



PHILIP MORRIS ApS

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

Annual Report 2019

The Annual Report was presented and adopted at the
Annual General Meeting of the company
on 30 June 2020



Anette Carina Rosengren
Chairman

Table of Contents

Management 's Statement on the Annual Report	3
Independent Auditors' Report	4
Company Information	7
Key Financial Figures and Ratios	8
Review of 2019 and future expectations	9
Income Statement	13
Balance Sheet	14
Statement of Changes in Equity	16
Notes to the Annual Report	17
Accounting Principles	25



Management's Statement

The Executive and Board of Directors have considered and adopted the Annual Report of Philip Morris ApS for the financial year 1 January – 31 December 2019.

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 2019 of the company and of the results of the company operations for 2019.

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, 30 June 2020.

Executive Board



Janus Tjørnelund Rasmussen

Board of Directors



Anette Carina Rosengren
Chairman



Janus Tjørnelund Rasmussen



Stefan Bauer



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 2019 and of the results of the company's operations for the financial year 1 January - 31 December 2019 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 2019, which comprise income statement, balance sheet statement, and 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, 30 June 2020

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, 2019

The municipality of reg. office: Copenhagen

Executive Board

Janus Tjørnelund Rasmussen

Board of Directors

Anette Carina Rosengren, chairman

Janus Tjørnelund Rasmussen

Stefan Bauer

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>2019</u> DKK'000	<u>2018</u> DKK'000	<u>2017</u> DKK'000	<u>2016</u> DKK'000	<u>2015</u> DKK'000
Key financial figures					
Income statement					
Revenue	1 460 062	1 435 739	1 428 236	1 410 408	1 420 450
Gross profit	65 620	62 585	56 196	40 392	39 662
Profit before financial income and expenses	14 514	17 976	19 805	9 461	9 048
Financial net result	-758	449	63	-387	269
Net profit for the year	10 506	14 198	15 355	7 021	7 084
Balance sheet					
Investment in property, plant and equipment	63	1 548	107	467	352
Balance sheet total	337 280	304 677	256 405	247 782	320 407
Equity	11 919	15 413	18 715	8 860	8 339
Number of employees	56	48	43	41	39
Key ratios (%)					
Gross margin	4.5%	4.4%	3.9%	2.9%	2.8%
Operating margin	1.0%	1.3%	1.4%	0.7%	0.6%
Rate of return	4.3%	5.9%	7.7%	3.8%	2.8%
Solidity	3.5%	5.1%	7.3%	3.6%	2.6%
Return on equity	76.9%	83.2%	111.4%	81.6%	17.6%

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.



Review of 2019 and future expectations

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 for 2019 is consistent with the expected development, referring to the published annual report for 2018.

In 2019, the net turnover amounted to 1 460 062k DKK an increase of 1.7 % compared to 2018. Philip Morris ApS increased the share of the market from 18.0% in 2018 to 18.3% in 2019, driven by increase of performance of reduced risk products. Profit for the year after tax is 10 506k DKK compared to 14 198k DKK in 2018, which is a 26% decrease, primarily driven by higher marketing and overhead costs in line with RRP expansion. The Balance Sheet total is 337 280k DKK of which equity consists of 11 919k 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 PMI Sustainability Resources.¹

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;

¹ <https://www.pmi.com/sustainability/our-approach-to-sustainability/sustainability-resources>



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 Rights², our Guidebook for Success³, our Responsible Sourcing Principles⁴, and our Agricultural Labor Practices Code⁵. 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 Roadmap⁶ 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 Success⁷, 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 2019 there have been no violations of the Company's policy in this area.

² https://www.pmi.com/resources/docs/default-source/pmi-sustainability/0000-pmi-human-rights-commitment-whitepaper_final.pdf?sfvrsn=c71985b5_4

³ https://www.pmi.com/resources/docs/default-source/our_company/code-of-conduct/english_code_of_conduct_external_online_180116.pdf?sfvrsn=f5c386b5_6

⁴ https://www.pmi.com/resources/docs/default-source/pmi-sustainability/responsible-sourcing-principles.pdf?sfvrsn=15c19ab5_14

⁵ https://www.pmi.com/resources/docs/default-source/pmi-sustainability/alp_code.pdf?sfvrsn=9303b0b5_4

⁶ https://www.pmi.com/docs/default-source/pmi-sustainability/phil5925-human-rights-brochure_v8-5.pdf

⁷ https://www.pmi.com/resources/docs/default-source/our_company/code-of-conduct/english_code_of_conduct_external_online_180116.pdf?sfvrsn=f5c386b5_6



PMI IMPACT⁸ 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 Diversity⁹ 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 Chairman of board.

The company gender equality target in 2019 was 32%, unfortunately we did not meet the target and amounted at year-end at 29%. 2020 target is set at 32% and for 2021 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 Foundation¹⁰. 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.

⁸ <https://www.pmi-impact.com/>

⁹ <https://www.pmi.com/who-we-are/inclusion-and-diversity>

¹⁰ <https://www.pmi.com/careers/equal-pay>



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	2019	2018
		DKK	DKK
Revenue	1	1 460 061 675	1 435 739 294
Other operating income		51 601 808	36 671 155
Cost of goods sold		1 364 083 156	1 336 136 348
Other external expenses		81 960 068	73 689 220
		<hr/>	<hr/>
Gross profit		65 620 259	62 584 881
Staff expenses	2	50 733 742	44 192 443
Depreciation	3	372 792	416 353
		<hr/>	<hr/>
Profit before financial income and expenses		14 513 725	17 976 085
Financial income	4	371 286	1 115 537
Financial expenses	5	1 129 319	666 297
		<hr/>	<hr/>
Profit before tax		13 755 692	18 425 325
Corporation tax	6	3 250 020	4 226 919
		<hr/>	<hr/>
Net profit for the year	7	10 505 672	14 198 406
		<hr/>	<hr/>



Assets	Note	2019	2018
		DKK	DKK
Fixtures, fittings, and equipment	8	1 415 166	1 648 849
Leasehold improvements	8	812 112	25 841
Construction in progress	8	0	10 282
Property, plant, and equipment		2 227 278	1 684 972
Deposits	9	1 837 866	1 704 124
Fixed asset investments		1 837 866	1 704 124
Fixed assets		4 065 144	3 389 096
Inventories		182 486 421	175 859 026
Trade receivables		94 128 164	90 706 639
Receivables from group companies		50 517 647	32 844 726
Deferred tax asset	10	112 754	203 600
Prepayments	11	2 160 629	1 673 987
Receivables		146 919 194	125 428 952
Cash and cash equivalents		3 808 743	0
Current assets		333 214 358	301 287 978
Total assets		337 279 502	304 677 074



Liabilities, provisions, and equity

	<u>Note</u>	<u>2019</u> DKK	<u>2018</u> DKK
Share capital		125 000	125 000
Retained earnings		1 293 857	1 288 185
Proposed dividend for the year	7	10 500 000	14 000 000
		11 918 857	15 413 185
Long-Term Payables, other	12	1 455 806	0
		1 455 806	0
Trade payables		33 979 732	28 529 208
Debt to group enterprises		151 011 674	137 221 085
Corporation tax liabilities		1 653 096	2 915 212
Payables, other	13	137 260 337	120 598 384
		323 904 839	289 263 889
		325 360 645	289 263 889
Total liabilities, provisions, and equity		337 279 502	304 677 074

Contractual obligations 14

Other disclosures 15-18



Statement of Changes in Equity

	Share capital	Retained earnings	Proposed dividend for the year	Total
	DKK	DKK	DKK	DKK
Equity at 1 January 2019	125 000	1 288 185	14 000 000	15 413 185
Net profit for the year	0	10 505 672	0	10 505 672
Paid dividend	0	0	-14 000 000	-14 000 000
Proposed dividend for the year	0	-10 500 000	10 500 000	0
Equity at 31 December 2019	125 000	1 293 857	10 500 000	11 918 857



1. Revenue

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

2. Staff expenses

Staff expenses amount to the following:

	2019	2018
	DKK	DKK
Wages and salaries	44 200 768	37 260 008
Pensions	2 879 687	2 615 383
Other employee benefits	3 653 287	4 317 052
	50 733 742	44 192 443
Average number of employees	56	48

Information about remuneration to the Executive Board has been omitted to the Danish Financial Statements 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:

	2019	2018
	DKK	DKK
Depreciation for the year	372 792	416 353
	372 792	416 353



4. Financial Income

Financial income is specified as follows:

	2019	2018
	DKK	DKK
Interest income	0	977 401
Exchange adjustments	371 286	138 136
	371 286	1 115 537

5. Financial Expenses

Financial expenses are specified as follows:

	2019	2018
	DKK	DKK
Interest expenses group companies	330 471	215 077
Exchange adjustments	635 317	249 380
Other financial expenses	163 531	201 840
	1 129 319	666 297

6. Corporation Tax

The corporation tax expensed is specified as follows:

	2019	2018
	DKK	DKK
Current tax for the year	3 159 096	4 041 212
Deferred tax for the year	90 846	185 707
Tax adjustments regarding previous years	78	0
Tax on profit for the year	3 250 020	4 226 919



Tax on profit for the year is calculated as follows:

	2019	2018
	DKK	DKK
Tax on profit for the year	3 026 252	4 053 485
Tax effect of non-deductible cost	223 690	173 434
Tax adjustments regarding previous years	78	0
	3 250 020	4 226 919

7. Distribution of Profit for the Year

	2019	2018
	DKK	DKK
Proposed distribution of profit	10 500 000	14 000 000
Transferred to retained earnings	5 672	198 406
	10 505 672	14 198 406



8. Property, Plant, and Equipment

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

	<u>Fixtures, fittings and equipment</u>	<u>Leasehold improvements</u>	<u>Construction in progress</u>
Cost at 1 January 2019	5 236 483	937 812	10 282
Transfers	10 282	0	-10 282
Additions	53 014	862 085	0
Cost at 31 December 2019	5 299 778	1 799 897	0
Depreciation at 1 January 2019	3 587 634	911 971	0
Depreciation	296 978	75 814	0
Depreciation at 31 December 2019	3 884 612	987 785	0
Carrying amount at 31 December 2019	1 415 166	812 112	0

9. Deposits

	<u>2019</u> DKK	<u>2018</u> DKK
Cost at 1 January 2019	1 704 124	1 205 087
Additions	133 742	499 037
Cost at 31 December 2019	1 837 866	1 704 124



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:

	2019	2018
	DKK	DKK
Tangible assets	-60 942	-12 580
Accrued expenses	173 696	216 180
	112 754	203 600

11. Prepayments

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

12. Long-Term Payables

Long-Term payables are specified as follows:

	2019	2018
	DKK	DKK
Long-term debt 1 - 5 years	1 455 806	0
Long-term debt more than 5 years	0	0
	1 455 806	0



13. Payables, Other

Payables, other are specified as follows:

	2019	2018
	DKK	DKK
Accrued holiday pay	4 212 106	5 579 441
VAT payable	32 104 738	28 903 643
Excise tax payable	100 943 493	86 115 300
Total Other Payables	137 260 337	120 598 384

14. Contractual Obligations

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

	2019	2018
	DKK	DKK
Within 1 year:	4 996 451	4 451 682
Between 1-5 years:	6 061 488	12 351 132
Total contractual obligations	11 057 939	16 802 814



15. Group Matters

The Company's share capital of 125 000 DKK is owned by Philip Morris S.A., Switzerland in 100%.

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**

16. 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 buying and selling of Philip Morris International Inc.'s tobacco products. The 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>2019</u>	<u>2018</u>
	DKK	DKK
<i>(total transaction value during the year)</i>		
Finished Goods Purchased	158 681 962	123 338 740

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

	<u>2019</u>	<u>2018</u>
	DKK	DKK
<i>(total transaction value during the year)</i>		
Service Fees	5 907 007	5 821 125
Expats Recharge Fees	4 960 485	5 409 532
Insurance	1 232 245	1 521 604

Other operating income in 2019 in the total amount of 51 601 808 DKK includes recharge to PMI (Trade Mark Owner) related to commercialization support of iQOS in Denmark in the amount of 50 478 423 DKK.



The total net payables amount at year-end is 151 011 674 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 accumulated impairment on existing receivables.

17. Audit Fee

	<u>2019</u>	<u>2018</u>
	DKK	DKK
Total fee	241 750	241 750
Where of audit	194 750	194 750

18. Events after the Balance Sheet Date

Philip Morris ApS is closely following the development of Covid-19 and its impact. The company is focusing on maintaining business as usual following the outbreak of Covid-19.

The company has taken proactive measures to minimize the risk to the company's employees and to ensure business continuity.

There are no significant legal matters to report for Philip Morris ApS for the financial year of 2019.



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 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 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 receivables 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 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, 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 3 - 5 years for fixtures, fittings and equipment and 5 years for leasehold improvements 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 = $\text{Net profit of the year} / \text{Average of total equity within two years}$.

