



PHILIP MORRIS ApS

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

Annual Report 2020

The Annual Report was presented and adopted at the
Annual General Meeting of the Company
on 31 May 2021

Christopher Bueller
Chairman

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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 2020.

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 2020 of the Company and of the results of the Company operations for 2020.

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 2021.

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 2020 and of the results of the Company's operations for the financial year 1 January - 31 December 2020 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 2020, 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, 31 May 2021

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR.-nr. 33 77 12 31

Niels Henrik B. Mikkelsen

State Authorized Public Accountant

MNE 16675



The Company

Philip Morris ApS

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CVR no.: 25 79 79 22

Fiscal year: January 1 – December 31, 2020

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.

	2020	2019	2018	2017	2016
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Key financial figures					
Income statement					
Revenue	1 513 437	1 460 062	1 435 739	1 428 236	1 410 408
Gross profit	86 740	65 620	62 585	56 196	40 392
Profit before financial income and expenses	23 708	14 514	17 976	19 805	9 461
Financial net result	-1 766	-758	449	63	-387
Net profit for the year	16 971	10 506	14 198	15 355	7 021
Balance sheet					
Investment in property, plant and equipment	-	63	1 548	107	467
Balance sheet total	1 163 146	337 280	304 677	256 405	247 782
Equity	18 390	11 919	15 413	18 715	8 860
Number of employees	87	56	48	43	41
Key ratios (%)					
Gross margin	5.7%	4.5%	4.4%	3.9%	2.9%
Operating margin	1.6%	1.0%	1.3%	1.4%	0.7%
Rate of return	2.0%	4.3%	5.9%	7.7%	3.8%
Solidity	1.6%	3.5%	5.1%	7.3%	3.6%
Return on equity	112.0%	76.9%	83.2%	111.4%	81.6%

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 2020 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 2020 is consistent with the expected development, referring to the published annual report for 2019.

In 2020, the net turnover amounted to 1 513 437k DKK an increase of 3.7% compared to 2019. Philip Morris ApS increased the share of the market from 18.3% in December 2019 to 18.4% in December 2020, driven by increase of performance of reduced risk products. Profit for the year after tax is 16 971k DKK compared to 10 506k DKK in 2019, which is a 61.5% increase. The Balance Sheet total is 1 163 146k DKK of which equity consists of 18 390k 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; education; environmental sustainability and living conditions in rural communities; disaster relief; and domestic violence.

¹ <https://www.pmi.com/sustainability/>



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 2021. 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 2020 there have been no violations of the Company's policy in this area.

² <https://www.pmi.com/resources/docs/default-source/sustainability-policies-commitments-and-positions/pmi-human-rights-roadmap.pdf>

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. As of that date there are 2 men and 1 woman as Board Members. In PM ApS there is only one person (Managing Director) who can be considered as Company's top management. Therefore it is not possible to ensure gender equality in this area.

The Company gender equality target in 2020 was 32%, unfortunately we did not meet the target and amounted at year-end at 27%. For 2021 target is set at 32% and for 2022 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.

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>



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.



Income Statement	Note	2020	2019
		DKK	DKK
Revenue	1	1 513 437 001	1 460 061 675
Other operating income		131 426 742	51 601 808
Cost of goods sold		1 469 724 832	1 364 083 156
Other external expenses		88 339 403	81 960 068
		86 739 508	65 620 259
Gross profit			
Staff expenses	2	62 563 328	50 733 742
Depreciation	3	467 861	372 792
		23 708 319	14 513 725
Profit before financial income and expenses			
Financial income	4	458 953	371 286
Financial expenses	5	2 224 559	1 129 319
		21 942 713	13 755 692
Profit before tax			
Corporation tax	6	4 971 689	3 250 020
		16 971 024	10 505 672
Net profit for the year	7		



Assets	Note	2020	2019
		DKK	DKK
Fixtures, fittings, and equipment	8	1 163 869	1 415 166
Leasehold improvements	8	595 548	812 112
Construction in progress	8	0	0
Property, plant, and equipment		1 759 417	2 227 278
Deposits	9	1 764 577	1 837 866
Fixed asset investments		1 764 577	1 837 866
Fixed assets		3 523 994	4 065 144
Inventories		851 454 873	182 486 421
Trade receivables		144 526 126	94 128 164
Other short term receivables		10 608 463	0
Receivables from group companies		148 008 023	50 517 647
Deferred tax asset	10	46 210	112 754
Prepayments	11	754 929	2 160 629
Receivables		303 943 752	146 919 194
Cash and cash equivalents		4 223 247	3 808 743
Current assets		1 159 621 871	333 214 358
Total assets		1 163 145 865	337 279 502



Liabilities, provisions, and equity

	Note	2020 DKK	2019 DKK
Share capital		125 000	125 000
Retained earnings		64 882	1 293 857
Proposed dividend for the year	7	18 200 000	10 500 000
		18 389 882	11 918 857
Long-Term Payables, other	12	4 750 543	1 455 806
		4 750 543	1 455 806
Trade payables		37 665 080	33 979 732
Debt to group enterprises		1 058 500 472	151 011 674
Corporation tax liabilities		2 265 253	1 653 096
Payables, other	13	41 574 636	137 260 337
		1 140 005 441	323 904 839
		1 144 755 983	325 360 645
		1 163 145 865	337 279 502
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 2020	125 000	1 293 857	10 500 000	11 918 857
Net profit for the year	0	16 971 024	0	16 971 024
Paid dividend	0	0	-10 500 000	-10 500 000
Proposed dividend for the year	0	-18 200 000	18 200 000	0
Equity at 31 December 2020	125 000	64 882	18 200 000	18 389 882



1. Revenue

The Company activities solely consist of purchase and sale of Philip Morris International tobacco products on the Danish market including cigarettes, smoke-free products (heated tobacco) and associated electronic devices and accessories - IQOS.

2. Staff expenses

Staff expenses amount to the following:

	2020	2019
	DKK	DKK
Wages and salaries	54 026 233	44 200 768
Pensions	3 725 028	2 879 687
Other employee benefits	4 812 067	3 653 287
	62 563 328	50 733 742
Average number of employees	87	56

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:

	2020	2019
	DKK	DKK
Depreciation for the year	467 861	372 792
	467 861	372 792



4. Financial Income

Financial income is specified as follows:

	2020	2019
	DKK	DKK
Interest income	0	0
Exchange adjustments	458 953	371 286
	458 953	371 286

5. Financial Expenses

Financial expenses are specified as follows:

	2020	2019
	DKK	DKK
Interest expenses group companies	1 746 017	330 471
Exchange adjustments	377 720	635 317
Other financial expenses	100 822	163 531
	2 224 559	1 129 319

6. Corporation Tax

The corporation tax expensed is specified as follows:

	2020	2019
	DKK	DKK
Current tax for the year	4 905 150	3 159 096
Deferred tax for the year	66 544	90 846
Tax adjustments regarding previous years	-6	78
	4 971 689	3 250 020



Tax on profit for the year is calculated as follows:

	2020	2019
	DKK	DKK
Tax on profit for the year	4 827 391	3 026 252
Tax effect of non-deductible cost	144 298	223 690
Tax adjustments regarding previous years	0	78
	4 971 689	3 250 020

7. Distribution of Profit for the Year

	2020	2019
	DKK	DKK
Proposed distribution of profit	18 200 000	10 500 000
From retained earnings	- 1 228 976	0
Transferred to retained earnings	0	5 672
	16 971 024	10 505 672



8. Property, Plant, and Equipment

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

	Fixtures, fittings and equipment	Leasehold improvements	Construction in progress
Cost at 1 January 2020	5 299 778	1 799 898	0
Additions	0	0	0
Cost at 31 December 2020	5 299 778	1 799 899	0
Depreciation at 1 January 2020	3 884 611	987 785	0
Depreciation	251 298	216 563	0
Depreciation at 31 December 2020	4 135 909	1 204 348	0
Carrying amount at 31 December 2020	1 163 869	595 551	0

9. Deposits

	2020	2019
	DKK	DKK
Cost at 1 January 2020	1 837 866	1 704 124
Additions	41 961	133 742
Returns	-115 250	0
Cost at 31 December 2020	1 764 578	1 837 866



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:

	2020	2019
	DKK	DKK
Tangible assets	-57 515	-60 942
Accrued expenses	103 725	173 696
	46 210	112 754

11. Prepayments

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

12. Long-Term Payables

Long-Term payables are specified as follows:

	2020	2019
	DKK	DKK
Long-term debt 1 - 5 years	4 750 543	1 455 806
Long-term debt more than 5 years	0	0
	4 750 543	1 455 806



13. Payables, Other

Payables, other are specified as follows:

	2020	2019
	DKK	DKK
Accrued salaries	12 481 671	4 212 104
VAT payable	29 092 965	32 104 738
Excise tax payable	0	100 943 493
	<hr/>	<hr/>
Total Other Payables	41 574 636	137 260 336
	<hr/>	<hr/>

14. Contractual Obligations

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

	2020	2019
	DKK	DKK
Within 1 year:	4 813 237	4 996 451
Between 1-5 years:	3 852 414	6 061 488
	<hr/>	<hr/>
Total contractual obligations	8 665 651	11 057 939
	<hr/>	<hr/>



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>2020</u>	<u>2019</u>
	DKK	DKK
<i>(total transaction value during the year)</i>		
Finished Goods Purchased	153 137 895	158 681 962

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

	<u>2020</u>	<u>2019</u>
	DKK	DKK
<i>(total transaction value during the year)</i>		
Service Fees	3 097 173	5 907 007
Expats Recharge Fees	5 847 940	4 960 485
Insurance	1 237 398	1 232 245

Other operating income in 2020 in the total amount of 131 426 742 DKK includes recharge to PMI (Trade Mark Owner) in the amount of 130 011 656 DKK.



The total net payables amount at year-end is 1 058 500 472 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>2020</u>	<u>2019</u>
	DKK	DKK
Total fee	222 000	241 750
Where of audit	175 000	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 taking into consideration the rules and recommendations from authorities.

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

During the year 2020 we have not seen a major impact on demand.

There are no significant legal matters to report for Philip Morris ApS for the financial year of 2020.



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

