



PHILIP MORRIS ApS

Weidekampsgade 14 A
DK-2300 København S
CVR-nr. 25 79 79 22

Annual report 2016

The Annual Report was presented and adopted at the
Annual General Meeting of the Company on ...*21/05/2017*...
2017

Chairman

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Management's Statement

The Executive and Board of Directors have today considered and adopted the Annual Report of Phillip Morris ApS for the financial year 1 January – 31 December 2016.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Financial Statements give a true and fair view of the financial position at 31 December 2016 of the Company and of the results of the Company operations for 2016.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Copenhagen, 31 May 2017

Executive Board



Filippo Torella

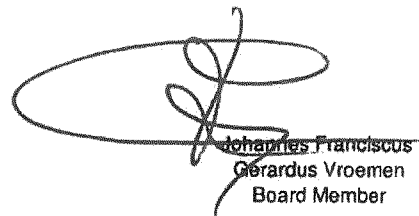
Board of Directors



Alberto Bernardi
Chairman



Filippo Torella
Country Management



Johannes Franciscus
Gérardus Vroemen
Board Member

Independent Auditor's Report

To the Shareholder of Philip Morris ApS

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2016, and of the results of the Company's operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Philip Morris ApS for the financial year 1 January - 31 December 2016, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("financial statements").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for 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 in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Copenhagen, ^{3/5} 2017
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR-nr. 33 77 12 31



Niels Henrik B. Mikkelsen
State Authorised Public Accountant

The Company

Philip Morris ApS
Weidekampsgade 14 A
DK-2300 København S

Telephone: + 45 70 23 10 21

Facsimile: + 45 70 23 10 28

CVR no.: 25 79 79 22

Financial year: January 1 - December 31, 2016

Municipality of
reg. office: Copenhagen

Executive Board

Filippo Torrella

Board of Directors

Alberto Bernardi, Chairman
Filippo Torrella
Johannes Franciscus Gerardus Vroemen

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK- 2900 Hellerup

Over a 5-year period, the Company's development could be described by the following key financial figures and ratios.

Certain amounts have been reclassified in the comparative figures for prior years to ensure the same presentation.

	<u>2016</u> DKK'000	<u>2015</u> DKK'000	<u>2014</u> DKK'000	<u>2013</u> DKK'000	<u>2012</u> DKK'000
Key financial figures					
Income statement					
Revenue	1 410 408	1 420 450	1 377 840	1 225 467	1 289 495
Gross profit	40 392	39 662	40 050	40 173	42 782
Profit before financial income and expenses	9 461	9 048	10 202	12 038	13 795
Financial net result	-387	269	-283	-231	-1 220
Net profit for the year	7 021	7 084	7 412	8 616	9 184
Balance sheet					
Investment in property, plant and equipment	467	352	170	144	888
Balance sheet total	247 782	320 407	258 463	226 151	230 967
Equity	8 860	8 339	72 255	64 843	56 228
Number of employees	41	39	44	43	45
Key ratios (%)					
Gross margin	2.9%	2.8%	2.9%	3.3%	3.3%
Operating margin	0.7%	0.6%	0.7%	1.0%	1.1%
Rate of return	3.8%	2.8%	3.9%	5.3%	6.0%
Solidity	3.6%	2.6%	28.0%	28.7%	24.3%
Return on equity	81.6%	17.6%	10.8%	14.2%	17.8%

The Key Ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysis. For definitions of key ratios, refer to accounting principles.

Main activity

The Company's main activity during the financial year was buying and selling of the tobacco products of Philip Morris International Inc., on the Danish market.

Development in the financial year

The result for 2016 is consistent with the expected development, referring to the published annual report for 2015.

In 2016, the net turnover amounted to 1,410,408 DKK decrease of 0.71 % compared to 2015. Philip Morris ApS increased share of market from 16.9% in 2015 to 17.7% in 2016, primarily driven by strong Marlboro and Skjold performances. Profit for the year after tax is 7,020,622 DKK compared to 7,083,961 DKK in 2015. The Balance Sheet total is 248,317,241 DKK of which equity constitutes 8,859,708 DKK.

Statutory report on corporate social responsibility, referring to the Danish Financial Statements Act, section 99a

Philip Morris International, the ultimate parent company of Philip Morris ApS, contributes to charitable, nonprofit organizations around the world. The aim is to make a critical and positive difference in local communities where Philip Morris does business and where employees live and work. Philip Morris International focuses giving in five defined areas: hunger and extreme poverty; education; environmental sustainability and living conditions in rural communities; disaster relief; and domestic violence.

For further information on the Company's Social Responsibility policies, how the Company turns the policies into action as well as the Company's assessment of what has been achieved as a result of the work and eventual expectations to the future work in this area, please refer to: <https://www.pmi.com/investor-relations/reports-filings>

Regulatory information regarding the underrepresented gender, referring to the Danish Financial Statements Act, section 99b

The company is committed to continue working towards and maintaining equal opportunities for women and men at all management levels. The Company encourages talented male and female employees to pursue a career in the company. The Company's top Management Level, the Board of Directors, is appointed by the sole shareholder. The Company's Board of Directors will encourage the sole shareholder to take gender diversity into consideration if possible when appointing the Board of Directors in order to achieve the share of the minority gender to be at 30%. This target was not achieved due to the fact that there were no Board changes in 2016. The Company gender equality target in 2016 of 22% of female was exceeded and amounted at 25%. 2017 target is set at 25% and 2018 target is set at 27%. Long term objective is to reach 40% of female within the organization in the next 10 years. Targets were set in the spirit of 'Diversity and Inclusion' program which is a global PMI initiative.

The Company regularly conducts employee surveys and employee development interviews to identify barriers – or the perception of barriers – preventing equal opportunities for men and women.

Targets and expectations for the year ahead

Although we forecast further decline of the total cigarette market, we expect the profitability remains at the same level as in previous years.

Income statement	<u>Note</u>	<u>2016</u> DKK	<u>2015</u> DKK
Revenue	1	1 410 407 939	1 420 449 710
Other operating income		13 122 674	1 489 054
Cost of goods sold		1 335 515 335	1 339 347 321
Other external expenses		47 623 241	42 929 048
		<hr/>	<hr/>
Gross profit		40 392 037	39 662 395
Staff expenses	2	30 616 995	30 336 183
Depreciation	3	313 870	277 911
		<hr/>	<hr/>
Profit before financial income and expenses		9 461 172	9 048 301
Financial income	4	52 983	781 066
Financial expenses	5	439 852	511 855
		<hr/>	<hr/>
Profit before tax		9 074 303	9 317 512
Corporation tax	6	2 053 681	2 233 551
		<hr/>	<hr/>
Net profit for the year	7	7 020 622	7 083 961
		<hr/>	<hr/>

Assets	Note	2016	2015
		DKK	DKK
Fixtures, fittings and equipment	8	317 190	307 112
Leasehold improvements	8	450 504	311 873
Property, plant and equipment		767 694	618 985
Deposits	9	792 317	720 317
Fixed asset investments		792 317	720 317
Fixed assets		1 560 011	1 339 302
Inventories		129 244 452	202 254 037
Trade receivables		103 040 614	114 742 732
Receivables from group companies		12 145 115	602 343
Corporation tax receivables		0	534 424
Deferred tax asset	10	97 826	89 481
Prepayments	11	1 640 956	796 096
Receivables		116 924 511	116 765 076
Cash and cash equivalents		53 298	48 706
Current assets		246 222 261	319 067 819
Total assets		247 782 272	320 407 121

Liabilities, provisions and equity	Note	2016 DKK	2015 DKK
Share capital		125 000	125 000
Retained earnings		3 234 708	1 714 086
Proposed dividend for the year	7	5 500 000	6 500 000
Equity		8 859 708	8 339 086
Trade payables		80 042 849	147 872 879
Debt to group enterprises		124 143 173	124 820 292
Corporation tax liabilities		15 602	0
Payables, other	12	34 720 940	39 374 864
Short-term debt		238 922 564	312 068 035
Debt		238 922 564	312 068 035
Total liabilities, provisions and equity		247 782 272	320 407 121
Contractual obligations	13		
Other disclosures	14-17		

Statement of changes in equity 2016

	Share capital	Retained earnings	Proposed dividend for the year	Total
	DKK	DKK	DKK	DKK
Equity at 1 January 2016	125 000	1 714 086	6 500 000	8 339 086
Net profit for the year	0	1 520 622	0	1 520 622
Paid dividend	0	0	-6 500 000	-6 500 000
Proposed dividend for the year	0	0	5 500 000	5 500 000
Equity at 31 December 2016	125 000	3 234 708	5 500 000	8 859 708

1 Revenue

The Company's activities consist solely of purchase and sale of Philip Morris International tobacco products on the Danish market.

2 Staff expenses

	<u>2016</u> DKK	<u>2015</u> DKK
Staff expenses amount to the following:		
Wages and salaries	26 800 570	26 293 568
Pensions	2 306 707	2 209 291
Other employee benefits	1 509 718	1 833 324
	<u>30 616 995</u>	<u>30 336 183</u>
Average number of employees	<u>41</u>	<u>39</u>

Information about remuneration to the Executive Board has been omitted referring to the Danish Financial Statements Act, section 98b

3 Depreciation

Depreciation is specified as follows:

	<u>2016</u> DKK	<u>2015</u> DKK
Depreciation for the year	313 870	277 911
	<u>313 870</u>	<u>277 911</u>

4 Financial income

Financial income is specified as follows:

	<u>2016</u> DKK	<u>2015</u> DKK
Interest income	0	582 532
Exchange adjustments	52 983	198 534
	<u>52 983</u>	<u>781 066</u>

5 Financial expenses

Financial expenses are specified as follows:

	<u>2016</u> DKK	<u>2015</u> DKK
Interest expenses group companies	290 767	78 628
Exchange adjustments	101 287	402 592
Other financial expenses	47 798	30 635
	<u>439 852</u>	<u>511 855</u>

6 Corporation tax

	<u>2016</u> DKK	<u>2015</u> DKK
The corporation tax expensed is specified as follows:		
Current tax for the year	2 053 681	2 189 576
Deferred tax for the year	-15 015	36 590
Effect of decrease of tax percentage	6 670	3 808
Tax adjustments regarding previous years	8 345	3 577
Tax on profit for the year	2 053 681	2 233 551

Tax on profit for the year is calculated as follows:

Tax on profit for the year	1 996 346	2 189 616
Tax effect of non deductible cost	43 278	35 057
Tax adjustments regarding deferred tax previous years	5 712	5 302
Tax adjustments regarding previous years	8 345	3 577
	2 053 681	2 233 551

7 Distribution of profit for the year

	<u>2016</u> DKK	<u>2015</u> DKK
Proposed distribution of profit	5 500 000	6 500 000
Transferred to retained earnings	1 520 622	583 961
	7 020 622	7 083 961

8 Property, plant and equipment

Investments in and depreciation of tangible assets are specified as follows:

	Fixtures, fittings and equipment	Leasehold improvements
Cost at 1 January 2016	3 407 095	622 291
Additions	174 465	288 114
Cost at 31 December 2016	3 581 560	910 405
Depreciation at 1 January 2016	3 099 983	310 418
Depreciation	164 387	149 483
Depreciation at 31 December 2016	3 264 370	459 901
Carrying amount at 31 December 2016	317 190	450 504

9 Deposits

	2016 DKK	2015 DKK
Cost at 1 January	720 317	691 088
Additions	72 000	29 229
Cost at 31 December	792 317	720 317

10 Deferred tax asset / provision for deferred tax

The deferred tax asset is estimated to be utilized in the forthcoming 1 - 3 years.

Deferred tax asset is specified as follows:

	2016 DKK	2015 DKK
Tangible assets	63 663	89 233
Accrued expenses	34 163	248
	97 826	89 481

11 Prepayments

Prepayments consist of prepaid expenses for rent, insurance and agreement fees.

12 Payables, other

Payables, other are specified as follows:

	<u>2016</u> DKK	<u>2015</u> DKK
Accrued holiday pay	5 240 649	4 525 269
VAT payable	29 480 291	34 849 595
	<u>34 720 940</u>	<u>39 374 864</u>

13 Contractual obligations

The Company has assumed rent and lease obligations which at the balance sheet date total:

	<u>2016</u> DKK	<u>2015</u> DKK
Within 1 year:	3 262 328	2 470 000
between 1-5 years:	1 149 000	955 000
Total contractual obligations	<u>4 411 328</u>	<u>3 425 000</u>

14 Group matters

The company's share capital of DKK 125,000 is wholly owned by Philip Morris S.A., Switzerland.

Philip Morris International Inc. is the only parent company which prepares consolidated financial statements in which Philip Morris ApS is included as a subsidiary.

The consolidated financial statements of Philip Morris International Inc. can be obtained at the following address:

Philip Morris International Inc., 120 Park Avenue, New York, NY 10017-5592, USA

15 Related parties

Philip Morris International Inc., USA is the ultimate parent company controlling interest in the Company.

Transactions

The main activity of the Company is the buying and selling of the tobacco products of Philip Morris International Inc. Purchase of tobacco products is done entirely within the Group. The purchase price is based on arm's length basis. During the year, the Company has had the following transactions with group companies.

	<u>2016</u>	<u>2015</u>
	DKK	DKK
<i>(total transaction value during year)</i>		
Finished Goods Purchased	113 543 983	123 740 841

The Company purchases some administrative services from group companies. The purchase price is based on arm's length basis.

	<u>2016</u>	<u>2015</u>
	DKK	DKK
<i>(total transaction value during year)</i>		
Service Fees	3 861 642	3 259 855
Expats Recharge Fees	2 814 503	2 536 657
Insurance	2 173 876	2 135 666

Other Operating Income in 2016 in total amount of 13 122 674 DKK includes recharge to PMI (Trade Mark Owner) related to commercialization support of IQOS in Denmark in the amount of 11 787 000 DKK.

The total net payables amount at year-end to DKK 124 120 213 and carry interest based on arm's length basis.

During the year, the company did not have any impairment on receivables from related parties as well as the accumulated impairment on existing receivables.

16 Audit fee

	<u>2016</u>	<u>2015</u>
	DKK	DKK
Total fee	232 000	396 837
Whereof audit	205 000	230 000

17 Events after the balance sheet date

No important events have occurred after the closing of the financial year. There are no significant legal matters to report for Philip Morris ApS for the financial year of 2016.

Accounting Principles

The Annual Report of Philip Morris ApS has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C. The accounting principles are unchanged compared to prior year.

Certain amounts have been reclassified in the comparative figures for 2015 to ensure the same presentation.

Recognition and measurement

Revenues are recognised in the income statement as earned based on the following criteria:

- A binding agreement on sale or service income has been made
- Delivery has taken place before the end of the financial year
- The sales price has been determined
- Payment has been received at the time of the sale or may with reasonable certainty be expected to be received

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report, which confirm or invalidates affairs and conditions existing at the balance sheet date. Danish crown (DKK) is used as the measurement currency. All other currencies are regarded as foreign currencies.

Translation policies

Transactions in foreign currencies are translated during the year at the exchange rates at the dates of transaction. Receivables, payables and other monetary items in foreign currency are in the balance sheet translated at the exchange rate as at the balance sheet date. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Corporation tax and deferred tax

Tax for the year consists of current tax for the year and deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity entries is recognised directly in equity. Any share of the tax reported in the income statement arising from profit/loss on extraordinary activities for the year is attributed to such activities, whereas the remaining share is attributed to profit/loss on ordinary activities for the year. Current tax liabilities and current tax receivable are recognised in debt or, in the event of overpayment of tax on account, in receivables. Deferred tax is measured under the balance sheet liability method in respect of all temporary differences between the carrying amount and the tax base of assets and liabilities. Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities.

Income Statement

Revenue

Revenue from the sale of goods for resale is recognised in the income statement provided that delivery and transfer of risk have been made to the purchaser by year end. Revenue is recognised including tobacco duty, exclusive of VAT and net of discounts relating to sales.

Cost of goods sold

Cost of goods sold comprises the consumption of goods for resale and tobacco duty stamps used to achieve revenue for the year.

Other external expenses

Other external expenses include sales expenses, advertising, premises and office supplies, etc.

Staff expenses

Staff expenses include expenses for wages and salaries and other wage related expenses.

Accounting Principles

Depreciation and impairment losses

Depreciation and impairment losses comprise depreciation and impairment of property, plant and equipment.

Other operating income and expenses

Other operating income and other operating expenses comprise items of secondary nature the core activities of the enterprise, including gain and losses on the sale of property, plant and equipment.

Financial income and expenses

Financial income and expenses comprise interest, realised and unrealised exchange adjustments and surcharges allowances under the tax on account scheme.

Balance Sheet

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses. Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use. Depreciation based on cost reduced by any residual value, which is revaluated on an annual basis, is calculated on a straight-line basis over the expected useful lives of the assets, which are: Fixtures, fittings and equipment: 3 - 5 years.

Inventories

Inventories consist of tobacco products and tobacco duty stamps. Inventories are measured at the lower of cost and net realizable value.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Equity

Dividend is recognised as a liability at the time of adoption at the Annual General Meeting. Dividend expected to be distributed for the year is disclosed as a separate equity item.

Cash flow statement

The Company's cash flows are included in the consolidated annual report of Phillip Morris International Inc., 120 Park Avenue, New York, NY 10017-5592, USA. Cash flow statement is therefore not presented in the Company's annual report.

Key ratios

Gross margin = $\text{Gross profit} * 100 / \text{Revenue}$

Operating margin = $\text{Profit before financial income and expenses} * 100 / \text{Revenue}$

Rate of return = $\text{Profit before financial income and expenses} * 100 / \text{Balance total}$

Solidity = $\text{Equity} * 100 / \text{Balance total}$ Return on equity = $\text{Net profit} * 100 / \text{Average equity}$

Return on Equity = $\text{Net profit of the year} / \text{Average of total equity within two years.}$