NCP NextGen A/S

Dandyvej 19, 7100 Vejle

CVR no. 40 50 61 36

Annual report 2022

Approved at the Company's annual general meeting on 30 June 2023

Chair of the meeting:

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Michael Henrik Thomsen

Contents

Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of NCP NextGen A/S for the financial year 1 January - 31 December 2022.

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 of the Company at 31 December 2022 and of the results of the Company's operations for the financial year 1 January - 31 December 2022.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the annual report be approved at the annual general meeting.

Vejle, 30 June 2023
Executive Board:

Peter Halling
Adm. dir.

Board of Directors:

Michael Henrik Thomsen Chair	Peter Halling	Lene Lind

Independent auditor's report

To the shareholders of NCP NextGen A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2022, and of the results of the Company's operations for the financial year 1 January - 31 December 2022 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of NCP NextGen A/S for the financial year 1 January - 31 December 2022, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("financial statements").

Basis for opinion

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

Statement on the Management's Review

Management is responsible for the Management's Review.

Our opinion on the financial statements does not cover the 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 the 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:

Independent auditor's report

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Odense,
PricewaterhouseCoopers
Statsautoriseret Revisionsanpartsselskab
CVR no. 33 77 12 31

Henrik Forthoft Lind	Brian Petersen
State Authorised Public Accountant	State Authorised Public Accountant
mne34169	mne33722

Management's review

Company details

Name	NCP NextGen A/S
Address, Postal code, City	Dandyvej 19, 7100 Vejle
CVR no.	40 50 61 36
Established	2 May 2019
Registered office	Vejle
Financial year	1 January - 31 December
Board of Directors	Michael Henrik Thomsen, Chair Peter Halling Lene Lind
Executive Board	Peter Halling, Adm. dir.
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionsanpartsselskab Munkebjergvænget 1, sal 3, 5230 Odense

Management's review

Business review

The Company's purpose is to develop, produce and sell nicotine containing products as well as directly and indirectly related business activities based on the Board of Director's assessment.

Financial review

The income statement for 2022 shows a profit of DKK 28,173 thousand against a profit of DKK 9,585 last year, and the balance sheet at 31 December 2022 shows equity of DKK 44,428 thousand.

Management considers the Company's financial performance in the year satisfactory.

Events after the balance sheet date

No events materially affecting the Company's financial position have occurred subsequent to the financial year-end.

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2022	2021
	Gross profit	38,722	12,612
	Distribution costs	-159	0
3,4	Administrative expenses	-2,538	-300
	Operating profit	36,025	12,312
5	Financial income	61	37
6	Financial expenses	-328	-60
	Profit before tax	35,758	12,289
7	Tax for the year	-7,585	-2,704
	Profit for the year	28,173	9,585

Recommended appropriation of profit		
Retained earnings	28,173	9,585
	28,173	9,585

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2022	2021
	ASSETS		
	Fixed assets		
8	**Intangible assets**		
	Patents	0	4,207
	Software	2,536	0
	Development projects in progress and prepayments for intangible assets	87	0
		2,623	4,207
9	**Property, plant and equipment**		
	Equipment and machinery	37,193	0
	Property, plant and equipment under construction	79,485	7,548
		116,678	7,548
	Total fixed assets	119,301	11,755
	Non-fixed assets		
	Inventories		
	Raw materials and consumables	6,986	0
	Work in progress	397	0
	Finished goods and goods for resale	1,751	0
		9,134	0
	Receivables		
	Trade receivables	25,964	11,204
	Other receivables	8,789	1,327
		34,753	12,531
	Cash	4,015	3,134
	Total non-fixed assets	47,902	15,665
	TOTAL ASSETS	167,203	27,420

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2022	2021
	EQUITY AND LIABILITIES		
	Equity		
	Share capital	400	400
	Retained earnings	44,028	15,855
	Total equity	44,428	16,255
	Provisions		
	Deferred tax	2,300	926
	Total provisions	2,300	926
	Liabilities other than provisions		
	Current liabilities other than provisions		
	Trade payables	25,221	2,751
	Payables to group enterprises	80,730	5,385
	Corporation tax payable	6,148	2,103
	Other payables	8,376	0
		120,475	10,239
	Total liabilities other than provisions	120,475	10,239
	TOTAL EQUITY AND LIABILITIES	167,203	27,420

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Financial statements 1 January - 31 December

Statement of changes in equity

DKK'000	Share capital	Retained earnings	Total
Equity at 1 January 2021	400	6,270	6,670
Transfer through appropriation of profit	0	9,585	9,585
Equity at 1 January 2022	400	15,855	16,255
Transfer through appropriation of profit	0	28,173	28,173
Equity at 31 December 2022	400	44,028	44,428

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of NCP NextGen A/S for 2022 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

Changes in accounting policies

The company has adjusted a misstatement in the previous year, changing the presentation of 'fixtures and fittings, other plant and equipment' to 'Property, plant and equipment under construction'. The change has not had any impact on profit/loss after tax, total assets or equity.

Apart from the above changes in presentation, the accounting policies are consistent with those of last year.

Reporting currency

The financial statements are presented in Danish kroner (DKK'000).

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the most recent financial statements is recognised in the income statement as financial income or financial expenses.

Income statement

Revenue

The Company has chosen IAS 11/IAS 18 as interpretation for revenue recognition.

Income from the sale of goods for resale and finished goods, is recognised in revenue when the most significant rewards and risks have been transferred to the buyer and provided the income can be measured reliably and payment is expected to be received. The date of the transfer of the most significant rewards and risks is based on standardised terms of delivery based on Incoterms® 2020.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Gross profit

The items revenue, production costs and other operating income have been aggregated into one item in the income statement called gross profit in accordance with section 32 of the Danish Financial Statements Act.

Raw materials and consumables, etc.

Raw materials and consumables include expenses relating to raw materials and consumables used in generating the year's revenue.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Production costs

Production costs comprise costs incurred in generating the revenue for the year. Such costs include direct and indirect costs of raw materials, consumables and production staff, rent and leases, as well as depreciation on production plant.

Production costs also comprise research and development costs that do not qualify for capitalisation and amortisation of capitalised development costs.

Also, provision for losses on construction contracts is recognised.

Distribution costs

Distribution costs comprise costs related to the distribution of goods sold in the year and to sales campaigns, etc. carried out in the year, including costs related to sales staff, advertising, exhibitions and amortisation/depreciation. Sales and marketing costs are recognised in the income statement when the Company obtains control of the sales or marketing product.

Administrative expenses

Administrative expenses include expenses incurred in the year for company management and administration.

Other operating income and operating expenses

Other operating income and operating expenses comprise items of a secondary nature relative to the Company's core activities, including gains or losses on the sale of fixed assets.

Amortisation/depreciation

The item comprises amortisation/depreciation of intangible assets and property, plant and equipment.

The basis of amortisation/depreciation, which is calculated as cost less any residual value, is amortised/depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Patents	0 years
Software	3-10 years
Development projects in progress and prepayments for intangible assets	0 years
Equipment and machinery	5-20 years
Fixtures and fittings, other plant and equipment	3-5 years

Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

The entity is jointly taxed with other group entities. The total Danish income tax charge is allocated between profit/loss-making Danish entities in proportion to their taxable income (full absorption).

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Jointly taxed entities entitled to a tax refund are reimbursed by the management company based on the rates applicable to interest allowances, and jointly taxed entities which have paid too little tax pay a surcharge according to the rates applicable to interest surcharges to the management company.

Balance sheet

Intangible assets

Other intangible assets include development projects and other acquired intangible rights, including software licences, distribution rights, development projects and patens. Investment in software programs includes the cost of direct software cost and internally as externally related labour cost regarding the development process.

Other intangible assets are measured at cost less accumulated amortisation and impairment losses.

Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or development opportunities are identifiable and where the Company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling costs, administrative expenses and development costs. Other development costs are recognised in the income statement as incurred.

Development costs that are recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

On completion of a development project, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is usually 5 years and cannot exceed 20 years.

Patents are measured at cost less accumulated amortisation and impairment losses. Patents are amortised on a straight line basis over the remaining term of the patent.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

Gains or losses are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses.

Leases

The Company has chosen IAS 17 as interpretation for classification and recognition of leases.

Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operating leases. Payments relating to operating leases and any other rent agreements are recognised in the income statement over the term of the lease. The Company's aggregate liabilities relating to operating leases and other rent agreements are disclosed under "Contingent liabilities".

Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment is assessed for impairment on an annual basis.

Financial statements 1 January - 31 December

Notes to the financial statements

1 **Accounting policies (continued)**

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value of inventories is calculated as the sales amount less costs of completion and expenses required to effect the sale and is determined taking into account marketability, obsolescence and development in the expected selling price.

The cost of raw materials and consumables comprises the cost of acquisition plus delivery costs.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables, direct labour and direct production overheads. Indirect production overheads and borrowing costs are not included in the cost.

Goods for resale are measured at cost, which comprises the cost of acquisition plus delivery costs as well as other expenses directly attributable to the acquisition.

Receivables

Receivables are measured at amortised cost.

The Company has chosen IAS 39 as interpretation for impairment of financial receivables.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Receivables in respect of which there is no objective evidence of individual impairment are tested for objective evidence of impairment on a portfolio basis. The portfolios are primarily based on the debtors' domicile and credit ratings in line with the Company's risk management policy. The objective evidence applied to portfolios is determined based on historical loss experience.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Cash

Cash comprise cash and short term securities which are readily convertible into cash and subject only to minor risks of changes in value.

Equity

Proposed dividends

Dividend proposed for the year is recognised as a liability once adopted at the annual general meeting (declaration date). Dividends expected to be distributed for the financial year are presented as a separate item under "Equity".

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Income taxes and deferred taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Liabilities

Other liabilities are measured at net realisable value.

Financial statements 1 January - 31 December

Notes to the financial statements

2 **Special items**

DKK'000	2022	2021
Income		
Gain of IP rights PMI	44,215	0
	44,215	0
Special items are recognised in the below items of the financial statements		
Other operating income	44,215	0
Net profit on special items	44,215	0

3 **Staff costs**

The Company has no employees.

4 **Amortisation/depreciation of intangible assets and property, plant and equipment**

Amortisation of intangible assets	231	0
Depreciation of property, plant and equipment	1,958	0
	2,189	0

Amortisation/depreciation of intangible assets and property, plant and equipment is recognised in the income statement under the following items:

Production costs	1,958	0
Administrative expenses	231	0
	2,189	0

5 **Financial income**

Interest receivable, group entities	0	37
Exchange gain	48	0
Other financial income	13	0
	61	37

6 **Financial expenses**

Interest expenses, group entities	97	0
Other financial expenses	231	60
	328	60

7 **Tax for the year**

Estimated tax charge for the year	6,148	2,103
Deferred tax adjustments in the year	1,374	601
Tax adjustments, prior years	63	0
	7,585	2,704

Financial statements 1 January - 31 December

Notes to the financial statements

8 Intangible assets

DKK'000	Patents	Software	Development projects in progress and prepayments for intangible assets	Total
Cost at 1 January 2022	4,207	0	0	4,207
Additions	1,753	0	87	1,840
Disposals	-5,960	0	0	-5,960
Transferred	0	2,767	0	2,767
Cost at 31 December 2022	0	2,767	87	2,854
Amortisation for the year	0	231	0	231
Impairment losses and amortisation at 31 December 2022	0	231	0	231
Carrying amount at 31 December 2022	0	2,536	87	2,623

9 Property, plant and equipment

DKK'000	Equipment and machinery	Property, plant and equipment under construction	Total
Cost at 1 January 2022	0	7,548	7,548
Additions	0	113,855	113,855
Transferred	39,151	-41,918	-2,767
Cost at 31 December 2022	39,151	79,485	118,636
Depreciation	1,958	0	1,958
Impairment losses and depreciation at 31 December 2022	1,958	0	1,958
Carrying amount at 31 December 2022	37,193	79,485	116,678

Financial statements 1 January - 31 December

Notes to the financial statements

10 Contractual obligations and contingencies, etc.

The Company is jointly taxed with Phillip Morris ApS, which acts as management company, and is jointly and severally liable with other jointly taxed group entities for payment of income taxes for the income year 2021 onwards as well as withholding taxes on interest, royalties and dividends falling due for payment on or after 16 September 2021.

Other financial obligations

Other lease liabilities:

DKK'000	2022	2021
Lease liabilities	713	0

The Company has liabilities under operating leases for machines, totalling DKK 713,355 with remaining contract terms of 4-5 years.

11 Collateral

The Company has not provided any security or other collateral in assets at 31 December 2022.

12 Related parties

Information about consolidated financial statements

Parent	Domicile	Requisitioning of the parent company's consolidated financial statements
Phillip Morris International Inc.	New York, USA	The consolidated finanical statement can be requisitioned in the following link: https://www.pmi.com/investor-relations/reports-filings