute and an initial pharmacokinetic clinical study of our Spiriva® substitute in the first half of next year.

Novel nebulisation technology

During the second half of 2016, we began the development of a novel LAMA / LABA formulation based on currently approved drugs for use as a specialist COPD treatment. This programme incorporates novel mesh nebulisation technology, which we recently in-licensed from leading medical innovation company Philips Respiratory Drug Delivery. The easy-to-use nebuliser is designed to improve usability, which is particularly important for patients with more severe COPD who are often elderly and infirm. The hand-held nebuliser is also web enabled, allowing efficient data collection.

The product concept aims to increase treatment efficacy for vulnerable COPD patients who struggle to use existing LAMA / LABA inhalers. Importantly, it targets a different market segment to Tudorza® and Duaklir®, providing Circassia the opportunity to offer treatments to a broad range of patient groups. The development programme continues to make progress, and Circassia is on track to begin an initial clinical study in 2018.

Flixotide® pMDI EU rights

At the end of 2015, Circassia's lead asthma product targeting substitution of GlaxoSmithKline's Flixotide® pMDI was approved by the UK's Medicines and Healthcare products Regulatory Agency (MHRA) in all three strengths in which the originator product is available. The product was previously out-licensed in major territories prior to Circassia's ownership, and with the United States remaining the largest market, we initiated discussions regarding the potential return of rights for the more modest EU opportunity in the second half of 2016. However, we have not secured these rights, which remain with our partner, and as a result we have halted EU launch activities for the product.

Focus on costs

In the first nine months of 2017, Circassia has continued its focus on costs. In the second quarter of the year, the Company completed a review of its R&D requirements following receipt of disappointing allergy clinical data that mirrored the phase III results it received in 2016. Based on this review the Company halted investment in the allergy field and subsequently reduced its R&D headcount by a further 30%.

During 2017, Circassia also completed the consolidation of its Oxford facilities, significantly reducing future costs. Additionally, with the closure of the Company's sites in Chicago and Solna at the end of 2016, Circassia's G&A expenditure was significantly lower during the first half of 2017 compared with the same period the year before. Circassia intends to continue its focus on costs to maintain efficiencies across its operations.

Summary and outlook

Throughout 2017, we have continued to build on the changes we began last year following the disappointing phase III results for our lead allergy product. Since then, we have halted investment in the allergy field, significantly expanded our commercialisation platform, completed a major commercial transaction with AstraZeneca and in-licensed exciting nebulisation technology from Philips. With the inevitable operational disruption caused by such ambitious changes now behind us, we are building encouraging momentum, increasing product uptake, advancing our pipeline and pursuing additional opportunities to expand our portfolio.

In the coming months, we intend to capitalise on this momentum. In the key US market, we are targeting a substantially larger customer base than at this time last year, and consequently we anticipate robust revenue growth for both NIOX® and Tudorza®. We also plan to increase our NIOX® sales in the UK and Germany

through our direct sales teams, as well as supporting our distributors' efforts to expand uptake across our growing international network. In addition to this commercial progress, we plan to advance our pipeline products. Our partner AstraZeneca is on track to submit an NDA for Duaklir® in the first half of 2018 and we plan to move our Spiriva® substitute and nebulised LAMA / LABA development programmes into the clinic, while also advancing our Seretide® substitute.

With a period of dramatic change behind us, Circassia has a strong commercial infrastructure, growing revenues, advancing pipeline and robust balance sheet. As a result, we are well placed to complete our transformation into a self-sustaining, world-class specialty pharmaceutical business.

*Int J Chron Obstruct Pulmon Dis 2017;12:1731-1740
**Pressair® is marketed as Genuair® in certain countries; the Genuair® branded device was included in the study presented at the American Thoracic Society conference

FINANCIAL REVIEW

The first half of 2017 has been a period of significant change for Circassia, with the Company completing and building on the major refocusing it initiated during H2 2016. With all significant allergy investment halted following disappointing clinical results, Circassia dramatically expanded its commercial platform, facilitating a transformational US collaboration with AstraZeneca, which in turn led to a further doubling of the US sales team at the end of the period.

The AstraZeneca collaboration and ceasing of all further activity on allergy development programmes have contributed to a reduction in the loss for the financial period, and a reduction in cash spend, compared to H1 last year. Loss for the financial period was £34.3 million (H1 2016: £101.8 million). The presentation of the 2016 results have been restated to show costs related to the discontinued allergy business separately.

Under the terms of the AstraZeneca collaboration agreement, Circassia is responsible for the promotion of Tudorza® to physicians by its field force and records the associated costs under its sales and marketing expenditure. AstraZeneca records product revenues and is responsible for its distribution together with all other ancillary costs, such as pharmacovigilance. Circassia's revenue represents the Company's equal share of the net profit generated by the collaboration. In addition, Circassia will contribute $62.5 million to Tudorza® and Duaklir® R&D costs, which will be paid in three instalments between 2017 and 2019 of $17.5 million at the end of 2017, $20 million at the end of 2018 and $25 million in 2019.

The table below sets out results for H1 2017 for the Group separated into continuing and discontinued operations. Continuing operations include revenue and costs derived from the collaboration with AstraZeneca, in particular the sale of Tudorza® and development of Duaklir®, as well as sales of NIOX® and costs for the existing underlying Circassia business. Discontinued operations include direct costs and overheads associated with the allergy programmes following the decision to stop all further development in April 2017. The presentation of the results for the six months to 30 June 2016 has been restated in accordance with IFRS 5 to provide a clearer comparison.

	Continuing operations	**Discontinued operations[1]**	**Group**	Continuing operations	Discontinued operations	Group
	H1 2017	**H1 2017**	**H1 2017**	H1 2016 Restated[2]	H1 2016 Restated[2]	H1 2016
	£m	**£m**	**£m**	£m	£m	£m
Revenue	**18.3**	**-**	**18.3**	11.1	-	11.1
Gross profit	**13.6**	**-**	**13.6**	7.5	-	7.5
Sales and marketing	**(21.1)**	**(0.5)**	**(21.6)**	(11.4)	(76.2)	(87.6)
Research & development	**(22.8)**	**(4.4)**	**(27.2)**	(7.9)	(17.2)	(25.1)
Administrative expenditure	**(5.0)**	**(0.1)**	**(5.1)**	(9.3)	(0.2)	(9.5)
Operating loss	**(35.3)**	**(5.0)**	**(40.3)**	(21.1)	(93.6)	(114.7)
Finance income net	**1.2**	**-**	**1.2**	6.3	-	6.3
Share of (loss)/profit of joint venture	**-**	**(0.5)**	**(0.5)**	-	0.8	0.8
Loss before tax	**(34.1)**	**(5.5)**	**(39.6)**	(14.8)	(92.8)	(107.6)
Taxation	**4.5**	**0.8**	**5.3**	0.9	4.9	5.8
Loss for the financial period	**(29.6)**	**(4.7)**	**(34.3)**	(13.9)	(87.9)	(101.8)
Cash[3]	**82.9**	**-**	**82.9**	138.0	-	138.0

[1] Disclosed as a single amount in the condensed interim consolidated statement of comprehensive income

[2] Restated to show the results of the allergy business in discontinued operations, see note 6 to the condensed interim consolidated financial statements

[3] Includes cash and cash equivalents and short-term deposits.

Revenue

Circassia's revenues of £18.3 million (H1 2016: £11.1 million) include NIOX® sales of £13.1 million (H1 2016: £11.1m) for the full six months and revenue of £5.2 million from the collaboration with AstraZeneca, for the sale of Tudorza® from 12 April 2017 when the agreement became unconditional.

Included in NIOX® revenues are clinical sales of £11.0 million (H1 2016: £8.8 million), research sales of £1.9 million (H1 2016: £2.0 million) and other revenues of £0.2 million (H1 2016: £0.3 million), which include freight. Clinical revenues represent sales to physicians, hospitals and distributors for use in clinical practice, while

research sales are those to pharmaceutical companies for use in clinical studies. During the period, NIOX® direct clinical sales increased by 26% (15% at CER) compared to H1 2016. Growth was greater in the first quarter of 2017 compared with the second, due in part to operational disruption in the US following the start of the collaboration with AstraZeneca when the field force was expanded from 100 to 200, territories restructured and representatives removed from the market temporarily to complete training on Tudorza®. Revenues from more unpredictable pharmaceutical company use decreased during the period by 6% (14% CER).

Gross profit

Gross margin during the period increased from 68% to 74%. This was mainly due to the contribution of revenues from the AstraZeneca collaboration. This gross margin is expected to increase further in H2 2017 based on revenues from the collaboration for the full six month period. Gross profit on NIOX® sales was £8.4 million (H1 2016: £7.5 million), with a gross margin of 64% (H1 2016: 68%). This decrease mainly reflects the weakening in sterling.

Sales and marketing

Sales and marketing costs from continuing operations increased during H1 2017 to £21.1 million (H1 2016 restated: £11.4 million). This was mainly due to an increase in the size of the US field force from 100 to 200 as part of the collaboration agreement with AstraZeneca. In contrast, total sales and marketing costs decreased to £21.6 million (H1 2016: £87.6m), due to a goodwill write-down of £74.5 million in H1 2016.

Research and development activities

Research and development expenditure increased during the period to £27.2 million (H1 2016: £25.1 million). Continuing R&D operations of £22.8 million (H1 2016 restated: £7.9 million) included an accrual of £14.6 million (H1 2016: £Nil) for the R&D contribution to AstraZeneca relating to Tudorza® and Duaklir®.

Included within discontinued operations are costs of £4.4 million (H1 2016: £17.2 million) relating to the halted allergy programmes.

Administrative expenditure

Administrative expenditure, which includes overheads specific to corporate functions, centrally managed support functions and corporate costs, decreased to £5.1 million (H1 2016: £9.5 million). This reflects a number of cost saving measures, including the closure of the Company's site in Solna, Sweden and decreased expenditure on patent maintenance.

Finance income – net

Net finance income decreased to £1.2 million (H1 2016: £6.3 million) during the period. A foreign exchange gain of £2.6 million (H1 2016: £5.8 million) arose as a result of the exchange gain on the $100 million non-contingent consideration payable to AstraZeneca under the companies' collaboration, due to weakening of the US dollar against sterling. Additionally, finance costs of £1.5 million have been recognised to reflect a charge to the income statement for this period which arose on this $100 million deferred consideration.

These finance costs arose as Circassia will pay AstraZeneca the $100 million on the earlier of 30 June 2019 and the approval of Duaklir® by the FDA. This deferred consideration was recognised on 12 April 2017 as a liability and discounted to reflect its value taking into account the time value of money. The difference in the discounted rates recorded on 12 April and 30 June 2017 is charged to the income statement on a pro-rata basis.

Share of loss of joint venture

A joint venture between Circassia and McMaster University was established previously to collaborate on the development of allergy immunotherapies. Since the decision to cease all further allergy product development, the shareholders have agreed that the joint venture will be wound up and net assets returned in due course. Loss for the period in respect of the joint venture was £0.5 million (H1 2016: £0.8 million gain), which has been included in discontinued operations.

R&D tax credits

The tax credit on qualifying expenditure for the period was £5.3 million (H1 2016: £5.8 million). Included under continuing operations is a tax credit of £4.5 million (H1 2016 restated: £0.7 million). The increase over the previous year reflects increased R&D expenditure on the Company's respiratory programmes and the R&D contribution to AstraZeneca. The R&D tax credit relating to the allergy portfolio is included in discontinued operations.

Loss after tax and loss per share

Basic loss per share for the period was 11p (H1 2016: 36p) reflecting a loss for the financial period of £34.3 million (H1 2016: £101.7 million), with the loss per share for continuing operations of 10p (H1 2016 restated: 5p) reflecting a loss for the financial period of £29.6 million (H1 2016 restated: £13.8 million). This increase in loss per share from continuing operations mainly arises as a result of the R&D contribution to AstraZeneca.

Transaction with AstraZeneca

On 12 April 2017, Circassia's collaboration and profit share arrangement with AstraZeneca became unconditional. Under the agreement, Circassia secured certain US commercial rights to Tudorza® and Duaklir® for a maximum total consideration of $230 million plus future royalties on Duaklir® sales.

The consideration is structured as follows:

- On 12 April 2017, Circassia issued 47,355,417 ordinary shares with a value of $50 million to AstraZeneca;
- Circassia will pay AstraZeneca deferred non-contingent consideration of $100 million on the earlier of: (i) 30 June 2019; and (ii) the approval of Duaklir® by the FDA;
- Circassia entered an initial profit share arrangement with AstraZeneca for Tudorza® in the United States. Based on Tudorza® sales in a 12 month period ending no earlier than 30 September 2018, or if Duaklir® gains FDA approval before 31 December 2019, Circassia will have an option to the overall commercial rights to Tudorza®. If this option is taken, Circassia will make further payments to AstraZeneca of up to $80 million dependent on Duaklir®'s approval and Tudorza®'s US sales;
- Circassia will pay royalties to AstraZeneca on sales of Duaklir® in the United States; and
- Circassia will make R&D contributions of up to $62.5 million payable to AstraZeneca as deferred payments.

Circassia anticipates utilising third-party funding to satisfy the deferred payments, and the Company's share of the profits from the Tudorza® commercial collaboration to fund its R&D contributions.

Statement of financial position

The Group's net assets at 30 June 2017 were £286.7 million (31 December 2016: £280.7 million). The increase mainly reflects the investment in the AstraZeneca collaboration, partly offset by the decrease in the Company's cash balance. Further detail can be found in note 11.

The weakening of pound sterling against Swedish krona resulted in a credit of £1.8 million (H1 2016: £7.6 million) to 'Other Comprehensive Income and Expense' based on the retranslation of the Group's overseas operations.

Current liabilities at the end of the period were £30.9 million (31 December 2016: £21.5 million). The increase was mainly due to the R&D contribution to AstraZeneca partially offset by the reduction in other R&D expenditure with external service providers.

Current tax assets at 30 June 2017 were £14.1 million (31 December 2016: £8.7 million), representing the R&D tax credit due from HM Revenue and Customs (HMRC). A payment of £11.8 million was received in H2 2016 from HMRC, and an R&D tax credit of £8.8 million is expected to be received in H2 2017.

Cash flow

The Group's cash position (including short-term deposits) decreased from £117.4 million at 31 December 2016 to £82.9 million at 30 June 2017. The main cash outflows were:

- £34.2 million cash used in operations (H1 2016: £37.4 million), with the decrease reflecting higher revenues and a net decrease in the overall cost base of the business;
- £0.9m transaction costs relating to the AstraZeneca agreement, reflecting the proportion of the total transaction costs of £1.9 million paid during the period. Of the £0.9 million, £0.1 million is included in cash used in operations and £0.8 million offset against share premium.

An exchange gain on cash and cash equivalents arises as a result of translation of foreign currency balances at the beginning and end of the relevant period. The exchange gain for the period was £0.6 million (H1 2016: £5.4 million). The reduction compared with H1 2016 was due to less fluctuation in exchange rates during the period. The H1 2016 gain reflected the significant weakening of sterling following the Brexit vote in June last year.

Summary and outlook

Several factors have significantly influenced Circassia's financial performance during the first half of 2017. The halting of investment in the allergy field has reduced Circassia's in-house R&D expenditure, and the dramatic expansion of the Company's US sales force has increased ongoing sales and marketing costs while also delivering substantially increased revenues.

This period of major change is also likely to influence the financial performance in the second half of the year. In particular, the cash spend in H2 2017 is expected to be substantially lower than in the first half of the year. A number of factors are likely to result in a greater use of cash in the first half, most notably the operational disruption in the US that followed the recruitment of an additional 100 sales representatives and subsequent product training and territory restructuring. With the US field force now established in the marketplace, Circassia expects product revenues to increase, and the Company to benefit from a full six months contribution from the AstraZeneca collaboration. In addition, during the second half of the year, Circassia will not commit any further expenditure on its discontinued operations and expects to receive a substantial R&D tax credit. Consequently, the Company anticipates its total cash spend in H2 2017, including the payment of a $17.5 million R&D contribution to AstraZeneca, to be significantly below the level in the first half of the year.

PRINCIPAL RISKS AND UNCERTAINTIES

We have considered the principal risks and uncertainties facing the Group for the remaining six months of this year and do not consider them to have changed from those set out on pages 36 to 41 of the 2016 Annual report and accounts. A summary of these risks is as follows:

Commercial success
The Group's competitors – many of whom have considerably greater financial and human resources – may develop safer or more effective products or be able to compete more effectively in the markets targeted by the Group. New companies may enter these markets and novel products and technologies may become available which are more commercially successful than those being developed by the Group.

Compliance with healthcare regulations
The Group must comply with complex regulations in relation to the marketing of its device products (and in the future will need to comply with such regulations in relation to its drug products). These regulations are strictly enforced. Failure by the Group (or its commercial partners) to comply with the US False Claims Act, Anti-Kickback Statute and the US Foreign and Corrupt Practices Act and regulations relating to data privacy (amongst others) and similar legislation in countries outside the US may result in criminal and civil proceedings against the Group.

Regulatory approvals
The Group may not obtain regulatory approval for those of its products which are in development. Even where products are approved, subsequent regulatory difficulties may arise, or the conditions relating to the approval may be more onerous or restrictive than the Group expects, or existing approvals might be withdrawn.

Unforeseen side effects
Unforeseen side effects may result from the use of the Group's products or product candidates.

Supply Chain
The Group relies on third parties for the supply of key materials and services. Problems at these contractors, such as technical issues, contamination, and regulatory actions may lead to delays or even loss of supply or inadequate supply of these materials and services either prior to launch or thereafter.

Research and development risks
The Group may not be successful in its efforts to build a pipeline of respiratory products. This would have a material impact on the long-term success of the business. Failure of programmes could result from lack of internal resources or capabilities, or from not obtaining the desired pre-clinical and clinical results.

Intellectual property, know how, and trade secrets
The Group may be subject to challenges relating to the validity of its patents. If these challenges are successful then the Group may be exposed to generic competition.

The Group could also be sued for infringement of third party patent rights or not be able to secure intellectual property protection, or sufficient protection, in relation to products which are acquired or in development.

The Group may rely upon know how and trade secrets to protect its products and maintain a competitive advantage. This may be especially important where patent protection is limited or lacking.

The Group licenses certain intellectual property rights from third parties. The rights which are licensed to the Group as part of the collaboration with AstraZeneca relating to Tudorza® and Duaklir® fall within this category. If the Group fails to comply with its obligations under these licence agreements it may enable the other party to terminate the agreement.

Organisational capabilities and capacity
The Group may be unable to successfully implement its plans for growth if it does not attract and retain employees with the requisite capabilities and experience, in appropriate numbers.

Free float
The UK Listing Authority requires listing issuers to maintain at least 25% free float in their listed shares. As at 31 August 2017 the Company had a free float of approximately 13%. If the level of free float cannot be

increased to 25% then the UKLA can require the Company to cancel its listing on the premium segment of the Official List.

Financial operations
The Group has incurred significant losses since the inception of its various businesses and anticipates that it will continue to do so for some time due to the high level of expenditure required to develop its NIOX® business, its respiratory pipeline, and to promote Tudorza® and launch Duaklir®.

Foreign exchange fluctuations may adversely affect the Group's results and financial condition.

Adverse decisions of regulators, including tax authorities, or changes in tax treaties, laws, or the interpretation of those laws, could reduce or eliminate research and development tax credits which the Group currently receives in the United Kingdom.

Brexit
At the referendum which was held on 23 June 2016, the UK voted to leave the EU. The Group faces a range of risks associated with this decision. For example, the vote to leave the EU may lead to changes in the regulatory system by which medical devices and pharmaceutical products are approved for use. The Group will also seek marketing authorisations in respect of its respiratory pipeline products in the future, and the optimal regulatory pathway for the approval of these products after Brexit cannot yet be determined.

Brexit may also result in restrictions on the movement of people which make it harder for the Group to attract the talent it needs to support the business. The general economic uncertainty created by the process may also make it harder to enter into strategic partnerships with European companies.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Notes	**30 June 2017**	30 June 2016
		£m	£m
		Unaudited	Unaudited
			Restated[1]
Continuing operations			
Revenue		**18.3**	11.1
Cost of sales		**(4.7)**	(3.6)
Gross profit		**13.6**	7.5
Research and development costs		**(22.8)**	(7.9)
Sales and marketing		**(21.1)**	(11.4)
Administrative expenses		**(5.0)**	(9.3)
Operating loss	4	**(35.3)**	(21.1)
Finance costs		**(1.6)**	(0.1)
Finance income		**2.8**	6.4
Finance income - net	5	**1.2**	6.3
Loss before tax		**(34.1)**	(14.8)
Taxation		**4.5**	0.9
Loss for the financial period from continuing operations		**(29.6)**	(13.9)
Discontinued operations			
Loss for the period from discontinued operations attributable to owners of Circassia Pharmaceuticals plc	6	**(4.7)**	(87.9)
Loss for the period		**(34.3)**	(101.8)
Loss attributable to:			
Owners of Circassia Pharmaceuticals plc		**(34.3)**	(101.7)
Non-controlling interests		**-**	(0.1)
Loss for the financial period		**(34.3)**	(101.8)
Other comprehensive income/(expense)			
Items that may be subsequently reclassified to profit or loss:			
Share of other comprehensive expense of joint venture	10	**-**	(0.1)
Currency translation differences		**1.8**	7.6
Total other comprehensive income for the period		**1.8**	7.5
Total comprehensive expense for the period		**(32.5)**	(94.3)
Total comprehensive expense attributable to:			
Owners of Circassia Pharmaceuticals plc		**(32.5)**	(94.2)
Non-controlling interests		**-**	(0.1)
Total comprehensive expense for the period		**(32.5)**	(94.3)
Loss per share attributable to owners of the parent during the period			
Basic and diluted loss per share			
Loss per share from continuing operations	13	**(£0.10)**	(£0.05)
Total loss per share	13	**(£0.11)**	(£0.36)

[1] Restated to show the results of the allergy business in discontinued operations, see note 6 for further details

The notes on pages 18 to 25 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Notes	**30 June 2017**	31 December 2016
		£m	£m
		Unaudited	Audited
Assets			
Non-current assets			
Property, plant & equipment		**1.5**	1.4
Goodwill	8	**9.8**	9.7
Intangible assets	9	**166.1**	167.1
Deferred tax assets	7	**16.3**	16.6
Investment in joint venture	10	**0.4**	0.9
Prepayment for business combination	11	**106.9**	-
		301.0	195.7
Current assets			
Inventories		**6.5**	4.6
Trade and other receivables		**10.5**	7.7
Current tax assets	7	**14.1**	8.7
Short-term bank deposits		**20.0**	20.0
Cash and cash equivalents		**62.9**	97.4
		114.0	138.4
Total assets		**415.0**	334.1
Equity and liabilities			
Ordinary shares	15	**0.3**	0.2
Share premium	15	**602.2**	563.8
Other reserves	16	**14.3**	12.5
Accumulated losses		**(330.1)**	(295.8)
Total equity		**286.7**	280.7
Liabilities			
Non-current liabilities			
Deferred tax liabilities	7	**31.7**	31.9
Non-contingent consideration	11	**65.7**	-
		97.4	31.9
Current liabilities			
Trade and other payables	12	**30.9**	21.5
		30.9	21.5
Total liabilities		**128.3**	53.4
Total equity and liabilities		**415.0**	334.1

The notes on pages 18 to 25 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Notes	**30 June 2017 £m Unaudited**	30 June 2016 £m Unaudited
Cash flows from operating activities			
Cash used in operations	14	**(34.2)**	(37.4)
Interest and bank charges paid		**(0.1)**	(0.1)
Tax paid		**-**	(0.2)
Net cash used in operating activities		**(34.3)**	(37.7)
Cash flows from investing activities			
Interest received		**0.5**	0.3
Contingent consideration payment		**-**	(30.0)
Purchase of property, plant and equipment		**(0.5)**	(0.3)
Decrease in short term bank deposits		**-**	3.2
Net cash used in investing activities		**-**	(26.8)
Cash flows from financing activities			
Purchase of treasury shares		**-**	(0.4)
Expenses offset against share premium		**(0.8)**	-
Transactions with non-controlling interests		**-**	(3.2)
Net cash used in financing activities		**(0.8)**	(3.6)
Net decrease in cash and cash equivalents		**(35.1)**	(68.1)
Cash and cash equivalents at 1 January		**97.4**	166.0
Exchange gain on cash and cash equivalents		**0.6**	5.4
Cash and cash equivalents at 30 June		**62.9**	103.3

The notes on pages 18 to 25 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Attributable to owners of the parent						
		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 2017 (audited)		0.2	563.8	12.5	(295.8)	280.7	-	280.7
Comprehensive expense:								
Loss for the period		-	-	-	(34.3)	(34.3)	-	(34.3)
Other comprehensive income:								
Currency translation differences		-	-	1.8	-	1.8	-	1.8
Total comprehensive expense		-	-	1.8	(34.3)	(32.5)	-	(32.5)
Transactions with owners:								
Issue of Ordinary shares	15	0.1	38.4	-	-	38.5	-	38.5
At 30 June 2017 (unaudited)		**0.3**	**602.2**	**14.3**	**(330.1)**	**286.7**	**-**	**286.7**
At 1 January 2016 (audited)		0.2	564.0	2.8	(158.5)	408.5	1.2	409.7
Comprehensive expense:								
Loss for the period		-	-	-	(101.7)	(101.7)	(0.1)	(101.8)
Other comprehensive income/(expense):								
Share of other comprehensive expense of joint venture	10	-	-	(0.1)	-	(0.1)	-	(0.1)
Currency translation differences		-	-	7.6	-	7.6	-	7.6
Total comprehensive expense		-	-	7.5	(101.7)	(94.2)	(0.1)	(94.3)
Transactions with owners:								
Purchase of own shares	16	-	-	(0.4)	-	(0.4)	-	(0.4)
Employee share option scheme		-	-	0.9	-	0.9	-	0.9
Transactions with non-controlling interests	16	-	-	(2.1)	-	(2.1)	(1.1)	(3.2)
At 30 June 2016 (unaudited)		**0.2**	**564.0**	**8.7**	**(260.2)**	**312.7**	**-**	**312.7**

The notes on pages 18 to 25 are an integral part of these condensed interim consolidated financial statements.

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. General information

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 address of its registered office is The Magdalen Centre, Robert Robinson Avenue, Oxford Science Park, Oxford, Oxfordshire, England, OX4 4GA.

The condensed consolidated interim financial statements were approved for issue on 27 September 2017.

The condensed consolidated interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2016 were approved by the Board of Directors on 25 April 2017 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The condensed consolidated interim financial statements have not been audited or reviewed.

Basis of preparation

The condensed consolidated interim financial statements for the six months ended 30 June 2017 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (previously the Financial Services Authority) and IAS 34 'Interim financial reporting', as adopted by the European Union.

The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with IFRSs as adopted by the European Union.

Going concern

The Group has sufficient cash and cash equivalents to meet its day-to-day working capital requirements. 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 meet its liabilities as they fall due for the foreseeable future.

Accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as described below.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that will not be progressed in the future. Discontinued operations are presented on the income statement as a separate line and are shown net of tax. Cash flows relating to discontinued operations are disclosed in the notes.

Deferred non-contingent consideration

Deferred non-contingent consideration is measured by discounting the liability, where the effect of the time value of money is material, using a pre-tax discount rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. Where discounting is used, the increase in the liability due to the passage of time is recognised as an interest expense in the income statement.

There are not considered to be any new standards, amendments to IFRS's and interpretations effective for the financial year ending 31 December 2017 that would have a material impact on the Group.

Use of estimates and assumptions
The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2016 except as disclosed below.

Restatement of prior period information for discontinued operations
The allergy programme costs and the associated research and development tax credit for the period ended 30 June 2016 have been reclassified as discontinued operations in the condensed interim consolidated statement of comprehensive income in accordance with IFRS 5 requirements. The decision to treat the allergy business as discontinued was made after the Group announced a decision to cease all further activities on the allergy programmes.

Business combinations
The Group accounts for all business combinations under the acquisition method. A judgement is made as to determine the point at which control of a business passes to the Group and a business combination occurs. Until control is passed to the Group, consideration paid or payable is presented as a prepayment for the business combination.

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 and estimates are made in respect of the measurement of the fair values of assets and liabilities acquired and consideration transferred. The Group has a maximum period of 12 months to gather all the necessary information and finalise the acquisition accounting.

Financial instruments
The Group's financial instruments comprise cash and cash equivalents, short-term bank deposits, receivables and payables arising directly from operations. The Directors consider that the fair values of the Group's financial instruments do not differ significantly from their carrying values.

2. Financial and capital risk management
The condensed interim financial statements do not include all financial and capital risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016. The viability consideration has been disclosed in the last annual report and the Directors believe that the year-end position remains unchanged.

The majority of operating costs are denominated in Sterling, United States dollars, Euro or Swedish krona. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. The Directors expect foreign exchange volatility to continue to affect the Group's results and the resulting impact will be assessed in the annual report.

3. Operating segments
The chief operating decision-maker (the Executive Directors) is responsible for making key operating decisions in the Group. Assessment of performance and decisions regarding the allocation of resources are made by operating segment. Performance of each segment is assessed on revenue and operating profit/(loss). The operating segments are identified within the Group by product portfolios:

- NIOX® relates to the portfolio of products used to improve asthma diagnosis and management by measuring fractional exhaled nitric oxide (FeNO);
- Respiratory relates to the portfolio of asthma and chronic obstructive pulmonary disease product candidates; and
- US AZ collaboration relates to the US collaboration agreement with AstraZeneca regarding the commercialisation of Tudorza® and Duaklir® once approved.

3. Operating segments (continued)

The allergy operating segment has been classified as a discontinued operation. Information about this discontinued segment is provided in note 6.

The table below presents revenue from external customers and loss information regarding the Group's operating segments for the six months ended 30 June 2017 and 2016. During 2016 businesses acquired in 2015 were further integrated into the Group resulting in the consolidation of some operations (mainly support functions). Hence some costs are now shared between the segments and are not allocated to individual segments for decision making purposes. These are disclosed under the column headed 'Unallocated'.

	NIOX®	**Respiratory**	**US AZ collaboration**	**Unallocated**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Six months to 30 June 2017					
Revenue	**13.1**	**-**	**5.2**	**-**	**18.3**
Operating loss	**(12.0)**	**(1.2)**	**(13.4)**	**(8.7)**	**(35.3)**
Six months to 30 June 2016 Restated[1]					
Revenue	11.1	-	-	-	11.1
Operating loss	(6.9)	(3.7)	-	(10.5)	(21.1)

[1] Restated to show the results of the allergy business in discontinued operations, see note 6 for further details

There have been no sales between segments in either reporting period.

There have been no material changes in total assets or total liabilities from the amounts disclosed in the last annual financial statements except for the investment in the US AZ collaboration, see note 11 for further details.

4. Operating loss

Included within the operating loss for the six months ended 30 June 2017 is a £14.6 million R&D contribution to AstraZeneca relating to research and development costs of Tudorza® and Duaklir®.

Transaction costs totalling £1.9 million were incurred on the collaboration arrangement with AstraZeneca, of which £0.3 million is included within the operating loss to 30 June 2017 and £1.6 million has been offset against the Share premium reserve.

Included within the operating loss for the six months ended 30 June 2016 is a goodwill impairment charge of £74.5 million.

5. Finance income and costs

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
Finance costs:		
Interest and bank charges payable	(0.1)	(0.1)
Non-contingent consideration: unwinding of discount	(1.5)	-
Total finance costs	**(1.6)**	(0.1)
Finance income:		
Bank interest receivable	0.2	0.6
Gain on foreign exchange	2.6	5.8
Total finance income	**2.8**	6.4
Net finance income	**1.2**	6.3

6. Discontinued operations

On 25 April 2017, following the receipt of the house dust mite allergy study results, it was announced that Circassia would no longer continue development of the allergy programmes. Therefore, the allergy programme costs and the associated research and development tax credit for the period ended 30 June 2016 have been reclassified as discontinued operations in the condensed interim consolidated statement of comprehensive income to comply with IFRS 5 requirements.

Loss for the period		**For the six months ended 30 June**	
	Notes	**2017**	2016
		£m	£m
Expenditure		**(5.0)**	(18.8)
Intangible assets impairment		**-**	(0.3)
Goodwill impairment		**-**	(74.5)
Share of (loss)/profit of joint venture	10	**(0.5)**	0.8
Loss before tax		**(5.5)**	(92.8)
Taxation		**0.8**	4.9
Loss from discontinued operations		**(4.7)**	(87.9)

Cash flow	**For the six months ended 30 June**	
	2017	2016
	£m	£m
Net cash outflow from operating activities	**(8.8)**	(16.5)
Net decrease in cash from discontinued operations	**(8.8)**	(16.5)

7. Taxation

R&D tax credit

Included within the £14.1 million tax debtor is an R&D tax credit of £4.5 million (H1 2016 restated: £0.7 million) relating to the six months ended 30 June 2017. This represents the credit receivable by the Group for the period as well as adjustments to prior years. These have been estimated at a rate of 14.5% for qualifying expenditure, being the prevailing R&D tax credit rate at the time. An uplift of 130% has been applied to all qualifying expenditure in line with R&D tax rules.

Deferred taxation

	Intangibles	**Tax losses**	**Net deferred tax liability**
	£m	**£m**	**£m**
At 1 January 2017	31.9	(16.6)	15.3
(Credit)/charge to the income statement	(0.5)	0.6	0.1
Exchange differences	0.3	(0.3)	-
At 30 June 2017	**31.7**	**(16.3)**	**15.4**

	30 June 2017	**31 December 2016**
	£m	**£m**
Deferred tax liabilities	**31.7**	31.9
Deferred tax assets	**(16.3)**	(16.6)
Total deferred tax position	**15.4**	15.3

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

	30 June 2017	**31 December 2016**
	£m	**£m**
Losses	58.3	51.8
Accelerated capital allowances	-	-
Share based payments and provisions	-	1.3
Total unrecognised deferred tax asset	**58.3**	53.1

8. Goodwill

	£m
At 31 December 2016	
Cost	84.2
Accumulated impairment	(74.5)
Net book amount	9.7
Six months ended 30 June 2017	
Opening net book amount	9.7
Exchange differences	0.1
Closing net book amount	**9.8**
At 30 June 2017	
Cost	84.3
Accumulated impairment	(74.5)
Net book amount	**9.8**

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

Cash generating unit	**30 June 2017 £m**	**31 December 2016 £m**
NIOX®	**5.4**	5.3
Respiratory	**4.4**	4.4
	9.8	9.7

There are no indicators of impairment for either CGU as at 30 June 2017.

9. Intangible assets

	IPR&D £m	Customer relationships £m	Technology £m	Other £m	**Total intangible assets £m**
At 31 December 2016					
Cost	88.9	34.3	50.0	1.6	174.8
Accumulated amortisation and impairment	(0.1)	(2.9)	(3.1)	(1.6)	(7.7)
Net book amount	88.8	31.4	46.9	-	167.1
Six months ended 30 June 2017					
Opening net book amount	88.8	31.4	46.9	-	167.1
Amortisation charge	-	(1.0)	(1.1)	-	(2.1)
Impairment	-	-	-	-	-
Exchange differences	-	0.6	0.5	-	1.1
Closing net book amount	**88.8**	**31.0**	**46.3**	**-**	**166.1**
At 30 June 2017					
Cost	88.9	34.9	50.5	1.6	175.9
Accumulated amortisation and impairment	(0.1)	(3.9)	(4.2)	(1.6)	(9.8)
Net book amount	**88.8**	**31.0**	**46.3**	**-**	**166.1**

There are no indicators of impairment for the individual intangible assets as at 30 June 2017.

10. Investment in joint venture

	Six months ended 30 June 2017 £m	Year ended 31 Dec 2016 £m	Six months ended 30 June 2016 £m
At 1 January	**0.9**	0.2	0.2
Share of (loss)/profit	**(0.5)**	0.6	0.8
Foreign exchange difference on consolidation	**-**	0.1	(0.1)
At period end	**0.4**	0.9	0.9

The Adiga Life Sciences joint venture managed clinical research organisations (CRO's) in Canada in respect of allergy programmes on behalf of Circassia. As the allergy programmes are no longer being continued, the results of the joint venture for the six months ended 30 June 2017 and 2016 have been included within discontinued operations in the condensed interim consolidated statement of comprehensive income, see note 6.

11. Prepayment for business combination

Collaboration and profit share arrangement with AstraZeneca

On 12 April 2017, Circassia's collaboration and profit share arrangement with AstraZeneca became unconditional. Under the agreement, Circassia secured certain US commercial rights to Tudorza® and Duaklir®. On that day Circassia issued 47,355,417 ordinary shares with a value of $50 million to AstraZeneca. In addition, Circassia will pay AstraZeneca deferred non-contingent consideration of $100 million on the earlier of: (i) 30 June 2019; and (ii) the approval of Duaklir® by the FDA.

Under the terms of the agreement, Circassia will have the option to secure the remaining commercial rights and economic benefits of Tudorza®. This will be based on the sales performance of Tudorza® in a 12 month period ending no earlier than 30 September 2018, or if Duaklir® gains FDA approval before 31 December 2019. Until the option becomes exercisable Circassia does not have control over the Tudorza® business hence the consideration paid and payable represents a prepayment for the business combination.

Following positive results from the AMPLIFY Phase III study, the filing of a New Drug Application (NDA) for Duaklir® with the United States Food and Drug Administration (FDA) is planned in the first half of 2018. Circassia has exclusive commercialisation rights to Duaklir® in the United States and as such it is considered that the Group assumed control over the Duaklir® business when the collaboration agreement became unconditional. At the time the interim report and accounts were authorised for issue, the initial accounting for the Duaklir® business combination was incomplete, mainly due to the Group still finalising the fair value of the business to be included in the accounts. As a result, the proportion of the consideration paid or payable for the Duaklir® business is included in the prepayment for the business combination. The Duaklir® business combination will be recognised in the Annual report and accounts for 2017. This adheres to the 12 month measurement window per IFRS3, which allows adjustments to the acquisition accounting within this period.

Prepayment for business combination	**Six months ended 30 June 2017 £m**
Share issue:	
Ordinary share capital 47,355,417 shares at £0.0008	-
Share premium	40.0
Non-contingent consideration	66.9
Total prepayment for business combination	**106.9**

Non-contingent consideration	**£m**
At 12 April 2017	66.9
Unwinding of discount	1.5
Exchange differences	(2.7)
At 30 June 2017	**65.7**

The value of the non-contingent consideration was calculated by discounting the liability using a pre-tax discount rate of 11%.

If the option to secure the remaining commercial rights and economic benefits of Tudorza® is taken, Circassia will make further payments to AstraZeneca of up to $80 million dependent on the level of Tudorza® sales in the United States. Such payments are not considered to be a present obligation until the option becomes exercisable therefore this has not been recognised as a liability in the financial statements to June 2017.

12. Trade and other payables

	30 June 2017 £m	**31 December 2016 £m**
Trade payables	**7.1**	9.2
Social security and other taxes	**0.7**	0.5
Accruals	**21.6**	8.1
Other payables	**1.5**	3.7
Total trade and other payables	**30.9**	21.5

13. Net loss per Ordinary share

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

For the period ending 30 June 2017		**Continuing operations**	**Discontinued operations**	**Total**
Loss for the period attributable to ordinary equity owners of the parent company	£m	**(29.6)**	**(4.7)**	**(34.3)**
Weighted average number of Ordinary shares in issue	Number	**305,720,065**	**305,720,065**	**305,720,065**
Loss per share		**(£0.10)**	**(£0.01)**	**(£0.11)**

For the period ending 30 June 2016 Restated[1]		Continuing operations	Discontinued operations	Total
Loss for the period attributable to ordinary equity owners of the parent company	£m	(13.8)	(87.9)	(101.7)
Weighted average number of Ordinary shares in issue	Number	284,889,171	284,889,171	284,889,171
Loss per share		(£0.05)	(£0.31)	(£0.36)

[1] Restated to show the results of the allergy business in discontinued operations, see note 6 for further details

As net losses were recorded in the six months ended 30 June 2017 and 2016, the dilutive potential shares are anti-dilutive and therefore were excluded from the earnings per share calculation.

14. Cash used in operations

Reconciliation of loss before tax to net cash used in operations

	For the six months ended 30 June	
	2017 £m	2016 £m
Loss before tax	**(39.6)**	(107.6)
Adjustment for:		
Finance income	**(0.2)**	(0.6)
Finance costs	**1.6**	0.1
Depreciation	**0.3**	0.4
Impairment	**-**	74.8
Amortisation (note 9)	**2.1**	2.1
Share of joint venture loss/(profit) (note 10)	**0.5**	(0.8)
Share based payment charge	**-**	0.9
Foreign exchange on non-operating cash flows	**(3.0)**	(7.4)
Increase in trade and other receivables	**(3.1)**	(4.1)
(Increase)/decrease in inventories	**(1.4)**	0.5
Increase in trade and other payables	**8.6**	4.3
Net cash used in operations	**(34.2)**	(37.4)

15. Share capital and share premium

	Number of shares (millions)	**Share capital £m**	**Share premium £m**
Balance as at 1 January 2017	**284.9**	**0.2**	**563.8**
Issue of new shares	**47.7**	**0.1**	**40.0**
Expenses offset against share premium	**-**	**-**	**(1.6)**
At 30 June 2017	**332.6**	**0.3**	**602.2**

	Number of shares (millions)	**Share capital £m**	**Share premium £m**
Balance as at 1 January 2016	284.9	0.2	564.0
Expenses offset against share premium	-	-	(0.2)
At 31 December 2016	**284.9**	**0.2**	**563.8**

16. Other reserves

	Share option reserve	Translation reserve	Treasury reserve	Transactions with non-controlling interests	**Total other reserves**
	£m	£m	£m	£m	**£m**
At 1 January 2017	6.4	12.9	(0.7)	(6.1)	12.5
Currency translation differences	-	1.8	-	-	1.8
At 30 June 2017	**6.4**	**14.7**	**(0.7)**	**(6.1)**	**14.3**
At 1 January 2016	4.0	3.1	(0.3)	(4.0)	2.8
Employee share option scheme	2.4	-	-	-	2.4
Currency translation joint venture	-	0.1	-	-	0.1
Other currency translation differences	-	9.7	-	-	9.7
Purchase of own shares	-	-	(0.4)	-	(0.4)
Transactions with non-controlling interests	-	-	-	(2.1)	(2.1)
At 31 December 2016	6.4	12.9	(0.7)	(6.1)	12.5

17. Related party transactions

There have been no new related party transactions that have taken place in the first six months of the current financial year.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors confirm that these condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report. The Directors of Circassia Pharmaceuticals plc are listed on page 27.

The Directors are responsible for the maintenance and integrity of the Group's website www.circassia.com. Legislation in the UK governing the preparation and dissemination of interim financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Steven Harris
Chief Executive Officer

Julien Cotta
Chief Financial Officer

27 September 2017

SHAREHOLDER INFORMATION

Indicative financial calendar

Preliminary results for the 12 months ending 31 December 2017: Q1 2018
Annual General Meeting: H1 2018

Registrars

All administrative enquiries relating to shareholdings and requests to receive corporate documents by email should, in the first instance, be directed to Equiniti. Shareview is Equiniti's shareholder portal offering access to services and information to help manage your shareholdings and inform your important investment decisions.

Shareview portfolio

Shareview Portfolio is an online portfolio management tool which enables you to view and manage all the shareholdings you have, where Equiniti is the Registrar, in one place. It is free to use and provides access to a wide range of market information and investment services. Please visit www.shareview.co.uk.

This is not a recommendation to buy or sell shares. The price of shares can go down as well as up, and you are not guaranteed to get back the amount that you originally invested.

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Directors

Dr Francesco Granata (Chairman)
Steven Harris (Chief Executive Officer and co-founder)
Julien Cotta (Chief Financial Officer)
Dr Rod Hafner (Senior Vice President Research and Development)
Dr Jean-Jacques Garaud (Independent Non-Executive Director and Senior Independent Director)
Russell Cummings (Non-Executive Director)
Marvin Samson (Independent Non-Executive Director)
Lota Zoth (Independent Non-Executive Director)