



## **PHILIP MORRIS ApS**

Copenhagen Towers  
Ørestads Boulevard 108, 3sal  
DK-2300 København S  
CVR-nr. 25 79 79 22

# **Annual Report 2018**

The Annual Report was presented and adopted at the  
Annual General Meeting of the company  
on 31 May 2019

A handwritten signature in blue ink, appearing to read 'Isabel Frensborg'.

Isabel Frensborg  
*Chairman*

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## Management's Statement

The Executive and Board of Directors have today considered and adopted the Annual Report of Philip Morris ApS for the financial year 1 January – 31 December 2018.

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 2018 of the company and of the results of the company operations for 2018.

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 2019

## Executive Board

Janus Tjørnelund Rasmussen

## Board of Directors

Anette Carina Rosengren

Janus Tjørnelund 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 2018, and of the results of the company's operations for the financial year 1 January - 31 December 2018 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 2018, 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.

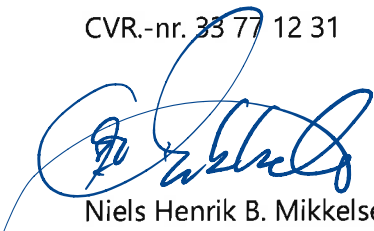
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Copenhagen, 31 May 2019

**PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab

CVR.-nr. 33 77 12 31



Niels Henrik B. Mikkelsen

State Authorized Public Accountant

MNE 16675



## **The Company**

Philip Morris ApS

Copenhagen Towers, Ørestads Blvd 108, 3 sal  
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, 2018

The municipality of reg. office: Copenhagen

## **Executive Board**

Janus Tjørnelund Rasmussen

## **Board of Directors**

Anette Carina Rosengren

Janus Tjørnelund 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.

	<u>2018</u> DKK'000	<u>2017</u> DKK'000	<u>2016</u> DKK'000	<u>2015</u> DKK'000	<u>2014</u> DKK'000
<b>Key financial figures</b>					
<b>Income statement</b>					
Revenue	1 435 739	1 428 236	1 410 408	1 420 450	1 377 840
Gross profit	62 585	56 196	40 392	39 662	40 050
Profit before financial income and expenses	17 976	19 805	9 461	9 048	10 202
Financial net result	449	63	-387	269	-283
Net profit for the year	14 198	15 355	7 021	7 084	7 412
<b>Balance sheet</b>					
Investment in property, plant and equipment	1 548	107	467	352	170
Balance sheet total	304 677	256 405	247 782	320 407	258 463
Equity	15 413	18 715	8 860	8 339	72 255
<b>Number of employees</b>	<b>48</b>	<b>43</b>	<b>41</b>	<b>39</b>	<b>44</b>
<b>Key ratios (%)</b>					
Gross margin	4.4%	3.9%	2.9%	2.8%	2.9%
Operating margin	1.3%	1.4%	0.7%	0.6%	0.7%
Rate of return	5.9%	7.7%	3.8%	2.8%	3.9%
Solidity	5.1%	7.3%	3.6%	2.6%	28.0%
Return on equity	83.2%	111.4%	81.6%	17.6%	10.8%

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 including cigarettes, smoke-free products (heated tobacco) and associated electronic devices and accessories - IQOS.

## Development in the Financial Year

The result of 2018 is consistent with the expected development, referring to the published annual report for 2017.

In 2018, the net turnover amounted to 1 435 739k DKK an increase of 0.5 % compared to 2017. Philip Morris ApS increased the share of the market from 17.9% in 2017 to 18.0% in 2018, primarily driven by strong Marlboro and Skjold performance. Profit for the year after tax is 14 198 406 DKK compared to 15 355 071 DKK in 2017. The Balance Sheet total is 304 677 074 DKK of which equity consists of 15 413 185 DKK.

## Statutory report on Corporate Social Responsibility, referring to the Danish Financial Statements Act, section 99a

PMI's Board of Directors understands our special responsibility as a tobacco company and expects us to continuously improve the sustainability of our business and value chain and to contribute to the global sustainability agenda.

For further information on the company's social responsibility policies, our contribution and progress towards reaching the UN's Sustainable Development Goals, 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 annually published [PMI Sustainability Report](#) that constitutes the statutory statement.

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.

Philip Morris International is committed to business practices that respect internationally recognized human rights. Respect for human rights is fundamental to operating a sustainable global business. At PMI, we embed respect for human rights in our culture, so that human rights



principles govern the way we work with employees, suppliers, consumers and the communities where we operate. Different policy instruments set out how we want to achieve this aim: our [Commitment to Human Rights](#), our [Guidebook for Success](#), our [Responsible Sourcing Principles](#), and our [Agricultural Labor Practices Code](#). They align with our core values and commit us to managing our human rights impacts in a systematic way, in accordance with the United Nations Guiding Principles on Business and Human Rights (UNGPs).

Our human rights commitment is delivered by practical actions across our operations and our supply chain. Our [Human Rights Roadmap](#) directs the actions across functions which are targeted to be delivered by the end of 2020. Actions fall under four broad aims and typically range from capacity building and due diligence processes to grievance mechanisms and clear reporting.

PMI committed to maintain a strong ethics and compliance culture to prevent bribery, corruption and anti-competitive practices. Corruption, bribery, influence trafficking, misleading information, secrecy about issues that are material to a decision, and dishonesty in general are not acceptable forms of doing business at PMI. Our [Guidebook for Success](#), together with its supporting Principles & Practices, govern our interactions with government officials, which are conducted transparently, with integrity, and in adherence to local laws. In particular, our Guidebook for Success and Principles & Practices cover a range of anti-bribery topics, including giving and receiving gifts and entertainment, facilitating payments (prohibited), contributions involving or connected with government officials, third parties who interact with government officials on our behalf, membership of organizations, advocacy activities, and reporting and record keeping. In 2018 there have been no violations of the Company's policy in this area.

[PMI IMPACT](#) is our global initiative to support projects dedicated to fighting illicit trade and related crime. We invite public organizations, law enforcers, private entities, and NGOs from around the world to submit their project proposals for funding. Projects are selected through an open and defined evaluation process, led by a council of independent experts.

### **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. Achieving gender balance is an essential element of our [Inclusion and Diversity](#) global PMI initiative and one of our top priorities. Our focus is firmly on leveraging the full talents of women in the workplace.

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 achieved as of mid of March 2019 due to the Board changes – Anette Carina Rosengren became a new Managing Director.

The company gender equality target in 2018 of 27% of female was exceeded and amounted at 30%. 2019 target is set at 32% and for 2020 at 35%. The long-term objective is to reach 40% of the female within the organization in the next 10 years. We aim to recruit equal numbers of men and women at entry levels. To support this, our job advertisements use gender neutral language, we push for gender balanced short lists and we use diverse interview panels to reduce the risk of unconscious bias in talent assessments.

A fair and inclusive workplace also means an equal salary for equal work. We have reinforced our commitment to closing our gender gap by undergoing an independent equal pay certification developed by the [EQUAL-SALARY Foundation](#). We are proud to be the first international company to receive the Global EQUAL-SALARY Certification in 2019.

As employees advance in their career, PMI provides equal learning opportunities and personalized development plans for female leaders. We offer flexible working arrangements and parental support programs.

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.



<b>Income Statement</b>	<b>Note</b>	<b>2018</b>	<b>2017</b>
		DKK	DKK
<b>Revenue</b>	1	<b>1 435 739 294</b>	<b>1 428 235 874</b>
Other operating income		36 671 155	32 071 232
Cost of goods sold		1 336 136 348	1 345 891 268
Other external expenses		73 689 220	58 219 700
		<hr/>	<hr/>
<b>Gross profit</b>		<b>62 584 881</b>	<b>56 196 138</b>
Staff expenses	2	44 192 443	36 032 113
Depreciation	3	416 353	358 981
		<hr/>	<hr/>
<b>Profit before financial income and expenses</b>		<b>17 976 085</b>	<b>19 805 044</b>
Financial income	4	1 115 537	662 831
Financial expenses	5	666 297	600 291
		<hr/>	<hr/>
<b>Profit before tax</b>		<b>18 425 325</b>	<b>19 867 584</b>
Corporation tax	6	4 226 919	4 512 513
		<hr/>	<hr/>
<b>Net profit for the year</b>	7	<b>14 198 406</b>	<b>15 355 071</b>
		<hr/>	<hr/>



<b>Assets</b>	<b>Note</b>	<b>2018</b>	<b>2017</b>
		DKK	DKK
Fixtures, fittings, and equipment	8	1 648 849	260 387
Leasehold improvements	8	25 841	255 415
Construction in progress	8	10 282	0
		<b>1 684 972</b>	<b>515 802</b>
Deposits	9	1 704 124	1 205 087
Fixed asset investments		1 704 124	1 205 087
		<b>3 389 096</b>	<b>1 720 889</b>
		<b>175 859 026</b>	<b>118 218 928</b>
Trade receivables		90 706 639	101 656 641
Receivables from group companies		32 844 726	34 033 727
Deferred tax asset	10	203 600	389 307
Prepayments	11	1 673 987	683 467
		<b>125 428 952</b>	<b>136 763 142</b>
<b>Cash and cash equivalents</b>		<b>0</b>	<b>24 818</b>
<b>Current assets</b>		<b>301 287 978</b>	<b>255 006 888</b>
<b>Total assets</b>		<b>304 677 074</b>	<b>256 727 777</b>



**Liabilities, provisions, and equity**

	<u>Note</u>	<u>2018</u> DKK	<u>2017</u> DKK
Share capital		125 000	125 000
Retained earnings		1 288 185	1 089 779
Proposed dividend for the year	7	14 000 000	17 500 000
		<b>15 413 185</b>	<b>18 714 779</b>
Trade payables		28 529 208	22 023 548
Debt to group enterprises		137 221 085	113 338 609
Corporation tax liabilities		2 915 212	3 490 494
Payables, other	12	120 598 384	99 160 347
		<b>289 263 889</b>	<b>238 012 998</b>
		<b>289 263 889</b>	<b>238 012 998</b>
		<b>304 677 074</b>	<b>256 727 777</b>
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
<b>Equity at 1 January 2018</b>	125 000	1 089 779	17 500 000	18 714 779
Net profit for the year	0	14 198 406	0	14 198 406
Paid dividend	0	0	-17 500 000	-17 500 000
Proposed dividend for the year	0	-14 000 000	14 000 000	0
<b>Equity at 31 December 2018</b>	<b>125 000</b>	<b>1 288 185</b>	<b>14 000 000</b>	<b>15 413 185</b>



## 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:

	<b>2018</b>	<b>2017</b>
	DKK	DKK
Wages and salaries	37 260 008	30 803 400
Pensions	2 615 383	2 428 478
Other employee benefits	4 317 052	2 800 235
	<b>44 192 443</b>	<b>36 032 113</b>
Average number of employees	<b>48</b>	<b>43</b>

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

Management and other employees are included in Philip Morris Inc's share based compensation program. Warrants are granted with a vesting period of 3 years. There are performance conditions in connection with the program. Payment to the parent company regarding share delivered to employees according to the program are recognized as expense in the income statement.

## 3. Depreciation

Depreciation is specified as follows:

	<b>2018</b>	<b>2017</b>
	DKK	DKK
Depreciation for the year	416 353	358 981
	<b>416 353</b>	<b>358 981</b>





#### 4. Financial Income

Financial income is specified as follows:

	<b>2018</b>	<b>2017</b>
	DKK	DKK
Interest income	977 401	30
Exchange adjustments	138 136	662 801
	<b>1 115 537</b>	<b>662 831</b>

#### 5. Financial Expenses

Financial expenses are specified as follows:

	<b>2018</b>	<b>2017</b>
	DKK	DKK
Interest expenses group companies	215 077	218 727
Exchange adjustments	249 380	283 815
Other financial expenses	201 840	97 749
	<b>666 297</b>	<b>600 291</b>

#### 6. Corporation Tax

The corporation tax expensed is specified as follows:

	<b>2018</b>	<b>2017</b>
	DKK	DKK
Current tax for the year	4 041 212	4 794 494
Deferred tax for the year	185 707	-291 481
Tax adjustments regarding previous years	0	9 500
<b>Tax on profit for the year</b>	<b>4 226 919</b>	<b>4 512 513</b>



Tax on profit for the year is calculated as follows:

	<b>2018</b>	<b>2017</b>
	DKK	DKK
Tax on profit for the year	4 053 485	4 370 868
Tax effect of non-deductible cost	173 434	132 145
Tax adjustments regarding previous years	0	9 500
	<b>4 226 919</b>	<b>4 512 513</b>

## 7. Distribution of Profit for the Year

	<b>2018</b>	<b>2017</b>
	DKK	DKK
Proposed distribution of profit	14 000 000	17 500 000
Transferred to/from retained earnings	198 406	-2 144 929
	<b>14 198 406</b>	<b>15 355 071</b>



## 8. Property, Plant, and Equipment

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

	<b>Fixtures, fittings and equipment</b>	<b>Leasehold improvements</b>	<b>Construction in progress</b>
<b>Cost at 1 January 2018</b>	3 687 990	911 064	0
Additions	1 548 493	26 748	10 282
<b>Cost at 31 December 2018</b>	<b>5 236 483</b>	<b>937 812</b>	<b>10 282</b>
Depreciation at 1 January 2018	3 427 603	655 649	0
<i>Correction to beginning depreciation</i>	42 414	-42 414	0
Depreciation	202 445	213 908	0
<b>Depreciation at 31 December 2018</b>	<b>3 587 634</b>	<b>911 971</b>	<b>0</b>
<b>Carrying amount at 31 December 2018</b>	<b>1 648 849</b>	<b>25 841</b>	<b>10 282</b>

## 9. Deposits

	<b>2018</b>	<b>2017</b>
	DKK	DKK
Cost at 1 January	1 205 087	792 317
Additions	499 037	412 770
<b>Cost at 31 December</b>	<b>1 704 124</b>	<b>1 205 087</b>



## 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:

	<b>2018</b>	<b>2017</b>
	DKK	DKK
Tangible assets	-12 580	65 257
Accrued expenses	216 180	324 050
	<b>203 600</b>	<b>389 307</b>

## 11. Prepayments

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

## 12. Payables, Other

Payables, other are specified as follows:

	<b>2018</b>	<b>2017</b>
	DKK	DKK
Accrued holiday pay	5 579 441	4 971 647
VAT payable	28 903 643	30 653 128
Excise tax payable	86 115 300	63 535 571
	<b>120 598 384</b>	<b>99 160 347</b>



### 13. Contractual Obligations

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

	<u>2018</u> DKK	<u>2017</u> DKK
Within 1 year:	4 451 682	4 211 780
between 1-5 years:	12 351 132	2 396 970
Total contractual obligations	<u>16 802 814</u>	<u>6 608 750</u>

### 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>2018</u> DKK	<u>2017</u> DKK
<i>(total transaction value during the year)</i>		
Finished Goods Purchased	123 338 740	115 233 720



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

	<b>2018</b>	<b>2017</b>
	DKK	DKK
<i>(total transaction value during the year)</i>		
Service Fees	5 821 125	4 985 700
Expats Recharge Fees	5 409 532	3 130 389
Insurance	1 521 604	1 470 657

Other operating income in 2018 in the total amount of 36 671 155 DKK includes recharge to PMI (Trade Mark Owner) related to commercialization support of IQOS in Denmark in the amount of 35 479 998 DKK.

The total net payables amount at year-end to 137 165 529 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

	<b>2018</b>	<b>2017</b>
	DKK	DKK
Total fee	241 750	226 750
Whereof audit	194 750	194 750

## 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 2018.



## 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 2017 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, leasehold improvement: 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 Philip 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 =  $\text{Net profit of the year} / \text{Average of total equity within two years.}$



