

REGISTERED NUMBER: 03418970 (England and Wales)

VECTURA GROUP LIMITED

FORMERLY KNOWN AS

VECTURA GROUP PLC

03418970

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2021**

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COMPANY INFORMATION

DIRECTORS:

Emmanuel Andre Marie Babeau (appointed 19.10.2021)
Jorge Humberto Insuasty (appointed 19.10.2021)
Jacek Olczak (appointed 19.10.2021)
Elizabeth Knowles (appointed 31.03.2022)
John Murphy (appointed 31.03.2022)
William Downie (resigned 31.03.2022)
Paul Fry (resigned 31.03.2022)
Bruno Angelici (resigned 19.10.2021)
Jeanne Hecht (resigned 19.10.2021)
Kevin Matthews (resigned 19.10.2021)
Jeanne Thoma (resigned 19.10.2021)
Juliet Thompson (resigned 19.10.2021)
Thomas Werner (resigned 27.05.2021)
Per-Olof Andersson (resigned 19.10.2021)

COMPANY SECRETARY: John Murphy

REGISTERED OFFICE: One Prospect West
Chippenham
Wiltshire
SN14 6FH
United Kingdom

REGISTERED NUMBER: 03418970 (England and Wales)

PRINCIPAL BANKER: Barclays Bank Plc
1 Churchill Place
Canary Wharf
London
E14 5HP
United Kingdom

VECTURA GROUP LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

STRATEGIC REPORT

The Directors present their strategic report for the affairs of Vectura Group Limited (the "Company"), together with the audited financial statements for the year ended 31 December 2021.

Principal activity

The principal activity of the Company, following the acquisition by Philip Morris International Inc., is that of an investment holding entity. The acquisition was initially made by PMI Global Services Inc (an immediate subsidiary of Philip Morris International Inc), and subsequent to year-end the Company's immediate ownership was transferred to Vectura Fertin Pharma Inc, which is also the Company's immediate parent undertaking as at the date of authorisation of this report. The ultimate owner since the acquisition date of 15 September 2021 has been and remains Philip Morris International Inc. Prior to this date, the Directors did not consider the Company to have an ultimate controlling party.

Prior to acquisition by the Philip Morris International Group on 15 September 2021, the Company was the listed parent entity of the Vectura Group. The principal activities of the subsidiaries within the Vectura Group are pharmaceutical development services relating to inhaled medicines, formulation science and device technology.

Fair review of the business

The Company's profit after tax for the year amounted to £32.0m. Dividend income of £67.0m was received from the Company's subsidiary, Vectura Group Services Limited. The Company's expenses of £35.7m chiefly arose from transaction costs in relation to the acquisition by Philip Morris International Inc, remuneration of the Directors and share based payments.

In April 2021, the Company's subsidiary, Vectura Group Services Limited, repaid a loan of £88.4m to the Company in full.

The Company was acquired by PMI Global Services Inc, a subsidiary of Philip Morris International Inc. ("PMI"), on 15 September 2021. As at the date of acquisition, all unvested award schemes issued under the Company's Share Plans vested in accordance with the relevant Scheme Rules. For schemes approved by HMRC, the number of options within the plans that vested was on a pro-rated basis as per Scheme Rules. Members who invested in the HMRC approved schemes received a payment to compensate them for the lost opportunity of saving under this scheme. For all other share award plans, the number of options that vested was determined by the Company's Remuneration Committee. All awards issued before 2021 vested in full, while the 2021 award vested at a proportion of 50%, the remaining options lapsing. Additionally, the Company paid a dividend equivalent of £3.7m to option holders who were not entitled to receive the dividend of £0.19 per share in the year upon acquisition. This was accounted for as a share based payment and was expensed to the income statement.

The accounting treatment of these award schemes was to expense all of the value that had not yet been amortised at the date of vesting to the income statement for both vested as well as lapsed options, resulting in a £14.6m expense for share based payments.

Additionally, in December 2021 the Company made an investment of \$7.4m (£5.5m) in convertible bonds of Spexis AG, a listed company in Switzerland that specialises in oncology and rare disease treatment. The bonds were converted into ordinary shares in the year. The shares in Spexis AG are denominated in Swiss Francs, meaning the investment value on the Company's balance sheet may increase or decline as a result of the foreign exchange rate, as well as the share price.

The Company has no external borrowings.

The Company re-registered as a private limited company from a public limited company on 05 January 2022.

Principal risks and uncertainties

The principal risks and uncertainties of the Company are:

- decline in value of the Company's investments in its subsidiary caused by potential deterioration in future cash flows of the underlying business in the subsidiaries' operations
- decline in value of the Company's investments in quoted entities
- adverse movement in foreign exchange rates in which the company holds investments

STRATEGIC REPORT (CONTINUED)

In order to mitigate the risk of decline in value of subsidiary investments, the Company carefully monitors performance of the underlying business in the subsidiaries. In the event of adverse results, the Company is well placed to respond to issues as they emerge.

In order to address the risk surrounding foreign exchange, the Company endeavours to maintain foreign exchange exposure at the minimum required for the ongoing needs of the business. For large transactions, the Company may hedge foreign exchange rates using financial instruments. No such hedging transactions were entered into during the period or the prior period.

Going Concern

The Company had net assets as at 31 December 2021 of £414.4m (2020: £484.0m) and a cash position of £11.4m (2020: £0.3m). The Directors have prepared cash flow forecasts in order to assess going concern, which indicate that the Company will have sufficient funds to meet its liabilities as they fall due during the going concern assessment period. Consequently, the Directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Research and development

As an investment holding company, Vectura Group Limited does not carry out any research and development activities. Up until the date of acquisition by Philip Morris International Inc on 15 September 2021, the Company was the ultimate controlling party over the wider Vectura Group, which continues to carry out research and development activities. Information on these activities is available in the annual reports of the subsidiaries that carry out research and development.

Section 172(1) Statement

The Board is primarily responsible to shareholders for the overall direction and control of the Company and has the powers and duties set out in the Companies Act 2006 (the "Act") and the Company's Articles of Association. However, the Company has always endeavoured to hold shareholder interests and those of our wider stakeholders in equilibrium, as is the Directors' duty under section 172 of the Act.

The long-term success of the business is dependent on the way we work with stakeholders and continues to require effective engagement, constructive working practices and a recognition of stakeholder views in order to create value for our shareholders and stakeholders alike. Vectura's values underpin every relationship built and business decision made, reflecting our intention to do the right thing for shareholders and all stakeholders.

The stakeholders the Company has are our shareholders as the owners of the Company, and employees, who are all members of the Executive Leadership Team. In regard to our shareholders, we have a responsibility to be transparent and open about our strategy and our financial performance to enable them to make informed investment decisions. As the Company's principal activity is to hold investments in a subsidiary, the Directors regularly engage with the Company's shareholder and ensure timely communication regarding the operational performance of the Company's subsidiaries.

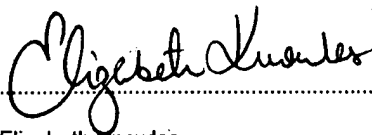
The Company does not have customers or suppliers because its principal activity is that of an investment holding company, therefore such relationships are not required for the successful execution of this activity. As a result of the Company's strategy, neither does the Company have any relationships with local communities or environmental groups.

The Company's policies and procedures for maintaining a reputation for high standards and business conduct, per Section 172(1) (E), are determined by the Company in conjunction with the ultimate controlling party, Philip Morris International Inc. The Directors carefully monitor compliance with required standards and ensure they and the Company conduct themselves in line with the highest standards expected by our owning entity, its management and ultimate shareholders.

VECTURA GROUP LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

STRATEGIC REPORT (CONTINUED)

Approved by the Board on 12 September 2022 and signed on its behalf by

A handwritten signature in black ink, appearing to read 'Elizabeth Knowles', is written over a horizontal dotted line.

Elizabeth Knowles

Director
12 September 2022

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2021. The following disclosures are made in compliance with the Companies Act 2006 (the "Act").

The Directors' report comprises these pages and the sections of the Annual Report detailed in the table on page 8, which are incorporated into this Report by reference.

Strategic report

The Act requires the Strategic report to be a balanced and comprehensive analysis of the development and performance of the Company's business during the financial year and the position of the Company's business at the end of that year, consistent with the size and complexity of the business. The Strategic report of the business of the Company is given on pages 4 to 6.

The Board has taken advantage of section 414C(11) of the Act to include disclosures in the Strategic report on those items indicated in the table at the end of this Report.

Directors

The Directors who served during the period were as follows:

William Downie (resigned 31 March 2022)
Paul Fry (resigned 31 March 2022)
Emmanuel Babeau (appointed 19 October 2021)
Jorge Insuasty (appointed 19 October 2021)
Jacek Olczak (appointed 19 October 2021)
Bruno Angelici (resigned 19 October 2021)
Dr Thomas Werner (resigned 27 May 2021)
Dr Per-Olof Andersson (resigned 19 October 2021)
Juliet Thompson (resigned 19 October 2021)
Dr Kevin Matthews (resigned 19 October 2021)
Jeanne Taylor Hecht (resigned 19 October 2021)
Jeanne Thoma (resigned 19 October 2021)

John Murphy and Elizabeth Knowles were appointed as Directors on 31 March 2022.

Results and dividends

The Company made a profit after tax for the year ended 31 December 2021 of £32.0m (2020: £6.8m loss). The Directors do not recommend payment of a final dividend (2020: final dividend nil). The Directors paid a special dividend of £113.5m in March 2021 (2020: nil).

Political donations

The Company made no political donations during the period. The Company has a policy of not making donations to any political party in any country and will continue to adhere to this policy.

Human rights

While Vectura does not have a specific human rights policy, a copy of the Company's Modern slavery statement, which has been adopted by the Board, is available on the Company's website (www.vectura.com) and sets out the steps we have taken to ensure that slavery and human trafficking are not present in our supply chains or business.

VECTURA GROUP LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

DIRECTORS' REPORT (CONTINUED)

The Company also has a number of other internal policies including the Code of Conduct and the Anti-Slavery and Human Trafficking Policy which support human rights principles.

Directors' indemnities and Directors' and Officers' liability insurance

A qualifying third-party indemnity provision (but not a qualifying pension scheme indemnity provision) for the benefit of the Directors was in force during the period. The insurance for the Directors and Officers in respect of liabilities which could arise in the discharge of their duties is included in the policy of the ultimate parent company.

Post balance sheet events

There were disclosable post balance sheet events. See note 15.

Disclosure of audit information

The Directors who held office at the date of approval of this Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

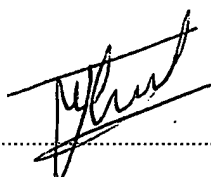
Additional information

Disclosure	Page(s)	Location in Annual Report
Risk management & principal risks	4	Strategic report ¹
Future developments of the Company's business	5	Strategic report ¹
Fair, balanced and understandable	9	Directors' statement of responsibilities
Research and development	5	Strategic report
Stakeholder consideration and engagement	5	Strategic report: Section 172 statement

¹ The Board has taken advantage of section 414C(11) of the Act to include disclosures in the Strategic report on these items.

The Directors' report was approved by the Board on 12 September 2022.

By order of the Board



John Murphy

Director

General Counsel and Company Secretary

12 September 2022

Vectura Group Limited

One Prospect West

Chippenham

Wiltshire SN14 6FH

United Kingdom

Registered Number: 3418970

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

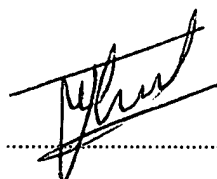
Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

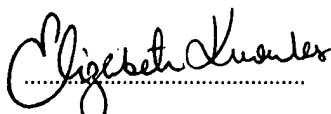
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Signed on behalf of the Board on 12 September 2022.



John Murphy
Director
12 September 2022



Elizabeth Knowles
Director
12 September 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VECTURA GROUP LIMITED

Opinion

We have audited the financial statements of Vectura Group Limited ("the Company") for the year ended 31 December 2021 which comprise the Income Statement, Balance Sheet, Statement of Cash Flows, Statement of Changes in Equity, and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- reading Board, Audit Committee, and Remuneration Committee minutes.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VECTURA GROUP LIMITED (continued)

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the Company's revenue relates to charges to fellow group subsidiaries for management time and other costs and there is no incentive or pressure to manipulate these charges. We did not identify any additional fraud risks.

We performed procedures including:

- identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.
- evaluating the business purpose of significant unusual transactions.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the areas most likely to have such an effect as health and safety and employment law, recognising the nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We assessed the legality of the dividend declared by obtaining the relevant accounts to support the distribution.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VECTURA GROUP LIMITED (continued)

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

.....
Adrian Wilcox (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
United Kingdom
14 September 2022

VECTURA GROUP LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

INCOME STATEMENT

	Note	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Management & corporate charges to group companies		9.5	5.0
Dividend income from subsidiary	3	67.0	-
Corporate and administrative expenses	5	(35.7)	(4.8)
Intra-group charges		(9.5)	(8.7)
Operating profit / (loss)	4	31.3	(8.5)
Finance income		0.4	1.7
Increase in fair value of investments	8	0.3	-
Profit / (loss) before tax		32.0	(6.8)
Tax on profit	6	-	-
Profit / (loss) after taxation		32.0	(6.8)

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

As there are no items of income or expense that are not recognised in the income statement, no separate statement of other comprehensive income has been prepared.

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

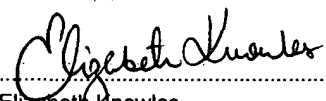
VECTURA GROUP LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

BALANCE SHEET

	Note	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
ASSETS			
Non-current assets			
Equity investments in subsidiary undertakings	8	393.9	393.9
Investments	9	5.8	-
Loan to fellow group undertaking	10	-	88.4
Total non-current assets		399.7	482.3
Current assets			
Amounts due from subsidiary undertakings		3.3	1.4
Cash and cash equivalents		11.4	0.3
Total current assets		14.7	1.7
Total assets		414.4	484.0
LIABILITIES			
Current liabilities			
Trade and other payables		-	-
Total current liabilities		-	-
Net assets		414.4	484.0
SHAREHOLDERS' EQUITY			
Share capital	11	0.2	0.2
Share premium		63.3	61.7
Share-based payment reserve	12	-	6.7
Merger reserve	14	316.1	316.1
Retained earnings		34.8	99.3
Total shareholders' equity		414.4	484.0

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

These financial statements of Vectura Group Limited, registered Company No.: 03418970, were approved and authorised for issue by the Board of Directors and were signed on its behalf by:


.....
Elizabeth Knowles
Director
12 September 2022

VECTURA GROUP LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Cash flows from operating activities			
Profit/(loss) for the financial year		32.0	(6.8)
Increase in trade and other receivables		(1.9)	(4.0)
Increase/(decrease) in trade and other payables		(1.3)	8.1
Dividend equivalent	13	(3.7)	-
Share based payments	7	14.6	4.4
Dividend received	3	(67.0)	-
Other non-cash movements		(0.7)	-
Net cash (outflow)/inflow from operating activities		(28.0)	1.7
Cash flows from investing activities			
Investments in equity instruments	9	(5.5)	-
Dividend received	3	67.0	-
Net cash inflow from investing activities		61.5	-
Cash flows from financing activities			
Exercise of share options		1.6	(1.3)
Share buyback		-	(16.6)
Intercompany interest received/(paid)		1.1	(0.2)
Long-term loan repayment	10	88.4	10.0
Dividend paid		(113.5)	-
Net cash outflow from financing activities		(22.4)	(8.1)
Increase/(decrease) in cash and cash equivalents		11.1	(6.4)
Opening cash and cash equivalents at the beginning of period		0.3	6.7
Closing cash and cash equivalents at the end of period		11.4	0.3

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

VECTURA GROUP LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Share premium	Merger reserve	Share-based payment reserve	Retained earnings	Total Equity
		£m	£m	£m	£m	£m	£m
At 31 December 2019		0.2	61.6	316.1	6.4	119.9	504.2
Loss for the year		-	-	-	-	(6.8)	(6.8)
Share buyback programmes		-	-	-	-	(16.6)	(16.6)
Share-based payments	7	-	-	-	4.4	-	4.4
Employee share transactions		-	0.1	-	(4.1)	2.8	(1.2)
At 31 December 2020		0.2	61.7	316.1	6.7	99.3	484.0
Profit for the year		-	-	-	-	32.0	32.0
Share-based payments	7	-	-	-	14.6	-	14.6
Dividend paid		-	-	-	-	(113.5)	(113.5)
Employee share transactions		-	1.6	-	(21.3)	17.0	(2.7)
At 31 December 2021		0.2	63.3	316.1	-	34.8	414.4

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

VECTURA GROUP LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. General information and basis of preparation

The financial statements of Vectura Group Ltd ("the Company") for the year ended 31 December 2021 have been prepared under FRS 101 and in accordance with the Companies Act 2006. The financial statements have been prepared on a historical cost basis modified to include revaluation to fair value of certain financial instruments, as stated in the accounting policies. All information is presented in millions of British Pounds Sterling, and is rounded to the nearest £0.1m unless otherwise stated.

The principal activity of the Company is that of an investment holding company.

These financial statements include a balance sheet, statement of total comprehensive income, statement of changes in equity, statement of cash flows and selected explanatory notes. In preparing these financial statements, the key accounting judgements and estimates are consistent with the 2020 financial statements. The presentational and functional currency is sterling being the primary currency of the UK economic environment in which the Company operates.

Disclosure exemptions adopted

In preparing these financial statements the company has taken advantage of certain disclosure exemptions conferred by FRS 101 and has not provided:

- additional comparative information as per IAS 1 Presentation of Financial Statements paragraph 38 in respect of:
 - a reconciliation of the number of shares outstanding at the start and end of the prior period; and
 - reconciliations of the carrying amounts of property, plant and equipment, intangibles assets and investment property at the start and the end of the prior period.
- additional comparative information for narrative disclosures and information, beyond IFRS requirements
- disclosures in relation to the objectives, policies and process for managing capital
- disclosure of the effect of future accounting standards not yet adopted
- related party transactions with two or more wholly owned members of the group

These financial statements are single entity financial statements and do not include consolidation of other group entities. The smallest and largest group to consolidate Vectura Group Limited is Philip Morris International Inc. The Company is exempt from the preparation and delivery of consolidated financial statements because it is included in the group accounts of Philip Morris International Inc.

There has been no impact of any new accounting standards or policies for the year ended 31 December 2021.

Going concern

The Company had net assets as at 31 December 2021 of £414.4m (2020: £484.0m) and a cash position of £11.4m (2020: £0.3m). The Directors have prepared cash flow forecasts in order to assess going concern, which indicate that the Company will have sufficient funds to meet its liabilities as they fall due during the going concern assessment period. Consequently, the Directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Significant judgements and critical estimates

Significant judgement was applied in determining the correct accounting treatment of the dividend equivalent, which is a complex accounting matter. Further detail is included in note 13. The Directors do not consider there to be any critical estimates used in preparing the financial statements that may have a material effect on future periods.

2. Significant accounting policies

Management and corporate charges

The Company charges fellow group subsidiaries for management time and other costs spent on running the affairs of the wider group. These management charges are based on Directors' and employee remuneration and external costs met by the Company and are rebilled to other group affiliates at a price representing an arm's length transaction. Management and corporate charges are recognised in the income statement as income in the period they are earned.

Corporate and administrative expenses

Corporate and administrative expenses are recognised as they are incurred. These include Directors' and other employees' remuneration, share based payments and various other external costs of a corporate nature. They also include intra-group charges for work performed by employees of other group companies for the benefit of Vectura Group Limited. See note 7 for further details on share based payments.

VECTURA GROUP LIMITED
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Equity investments in subsidiary undertakings

Investments in subsidiaries are carried at cost less any provision for losses arising on impairment. Where merger relief is applicable, the cost of the investment in a subsidiary undertaking is measured at the nominal value of the shares issued together with the fair value of any additional consideration paid.

Current taxation

The net tax credit on the loss for the year includes current and deferred tax. Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received using tax rates enacted at the reporting date.

Investments

Investments representing equity instruments constituting financial assets under IFRS 9 *Financial Instruments* that are held for trading are held at fair value with changes presented in either profit and loss (FVTPL) or other comprehensive income (FVTOCI). The accounting policy choice is based on the election available under IFRS 9, which may be applied on an investment by investment basis.

Deferred taxation

Deferred taxation is recognised on all temporary differences arising between the local tax bases of assets and liabilities and their carrying amounts in the Company's financial statements. Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax is not discounted and is measured at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on legislation enacted or substantively enacted at the balance sheet date.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand, if used, form an integral part of the Company's cash management and are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Financial instruments

For the purposes of recognition and measurement, financial assets are classified into one of the following categories:

Trading activities: Assets that are held for collection of contractual trading cash flows are measured at amortised cost. A gain or loss is recognised in the income statement only when the asset is derecognised or impaired. Interest income is included in finance income using the effective interest rate method if applicable.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Financial liabilities are initially measured at fair value and subsequently measured at amortised cost.

Share-based payments

Up until the acquisition of the Company in the year by Philip Morris International Inc., the Company operated a number of employee equity-settled share-based compensation plans as part of its reward strategy. Equity-settled share-based payments are measured at fair value at the grant date.

The fair value determined at the grant date of the awards are expensed over the vesting period based on the Company's estimate of awards that will eventually vest. The cost of equity-settled share transactions is recognised, together with a corresponding increase in equity, over the vesting period. In the case of awards with a non-market performance condition, the value on which the cost is based is adjusted each reporting period for the likelihood of the number of options that will ultimately vest.

VECTURA GROUP LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Employee share trusts

To meet the Company's obligation to provide shares when employees exercise their options or awards, the Company provides finance to Employee Share Ownership Plan (ESOP) Trusts either to purchase Company shares on the open market, or to subscribe for newly issued share capital. Costs of running the ESOP Trusts are charged to the income statement. Shares held by the ESOP Trusts are recognised as a deduction within equity and are presented in equity as treasury shares until such time that an employee exercises their award.

Share buyback and cancellation programme

As repurchased shares are cancelled immediately after being bought back, the amount of the consideration paid and directly attributable costs are booked to retained earnings.

3. Dividend income

The Company received dividend income from subsidiary undertakings of £67.0m (2020: nil). The dividend was paid in cash, and no amounts remain outstanding as at the balance sheet date.

4. Operating profit / (loss)

Operating profit / (loss) is stated including the following costs:

Directors' remuneration

	2021	2020
	£m	£m
Salaries	1.3	1.3
Bonuses	0.9	0.9
Contributions to pensions and other retirement benefits	0.1	0.1
Compensation for loss of office	0.2	-
Long term incentives	6.7	0.2
Total Directors' remuneration	9.2	2.5

Three of the Company's Directors joined the Board from the acquirer, Philip Morris International Inc, on 19 October 2021 following the acquisition of the Company. These Directors did not receive any emoluments for qualifying services. No charge has been recognised in the group financial statements for an apportionment of the services of those Directors, as this is considered immaterial.

The remuneration of the highest paid director in the year is as follows:

	2021	2020
	£m	£m
Salaries	0.4	0.5
Bonuses	0.4	0.5
Long term incentives	4.0	-
Total Directors' remuneration	4.8	1.0

Information on the remuneration of key management personnel is not provided separately as a related party disclosure, as only the Directors are considered to be key management personnel. The Directors' remuneration includes the dividend equivalent referred to in note 13.

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Auditor's remuneration

	2021 £m	2020 £m
Audit of the Company's annual financial statements	0.1	0.1
Total fees payable to the Company's auditors	0.1	0.1

5. Staff costs

The aggregate payroll costs (including Directors' remuneration) were as follows:

	2021 £m	2020 £m
Wages and salaries	13.8	2.4
Social security costs	1.8	0.1
Defined contribution pension scheme	0.1	0.2
Total staff costs	15.7	2.7

The average number of persons employed by the Company (including Directors) in the year was 13 (2020: 14).

6. Income tax

	2021 £m	2020 £m
Current income tax	-	-
Prior year adjustments	-	-
Total current income tax charge	-	-
Deferred tax	-	-
Net tax credit reported in the income statement	-	-

The Company's effective tax rate is 0% (2020: 0%). The Company has generated a tax loss in the period as a result of management expenses and share option deductions arising from share compensation provided to employees and Directors.

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The net tax charge / (credit) reporting in the income statement is reconciled as follows:

	2021	2020
	£m	£m
Profit / (loss) before tax	32.0	(6.8)
Profit/(loss) before tax calculated at the UK corporation tax of 19% (2020: 19%)	6.1	(1.3)
Tax effects of:		
Dividend income not subject to UK Corporation Tax	(12.7)	-
Share based payments not deductible for UK Corporation Tax	2.8	0.8
Share option exercise gains tax deductible for UK Corporation Tax	(2.6)	-
Transaction related costs not deductible for UK Corporation Tax	2.6	-
Unrecognised deferred tax	3.8	0.5
Total tax for the year	-	-

Unrecognised cumulative tax assets from trading losses of £35.7m (2020: £15.8m), are available to offset against future profits of the UK Vectura Group, where appropriate profits are generated. Whilst future profits are expected to enable the utilisation of these losses, until future profits are sufficiently certain, an associated deferred tax asset is not recognised.

7. Share based payments

The Company operated various share-based compensation plans until the Company's acquisition by Philip Morris International Inc on 15 September 2021. All share-based payments were for the purposes of employee share incentivisation and were equity settled for shares in the Company in accordance with the vesting conditions. The share based payment incentive plans were closed in the year as a result of the acquisition.

	2021	2020
	£m	£m
Equity settled LTIP and RSA plans	14.6	4.4
Total share-based payment expense recognised	14.6	4.4

The employee share award plans were designed to support a strong culture of long-term shareholder value creation. Details of the Long-Term Incentive Plan (LTIP), the Company's main plan, are set out below. The Company also operated a Share Incentive Plan (SIP) and a Save-As-You-Earn (SAYE) plan. Under IFRS 2 *Share based payment*, these schemes are all equity settled.

During the year, all share options either vested or were cancelled as part of the acquisition and the related amounts accumulated within share based payment reserves were reclassified to retained earnings. No awards remained outstanding as at the year end. As such, the share based payment reserve was nil as at 31 December 2021.

VECTURA GROUP LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Equity-settled Long-Term Incentive Plan (LTIP) including restricted stock awards (RSA)

Transactions on the LTIP share plan for executives, senior management and key professionals during the year were as follows:

	2021	2020
	Number of awards	Number of awards
Beginning of the year	16,775,441	18,488,862
Granted	3,850,231	6,139,947
Exercised	(16,451,421)	(1,751,123)
Forfeited	(4,174,251)	(6,102,245)
End of the year	-	16,775,441

The weighted-average share price at the date of exercise for share options exercised in 2021 was £1.65 (2020: £0.98).

In 2021, LTIPs granted to Executive Directors were 185% of salary (2020: 185%) subject to performance over three years. The performance condition was subject to two measures being:

- performance is measured subject to a relative TSR metric against the FTSE 250 (excluding real estate and financial services companies) (2020: against the FTSE 250 (excluding real estate and financial services companies)); and
- a relevant three-year cumulative adjusted EBITDA target as set by the Remuneration Committee.

Employees at the Executive Leadership Team (ELT) level were granted LTIPs at 105% of salary (2020: 105%). 70% (2020: 70%) of these awards are subject to the same TSR and adjusted EBITDA as the Executive Directors, with the remaining 35% (2020: 35%) classified as restricted stock awards.

Restricted stock awards are subject to service conditions, i.e. the requirement for recipients of awards to remain in employment with Vectura over a three-year vesting period and subject to a personal performance underpin. Any vested shares granted to the Executive Directors and Executive Leadership Team must be held for two years after vesting.

Other key management personnel below ELT level receive awards entirely of restricted stock options.

Valuation of share awards

The treatment of vesting and non-vesting conditions attached to awards in the valuation process varies in accordance with the requirements of IFRS 2.

LTIPs for Executive Directors and ELT

For the year ended 31 December 2021, the calculation of the grant date fair value for those awards with a total shareholder return condition was as follows:

	2021	2020
Number of TSR awards granted	2,477,942	1,547,442
Service condition	3 years	3 years
Holding condition	2 years	2 years
Nominal share value	0.0271 p	0.0271 p
Share price on grant date	114.6p	91.1p

The TSR condition is a market-based performance condition; this has been incorporated into the fair value calculation and no subsequent adjustments may be made.

For awards subject to a TSR condition, volatility is calculated over the period of time commensurate with the remainder of the performance period immediately prior to the date of grant. This was estimated as being 41.5% (2020: 46.4%). The risk-free interest rate obtainable from government securities (i.e. gilts in the UK) over a period commensurate with the expected term was 0.14% (2020: 0.01%) and there was no dividend yield expected (2020: nil).

VECTURA GROUP LIMITED
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The adjusted EBITDA condition is a non-market condition and the vesting outcome assumption is adjusted at each reporting period for the likelihood of the number of shares that will ultimately vest. For the LTIP and RS awards that will be subject to a holding period, the Chaffe model (an at-market put option variant of the Black-Scholes model) has been used to determine a discount for the lack of marketability.

LTIPs for key management personnel below ELT

For the below ELT restricted stock awards, the probability of the non-market-based (holding) condition being achieved does not need to be incorporated into the fair value at date of grant, but is evaluated periodically to true up the estimate for the number of awards expected to vest.

Accelerated vesting and closure of scheme

On 15 September 2021 the Company was acquired by Philip Morris International Inc. For schemes which are not HMRC approved, according to plan rules, where an acquisition takes place the Remuneration Committee has discretion to determine the number of share options that vest. The Remuneration Committee ruled that all share options awarded prior to 2021 would vest in full, and that fifty percent of the share options in the 2021 award would vest. The accounting treatment under IFRS 2 in both cases is for the remaining unamortised fair value of share options to be expensed in full to profit and loss. This has been recognised within corporate and administrative charges in the income statement. No such discretion applies in schemes that are HMRC approved and these vested solely on a pro-rated basis without adjustment. All share option schemes were closed in the period. Refer to note 12 for details on the treatment of the share based payment reserve on closing the scheme.

8. Equity investments in subsidiary undertakings

The Company holds an investment of £393.9m in Vectura Group Services Limited (VGSL). Vectura Inc had a carrying value of £nil. Whilst there was no movement in the subsidiary undertakings during the period, Vectura Inc was disposed of after the balance sheet date, refer to note 15.

The Company's direct investments in subsidiaries at 31 December 2021 are as follows:

Name of undertaking	Country of incorporation	Holding	Proportion	Nature	Investment value £m
Vectura Group Services Limited	UK	Ordinary	100%	Holding	393.9
Vectura Inc	USA	Ordinary	100%	Non-trading	-

The investment in subsidiary undertakings reflects historical cost less any provision for impairment.

9. Investments

	2021 £m	2020 £m
As at 1 January	-	-
Acquisition	5.5	-
Increase / (decrease) in fair value recognised in profit and loss	0.3	-
As at 31 December	5.8	-

Vectura Group Limited made an investment of \$7.4m (£5.5m) (2020: nil) in convertible bonds in EnBiotix Inc, which subsequently merged with Spexis AG, a biomedical company listed in Switzerland. This investment was converted into ordinary share capital in the year. This amount is denominated in Swiss Francs at fair value through profit and loss and is shown under "investments" on the balance sheet.

The Company's investment represents a 9% ownership stake in Spexis AG, a company incorporated in Switzerland. The investment was revalued at year end to CHF 7.2m (£5.8m), with the increase of £0.3m (2020: n/a) recognised in profit and loss.

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10. Intercompany term loan

In March 2021, the Company received full repayment from Vectura Group Services Limited (VGSL) of a £88.4m receivable loan. The loan was considered to be non-current because the Company did not have the right to call repayment on demand until the loan expiry date of 30 June 2029. This receivable was recognised on transferring the Company's investment in Vectura Group Investments Limited (VGIL) to VGSL in June 2019. The applicable interest rate on the loan was 1.778%.

	£m
At 31 December 2020	88.4
Term loan receivable with Vectura Group Services Limited	(88.4)
At 31 December 2021	-

11. Share capital

	£m	Number of shares
Allotted, called up and fully paid		
Ordinary shares of 0.0271p, each at 31 December 2020	0.2	595,959,481
Issued to satisfy Vectura employee share plans	-	18,803,382
Ordinary shares of 0.0271p, each at 31 December 2021	0.2	614,762,863

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

12. Share based payment reserves

The Company closed its share option long-term incentive programmes in the period as a result of the Company having been acquired by Philip Morris International Inc. The vast majority of open share option awards that had not vested at the acquisition date were deemed to have vested, the remainder being cancelled. Consequently, these were expensed in line with IFRS 2 to profit and loss and share based payment reserves. As all vested share options were exercised in the year, the share based payment reserve was reclassified in full to retained earnings resulting in a year-end balance of nil.

13. Dividend equivalent

On 18 June 2021 the Directors announced the payment of a payment of £0.19 (2020: nil) per option to holders of share options as a compensatory equivalent to the dividend paid to shareholders to which share option holders were not entitled. The dividend equivalent payment falls within the scope of a share based payment and constitutes a modification under IFRS 2 *Share based payments*. Under these rules, where a modification is beneficial to the option holders, the increase in fair value determined at the modification date is expensed over the remaining vesting period of the award. The increase in fair value of the award is £0.19 per share option, which equates to a total amount of £3.7m (2020: £nil) over all share option plans. This amount was expensed to profit and loss and is included in the line "Corporate and administrative expenses".

14. Merger reserves

On the acquisition of a business, fair values reflecting conditions at the date of acquisition are attributed to the net assets acquired. Where merger relief is applicable under the UK Companies Act, the difference between the fair value of the business acquired and the nominal value of shares issued as purchase consideration is treated as a merger reserve.

The merger reserves are non-distributable reserves but become distributable to offset any future diminution in the investment value, or where that investment is disposed of for qualifying consideration.

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

15. Events after the balance sheet date

On 31 March 2022, 100% of the equity in the Company's subsidiary, Vectura Inc, a company incorporated in the US, was sold to Vectura Fertin Pharma Inc, a fellow affiliate related party and member of the wider Philip Morris International group. The consideration was US\$340,000 (£258,604).

On 31 March 2022, the Company's immediate parent undertaking changed from PMI Global Services Inc to Vectura Fertin Pharma Inc, a company incorporated in the United States of America.

16. Ultimate controlling party

The Company's immediate parent undertaking is Vectura Fertin Pharma Inc, registered in the United States of America.

The smallest and largest group into which the results of the Company are consolidated is that of the ultimate controlling party, Philip Morris International Inc. which is incorporated in the United States of America.

Copies of the Philip Morris International Inc. group financial statements can be obtained at:

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10017