



PHILIP MORRIS ApS

Weidekampsgade 14 A
DK-2300 København S

CVR-nr. 25 79 79 22

Annual report 2015

The Annual Report was presented and adopted at
the Annual General Meeting of the Company on
...31/5..... 2016

Chairman

INDEX

Management 's Statement on the Annual Report	1
Independent Auditors' Report	2
Company Information	3
Key financial figures and ratios	4
Review for the year and expectations for next year	5
Accounting Principles	6-7
Income Statement	8-9
Balance Sheet	10-11
Statement of changes in equity	12
Notes to the Annual Report	13-16

Management's Statement

The Executive and Supervisory Boards have today considered and adopted the Annual Report of Phillip Morris ApS for the financial year 1 January – 31 December 2015.

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 2015 of the Company and of the results of the Company operations for 2015.

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 2016

Executive Board



Handwritten signature of Filippo Torella in black ink.

Filippo Torella

Supervisory Board



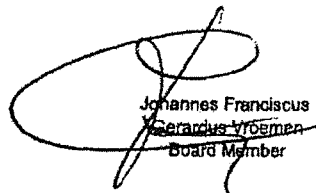
Handwritten signature of Alberto Bernardi in black ink.

Alberto Bernardi
Chairman



Handwritten signature of Filippo Torella in black ink.

Filippo Torella
Country Management



Handwritten signature of Johannes Franciscus Gerardus Vroemen in black ink.

Johannes Franciscus
Gerardus Vroemen
Board Member

Independent Auditor's Report

To the Shareholder of Philip Morris ApS

Report on the Financial Statements

We have audited the Financial Statements of Philip Morris ApS for the financial year 1 January – 31 December 2015, which comprise income statement, balance sheet, statement of changes in equity, notes and summary of significant accounting policies. The Financial Statements are prepared in accordance with the Danish Financial Statements Act.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view under 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

Auditor's Responsibility

Our responsibility is to express an opinion on the Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of Financial Statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Our audit has not resulted in any qualification

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2015 and of the results of the Company operations for the financial year 1 January - 31 December 2015 in accordance with the Danish Financial Statements Act.

Statement on Management's Review

We have read Management's Review in accordance with the Danish Financial Statements Act. We have not performed any procedures additional to the audit of the Financial Statements. On this basis, in our opinion, the information provided in Management's Review is in accordance with the Financial Statements.

Copenhagen, 31/5 2016

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR. 23774071


Niels Henrik B. Mikkelsen
State Authorised Public Accountant

The Company

Philip Morris ApS
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DK-2300 København S

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CVR no.: 25 79 79 22

Financial year: January 1 - December 31, 2015

Municipality of
reg. office: Copenhagen

Executive Board

Filippo Torrella

Supervisory Board

Alberto Bernardi, Chairman
Filippo Torrella
Johannes Franciscus Gerardus Vroemen

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK- 2900 Hellerup

Over a 5-year period, the Companys development could be described by the following key financial figures and ratios:

	<u>2015</u> DKK'ooo	<u>2014</u> DKK'ooo	<u>2013</u> DKK'ooo	<u>2012</u> DKK'ooo
Key financial figures				
Income statement				
Revenue	1.442.970	1.396.165	1.242.238	1.307.381
Gross profit	39.662	40.050	40.173	42.782
Profit before financial income and expenses	9.048	10.202	12.038	13.795
Financial net result	269	-283	-231	-1.220
Net profit for the year	7.084	7.412	8.616	9.184
Balance sheet				
Investment in property, plant and equipment	352	170	144	888
Balance sheet total	320.407	258.463	226.151	230.967
Equity	8.339	72.255	64.843	56.228
Number of employees	39	44	43	45
Key ratios (%)				
Gross margin	3%	3%	3%	3%
Operating margin	0,6%	0,7%	1,0%	1%
Rate of return	3%	4%	5%	6%
Solidity	3%	28%	29%	24%
Return on equity	18%	11%	14%	18%

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 2015 is consistent with the expected development, referring to the published annual report for 2014.

In 2015, the net turnover amounted to 1,442,970 mio DKK increase of 3.35% compared to 2014. Philip Morris ApS decreased in share of market from 19.3% in 2014 to 16.9% in 2015. The decrease of 2.4ppt was primarily driven by a de-loading effect in 2014 following competition trade loading in December 2013. Profit for the year after tax is 7,084 mio DKK compared to 7,412 mio DKK in 2014. The balance sheet total is 320,407 mio DKK of which equity constitutes 8,339 mio 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: <http://investors.pmi.com/phoenix.zhtml?c=146476&p=irol-reportsannual>

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 was no board changes in 2015. The Company gender equality target in 2015 of 22% of female was exceeded and amounted at 23%. 2016 target is set at 22% and 2017 target is set at 25%. 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. The Company runs a yearly Employee Opinion survey; participation rate was 100% in 2015. 2 main indexes measured are: Employee Engagement which reached 94% in 2015 and Supervisor at 79% in 2015 - both results reflects the true team spirit in the affiliate. There was a robust action put in place and developed in collaboration with the entire organization.

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 2015.

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

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.

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 invalidate 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 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 = $\text{Net profit} * 100 / \text{Average equity}$

Income statement (mio DKK)	Note	2015 DKK	2014 DKK
Revenue	1	1,442,969,922	1,396,165,488
Other operating income		1,489,054	1,612,098
Cost of goods sold		1,339,347,321	1,300,011,219
Other external expenses		65,449,261	57,716,111
Gross profit		39,662,394	40,050,256
Staff expenses	2	30,336,183	29,509,594
Depreciation	3	277,911	338,602
Profit before financial income and expenses		9,048,300	10,202,060
Financial income	4	781,066	130,412
Financial expenses	5	511,855	413,529
Profit before tax		9,317,511	9,918,943
Corporation tax	6	2,233,551	2,507,029
Net profit for the year		7,083,960	7,411,914

(mio DKK)	<u>Note</u>	<u>2015</u> DKK	<u>2014</u> DKK
Distribution of profit for the year			
Proposed distribution of profit		6,500,000	71,000,000
Transferred to retained earnings		583,960	-63,588,086
		<u>7,083,960</u>	<u>7,411,914</u>

Assets (mio DKK)	Note	2015 DKK	2014 DKK
Fixtures, fittings and equipment	7	307,112	251,078
Leasehold improvements	7	311,873	293,332
Property, plant and equipment		618,985	544,410
Deposits	8	720,317	691,088
Fixed asset investments		720,317	691,088
Fixed assets		1,339,302	1,235,498
Inventories		202,254,037	128,173,999
Trade receivables		114,742,732	123,481,072
Receivables from group companies		602,343	440,928
Receivables, other		534,424	4,611,451
Deferred tax asset	9	89,481	129,878
Prepayments	10	796,096	358,224
Receivables		116,765,076	129,021,553
Cash and cash equivalents		48,706	31,697
Current assets		319,067,819	257,227,249
Total assets		320,407,121	258,462,747

Liabilities, provisions and equity (mio DKK)	<u>Note</u>	<u>2015</u> DKK	<u>2014</u> DKK
Share capital		125,000	125,000
Retained earnings		1,714,086	1,130,126
Proposed dividend for the year		6,500,000	71,000,000
Equity		8,339,086	72,255,126
Trade payables		147,872,879	99,932,970
Debt to group enterprises		124,820,292	45,519,810
Corporation tax liabilities		0	10,350
Payables, other	11	39,374,864	40,744,491
Short-term debt		312,068,035	186,207,621
Debt		312,068,035	186,207,621
Total liabilities, provisions and equity		320,407,121	258,462,747
Contractual obligations	12		
Other disclosures	13-15		

Statement of changes in equity 2015 (mio DKK)	Share capital	Retained earnings	Proposed dividend for the year	Total
	DKK	DKK	DKK	DKK
Equity at 1 January 2015	125,000	1,130,126	71,000,000	72,255,126
Net profit for the year	0	583,960	0	583,960
Paid dividend	0	0	-71,000,000	-71,000,000
Proposed dividend for the year	0	0	6,500,000	6,500,000
Equity at 31 December 2015	125,000	1,714,086	6,500,000	8,339,086

The share capital consists of 125 shares of a nominal value of DKK 1,000. No shares carry any special rights.

No changes has occurred in the share capital since the foundation.

Statement of changes in equity 2014	Share capital	Retained earnings	Proposed dividend for the year	Total
	DKK	DKK	DKK	DKK
Equity at 1 January 2014	125,000	64,718,212	0	64,843,212
Net profit for the year	0	-63,588,086	0	-63,588,086
Proposed dividend for the year	0	0	71,000,000	71,000,000
Equity at 31 December 2014	125,000	1,130,126	71,000,000	72,255,126

The share capital consists of 125 shares of a nominal value of DKK 1,000. No shares carry any special rights.

No changes has occurred in the share capital since the foundation.

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>2015</u> DKK	<u>2014</u> DKK
Staff expenses amount to the following:		
Wages and salaries	26,293,568	25,647,566
Pensions	2,209,291	2,173,625
Other employee benefits	1,833,324	1,688,403
	<u>30,336,183</u>	<u>29,509,594</u>
Average number of employees	<u>39</u>	<u>44</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:

Depreciation for the year	277,911	338,602
	<u>277,911</u>	<u>338,602</u>

4 Financial income

Financial income is specified as follows:

Interest income	582,532	3,974
Exchange adjustments	198,534	126,438
	<u>781,066</u>	<u>130,412</u>

5 Financial expenses

Financial expenses are specified as follows:

Interest expenses group companies	78,628	90,117
Exchange adjustments	402,592	215,555
Other financial expenses	30,635	107,857
	<u>511,855</u>	<u>413,529</u>

6 Corporation tax

	<u>2015</u> DKK	<u>2014</u> DKK
The corporation tax expensed is specified as follows:		
Current tax for the year	2,189,576	2,520,322
Deferred tax for the year	36,590	-15,943
Effect of decrease of tax percentage	3,808	2,651
Tax adjustments regarding previous years	3,577	0
Tax on profit for the year	2,233,551	2,507,029

Tax on profit for the year is calculated as follows:

Tax on profit for the year	2,189,616	2,430,141
Tax effect of non deductible cost	35,057	74,556
Tax adjustments regarding deferred tax previous years	5,302	2,332
Tax adjustments regarding previous years	3,577	0
	2,233,551	2,507,029

7 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 2015	3,189,802	501,903
Additions	232,098	120,388
Disposals	14,805	0
Cost at 31 December 2015	3,407,095	622,291
Depreciation at 1 January 2015	2,938,724	208,571
Depreciation	176,064	101,847
Disposals	14,805	0
Depreciation at 31 December 2015	3,099,983	310,418
Carrying amount at 31 December 2015	307,112	311,873

8 Deposits	<u>2015</u> DKK	<u>2014</u> DKK
Cost at 1 January	691,088	688,817
Additions	29,229	2,271
Cost at 31 December	<u>720,317</u>	<u>691,088</u>

9 Deferred tax asset / provision for deferred tax

Deferred tax asset is specified as follows:

Tangible assets	89,233	113,754
Accrued expenses	248	16,124
	<u>89,481</u>	<u>129,878</u>

10 Prepayments

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

11 Payables, other

Payables, other are specified as follows:

Accrued holiday pay	4,525,269	4,211,969
VAT payable	34,849,595	36,532,522
	<u>39,374,864</u>	<u>40,744,491</u>

12 Contractual obligations

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

	<u>2015</u>
Within 1 year:	2,470,000
between 1-5 years:	955,000
Total contractual obligations	<u>3,425,000</u>

13 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

14 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.

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

During the year, the Company has had payables to group companies. The total net payables amounts to kDKK 124 803 at year-end and carry interest based on arm's length basis.

15 Audit fee	<u>2015</u>	<u>2014</u>
	DKK	DKK
Total fee	396,837	229,995
Whereof audit	230,000	203,000