



PHILIP MORRIS ApS

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

Annual Report 2017

The Annual Report was presented and adopted at the
Annual General Meeting of the company
on 31 May 2018



Michael Bryrup
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 2017.

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 2017 of the company and of the results of the company operations for 2017.

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 2018

Executive Board



Janus Rasmussen

Board of Directors



Alberto Bernardi
Chairman



Janus Rasmussen



Johannes Franciscus
Gerardus Vroemen

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 2017, and of the results of the company's operations for the financial year 1 January - 31 December 2017 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 2017, which comprise income statement, balance sheet, statement of changes in equity, notes, and 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 of 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.

- Obtaining 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, 31 May 2018

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR-nr. 33 77 12 31



Niels Henrik B. Mikkelsen

State Authorized Public Accountant

MNE 16675

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

Fiscal year: January 1 – December 31, 2017

The municipality of reg. office: Copenhagen

Executive Board

Janus Rasmussen

Board of Directors

Alberto Bernardi, Chairman
Janus Rasmussen
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.

	2017	2016	2015	2014	2013
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Key financial figures					
Income statement					
Revenue	1 428 236	1 410 408	1 420 450	1 377 840	1 225 467
Gross profit	56 196	40 392	39 662	40 050	40 173
Profit before financial income and expenses	19 805	9 461	9 048	10 202	12 038
Financial net result	63	-387	269	-283	-231
Net profit for the year	15 355	7 021	7 084	7 412	8 616
Balance sheet					
Investment in property, plant and equipment	107	467	352	170	144
Balance sheet total	256 405	247 782	320 407	258 463	226 151
Equity	18 715	8 860	8 339	72 255	64 843
Number of employees	43	41	39	44	43
Key ratios (%)					
Gross margin	3.9%	2.9%	2.8%	2.9%	3.3%
Operating margin	1.4%	0.7%	0.6%	0.7%	1.0%
Rate of return	7.7%	3.8%	2.8%	3.9%	5.3%
Solidity	7.3%	3.6%	2.6%	28.0%	28.7%
Return on equity	111.4%	81.6%	17.6%	10.8%	14.2%

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 of 2017 is consistent with the expected development, referring to the published annual report for 2016.

In 2017, the net turnover amounted to 1 428 236K DKK an increase of 1.3 % compared to 2016. Philip Morris ApS increased the share of the market to 17.9% in 2017 in comparison with 17.7% in 2016, primarily driven by strong Skjold performance. Profit for the year after tax is 15 355 071 DKK compared to 7 020 622 DKK in 2016. The Balance Sheet total is 256 727 777 DKK of which equity consists of 18 714 779 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%. Despite changes to the board in 2017, this target was not achieved since the shareholder after due consideration decided to appoint three male members of the board. The new Board of Directors will encourage the sole shareholder to take gender diversity into consideration if possible going forward. In 2017, the company reached 24% of female employees (targeted 25%). The target for 2018 is set at 27% and for 2019 at 30%. The long-term objective is to reach 40% of the female within the organization in the next 10 years. Targets were set in the spirit of the '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 a further decline of the total cigarette market, we expect the profitability to remain at the same level as previous years.



Income Statement	Note	2017	2016
		DKK	DKK
Revenue	1	1 428 235 874	1 410 407 939
Other operating income		32 071 232	13 122 674
Cost of goods sold		1 345 891 268	1 335 515 335
Other external expenses		58 219 700	47 623 241
		<hr/>	<hr/>
Gross profit		56 196 138	40 392 037
Staff expenses	2	36 032 113	30 616 995
Depreciation	3	358 981	313 870
		<hr/>	<hr/>
Profit before financial income and expenses		19 805 044	9 461 172
Financial income	4	662 831	52 983
Financial expenses	5	600 291	439 852
		<hr/>	<hr/>
Profit before tax		19 867 584	9 074 303
Corporation tax	6	4 512 513	2 053 681
		<hr/>	<hr/>
Net profit for the year	7	15 355 071	7 020 622
		<hr/>	<hr/>

Assets	Note	2017 DKK	2016 DKK
Fixtures, fittings, and equipment	8	260 387	317 190
Leasehold improvements	8	255 415	450 504
Property, plant, and equipment		515 802	767 694
Deposits	9	1 205 087	792 317
Fixed asset investments		1 205 087	792 317
Fixed assets		1 720 889	1 560 011
Inventories		118 218 928	129 244 452
Trade receivables		101 656 641	104 247 414
Receivables from group companies		34 033 727	12 145 115
Corporation tax receivables		0	0
Deferred tax asset	10	389 307	97 826
Prepayments	11	683 467	434 156
Receivables		136 763 142	116 924 511
Cash and cash equivalents		24 818	53 298
Current assets		255 006 888	246 222 261
Total assets		256 727 777	247 782 272

Liabilities, provisions, and equity	Note	2017	2016
		DKK	DKK
Share capital		125 000	125 000
Retained earnings		1 089 779	3 234 708
Proposed dividend for the year	7	17 500 000	5 500 000
Equity		18 714 779	8 859 708
Trade payables		22 023 548	18 553 608
Debt to group enterprises		113 338 609	124 143 173
Corporation tax liabilities		3 490 494	15 602
Payables, other	12	99 160 347	96 210 181
Short-term debt		238 012 998	238 922 564
Debt		238 012 998	238 922 564
Total liabilities, provisions, and equity		256 727 777	247 782 272
Contractual obligations	13		
Other disclosures	14-17		

Statement of Changes in Equity

	Share capital	Retained earnings	Proposed dividend for the year	Total
	DKK	DKK	DKK	DKK
Equity at 1 January 2017	125 000	3 234 708	5 500 000	8 859 708
Net profit for the year	0	15 355 071	0	15 355 071
Paid dividend	0	0	-5 500 000	-5 500 000
Proposed dividend for the year	0	-17 500 000	17 500 000	0
Equity at 31 December 2017	125 000	1 089 779	17 500 000	18 714 779

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

Staff expenses amount to the following:

	2017	2016
	DKK	DKK
Wages and salaries	30 803 400	26 800 570
Pensions	2 428 478	2 306 707
Other employee benefits	2 800 235	1 509 718
	36 032 113	30 616 995
Average number of employees	43	41

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:

	2017	2016
	DKK	DKK
Depreciation for the year	358 981	313 870
	358 981	313 870

4. Financial Income

Financial income is specified as follows:

	2017	2016
	DKK	DKK
Interest income	30	0
Exchange adjustments	662 801	52 983
	662 831	52 983

5. Financial Expenses

Financial expenses are specified as follows:

	2017	2016
	DKK	DKK
Interest expenses group companies	218 727	290 767
Exchange adjustments	283 815	101 287
Other financial expenses	97 749	47 798
	600 291	439 852

6. Corporation Tax

The corporation tax expensed is specified as follows:

	2017	2016
	DKK	DKK
Current tax for the year	4 794 494	2 053 681
Deferred tax for the year	-291 481	-15 015
Effect of decrease of tax percentage	0	6 670
Tax adjustments regarding previous years	9 500	8 345
	4 512 513	2 053 681

Tax on profit for the year is calculated as follows:

	2017	2016
	DKK	DKK
Tax on profit for the year	4 370 868	1 996 346
Tax effect of non-deductible cost	132 145	43 278
Tax adjustments regarding deferred tax previous years	0	5 712
Tax adjustments regarding previous years	9 500	8 345
	4 512 513	2 053 681

7. Distribution of Profit for the Year

	2017	2016
	DKK	DKK
Proposed distribution of profit	17 500 000	5 500 000
Transferred to/from retained earnings	-2 144 929	1 520 622
	15 355 071	7 020 622

8. Property, Plant, and Equipment

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

	Fixtures, fittings, and equipment	Leasehold improvements
	<hr/>	<hr/>
Cost at 1 January 2017	3 581 560	910 405
Additions	106 430	659
	<hr/>	<hr/>
Cost at 31 December 2017	3 687 990	911 064
	<hr/>	<hr/>
Depreciation at 1 January 2017	3 264 370	459 901
Depreciation	163 233	195 748
	<hr/>	<hr/>
Depreciation at 31 December 2017	3 427 603	655 649
	<hr/>	<hr/>
Carrying amount at 31 December 2017	260 387	255 415

9. Deposits

	2017	2016
	<hr/> DKK	<hr/> DKK
Cost at 1 January	792 317	720 317
Additions	412 770	72 000
	<hr/>	<hr/>
Cost at 31 December	1 205 087	792 317
	<hr/>	<hr/>

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:

	<u>2017</u>	<u>2016</u>
	DKK	DKK
Tangible assets	65 257	63 663
Accrued expenses	324 050	34 163
	<u>389 307</u>	<u>97 826</u>

11. Prepayments

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

12. Payables, Other

Payables, other are specified as follows:

	<u>2017</u>	<u>2016</u>
	DKK	DKK
Accrued holiday pay	4 971 647	5 240 649
VAT payable	30 653 128	29 480 290
Excise tax payable	63 535 571	61 489 242
	<u>99 160 347</u>	<u>96 210 181</u>

13. Contractual Obligations

The company has assumed rent and lease obligations in the following amounts:

	<u>2017</u> DKK	<u>2016</u> DKK
Within 1 year:	4 211 780	3 262 328
between 1-5 years:	2 396 970	1 149 000
	<u>6 608 750</u>	<u>4 411 328</u>
Total contractual obligations	6 608 750	4 411 328

14. Company 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>2017</u> DKK	<u>2016</u> DKK
<i>(total transaction value during the year)</i>		
Finished Goods Purchased	115 233 720	113 543 983

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

	<u>2017</u>	<u>2016</u>
	DKK	DKK
<i>(total transaction value during the year)</i>		
Service Fees	4 985 700	3 861 642
Expats Recharge Fees	3 130 389	2 814 503
Insurance	1 470 657	2 173 876

Other operating income in 2017 in the total amount of 32 071 232 DKK includes recharge to PMI (Trade Mark Owner) related to commercialization support of IQOS in Denmark in the amount of 30 611 339 DKK.

The total net payables amount at year-end to 110 620 592 DKK 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>2017</u>	<u>2016</u>
	DKK	DKK
Total fee	226 750	232 000
Whereof audit	194 750	205 000

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 2017.

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 2016 to ensure the same presentation.

Recognition and measurement

Revenues are recognized 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 confirms 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 the 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 recognized 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 recognized in the income statement, whereas the tax attributable to equity entries is recognized 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 recognized in debt or, in the event of an overpayment of tax on the 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 realized, 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 recognized in the income statement provided that delivery and transfer of risk have been made to the purchaser by year end. Revenue is recognized 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.

Depreciation and impairment loss

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, realized and unrealized 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 evaluated 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 amortized cost and net realizable value, which corresponds to a nominal value decreased by provisions for bad debts.

Equity

The dividend is recognized 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 = $\text{Profit before financial income and expenses} * 100 / \text{Revenue}$

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

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

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

