PHILIP MORRIS ČR

ANNUAL REPORT

2021

About us

We are Philip Morris ČR a.s., an affiliate of Philip Morris International Inc. (PMI).

We spearhead the transformation of the nicotine industry by providing adult smokers who would otherwise continue to smoke or use nicotine with innovative smoke-free alternatives that reduce or have the potential to reduce risk compared to smoking tobacco. In the Czech Republic and Slovakia, we distribute the heated-tobacco solution, *IQOS* devices with *HEETS* consumables, electronic cigarette *IQOS VEEV* and provide a variety of related accessories and services to adult nicotine users. We are also the largest manufacturer and distributor of smoking tobacco products.

We have been operating in the Czech Republic since 1992 and in Slovakia since 1993. We employ more than 1,200 colleagues across the two countries and are, based on the excellent working conditions and development opportunities, formally recognised as Top Employer for the past 8 years. Moreover, for demonstrating and actively supporting equal pay for men and women, we have been awarded the EQUAL-SALARY Certification as the first company in each market.

Philip Morris ČR a.s. is listed on the Prague Stock Exchange (Burza cenných papírů Praha) and has a 99% interest in Philip Morris Slovakia s.r.o., registered in the Slovak Republic.

Over the past 30 years, Philip Morris ČR a.s. has supported a wide range of local community and charitable projects, including the development of numerous social programs aimed at improving people's lives.

For more information, visit www.philipmorris.cz.

SMOKE-FREE TOBACCO PRODUCTS
represented at Czech and / or Slovak market in 2021:

HEETS

IQOS 3 DUO

Fiit

lil SOLID INTRODUCED BY IQOS

CORPORATE GLOBAL ELECTRONIC CIGARETTE BRANDS
represented at Czech market in 2021:

VEEV

IQOS VEEV

GLOBAL/ REGIONAL / LOCAL CIGARETTE BRANDS
represented at Czech and / or Slovak market in 2021:

Marlboro · L&M · Chesterfield · PHILIP MORRIS · RGD · SPARTA · PETRA KLASIK · Start by Chesterfield

This version of the Annual Report of Philip Morris ČR a.s. prepared in PDF constitutes non-official version of the Annual Report. The company has taken all steps to ensure that this version conforms to the original, except for the use of machine-readable XBRL tags, which are inserted only in the official XHTML version. The official version of the Annual Report prepared in single electronic reporting format („ESEF"), which is the XHTML format, can be accessed at: https://pmidotcom3-prd.s3.amazonaws.com/docs/default-source/czech-market/investors-relation/annual-meeting-2022/315700lnphnxcmnlqc73-2021-12-31.zip
In case of any discrepancies the official version of the Annual Report takes precedence over this non-official version of the Annual Report in PDF.Please note that this version of the Annual Report is a translation from the original which was prepared in the Czech language. The English version of this document has been prepared for information purposes only.

Consolidated highlights

Consolidated highlights

(in CZK million)

Period ended December 31	2021	2020	Change in %
Revenues, net of excise tax and VAT	**18 867**	**17 883**	**5.5**
Profit from operations	**4 367**	**4 454**	**(2.0)**
Profit before income tax	**4 383**	**4 460**	**(1.7)**
Net income for the year	**3 517**	**3 527**	**(0.3)**
Earnings per share (CZK)	**1 281**	**1 285**	

Shipments per Segment

(in billion units equivalent)[1]

Period ended December 31	2021	2020	Change in %
Czech Republic	7.4	8.2	**(10.1)**
Slovakia	4.1	4.3	**(6.8)**
Total	**11.5**	**12.5**	**(8.9)**

REVENUES NET
OF EXCISE TAX AND VAT
INCREASED BY:
5.5 %

PROFIT BEFORE
INCOME TAX
DECREASED BY:
1.7 %

NET INCOME
DECREASED BY:
0.3 %

2021
EARNINGS PER SHARE:
1 281 CZK

2020
EARNINGS PER SHARE:
1 285 CZK

Note: Values presented in the report might not foot to totals due to rounding.

[1] Shipments in Czech Republic include cigarettes and other tobacco products such as cigarillos, tobacco for make-your-own cigarettes (0.73 g is equivalent to 1 cigarette) and volume tobacco for make-your-own cigarettes (0.60 g is equivalent to 1 cigarette), as well as heated tobacco units). Shipments in Slovakia include cigarettes and heated tobacco units.

INTRODUCTORY WORD

Dear Shareholders,

Once again, we bring you the regular Annual Report on the management of our company in the past period. When I was preparing the introductory word a year ago, the dominant theme was the situation related to the COVID-19 pandemic. I wished for last year's report to be unique in this respect and to transform into a kind of symbol of its year, a remembrance of extraordinary circumstances. Unfortunately, even after twelve months, we are not in a very different situation and we can only continue to wish each other good health, resilience, strength and patience. At the same time, I can state that despite all the complications and limitations we are getting stronger. I would like to assure you that the organization I have the honor to lead is handling the Covid situation in an excellent way. I am also grateful and proud of my colleagues who, in spite of the current situation, are demonstrating tremendous resilience and perseverance.

Protecting health is our absolute priority. As you know, we adopted important precautionary measures the year before last, and we have consistently followed them, regardless of the changing conditions of the epidemic situation and government measures. Due to these actions, we were able to maintain the continuity of production in our factory as well as our business operations.

With the same concern for you, our shareholders, we have decided to hold this year's AGM by correspondence. I would like to thank you once again for the understanding with which you accepted our decision. Interpersonal contact is indispensable, but safety and consideration for your health is our priority.

Without exaggeration, last year was a great year for our factory in Kutná Hora. Through a number of successful projects, it has achieved outstanding results in the areas of occupational safety and sustainability. The factory has also made significant progress in implementing the OPEN+ operating model. In virtually every respect, our colleagues from the production have exceeded their targets, and I would like to highlight their excellent results in the area of production efficiency and quality. All this in total grants our factory excellent predictions for further development in 2022.

Besides our economic results, the number of adult users who have been able to quit cigarettes thanks to our smoke-free technologies is an important indicator of our success. Last year, the number grew by approxiimately 140 thousand to approximately 770 thousand adult users. We are constantly focused on giving everyone enough reasons to be happy and loyal to our brands in our smoke-free world. Our ambition is to get all adult smokers who would otherwise continue to smoke conventional cigarettes, to switch to better alternatives as soon as possible and quit smoking for the benefit of their own health, as well as the health of those around them.

That is why we continue to expand our portfolio of smoke-free products. Last year, we launched the *lil* SOLID 2.0 device, whose ease of use coupled with affordability and has opened up the world of smoke-free alternatives to more adult smokers.

Motivation to continue in this endeavour for us will not just be five years since the launch of *IQOS* on the Czech and Slovak market, but also the 30th anniversary of Philip Morris ČR. We hold a sincere desire to celebrate these anniversaries with further successes on our journey towards a smoke-free future.

You may have seen Philip Morris International's significant acquisitions in the pharmaceutical industry last year, when we acquired stakes in Fertin Pharma and Vectura Group. This is a significant step towards fulfilling our ambition of gaining net revenue in the non-nicotine segment to USD 1 billion by 2025. This will create a completely new product portfolio consisting of inhaled medicine devices as well as health and lifestyle products. It is further evidence that science and research are currently at the very core of Philip Morris International's business and will continue to be so.

Despite these difficult times, we continued to devote a great deal of attention and energy to sustainable business last year. Our production plant in Kutná Hora has managed to obtain certification for carbon neutrality and the responsible management of water resources. In addition to reducing our environmental footprint, we have supported a number of projects in the communities where we do business. In 2021, we focused on four areas of assistance: Education, care for caregivers, the chance for a quality life, and environmental issues. We also helped prevent or mitigate the effects of emergencies, whether it was the COVID-19 pandemic or the devastating tornado in southern Moravia in June.

The Equal Salary Certificate recognizing our efforts in the field of equal opportunities, Top Employer, where we even scored as the second most successful company in the Czech Republic, or the Top Responsible Company award for non-financial reporting – these are just some of the achievements you will read about on the following pages.

Only a company that is more than the sum of its people's talents can be successful. A successful company is a community that has rallied behind a strong vision and is committed to fulfilling it. But it is not just employees that make a company successful. The trust of investors also plays a part, and for that I owe you my appreciations and gratitude. I am equally grateful and indebted to our customers. I wish there was only one reason to leave the world of *IQOS*, and that would be the decision to quit nicotine completely. But our vision of a smoke-free future needs an even broader understanding and support from partners outside our company. Once again last year confirmed that our story arouses curiosity, interest, as well as respect and appreciation. To me this is a clear reassurance that we are on the right track. Dear shareholders, thank you all once again for your trust and for your support which we value immensely.

Andrea Gontkovičová
Chairperson of the Board of Directors
Philip Morris ČR a.s.

PMI SCIENCE
PHILIP MORRIS INTERNATIONAL

Science and research

Smoke-free Future

The World Health Organization (WHO) estimates that there will be more than 1 billion smokers worldwide by 2025[2], which roughly corresponds to present day figures. Since smoking prevalence remains largely unchanged in a long term, there is a need to offer new effective solutions that can help deliver more ambitious public health goals. Philip Morris International therefore directs its efforts towards developing less harmful alternatives to cigarettes.

As a company, we had publicly declared that our goal is to convince all current adult smokers that would otherwise continue to smoke, to switch to smoke-free products. Our objective is to get at least 40 million adult smokers worldwide to do so by 2025.

Harm Reduction of Smoking

The harm reduction is an internationally highly regarded concept in addiction treatment, premised on the minimalization of smoking related risk and harm. It has been scientifically substantiated that the primary cause of smoking related diseases is not nicotine, but the inhalation of harmful and potentially harmful constituents (HPHC) created as a result of the combustion process. The harm reduction concept is, thus, based on the elimination of the process.

Extensive Scientific Research

Since 2008 Philip Morris International Inc. invested over 9 billion USD into the development, the scientific research and the capacity building of smoke-free products portfolio based on heating of tobacco or liquid. To this end, we employ more than 940 world-class engineers and experts that drive forward our research, including laboratory and clinical trials.

A robust and transparent science research is the cornerstone of the development and assessment of our smoke-free products. Our extensive research and assessment program draws from the universally recognized methods used by the pharmaceutical industry and follows the instructions of the US Food and Drug Administration (FDA) for Modified Risk Tobacco Products.

Our clinical trials show both the potential of our smoke-free products to reduce exposure to harmful and potentially harmful constituents as well as to reduce risk of smoking related diseases. The assessment program includes post-market consumer perception and behavior studies conducted to verify whether consumers correctly understood the product communication and determine how will they use our products in a real life.

Combustion

The tobacco combustion process creates large quantities of chemical constituents. Lighting a cigarette triggers a tobacco combustion process, creating smoke, containing thousands of chemical constituents. Combustion is a self-sustained process that continues as long as there is enough tobacco (fuel) and oxygen available.

When combusted, the temperature of the tip of a cigarette can reach up to 800 degrees Celsius. Such high temperatures lead to the creation of more than 6000 different chemical constituents[3,4], many of which are harmful or potentially harmful.

These harmful and potentially harmful constituents are derived from comprehensive lists created by international organizations and public institutions in the area of public health. These include the U.S. Food and Drug Administration, Health Canada or World Health Organization. They are considered to be the probable causes of smoking related diseases such as lung cancer, cardiovascular diseases or chronic obstructive pulmonary disease.

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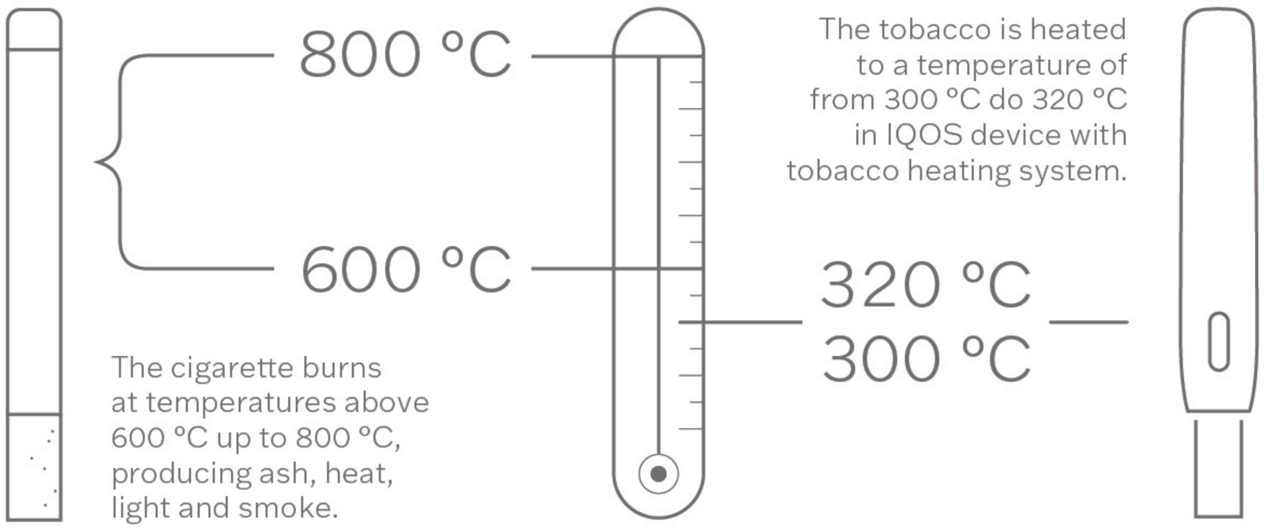
[2] Bilano V, Gilmour S, Moffiet T, d'Espaignet ET, Stevens GA, Commar A, Tuyl F, Hudson I, Shibuya K. (2015)) Global trends and projections for tobacco use, 1990–2025: an analysis of smoking indicators from the WHO Comprehensive Information Systems for Tobacco Control Lancet 385:966-76

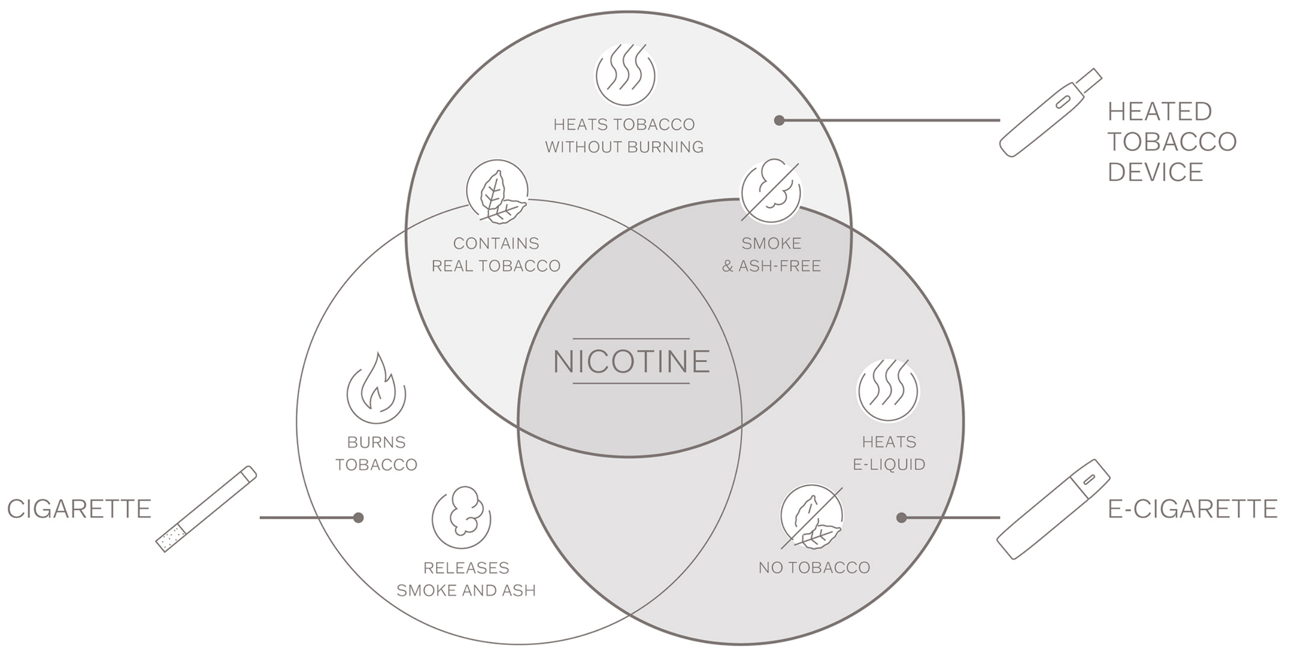
[3] How Tobacco Smoke Causes Disease: The Biology and Behavioral Basis for Smoking-Attributable Disease: A Report of the Surgeon General. https://www.pmiscience.com/cs/ our-products/combustion#be439e85-2f88-696a-9e88-ff000043f5e9.

[4] The Chemical Components of Tobacco and Tobacco Smoke, Second Edition. https://www.pmiscience.com/cs/our-products/combustion#d07d9f85-2f88-696a-9e88- ff000043f5e9.



Heating

We conduct a very precise temperature monitoring in our heated tobacco products. This is to ensure that the tobacco temperature does not reach a level of burning. By preventing combustion, we reduce or eliminate the formation of harmful or potentially harmful constituents. Heating the tobacco is necessary in order for it to release aroma and nicotine. The elimination of the combustion process and a subsequent significant reduction of harmful or potentially harmful constituents is the cornerstone of the development of smoke-free products. Our goal is not only to reduce or eliminate harmful or potentially harmful constituents, but to also offer a taste ritual and nicotine level comparable to cigarettes. This is to enable adult smokers who would otherwise continue to smoke to completely switch from cigarettes to smoke-free products.



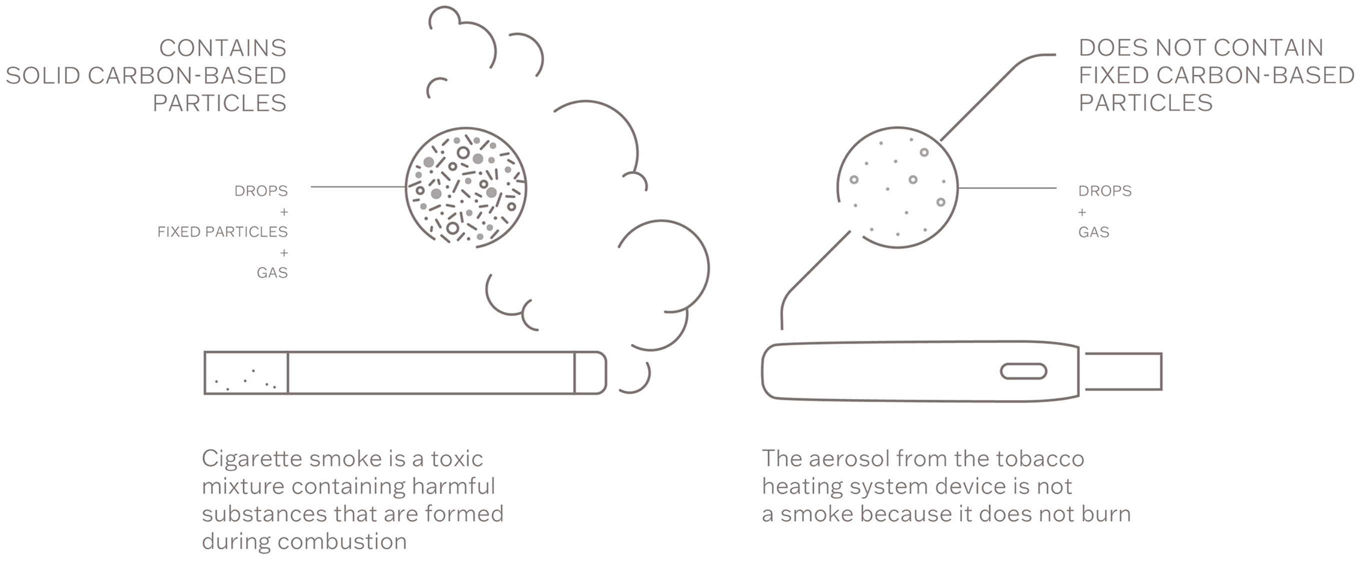
Nicotine

Nicotine containing products are addictive and therefore not risk-free. However, a long-term expert consensus prevails that nicotine is not the main cause smoking related diseases.[5] The majority of harmful effects of smoking is caused by chemical constituents formed as part of the tobacco combustion process.

Tobacco and/or nicotine containing products are not risk-free. Youth, pregnant women or nursing mothers and those with health problems such as cardiovascular diseases, high blood pressure or diabetes, should refrain from using these products. It is in particular important to ensure that tobacco and/or nicotine containing products are not accessible to youth.

IQOS – Heated Tobacco Product

Electronically heated tobacco product *IQOS* is the most advanced of PMI's reduced risk products, where tobacco inserted into the device is heated to the temperature around 300 – 320 degrees. Unlike in case of cigarettes which burn at 600 to 800 degrees, no combustion process takes place in the heated tobacco product. Compared to cigarette smoke, heating tobacco leads to a significant reduction of harmful chemical constituents being inhaled. It is due to the fact that the tobacco is heated to a temperature when a mildly aromatic nicotine containing aerosol is released instead of a cigarette smoke. *IQOS* is therefore a better choice than cigarettes for those adult smokers that would otherwise continue to smoke cigarettes. Switching completely to *IQOS* represents less risk to health of adult smokers than continuing to smoke. *IQOS* emits on average 95% lower levels of harmful chemicals compared to cigarettes.[6]



Key scientific findings

We have conducted, as part of our scientific assessment program, a range of clinical trials related to Platform 1 (*IQOS*). The most significant study to date is the 6 months Exposure Response Study (ERS)[7] complemented by 6 moths extension study that compared exposure response of adult individual following a switch from cigarettes to *IQOS*.

The results of the first 6 months of clinical testing proved that participants – adult users of the *IQOS* product – are exposed to significantly less chemicals than adult cigarette smokers and all 8 major Clinical Risk Endpoints (CREs) associated with smoking-related diseases improved favorably and in the same direction as those of smokers who quit. These clinical endpoints concern, amongst others, lipid metabolism, acute effect on cardiovascular system, inflammation, endothelial dysfunction, oxidative stress and respiratory tract damage. The majority, specifically 5 out of 8 of these endpoints, showed a statistically significant difference between *IQOS* users and those who continued to smoke cigarettes. PMI already received results for the second 6 month period of this ERS, which are now being analyzed and prepared for publication.

You can find more information about *IQOS* and PMI's scientific research at www.pmi.com and www.pmiscience.com

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[5] How Tobacco Smoke Causes Disease: The Biology and Behavioral Basis for Smoking-Attributable Disease: A Report of the Surgeon General. https://www.pmiscience.com/cs/smoke-free/nicotine#be439e85-2f88-696a-9e88-ff000043f5e9.

[6] Average reduction of wide range of harmful chemical constituents (apart from nicotine) in comparison with a smoke from a reference cigarette (3R4F). This does not necessarily mean a 95% risk reduction.

[7] ZRHR-ERS-09; https://www.pmiscience.com/discover/news/pmi-s-latest-clinical-results-findings-add-to-extensive-evidence-package-on- risk-reduction

The decision of the U.S. Food and Drug Administration authorizing IQOS as Modified Risk Tobacco Product

On 7 July 2020 the U.S. Food and Drug Administration (FDA) authorized the Modified Risk Tobacco Product (MRTP) status with the “exposure modification order” for *IQOS* and 3 HeatSticks variants.[8] The granting of the status is a result of an assessment of a wide range of detailed scientific evidence submitted to the FDA by PMI in December 2016.[9] The decision concerns exclusively PMI’s business activities in the United States. So far, it is only the second tobacco product and the first in the category of heated tobacco products, eligible to use this status.

The FDA justified the MRTP authorization for *IQOS* as being suitable for the support of public health goals and is expected to benefit the health of population as a whole. Furthermore, it was confirmed that data submitted by the company shows that marketing these particular products with the authorized information could help addicted adult smokers transition away from combusted cigarettes and reduce their exposure to harmful chemicals, but only if they completely switch. The FDA’s decision confirms that PMI demonstrated that its tobacco heating device *IQOS*, heats tobacco instead of burning it, thereby significantly reducing the formation of harmful and potentially harmful constituents in comparison to cigarette smoke. Furthermore, the FDA also confirmed that the company’s scientific studies demonstrated, that switching completely from cigarettes to *IQOS* significantly reduces the body’s exposure to the effects of harmful and potentially harmful constituents. The complexity of the presented data thus suggests, according to FDA, that it is highly likely that subsequent studies will show a measurable and substantial decrease in morbidity and mortality amongst individual tobacco users.

More information:

https://www.fda.gov/news-events/press-announcements/fda-authorizes-marketing-iqos-tobacco-heating-system-reduced-exposure-information

[8] Marlboro HeatSticks, Marlboro Smooth Menthol HeatSticks and Marlboro Fresh Menthol HeatSticks

[9] https://www.fda.gov/tobacco-products/advertising-and-promotion/modified-risk-orders

Our Products

From the point of view of the product portfolio, last year was marked by the further expansion of the range of products with reduced risk and by significant innovations, but also by a number of limited editions of our smoke free products. We also wittnessed a reasonable success in the category of electronic cigarettes with the *IQOS VEEV* device, which, thanks to the used materials and the latest technologies, represents the top product in the vaping segment. For our current and future adult users of the *IQOS* device, we have further expanded the range of *HEETS* tobacco sticks and we also offered special limited editions of the most modern ranges of the *IQOS* 3 DUO devices. In October, we introduced the *lil* SOLID 2.0 device, which further develops services for our adult customers. Our classical cigarettes portfolio also underwent several changes in the past year.

IQOS 3 DUO Moonlight Silver

In 2021, the *IQOS* 3 DUO continued to be one of our best-selling devices in the Heat-not-Burn category. That is why we continued in our previous strategy and in April last year brought another limited edition of *IQOS* 3 DUO and its accessories on the Czech market. This time it was *IQOS* 3 DUO Moonlight Silver.

The limited edition *IQOS* 3 DUO was designed in a special Moonlight Silver based on the full moon color and also included a set of six multi-colored side and top covers in Aqua Blue, Sunset Lavender, Cloud Pink, Sunrise Red, Tidal Blue and Wild Green.

Limited editions are in great demand by our current adult consumers and represent a good way of building their loyalty to the product brands that we offer.

HEETS

HEETS tobacco sticks continued to increase successfully their market share in 2021. Last year we continued to expand our portfolio and innovate to help increase customer satisfaction and further accelerate the success of the *HEETS* brand in our market.

In the first quarter of 2021 limited editions of *HEETS* DIMENSIONS were launched, named APRICITY, NOOR and AMMIL.

In September 2021 we also expanded the *HEETS* portfolio with a new permanent variant of MAUVE WAVE. This variant has become one of the best-selling variants in the *HEETS* portfolio.

lil SOLID

The portfolio of smokeless products was significantly expanded in October last year when we launched the *lil* SOLID 2.0 system. This is our latest heated tobacco device, which complements the existing *IQOS* Heat-not-Burn device range.

This innovation is our next step in building a smoke-free future and is designed primarily for adult smokers and nicotine users looking for a simple and affordable device. The heating pin technology ensures that the tobacco is evenly heated from the inside and at the same time the device is highly resistant to mechanical damage of the pin.

Together with the *lil* SOLID device we introduced two variants of *Fiit* tobacco sticks, *Fiit* REGULAR and *Fiit* MARINE. We intend to expand the portfolio of *Fiit* tobacco sticks in the future.

During the first months after launch we received very positive feedback from our adult customers. Adult users appreciate the simplicity and durability of the device along with easy cleaning. We believe that with the introduction of *lil* SOLID, we have opened a new chapter of smokeless products in our portfolio and the number of *lil* SOLID adult users will continue to grow.

IQOS VEEV

IQOS VEEV is an electronic cigarette device which works on the principle of evaporating nicotine contained in the e-liquid using an intelligent MESH heating technology. The device, designed in Switzerland, is the result of many years of scientific research and development, and on average produces over 95 percent less chemical substances than cigarettes.[10] Digitally controlled systems in the device ensure that the e-liquid does not overheat or burn when the product is used, and the device automatically shuts off when the level of e-liquid drops too low. The content of the cartridges intended for *IQOS VEEV* cannot be modified.

Last year we also brought interesting news to adult users of the *IQOS VEEV* e-cigarette, which we brought to the Czech market at the end of 2020. After the success of this novelty in the first months after its launch, we significantly expanded the availability of *IQOS VEEV* and brought its adult users three completely new variants of *VEEV* e-liquid pods, namely *VEEV* RED MIX, *VEEV* MAUVE MIX and *VEEV* SUNGLOW MIX.

All three variations became one of the most popular ones among our adult users immediately after their introduction and strengthened the position of *IQOS VEEV* in its segment.

[10] Source: Reduction of a wide range of harmful chemicals (except nicotine) compared to smoke from a reference cigarette (3R4F). This does not necessarily mean a harm reduction by 95 %. *IQOS VEEV* is not without risk.

VEEV Pods

The portfolio of cartridges designed exclusively for *IQOS VEEV* consists of total seven variations with two tobacco flavors – the *VEEV* CLASSIC BLOND and *VEEV* CLASSIC AUBURN, two variations with menthol flavor – *VEEV* CLASSIC MINT and *VEEV* GREEN MIX and three exotic fruits flavors - *VEEV* RED MIX with the intensive taste of forrest fruits, *VEEV* MAUVE MIX with the tones of tropical fruits and *VEEV* SUNGLOW MIX with red stroke fruit underlined by exotic tones.

Cigarettes

In 2021 we resumed activities to support our cigarette portfolio. Our key focus was to improve our position within the Super low segment. We started to address it by new product launches and by lowering prices of our selected brands.

We thus launched 4 variants of L&M First Cut within this segment. This launch was supported by a communication campaign at points of sale. L&M First Cut is for legal age smokers who prefer quality at a reasonable price.

Our local brand Petra was repositioned to the Super low segment, which had a positive impact on its market share.

Report of the Board of Directors for the year ended December 31, 2021

Philip Morris ČR a.s., an affiliate of Philip Morris International Inc. ("PMI"), is the largest manufacturer and marketer of tobacco products in the Czech Republic, providing adult smokers with popular international and local brands such as *Marlboro, L&M, Philip Morris, Chesterfield, Petra Klasik*, and *Sparta*. It is also a distributor of PMI's smoke-free tobacco products, *HEETS* with *IQOS* device, tobacco heating system, *IQOS VEEV* with *VEEV* pods, an e-vapor product, as well as the KT&G-licensed brands, *Fiit* with *lil* device, in the Czech Republic.

Philip Morris ČR a.s. holds a 99% interest in Philip Morris Slovakia s.r.o., registered in Slovakia, the largest distributor of cigarettes in Slovakia. Philip Morris Slovakia s.r.o. also distributes *HEETS* and *IQOS*, *Fiit* and *lil* in the country.

The report of the Board of Directors is based on the consolidated financial statements of Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o., prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Consolidated Financial Results

We are pleased to report the results for the year 2021. Despite the continuation of COVID-19 and the measures governments took to contain the spread of the virus, our performance remained solid.

We enjoyed a continuing growth of sales of reduced-risk products[11] thanks to the growing *IQOS* adult user base[12]. Our total *IQOS* adult users[13], in both countries combined, increased by approximately 140 thousand (vs. prior year) and reached approximately 770 thousand, of which approximately 560 thousand adult users have stopped smoking and switched to *IQOS*[14].

Consolidated revenues, net of excise tax and VAT, grew by 5.5% or CZK 1 billion (vs. prior year) to CZK 18.9 billion, driven namely by higher sales of *HEETS* and *IQOS* devices (CZK 1.2 billion) and favorable pricing on our smoke-free tobacco products portfolio (CZK 0.6 billion), favorable pricing on our combustible portfolio[15] (CZK 0.6 billion), partly offset by lower combustible portfolio sales volumes (CZK -1.4 billion). Excluding the impact of currency, consolidated revenues, net of excise tax and VAT, increased by 6.4%.

Profit from operations of CZK 4.4 billion declined by 2.0% (vs. prior year), due primarily to lower combustible portfolio volumes arising from lower border-sales and tourism. Excluding the impact of currency, profit from operations decreased by 2.2%.

Net income of CZK 3.5 billion decreased by 0.3% (vs. prior year), reflecting the items noted above.

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[11] Reduced-risk products ("RRPs") is the term we use to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continuing smoking. RRPs are in various stages of development, scientific assessment and commercialization. RRPs are smoke-free products that contain and/or generate far lower quantities of harmful and potentially harmful constituents than found in cigarette smoke

[12] Sources: *IQOS* adult user panel, Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o. internal estimates

[13] Estimated number of adult *IQOS* and *lil* users that used *HEETS* and *FIIT* for at least 5% of their daily tobacco consumption over the past seven days

[14] Estimated number of adult *IQOS* and *LIL* users, whose daily individual consumption of *HEETS* and *FIIT* represents the totality of their daily tobacco consumption over the past seven days, of which at least 70% are *HEETS* and *FIIT*

[15] Combustible portfolio includes cigarettes, cigarillos, tobacco for make-your-own cigarettes and volume tobacco for make-your-own cigarettes

Business in the Czech Republic

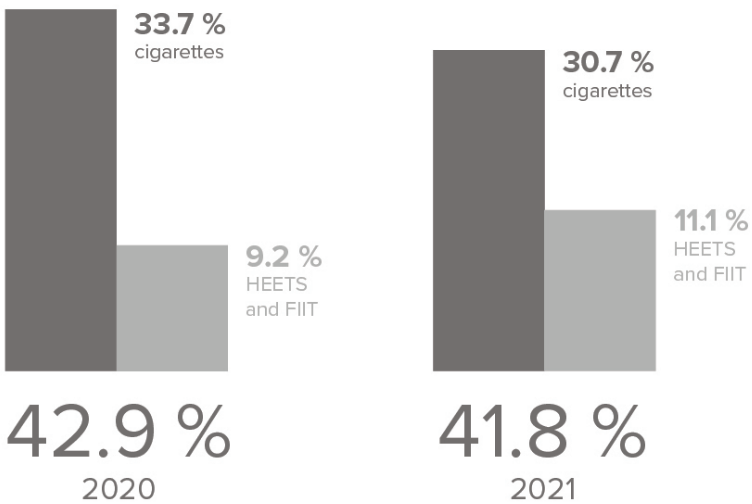
Domestic revenues, net of excise tax and VAT, grew by 7.6% to CZK 11.2 billion driven mainly by higher sales of *HEETS* and *IQOS* devices of CZK 0.6 billion, favorable pricing on our smoke-free tobacco products portfolio of CZK 0.7 billion and favorable pricing on our combustible portfolio of CZK 0.4 billion, partly offset by combustible portfolio sales decline of CZK 0.9 billion due primarily to lower cross-border shopping and continuous switching of legal age smokers to smoke-free alternatives.

The *IQOS* adult user base[16] increased by approximately 90 thousand (vs. prior year) to more than 500 thousand adult users.

The total combined market of cigarettes and heated tobacco units has decreased by an estimated 7.3% (vs. prior year) to 17.3 billion units, due primarily to lower border sales caused by COVID-19 pandemic-related lockdown measures and the impact of excise tax-driven price increases. The total cigarette market has decreased by an estimated 9.2% to 15.4 billion units, due primarily to lower border-sales, trade inventory changes and continuous switching of adult smokers to smoke-free alternatives.

The estimated combined market share of Philip Morris ČR a.s. decreased by 1.1 share points (vs. prior year) to 41.8%, mainly due to decrease of our cigarettes' market share of 3.0 share points to 30.7% caused by continuous switching of adult smokers to smoke-free alternatives and annualization of the effect of the 2020 cigarette' Menthol ban. *HEETS* and *Fiit* market share increased by 1.9 share points to 11.1%.

Market share in the Czech Republic (%)



Source: Philip Morris ČR, a.s internal estimate
based on a monthly tabulation of cigarette sales data by PwC

Combustible portfolio shipments (cigarettes and fine-cut tobacco, combined) of Philip Morris ČR a.s. decreased by 1.0 billion units (vs. prior year) to 5.5 billion units mainly reflecting the lower total market and a lower market share, while our *HEETS* and *Fiit* shipments increased by 0.2 billion units and reached 1.9 billion units in the same period.

IQOS VEEV and *VEEV* pods, the electronic cigarette by *IQOS*, and the newly launched *Fiit* and *lil* tobacco heating system, have had an immaterial impact on the financial results, albeit already demonstrating initial positive consumer feedback.

[16] Sources: *IQOS* adult user panel, Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o. internal estimates

Business in Slovakia

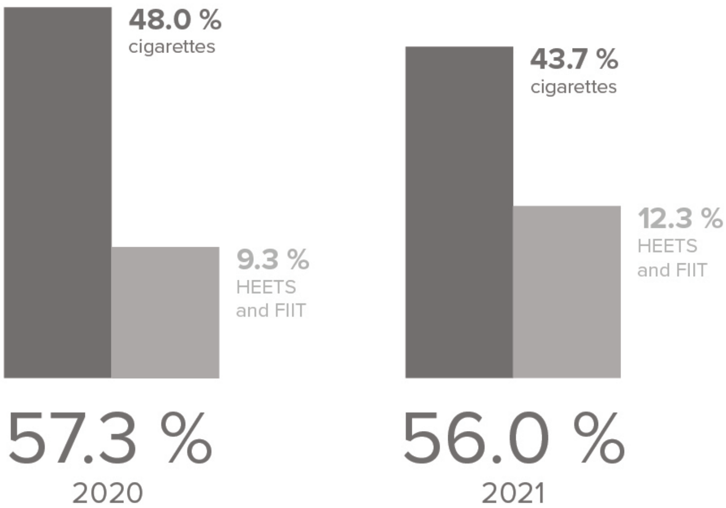
Philip Morris Slovakia s.r.o. revenues, net of excise tax and VAT, increased by 7.1% (vs. prior year) to EUR 208.4 million, driven mainly by higher sales of *HEETS* and *IQOS* devices of EUR 23 million and favorable pricing on combustible portfolio of EUR 13 million, partly offset by combustible portfolio volume decline of EUR 16 million.

The *IQOS* adult user base[17] increased by approximately 50 thousand (vs. prior year) and reached an estimated 260 thousand adult users.

The total combined market of cigarettes and heated tobacco units has decreased by an estimated 4.6% (vs. prior year) to 7.3 billion units. The total cigarette market has decreased by an estimated 7.8% to 6.4 billion units, due primarily to continuous switching of adult smokers to smoke-free alternatives.

The combined market share of Philip Morris Slovakia s.r.o. decreased by 1.3 share points (vs. prior year) to 56.0%, mainly due to decrease of our cigarettes' market share of 4.3 share points to 43.7%, caused by continuous switching of adult smokers to smoke-free alternatives and the annualization of the 2020 cigarettes' Menthol ban, partially offset by *HEETS* and *Fiit* market share increase of 3.0 share points to 12.3%

Market share in Slovakia (%)



Source: Philip Morris Slovakia s.r.o., internal estimate based on a monthly tabulation of cigarette sales data by PwC

Domestic combustible portfolio shipments of Philip Morris Slovakia s.r.o. decreased by 0.5 billion units (vs. prior year) to 3.2 billion units, while *HEETS* and *Fiit* shipments increased by 0.2 billion units (vs. prior year) to 0.9 billion units.

[17] Sources: *IQOS* adult user panel, Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o. internal estimates

Manufacturing Services

Revenues from manufacturing services decreased by 4% (vs. prior year) to CZK 2.2 billion.

Excise Tax

In the Czech Republic, Act no. 609/2020 Coll. amending certain tax acts and certain other acts amended also Act no. 353/2003 Coll on excise taxes. This amendment came into force on February 1, 2021. This amendment introduced a three-year calendar of tobacco excise tax rates increases for years 2021 to 2023. In 2021, the specific component of the cigarette excise tax rate increased by CZK 180 to CZK 1,790 per 1,000 cigarettes, in each of the following two years there will be an increase of CZK 90 per 1,000 cigarettes. The minimum tax rate increased by CZK 300 to CZK 3,200 per 1,000 cigarettes in 2021 and will increase by CZK 160 per 1,000 cigarettes in each of the following two years. The ad valorem component of the cigarette excise tax rate remains unchanged (at 30%). The excise tax rate on fine-cut tobacco increased by CZK 260 to CZK 2,720 per 1 kg of tobacco in 2021 and will increase by CZK 140 per kg of tobacco in each of the following two years. The excise tax rate on heated tobacco products increased by CZK 261 to CZK 2,721 per kg of tobacco in 2021, by CZK 139 in 2022 and it will increase by CZK 140 per kg of tobacco in 2023. The above-mentioned excise tax increases are accompanied by a three-month retail sell-by-date anti-forestalling regulation applicable to cigarettes and a six-month retail sell-by-date anti-forestalling regulation applicable to heated tobacco products.

In Slovakia, Amendment to Act no. 106/2004 Coll. on Excise Duty on Tobacco Products was adopted and published as Act no. 390/2020 Coll. introducing a three-year fiscal roadmap from 2021 to 2023. As of February 1, 2021, the specific excise rate for cigarettes increased from EUR 64.10 to EUR 74.60 per 1,000 cigarettes; the minimum excise rate for cigarettes increased from EUR 100.10 to EUR 116.50 per 1,000 cigarettes; while the ad-valorem component remains unchanged (at 23%); fine-cut tobacco excise tax rate increases from EUR 76.70 to EUR 89.30 per 1 kg. An additional increase was applied on February 1, 2022, when the specific component for cigarettes is set at EUR 79.60 per 1,000 cigarettes, the minimum excise tax rate for cigarettes at EUR 124.30 per 1,000 cigarettes, and the fine-cut tobacco excise tax rate at EUR 95.30 per 1kg. The last increase will be applied on February 1, 2023, when the specific component for cigarettes is set at EUR 84.60 per 1,000 cigarettes, the minimum excise tax rate for cigarettes at EUR 132.10 per 1,000 cigarettes, and the fine cut tobacco excise tax rate at EUR 101.30 per 1kg. The excise tax increases are accompanied by a two-month retail sell-by-date regulation for cigarettes and six months for fine cut tobacco. Effective February 1, 2021, the amended Act introduced an increase in excise tax for smoke-free tobacco products not consumed through a process of combustion (excluding nasal and chewing tobacco). The taxable base for smoke-free tobacco products is the weight of tobacco in the smoke-free tobacco product and the excise tax rate increases from EUR 76.70 per 1 kg to EUR 132.20 per 1 kg. Further increase had been applied as of February 1, 2022, when the excise tax rate is set to EUR 160.00 per 1 kg and as of February 1, 2023, when the excise tax rate will be set to EUR 187.80 per 1 kg. The excise tax increases are accompanied by a three-month retail sell-by-date regulation.

Strong and Effective Regulation

Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o. support comprehensive regulation of tobacco and nicotine containing products based on the principle of harm reduction.

Technological and scientific developments of recent years make it possible to shift the tobacco and nicotine market towards a future in which cigarettes will be replaced by less harmful, smoke-free alternatives offered to those adult smokers who would otherwise continue to smoke. In this context, sensible, risk-based regulation of smoke-free tobacco products, combined with effective restrictions on combustible products, such as cigarettes, can help address the harm caused by smoking more effectively – and faster – in combination with traditional regulatory measures.

Regulations should continue to dissuade people from starting to smoke combustible products or use nicotine products and encourage cessation. But it is equally clear that millions of men and women will continue to smoke, and they should have access to better alternatives than cigarettes and information on them.

Tobacco Products Directive

Across the EU, the Tobacco Products Directive (2014/40/EU) entered into force on May 19, 2014 and became applicable in the EU Member States as of May 20, 2016. In the Czech Republic, Act no. 180/2016 Coll. amending Act no. 110/1997 Coll. on foodstuffs and tobacco products and other related laws together with Decree no. 261/2016 Coll., which transpose the EU Tobacco Products Directive, entered into effect on September 7, 2016.

The legislation introduced new rules on – among others – the manufacturing, presentation and sale of tobacco products and related products, including certain rules for the commercialization of e-cigarettes and novel tobacco products, such as a pre-launch notification requirement. In addition, the new legislation includes other measures such as enlarged, combined health warnings covering 65% of the main surfaces of cigarette packs and roll-your-own tobacco, as well as dedicated health warnings for other types of tobacco and related products, enhanced reporting obligations, a ban on tobacco products with characterizing flavors (currently applicable to cigarettes and roll-your-own tobacco), and a new set of requirements related to the tracking and tracing of tobacco products in order to enhance the effectiveness of illicit trade prevention. Cigarettes with a menthol characterizing flavor, including menthol capsules, were allowed to be marketed in the Czech Republic until May 20, 2020. Tracking and tracing requirements came into force on May 20, 2019 for cigarettes and roll-your-own tobacco, and will come into force on May 20, 2024 for other tobacco products.

Furthermore, the Tobacco Products Directive regulates e-cigarettes as consumer goods rather than as medicinal products. If e-cigarettes qualify as medicinal products, other EU rules will apply.

In Slovakia, the Tobacco Products Directive was transposed to the Slovak national legislation by Act no. 89/2016 Coll.[18] on the manufacture, labelling and sale of tobacco products and related products and on the amendment and supplement to selected laws, effective as of May 20, 2016.

Cigarettes with a menthol characterizing flavor, including menthol capsules, were allowed to be marketed in Slovakia until May 20, 2020.

Tracking and tracing requirements entered into force on May 20, 2019 for cigarettes and roll-your-own tobacco. Other tobacco products will be subject to tracking and tracing as of May 20, 2024.

Foodstuff and tobacco products Act

The Amendment to Act. 110/1997 Coll. on Foodstuff and tobacco products, Act No. 174/2021 Coll. was published on April 27, 2021. The amendment to the law, which entered into force on May 12, 2021 in the Czech Republic, regulates the marketing and sale of tobacco-free nicotine pouches, which have not yet been regulated. The manufacturers, importers, retailers, and distributors of tobacco-free nicotine pouches are obliged to ensure that these products meet the requirements in terms of the composition, appearance, quality and characteristics laid down by the implementing Decree, which will be prepared by the Ministry of Health. Tobacco-free nicotine pouches, which did not comply with the new requirements, and which were manufactured or placed on the market before May 12,2021 could be offered for sale until December 31, 2021.

Single-Use Plastics Directive

EU Directive 2019/904 (“Single-Use Plastics Directive” or “the Directive”) on the reduction of the impact of certain plastic products on the environment entered into force on July 2, 2019 throughout the EU Member States. EU Member States, including the Czech Republic and Slovakia, were obliged to transpose its provisions into national legislations by July 3, 2021. While in the Slovak Republic the Directive was transposed into national law with the effect from December 1, 2021, in the Czech Republic the legislative process has still not been completed as of the date of publication of this 2021 Annual Report. The bill went through the first reading in the Chamber of Deputies of the Parliament of the Czech Republic (lower house) in January 2021 and has been ordered to be discussed by the Committee on the Environment.

The objectives of the Single-Use Plastics Directive are to prevent and reduce the impact of certain plastic products on the environment, in particular the aquatic environment, and on human health, as well as to promote the transition to a circular economy, with innovative and sustainable business models, products and materials, thus also contributing to the efficient functioning of the internal market.[19]

In order to achieve its objectives, the Directive introduces various measures for various types of goods. In the area of our business, the Directive concerns tobacco products with filters and filters marketed for use in combination with tobacco products. Specifically, under the Directive, Member States will introduce marking requirements on product packaging, Extended Producer Responsibility Schemes, which will require producers to contribute to costs associated with the cleaning and collection of littered tobacco post consumption waste in public, as well as to cost for awareness-raising measures designed to inform consumers to correctly dispose of cigarette butts and thereby reduce litter. Measures are being implemented gradually in several stages.

Extended Producer Responsibility Scheme for tobacco products with filters and filters marketed for use in combination with tobacco products will have to be implemented in the EU Member States by January 5, 2023. More information on the scope of specific costs which Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o. will have to bear in relation to this measure are not known as of the publication of the 2021 Annual Report.

[18] Act no. 89/2016 Coll. of 25 November 2015 on the manufacture, labelling and sale of tobacco products and related products and on the amendment and supplement to selected laws.
[19] Article 1 of the Directive 2019/904 of June 5,2019 on the reduction of the impact of certain plastic products on the environment

Despite the then absence of a local transposition law, as of the second half of 2021, based on Commission Implementing Regulation (EU) 2020/2151, which has a direct effect in local legal systems, a product packaging with the printed inscription "Plast ve filtru" / "Filter obsahuje plasty" has been gradually introduced to the Czech and Slovak markets.

Expected economic and financial situation

The COVID-19 pandemic and the emergency measures the governments implemented to contain the spread of the disease have been the key factor impacting the economic situation in both the Czech Republic and in the Slovak Republic. Such measures resulted in a substantial slowdown in economic activity already in 2020 and in 2021.

According to the data from the Czech Statistical Office, the economic performance in the year 2021 increased by 3.3%[20] after declining 5.6% in the previous year[21]. The economic performance began to increase considerably from the second quarter of 2021, and it gradually compensated for the previous shock to aggregate demand and supply. According to the Ministry of Finance, a growth of 3.1% is expected for 2022. However, a headwind of rising inflation of minimum 8.5 % is expected, which will put additional pressure on consumer spending due to rising cost of energy and housing[22].

Sales of *IQOS* devices and *HEETS* have grown strongly, and we continue with our efforts to further increase our *IQOS* adult user base in 2022. In 2021, we continued further expansion of the *IQOS VEEV* e-cigarette, and we have also introduced *lil* and *Fiit* smoke-free tobacco products to attract and further grow our adult consumer base. Our business will remain exposed to consumer down-trading to cheaper cigarettes and other nicotine-delivery alternatives, or to an increase in illicit trade.

There were increases of excise tax rate on tobacco products in 2020 and 2021. These increases were significantly higher than, for example, the tax rate increases between 2016 to 2018. Translated into higher retail selling prices or higher recommended selling prices, such increases could lead to an additional decline of domestic demand for cigarettes, an increase of cross-border purchases of Czech consumers in countries with cheaper cigarettes, a decline of purchases of foreign tourists in the Czech Republic, or to an increase in demand for illicit products. Relatively modest increases in tobacco excise tax rates have been approved for 2022 and 2023.

We also remain committed to continuing to implement our planned productivity initiatives to manage our cost base and maximize the return on our investments.

Risks Related to Our Business and Industry

The following risk factors should be read carefully in connection with evaluating our business and the forward-looking statements contained in this 2021 Annual Report. Any of the following risks could materially adversely affect our business, our operating results, our financial condition, and the actual outcome of matters as to which forward-looking statements are made in this 2021 Annual Report.

- The full impact that the COVID-19 outbreak and the emergency measures the governments have introduced and might yet choose to introduce in future to contain the disease's spread might have on our business, is still uncertain. The extent to which this pandemic continues to impact our business, operations and financial results will depend on numerous continuously evolving factors that we may not be able to accurately predict. These include the duration and scope of the pandemic; governmental, business and individuals' actions that have been and may still be taken in response to the pandemic; the impact of the pandemic on economic activity and actions taken in response; the effect on the population and demand for products and the ability to sell them, including as a result of travel restrictions; and any facility closures.

- The COVID-19 pandemic has created significant societal and economic disruption, and resulted in closures of stores, factories and offices, and restrictions on manufacturing, distribution and travel, all of which adversely impacted our business, results of operations, cash flows and financial position during the pandemic so far. Our business continuity plans, and other safeguards might not be effective to mitigate future developments brought by new virus variant, closures, etc.

[20] Source: https://www.czso.cz/csu/czso/cri/tvorba-a-uziti-hdp-4-ctvrtleti-2021
[21] Source: https://www.czso.cz/csu/czso/cri/tvorba-a-uziti-hdp-4-ctvrtleti-2020
[22] Source: https://www.mfcr.cz/cs/verejny-sektor/makroekonomika/makroekonomicka-predikce/2022/makroekonomicka-predikce-leden-2022-46147

- During the pandemic so far, we have seen a diminished ability to convert adult smokers to our reduced-risk products, significant volume declines in our duty-free business and certain other key markets, disruptions or delays in our manufacturing and supply chain, increased currency volatility, and delays in certain cost saving, transformation and restructuring initiatives. Our business could also be adversely impacted if key personnel or a significant number of employees or business partners become unavailable. The significant adverse impact of COVID-19 on the economic or political conditions in markets in which we operate could result in changes to the preferences of our adult consumers and lower demand for our products, particularly for our mid-price or premium-price brands. In addition, messaging about the potential negative impacts of the use of our products on COVID-19 risks may lead to increasingly restrictive regulatory measures on the sale and use of our products, negatively impact demand for our products, the willingness of adult consumers to switch to our reduced-risk products and our efforts to advocate for the development of science-based regulatory frameworks for the development and commercialization of reduced-risk products.

- Natural disasters, pandemics, economic, political, regulatory, acts of war or threats of war, or other developments could disrupt our supply chain, manufacturing capabilities or distribution capabilities, and our business continuity plans and other safeguards might not always be effective to fully mitigate their impact.

- The impact of these risks also depends on factors beyond our knowledge or control, including the duration and severity of the outbreak, its recurrence in our key markets, actions taken to contain its spread and to mitigate its public health effects, and the ultimate economic consequences thereof.

- Consumption of combustible tobacco products continues to decline. This decline is due to multiple factors, including increased taxes and tax-driven pricing, governmental actions, the diminishing social acceptance of smoking, and the continuing prevalence of illicit products.

- Significant increases in cigarette-related taxes may disproportionately affect our profitability and make us less competitive versus certain of our competitors. Increases in cigarette taxes are expected to continue to have an adverse impact on our sales of cigarettes, due to resulting lower consumption levels, a shift in sales from manufactured cigarettes to other (cheaper) combustible products', or to illicit products such as contraband, counterfeit, and "illicit whites".

- We face intense competition, and our failure to compete effectively could have a material adverse effect on our profitability and results of operations. We compete primarily on the basis of product quality, brand recognition, brand loyalty, taste, innovation, packaging, service, marketing, advertising and retail price. We are subject to highly competitive conditions in all aspects of our business. The competitive environment and our competitive position can be significantly influenced by weak economic conditions, erosion of consumer confidence, competitors' introduction of lower-price products or innovative products, higher tobacco product taxes, higher absolute prices and larger gaps between retail price categories, and product regulation that diminishes the ability to differentiate tobacco products.

- We may be unable to anticipate changes in adult consumer preferences or to respond to consumer behavior influenced by potential economic downturns. Our tobacco business is subject to changes in consumer preferences, which may be influenced by local economic conditions. To be successful, we must:

    - promote brand equity successfully;
    - anticipate and respond to new consumer trends;
    - ensure that our products meet our quality standards;
    - develop new products or acquire distribution rights to these in order to broaden brand portfolios;
    - improve productivity;
    - educate and convince adult smokers to convert to our smoke-free nicotine products;
    - ensure effective adult consumer engagement, including communication about product characteristics and usage of smoke-free nicotine products;
    - provide excellent customer care;
    - ensure adequate production capacity to meet demand for our products; and
    - be able to protect or enhance margins through price increases.

In periods of economic uncertainty, adult consumers may tend to purchase lower-priced brands, and the volume of our premium-price and mid-price brands and our profitability could be materially adversely impacted as a result.

- We may be unable to successfully commercialize reduced-risk products, we may be unable to successfully introduce new products, promote brand equity or we may be unable to develop strategic business relationships. Future results are also subject to the lower predictability of our reduced-risk product category's performance.

- Our profitability, and consequently, the amount of our dividend payout reflects our dual role of being a full risk entrepreneur of combustible portfolio products and a limited risk distributor for reduced-risk products. Our remuneration for commercialization of reduced-risk products is based on a set margin on revenues from sales. As a limited risk distributor, we do not own intellectual property rights for reduced-risk products and therefore do not absorb all the costs or bear the risks associated with such ownership. As our return is proportionate to our risk for commercializing reduced-risk products, the impact of the sales volume variances of such products on our profitability is limited. Consequently, if the current consumer preference trend towards reduced-risk products will continue and volume declines of combustible portfolio products accelerate, we do not expect that over time the additional profit generated from increased sales of reduced-risk products will offset the decreasing profits generated from the sales of combustible portfolio products.

- We lose revenues as a result of counterfeiting, contraband and cross-border purchases. Large quantities of counterfeit cigarettes are sold in the international market. We believe that Marlboro is the most heavily counterfeited international cigarette brand, although we cannot quantify the revenues we lose as a result of this activity. In addition, our revenues are reduced by contraband and legal cross-border purchases.

- Our ability to grow profitability may be limited by our inability to introduce new products or improve our margins through higher pricing and improvements in our brand mix. Our profit growth may suffer if we are unable to introduce new products successfully, to raise prices or to improve the proportion of our sales of higher margin products.

- Our ability to implement our strategy of attracting and retaining the best talent may be impaired by the decreasing social acceptance of cigarette smoking. To be successful, we must continue transforming our culture and ways of working, align our talent and organizational design with our increasingly complex business needs, and innovate and transform to a consumer-centric business.

- We, as well as our business partners, use information systems to help manage business processes, collect and interpret data and communicate internally and externally with employees, suppliers, consumers, customers and others. Some of these information systems are managed by third-party service providers. We are continuously evolving our approach to business continuity planning and backups to provide appropriate business resilience, particularly in light of the increasing cyber threat landscape. Nevertheless, failure of these systems to function as intended, or penetration of these systems and systems owned and operated by our business partners by parties intent on extracting or corrupting information or otherwise disrupting business processes, could place us at a competitive disadvantage, result in a loss of revenue, assets, including our intellectual property, personal or other sensitive data, result in litigation and regulatory action, cause damage to our reputation and that of our brands and result in significant remediation and other costs. Failure to protect personal data, respect the rights of data subjects, and adhere to strict data governance and cybersecurity protocols could subject us to substantial fines and other legal challenges under regulations such as the EU General Data Protection Regulation. As we are increasingly relying on digital platforms in our business, and as privacy laws in the jurisdictions in which we do business are introduced or become more stringent, the magnitude of these risks is likely to increase.

Sustainability and Social Responsibility

Sustainability is core to the transformation of PMI and Philip Morris ČR, a.s.. Therefore, a sustainability strategy which is based on four pillars, which dictate what we produce, how we operate, and how we manage our social and environmental impacts, was formulated at PMI level. The long-term and overarching goal is a smoke-free future.

Our ambition is to be a true leader in sustainable business practices. We therefore need to excel in many areas, starting first and foremost with our products. Through ground-breaking research, PMI has developed a range of smoke-free products that are enjoyable for adult smokers and have the potential to significantly reduce health risks when compared to smoking cigarettes. We are working to achieve a smoke-free future and replace cigarettes with these less harmful alternatives completely. Even though our product, and transformation of our business as such, is at the center of our sustainability efforts, we cannot omit other pillars – driving operational excellence, managing our social impact and reducing our environmental impact.

For us, sustainability means creating long-term value while minimizing the negative externalities associated with our products, operations and value chain and maximizing the positive impact we have on the world around us.

We understand that maximizing shareholder value is no longer acceptable as a company's sole purpose. We recognize the importance of creating value for a diverse group of stakeholders, including employees, customers, suppliers, and communities.

Embedding sustainability into our business strategy means adapting our way of working to respond to societal expectations. Sustainability is about legal compliance, ethical behavior, operational efficiency, and risk mitigation. In terms of allowing sustainability to be an element of competitive advantage, sustainability is also an opportunity for innovation and growth, building solutions that can bring positive impact to society. Sustainability is about how we translate societal expectations into business practices and how we identify societal needs and turn them into business opportunities.

We are a Top Employer and have been certified both a Top Employer Czech Republic and Top Employer Slovakia for the eighth consecutive year. We are also an EQUAL-SALARY Certificate holder. This prestigious certification is awarded by the Swiss EQUAL-SALARY Foundation in collaboration with the Geneva University and the consulting firm of PwC as an independent means of certifying the equal compensation of women and men for the same work positions. Since 2019, Philip Morris ČR a.s. is also a signatory of the Czech Diversity Charter. Philip Morris Slovakia s.r.o. is a Slovak Diversity Charter signatory since 2017. Together with other businesses involved, we are committed to developing a tolerant working environment, irrespective of age, religion, gender, sexual orientation, or health status.

Furthermore, we support the strict enforcement of laws that set a minimum age to purchase tobacco products and work closely with retailers and other partners to implement youth smoking prevention programs. In 2021, Philip Morris Slovakia s.r.o. continued to support Youth Access Prevention (YAP) program "Age Matters", launched in 1998. The objective of this program is to prevent the access of minors to tobacco products by encouraging retailers to comply with minimum age legislation for purchasing tobacco products. In 2021, Philip Morris ČR a.s. continued to implement Youth Access Prevention (YAP) program at retail points-of-sales (POS) of tobacco / nicotine-containing products in the Czech Republic. The YAP Project is focused on cooperation with our trade partners and their staff. The YAP Project consists of several phases - e.g. amendments to the contracts with trade partners, POS staff training, or distinct labelling of retail location with sticker indicating the prohibition of sales of tobacco and nicotine-containing products to minors. The aim of the Project is also to provide the POS staff some tips how to refuse to sell tobacco and nicotine-containing products to minors; and inform minors by a sticker at the entrance of the retail location that the above-mentioned products will not be sold to minors in the shop. At PMI, we are convinced that youth should not use tobacco or nicotine-containing products, and we adhere to this conviction in our activities. Therefore, we intend to continue the YAP program. The importance we attach to the protection of minors from tobacco and nicotine was also evidenced by a letter from the company's CEO, Andrea Gontkovičová, to tobacco and nicotine products' retailers. It confirmed repeatedly the company's commitment to protecting minors and emphasizes the role of retailers in preventing young people's access to tobacco and nicotine products.

For 30 years, Philip Morris ČR a.s. has been contributing significantly to charitable projects across a wide range of organizations and specializations. In 2021, four principal areas of support were chosen: education; care for carers; chance for a quality life; and environmental issues. Moreover, again in 2021, our assistance was aimed at mitigating the consequences of disasters or efforts to prevent them, whether it was a coronavirus pandemic or a devastating tornado which hit southern Moravia in June 2021.

Our traditional long-term partners, implementing their projects with our financial support, include, among others, the Slunce pro všechny Endowment Fund and the Livia and Václav Klaus Endowment Fund, in the field of projects focused on education.

A remarkable program is the support of innovations in the development and use of alternative communication, implemented by the Regional Charity Červený Kostelec, organization with the only inpatient facility in the Czech Republic, caring for people diagnosed with multiple sclerosis in the Home of St. Joseph in Žireč City.

Another important long-term partner is the Charter 77 Foundation, not only in supporting the elderly or the seriously ill people, but also in helping to prevent the spread of coronavirus and mitigate the effects of the COVID-19 pandemic that has afflicted the world for two years. In 2021, through an extraordinary fund established at the Charter 77 Foundation, we provided financial assistance in the total amount of CZK 4.6 million to six hospitals throughout the Czech Republic. These hospitals used the donation to purchase personal protective equipment, necessary equipment (e.g., ozone generators, respiratory aids) or even to cover the raised personal costs.

In the field of the environment, we have been cooperating with the POD HORAMI association for several years, which is focused on education of children in the field of environmental care. We have also provided our support to a new grantee, the BENEDIKTUS organization, to build a rainwater retention system in their gardens and orchards.

We are very happy and proud that our support helps both at the national and local level, and thus we can contribute to better and more sustainable living conditions for many people.

In Slovakia, our charitable activities were focused on the areas of economic development, education and empowering women. Philip Morris Slovakia s.r.o. yearly organizes clothes collections for disadvantaged people across Slovakia and participates in the volunteering program “Our City” organized by the Pontis Foundation. In 2021, we participated in the World Cleanup Day initiative to clean our environment from litter. The company has supported several organizations across the country that develop programs supporting youth from minorities or from socially disadvantaged backgrounds. Programs which support coworking for mothers were supported as well. Philip Morris Slovakia s.r.o. also focused on the continued support of communities, especially handicapped and homeless people. We also continued with the support related to COVID-19 by donating protective equipment. It was donated to National Oncological Institute due to the need of extra protection of patients in times of pandemic.

Philip Morris ČR a.s. has been continuously striving to reduce the environmental impact of its activities over the long term. For example, it is taking steps to reduce its energy and water consumption when it is economically and technologically feasible. For the Kutná Hora factory, the source of innovations in this area are also projects of other plants within the PMI Group, shared by the Knowledge Transfer Package.

In the field of climate protection, our factory in Kutná Hora has achieved significant success. In November 2021, it successfully passed an external audit and received a certificate confirming carbon neutrality within the framework of the Scope 1 and 2 emissions, under the direct operational control of Philip Morris ČR a.s. Kutná Hora manufacturing plant. Our factory is thus one of the first 5 carbon-neutral factories within PMI. PMI aims for all its direct operations to meet carbon-neutrality standards by 2025 within the PMI's global sustainability strategy.

We are also aware that water is a renewable yet limited local resource, which we all share and that is critical to life on the planet. Water stewardship for us is about reducing water use, promoting water recycling, protecting watersheds, and promoting sustainable water management in collaboration with stakeholders. We aim to optimize water consumption in our operations, reduce the water footprint of our products, and adequately treat the wastewater produced in our factories.

In 2021, the Kutná Hora manufacturing plant also successfully passed a rigorous external audit focused on water management. In the first half of 2021, the so-called pre-assessment phase took place, and at the turn of September and October, a professional external audit took place at the production plant. The audit confirmed that we have been reducing the consumption of water in the long term and treating it sustainably at our production plant. Kutná Hora factory was therefore awarded AWS standard certificate (Alliance for Water Stewardship). It thus became historically the second factory in the Czech Republic to be awarded the AWS standard certificate[23].

Last year, we received the Top Responsible Company in Reporting 2021 award from Business for Society organization. This is an award for a company that comprehensively, transparently and effectively measures and communicates its activities in the area of responsible and sustainable business.

Further non-financial information will be included in the separate Integrated Report 2021 of Philip Morris International Inc., which will be published by June 30, 2022 and will be accessible at www.pmi.com/sustainability.

Forward-Looking and Cautionary Statements

This report and related communications contain, and Philip Morris ČR a.s. may from time to time make, written or oral forward-looking statements, including statements contained in filings with the Czech National Bank or other authorities, in reports to shareholders and in press releases and investor webcasts. You can identify these forward-looking statements by use of words such as “strategy,” “expects,” “continues,” “plans,” “anticipates,” “believes,”

[23] The first AWS-certified factory was the Coca-Cola HBC production plant in 2020.

“will,” “estimates,” “intends,” “projects,” “goals,” “targets” and other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts.

Philip Morris ČR a.s. cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should any known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements and whether to invest in or remain invested in Philip Morris ČR a.s. securities.

We confirm that to the best of our knowledge the 2021 Annual Report and the 2021 consolidated Annual Report give a true and fair view of the financial situation, business activities and economic results of Philip Morris ČR a.s. and its consolidated group for the last accounting period, and prospects for the future development of its financial position, business activities and economic results of Philip Morris ČR a.s. and its consolidated group.

In Kutná Hora on March 28, 2022

Andrea Gontkovičová

Chairperson of the Board of Directors
Philip Morris ČR a.s.

Anton Stankov

Member of the Board of Directors
Philip Morris ČR a.s.

Report of the supervisory board

Report of the Supervisory Board of Philip Morris ČR a.s. on the results of its supervisory activities in the 2021 calendar year accounting period

The Supervisory Board of the company Philip Morris ČR a.s. (the "Company") conducted its activities in accordance with Article 16 of the Company's Articles of Association and the relevant legal regulations.

Throughout 2021, the Company's Supervisory Board monitored and reviewed the progress and management of the Company's activities while paying special attention to its financial state. During the year, the Company's Supervisory Board was fully advised of the financial measures passed and also reviewed the capital expenditures against the budgets and the timetables for their implementation. Within its supervisory activities, the Supervisory Board also closely cooperated with the Audit Committee of the Company in all matters falling within the scope of these two bodies of the Company, including recommendation on statutory auditor.

The Company's Supervisory Board confirms that all projects of the Company were fully justified in terms of the Company's current and future needs. The Company's Supervisory Board agrees with the Company's business activities in 2021 and considers its economic results for the said year satisfactory.
As the Company's Supervisory Board found no shortcomings in the Company's business activities or operations, it hereby refers the shareholders to the Company's Annual Report for the 2021 calendar year accounting period, the report of the Board of Directors on the Company's Business Activities for the accounting period of 2021 and the Report of the Company's Board of Directors on Relations between Controlling Entity and Controlled Entity, and between Controlled Entity and Entities Controlled by the same Controlling Entity for the 2021 calendar year accounting period, with which it fully agrees.

Statement of the Company's Supervisory Board regarding the report of the Company's Board of Directors on Relations between Controlling Entity and Controlled Entity, and between Controlled Entity and Entities Controlled by the same Controlling Entity (the "Report on Relations") for the 2021 calendar year accounting period

The Company's Supervisory Board reviewed the Report on Relations for the 2021 calendar year accounting period within the meaning of Section 83 (1) of the Act No. 90/2012 Coll., on Corporations and Cooperatives (the "Business Corporations Act") and finds all the data contained therein accurate and has no reservations about it.

The Company's Supervisory Board agrees with the conclusion of the Company's Board of Directors that, in the relevant period, the Company suffered no detriment as a result of the execution of agreements between the Company and other entities from the group into which the Company belongs, other acts or measures carried out by the Company in the interest of these entities or at their initiative, or any performance or counter-performance by the Company, as stated in the Report on Relations for the 2021 calendar year accounting period. Consequently, no assessment of the settlement of any detriment pursuant to Sections 71 and 72 of the Business Corporations Act was necessary.

Statement of the Company's Supervisory Board to the Company's 2021 ordinary financial statements, the Company's 2021 ordinary consolidated financial statements and the proposal by the Board of Directors to approve the 2021 ordinary financial statements and the 2021 ordinary consolidated financial statements and distribute the profit, including the determination of the amount of profit shares

The Company's Board of Directors presented to the Company's Supervisory Board the Company's ordinary financial statements for the 2021 calendar year accounting period and the Company's ordinary consolidated financial statements for the 2021 calendar year accounting period (the "Financial Statements") and the proposal by the Company's Board of Directors to approve the Financial Statements and to distribute the profit for the 2021 calendar year accounting period, including the determination of the amount of profit shares (the "Proposal by the Board of Directors").

The Company's Supervisory Board reviewed the Financial Statements and concluded that the accounting procedures used by the Company are appropriate and that the Company's accounting records are kept properly, both in accordance with the relevant legal and accounting regulations, and with the Company's Articles of Association.
The Company's Supervisory Board also reviewed the Proposal by the Board of Directors, found it to be fully compliant with the Company's economic condition and fully agrees with it.

In view of the above, the Company's Supervisory Board recommends that the Company's Ordinary General Meeting approves the Financial Statements as well as the Proposal by the Board of Directors.

In Prague on March 28, 2022

Stefan Bauer

Chairman of the Supervisory Board

Consolidated Statement of Financial Position

at December 31, 2021 (in CZK million)

ASSETS	Note	31/12/2021	31/12/2020
Property, plant and equipment (“PP&E”)	5	2 831	3 104
Right-of-use assets	7	298	303
Intangible assets		4	4
Deferred tax assets	15	59	45
Other financial assets	9	107	107
Non-current assets		**3 299**	**3 563**
Inventories	8	1 940	891
Trade and other financial receivables	9	980	865
Other non-financial assets	9	2 206	2 649
Current income tax prepaid		29	—
Cash and cash equivalents	10	9 290	8 209
Current assets		**14 445**	**12 614**
Total assets		**17 744**	**16 177**

EQUITY & LIABILITIES	Note	31/12/2021	31/12/2020
Registered capital	11	2 745	2 745
Share premium and other shareholders’ contributions		2 371	2 368
Retained earnings		3 598	3 544
Other reserves		2	2
Equity attributable to the shareholders of the Company		**8 716**	**8 659**
Non-controlling interest		**1**	**1**
Total equity		**8 717**	**8 660**
Deferred tax liability	15	171	206
Lease liabilities	7	178	204
Non-current liabilities		**349**	**410**
Trade and other financial liabilities	12	3 603	2 487
Other non-financial liabilities	12	264	244
Current income tax liabilities		—	191
Other tax liabilities	14	4 652	4 044
Provisions	18	33	35
Lease liabilities	7	126	106
Current liabilities		**8 678**	**7 107**
Total liabilities		**9 027**	**7 517**
Total equity & liabilities		**17 744**	**16 177**

The accompanying notes form an integral part of the consolidated financial statements

Consolidated Statement of Comprehensive Income

for the year ended December 31, 2021 (in CZK million)

	Note	2021	2020
Revenues	4	18 867	17 883
Cost of sales	16	(10 586)	(9 145)
Gross profit		**8 281**	**8 738**
Distribution expenses	16	(2 576)	(2 791)
Administrative expenses	16	(1 400)	(1 372)
Other operating income	19	239	318
Other operating expense	20	(177)	(439)
Profit from operations		**4 367**	**4 454**
Financial expense		(26)	(27)
Financial income		42	33
Profit before income tax		**4 383**	**4 460**
Income tax expense	21	(866)	(933)
Net profit for the year		**3 517**	**3 527**
Attributable to:			
Owners of the parent		3 516	3 526
Non-controlling interest		1	1
Other comprehensive income			
Total comprehensive income for the year		**3 517**	**3 527**
Attributable to:			
Owners of the parent		3 516	3 526
Non-controlling interest		1	1
Earnings per share basic and diluted (CZK/share)	**22**	**1 281**	**1 285**

The accompanying notes form an integral part of the consolidated financial statement

Consolidated Statement of Changes in Equity

for the year ended December 31, 2021 (in CZK million)

		Attributable to equity holders of the Company					
	Note	Registered capital	Share premium and other shareholders' contributions	Statutory reserve fund	Retained earnings	Non-controlling interest	Total equity
Balance as at 1/1/2020		**2 745**	**2 388**	**2**	**4 299**	**1**	**9 435**
Net profit for the year	22	—	—	—	3 526	1	**3 527**
Currency translation adjustments		—	—	—	—	—	**—**
Total comprehensive income for the year		**—**	**—**	**—**	**3 526**	**1**	**3 527**
Transactions with owners							**—**
Profit distribution	23	—	—	—	(4 282)	(1)	**(4 283)**
Share based payments		—	(20)	—	—	—	**(20)**
Forfeited dividends		—	—	—	2	—	**2**
Other		—	—	—	(1)	—	**(1)**
Balance as at 31/12/2020		**2 745**	**2 368**	**2**	**3 544**	**1**	**8 660**
Net profit for the year	22	—	—	—	3 516	1	**3 517**
Currency translation adjustments		—	—	—	—	—	**—**
Total comprehensive income for the year		**—**	**—**	**—**	**3 516**	**1**	**3 517**
Transactions with owners							
Profit distribution	23	—	—	—	(3 459)	(1)	**(3 460)**
Share based payments		—	3	—	—	—	**3**
Forfeited dividends		—	—	—	2	—	**2**
Other		—	—		(5)		**(5)**
Balance as at 31/12/2021		**2 745**	**2 371**	**2**	**3 598**	**1**	**8 717**

The accompanying notes form an integral part of the consolidated financial statements

Consolidated Cash Flow Statement

for the year ended December 31, 2021 (in CZK million)

	Note	2021	2020
Cash flow from operating activities			
Profit before tax		**4383**	**4460**
Depreciation and amortization expense, including intangibles	16	738	729
Impairment and disposal of PP&E	5,16	87	120
Net interest (income) / expense		(15)	(7)
Gain on disposal of PP&E		(16)	(4)
Change in provisions		(2)	(16)
Other non-cash transactions, net		(6)	(17)
Operating cash flows before working capital changes		**5 169**	**5 265**
Changes in:			
Trade and other financial receivables and other non-financial assets		328	676
Trade and other financial liabilities and other non-financial liabilities		1 770	594
Inventories		(1 049)	782
Cash generated from operations		**6 218**	**7 317**
Interest paid		(26)	(27)
Income tax paid		(1 138)	(916)
Net cash generated from operating activities		**5 054**	**6 374**
Cash flow from investing activities			
Purchase of PP&E	5	(472)	(334)
Proceeds from sale of PP&E		86	122
Purchase of intangible assets		(3)	(10)
Interest received		42	34
Net cash used by investing activities		**(347)**	**(188)**
Cash flow from financing activities			
Dividends paid to owners of the parent	23	(3 459)	(4 283)
Dividends paid to Non-controlling interest		(1)	(1)
Repayments of principle portion of lease liability		(127)	(128)
Net cash used by financing activities		**(3 587)**	**(4 412)**
Net increase in cash and cash equivalents		**1 120**	**1 774**
Cash and cash equivalents as at the beginning of the year		**8 209**	**6 431**
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(39)	4
Cash and cash equivalents as at the end of the year	**10**	**9 290**	**8 209**

The accompanying notes form an integral part of the consolidated financial statements

Notes to the Consolidated Financial Statements

for the year ended December 31, 2021

1. GENERAL INFORMATION

1.1 Group description

Philip Morris ČR a.s. (the "Company") and its subsidiary Philip Morris Slovakia s.r.o. (the "Subsidiary") (together the "Group") produces, sells, distributes and markets tobacco products. The Company has a 99% interest in Philip Morris Slovakia s.r.o.

Philip Morris ČR a.s. is a joint-stock company registered in the Czech Republic. The Company was incorporated on March 28, 1991 and its registered address is Kutná Hora, Vítězná 1, Czech Republic. Its headquarters is in Prague and its manufacturing facility is in Kutná Hora.

Philip Morris ČR a.s. is an affiliate of Philip Morris International Inc. ("PMI"). As at December 31, 2021, Philip Morris International Inc. is the ultimate controlling party of the Group.

As at December 31, 2021, the only entity directly holding more than 20% of the registered capital of the Group was Philip Morris Holland Holdings B.V. (the "Parent company"), which held 77.6% of the registered capital.

Members of the Board of Directors and the Supervisory Board as at December 31, 2021 were:

Board of Directors

Andrea Gontkovičová – Chairperson	Peter Piroch
Piotr Andrzej Cerek	Petr Šedivec
Petr Šebek	Anton Kirilov Stankov as of September 29, 2021

Supervisory Board

Stefan Bauer– Chairman	Alena Zemplinerová
Sergio Colarusso	Stanislava Juríková
Roman Grametbauer Replaced Richard Vašíček as of July 1, 2021	Tomáš Hilgard

Members of the Board of Directors and the Supervisory Board as at December 31, 2020 were:

Board of Directors

Andrea Gontkovičová – Chairperson	Peter Piroch
Piotr Andrzej Cerek	Petr Šedivec
Petr Šebek Replaced Tomáš Korkoš as of January 20, 2020	

Supervisory Board

Stefan Bauer – Chairman	Alena Zemplinerová
Sergio Colarusso	Stanislava Juríková
Richard Vašíček	Tomáš Hilgard

The Company has its primary listing on the Prague Stock Exchange (Burza cenných papírů Praha, a.s.), trading from July 13, 1993.

These consolidated financial statements were authorized for issue by the Board of Directors on March 28, 2022.

1.2 Translation note

This annual report and the consolidated financial statements have been prepared in Czech and in English. In all matters of interpretation of information, views or opinions, the Czech version of these consolidated financial statements takes precedence over the English version.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation of consolidated financial statements

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

The consolidated financial statements have been prepared under the historical cost convention except for financial instruments, which are initially recognized at fair value and subsequently measured in accordance with IFRS 9 as disclosed in the accounting policies below.

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The Group is responsible for estimates and assumption relating to the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The consolidated financial statements have been prepared based on the recognition and measurement requirements of IFRS standards and IFRIC interpretations issued and effective, to the extent that they have been endorsed by the European Commission by the time of preparing this report. The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The ongoing COVID-19 crisis and its related measures continued to have large negative impact on a lot of business and economic activities within the year ending December 31, 2021.

Besides the drop in cross-border shopping, which affected our sales volumes in the respective channels, the COVID-19 pandemic has otherwise had limited impact on our business model. We managed to minimize all potential risks to our day to day operations thanks to our approach of ensuring health and safety for all our employees, contractors and related third parties. In light of these facts, we have not applied for any funds provided by the government to help companies mitigate the impact of COVID-19.

In valuing the assets and liabilities of the Group and meeting its going concern basis, the Board of Directors (the management) has considered the impact of the new coronavirus pandemic causing COVID-19.

2.2 Changes in accounting policies and procedures

a) New standards, amendments, interpretations and improvements to existing standards mandatory for accounting periods beginning on or after January 1, 2021

Following new standards and amendments to IFRS are effective from January 1, 2021 but they do not have a material effect on the consolidated financial statements:

Amendments to IFRS 9, 'Financial Instruments', IAS 39, 'Financial Instruments: Recognition and Measurement', IFRS 7, 'Financial Instruments: Disclosures', IFRS 4, 'Insurance Contracts' and IFRS 16, 'Leases' called Interest Rate Benchmark Reform – Phase 2 that is a reaction of IASB on expected changes resulting from forthcoming reform of IBOR rates on financial reporting. The amendments clarify how to react in financial statements on possible changes in cash flows and hedge accounting due to changes in IBOR rates. Since the variable-interest bear loans and borrowings are based on IBOR rates such as EURIBOR, PRIBOR that are not affected by the reform and are confirmed to be used in forthcoming years, the amendments have no impact on these consolidated financial statements.

b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are not mandatory for the Group's accounting periods beginning on January 1, 2021:

- In September 2014, amendments 'Sale or Contribution of Assets between an Investor and its Associates or Joint Venture' on IFRS 10, 'Consolidated Financial Statements', (effective date deferred indefinitely) was issued. They clarify the accounting for transactions where a parent loses control of a subsidiary, that does not constitute a business as defined in IFRS 3, by selling all or part of its interest in that subsidiary to an associate or a joint venture that is accounted for using the equity method. The effective date will be determined as soon as project on equity is finished.
- In May 2017, IFRS 17, 'Insurance Contracts' (effective for annual reports beginning on or after January 1, 2021 later deferred on or after January 1, 2023) was issued and it will supersede currently effective IFRS 4. The standard provides complex accounting policies (recognition, measurement,

presentation and disclosure) regarding insurance contracts. Since the business of the Group is different than insurance company and it does not present any insurance contract, the standard will not affect the consolidated financial statements.

- In January 2020, amendments to IAS 1, 'Presentation of Financial Statements' called "Classification of Liabilities as Current and Non-current' (effective for annual reports beginning on or after January 1, 2022 later deferred on or after January 1, 2023) were issued that provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. The amendments affect only the presentation of liabilities in the statement of financial position – not the amount or timing of their recognition or the information that entities disclose about them. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and is not affected by expectations about whether an entity will exercise its right to defer settlement. The Group will assess new approach but does not expect any significant changes in consolidated financial statements.
- In May 2020, amendments to IAS 16, 'Property, Plant and Equipment – Proceeds before Intended Use' (effective for annual reports beginning on or after January 1, 2022) were issued that prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The Group will assess new approach but does not expect any significant changes in consolidated financial statements.
- In May 2020, amendments to IAS 37, 'Provisions, Contingent Liabilities and contingent assets – Onerous Contracts – Cost of Fulfilling a Contract' (effective for annual reports beginning on or after January 1, 2022) were issued. Amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The Group will assess changes but does not expect any significant changes in consolidated financial statements.
- In May 2020, the 'Annual Improvements to IFRS cycle 2018 – 2020' including amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (all are effective for annual reports beginning on or after January 1, 2022) was issued. (i) The amendment to IFRS 1 provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. The Group is not first-time adopter and therefore, this amendments will not have any impact on consolidated financial statements. (ii) The amendment to IFRS 9 clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment. (iii) The amendment to IFRS 16 removes the illustration of the reimbursement of leasehold improvements. (iv) The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pretax or post-tax cash flows and discount rates for the most appropriate fair value measurement. The Group does not expect any impact on consolidated financial statements resulting from these amendments.
- In May 2020, amendments to IFRS 3, 'Business Combinations' (effective for annual reports beginning on or after January 1, 2022) were issued. These amendments only update references to the new Conceptual Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination. The Group will assess changes but does not expect any significant changes in consolidated financial statements.
- In June 2020, IFRS 17, amendments to IFRS 17, 'Insurance Contracts' (effective for annual reports beginning on or after January 1, 2023) were issued and these amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after January 1, 2023. The business of the Group is out of scope of IFRS 17.
- In July 2020, amendments to IAS 1, 'Presentation of Financial Statements' called "Classification of Liabilities as Current and Non-current' (effective for annual reports beginning on or after January 1, 2023) were issued and these amendments defer the date of initial application of amendments to annual reporting periods beginning on or after January 1, 2023.
- In February 2021, amendments to IAS 1, 'Presentation of Financial Statements' called "Disclosure of Accounting Policies" (effective for annual reports beginning on or afte January 1, 2023) were issued and these amendments requires entities to disclose its material accounting policy information instead of its significant accounting policies. Amendments also explain how an entity can identify material accounting policy information and to give examples of when information is likely to be material. The Group will assess changes but does not expect any significant changes in consolidated financial statements.

- In February 2021, amendments to IAS 8, ‘Accounting Policies, Changes in Accounting Estimates and Errors‘ called “Definition of Accounting Estimates” (effective for annual reports beginning on or after January 1, 2023) were issued. The definition of a change in accounting estimates is replaced with a definition of accounting estimates and amendments also clarify how to distinguish accounting estimate and accounting policy. The Group will assess changes but does not expect any significant changes in consolidated financial statements.
- In March 2021, amendments to IFRS 16, ‘Leases‘ called “COVID-19-Related Rent Concessions beyond June 30, 2021” (effective for annual reports beginning on or after April 1, 2021) were issued. Amendments permit a lessee to apply the practical expedient regarding COVID-19-related rent concessions to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022. The Group does not expect any effect on consolidated financial statements.
- In May 2021, amendments to IAS 12, ‘Income Taxes‘ called “Deferred Tax related to Assets and Liabilities arising from a Single Transaction” (effective for annual reports beginning on or after January 1, 2023) were issued. The main change is an exemption from the initial recognition exemption provided in current IAS 12. Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition such as initial recognition of right of use of asset and lease liability. The Group will assess changes but does not expect any significant changes in consolidated financial statements. Nevertheless, the deferred tax from lease agreements will be recognized and presented in future consolidated financial statements.

c) New and amended standards issued by IASB but not yet endorsed by European Commission (EC):

At the approval date of these consolidated financial statement, the following standards and amendments to existing standards have been published by IASB but are not yet endorsed by EC to be used by European entities:

- IFRS 14, ‘Regulatory Deferral Accounts‘ (issued in January 2014) – the EC has decided not to launch the endorsement process of this interim standard and to wait for the final IFRS Standard
- Amendments to IAS 1 ‘Classification of Liabilities as Current and Non-current‘ (issued in January 2020, amended in July 2020 and effective since January 1, 2023)
- Amendments to IAS 12 ‘Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction‘ (issued in May 2021 and effective since January 1, 2023)

2.3 Consolidation

Subsidiary undertakings, which are those companies in which the Company, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date when the Group ceases to have control.

Intra-group transactions, balances and unrealized gains/losses on transactions between Group companies are eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies for the subsidiary are changed, where necessary, to ensure consistency with the policies adopted by the Company.

2.4 Segment reporting

Operating segments are reported in the manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group management team that makes strategic decisions.

2.5 Foreign currency transactions

a) Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which each entity of the Group operates (the “functional currency”). The consolidated financial statements are presented in Czech crowns, which is the Company’s functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing as at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

c) Subsidiary

The results and financial position of the Subsidiary that has a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities are translated at the exchange rate as at the closing date;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated as at the dates of the transactions);

(iii) all resulting exchange differences are recognized as a separate component of other comprehensive income.

2.6 Property, plant and equipment

All property, plant and equipment is initially recorded at cost and, except for freehold land, is subsequently carried at cost less any accumulated depreciation and impairment losses. Freehold land is subsequently stated at cost less any impairment charges. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. Such borrowing costs are capitalized as part of the cost of the asset when it is probable that they will result in future economic benefits to the Group and the costs can be measured reliably.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset when it is probable that they will result in future economic benefits to the Group and the costs can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Property, plant and equipment, excluding freehold land, are depreciated from the time they are available for use, using the straight-line method.

Estimated useful lives (in years) adopted in these consolidated financial statements are as follows:

Buildings and constructions	15 – 40
Machinery and equipment	8 – 15
IT equipment	3 – 5
Vehicles	3 – 8
Furniture and fixtures	5 – 10

Land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, as at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.8).
Property, plant and equipment that is retired, or otherwise disposed of, is eliminated from the consolidated statement of financial position, along with the corresponding accumulated depreciation. Any gain or loss arising from retirement or disposal is included in net operating income.

2.7 Intangible assets

Intangible assets include computer software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software to use. These costs are amortized over their estimated useful life (three to five years).
Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs for more than one year, are recognized as intangible assets. Direct costs include the costs of employees involved in software development and an appropriate portion of relevant overheads.
Computer software development costs recognized as assets are amortized over their estimated useful lives (three to five years).

2.8 Impairment of non-current assets

Property, plant and equipment and other non-financial assets, including intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level, for which there are separately identifiable cash inflows (cash-generating units).

2.9 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories include the purchase price and related costs of acquisition (transport, customs duties, etc.). The carrying amount of inventory is determined on the basis of FIFO. The carrying amount of materials, mainly represented by spare parts, is determined on the basis of weighted average costs.
Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Financial assets

2.10.1. Classification and measurement

The Group classifies its financial assets at the time of acquisition and upon initial recognition of the financial asset. The Group classifies its financial assets within debt financial instruments.
A debt instrument is to mean any contract that gives rise to a financial asset of one party and a financial liability to the other party. Financial assets under debt instruments are classified according to the Group's business model and the nature of the contractual cash flows of the financial asset. In the context of the business model test, the Group verifies whether the objective of holding a financial asset is to collect all cash flows arising from it ("hold to maturity" model) or whether it is the objective to hold a financial asset and sell it (the "hold and sell" model). Further, the Group examines and determines whether the contractual terms and conditions associated with the cash flow rights relate only to the principal and interest, ie whether the debt instrument has only "basic debt characteristics". Interest is considered to be the compensation of the time value of money and the credit risk associated with lending the principal over a given period.
Under debt instruments, the Group classifies its financial assets into the following categories:

a) Financial assets subsequently measured at amortized cost determined by using the effective interest rate method (financial assets at amortized cost)
b) Financial assets subsequently measured at fair value included in profit or loss (financial assets at fair value through profit or loss)

Financial assets at amortized cost (portfolio AC)

In this category, the Group recognizes debt instruments that are held within the business model that is intended to collect all contractual cash flows and which also have contractual cash flows representing only principal and interest payments on the principal outstanding. They are then measured at amortized cost using the effective interest rate method (hereafter referred to as the amortized cost). During the financial years 2021 and 2020, the Group had only trade receivables held to maturity and loans and deposits within the PMI group. Loans and deposits are included in other financial assets.

Financial assets at fair value through profit or loss (FVPL portfolio)

Within this category, the Group classifies all other debt instruments that cannot be classified into the above category. These financial assets are held for trading or their contractual cash flows do not represent exclusively the payment of principal and interest on the principal outstanding. Consequently, they are measured at fair value through profit or loss.
Derivatives are classified in the FVPL category provided they do not qualify for hedge accounting. During the financial years 2021 and 2020, the Group did not have any assets in this category.

2.10.2. Impairment

The Group applies impairment model under which an allowance is recognized before the credit loss arises. This is a IFRS 9 impairment model reflecting expected credit losses (ECL). With the exception of trade receivables, the Group applies the so-called general approach to impairment for the relevant financial assets (debt instruments reported at amortized cost - in the AC portfolio. For trade receivables, the Group has taken advantage of the possibility of applying a simplified approach using an impairment matrix.

General approach to impairment

Under the general approach, an entity recognizes an allowance for expected credit losses (ECL) over the life of the financial instrument if there is a significant increase in the credit risk (measured by the probability of default over the life of the asset) from the initial recognition of the financial asset. If, at the reporting date, the credit risk associated with a financial instrument has not significantly increased since initial recognition, the entity shall recognize an allowance for the 12-month expected credit loss. The expected credit loss over the lifetime indicates the expected credit losses that arise as a result of all potential failures during the expected duration of the financial instrument. The 12-month expected credit loss is part of the expected credit losses over the life of a financial instrument that may occur within 12 months from the reporting date.

The group uses the three-step ECL model. Upon initial recognition of a financial asset, unless there is an evidence of a failure, the Group classifies the financial asset to Stage 1 and recognizes allowances corresponding to expected losses over the following 12 months. If the credit risk associated with the financial instrument has not significantly increased since the initial recognition date, the financial asset remains in Stage 1 and the allowance is measured at the date of the financial statement at the 12-month expected credit loss. If a significant increase in credit risk has occurred since the initial recognition date, the Group classifies the financial asset to Stage 2 and recognizes adjustments against the expected loss over the life of the financial asset at the reporting date. If the financial asset meets the definition of a default, the Group transfers it to Stage 3 and recognizes allowance corresponding to the expected loss over the life of the financial asset.

As a potential failure the Group considers a situation where it will not be able to collect any amounts owed under the terms initially agreed. As default indicators the Group considers significant financial difficulties of the borrower, the likelihood that the borrower will enter into bankruptcy or financial restructuring, delay in payments or non-compliance with maturity of the instrument.

For selected future scenarios of potential development, the Group calculates the expected credit loss and probability-weighted results using the following formula:

Expected credit losses (ECL) = probability of default (PD) x loss given default (LGD) x exposure at default (EAD)

Simplified approach to impairment

Simplified approach enables entities to report expected credit losses over the full period of time without the need to identify a significant increase in credit risk. For trade receivables and contract assets that do not have a significant element of financing, an entity recognizes an allowance for expected credit losses over its life (i.e. an entity must always apply a so-called simplified approach). For other trade receivables, other contractual assets, operating lease receivables and finance lease receivables, an accounting policy that can be applied separately to individual asset types (but which applies to all assets of the type) can be selected. An important element of financing exists when the timing of reimbursements agreed by the parties (explicitly or implicitly) results in a significant benefit for the customer or entity to finance the transfer of goods or services to the customer.

Application of simplified approach using impairment matrix

For trade receivables without a significant element of financing, the Group determines the amount of allowances using the impairment matrix. The impairment matrix is based on applying the appropriate rate of loss to unpaid balances of trade receivables (i.e. age analysis of receivables).

When determining the amount of allowances through simplified approach, the Group proceeds in the following steps. The Group first divides its individual trade receivables into certain groups of receivables with similar credit risk characteristics. The Group concurrently identifies the most important factors affecting the credit risk of each group. In the second step, the Group sets a historical loss rate for each group with similar credit risk characteristics. This rate is set for 3 consecutive accounting periods. In the next step, the Group determines the expected loss rate for each group of receivables, which is further subdivided into sub-categories by the number of days past due. In determining the expected loss rate, the Group takes into account whether historical loss rates have been incurred under economic conditions that are consistent with the expected conditions during the exposure period of that portfolio of receivables at the reporting date. In the last step, the Group measures the amount of the allowance based on the current gross amount of receivables multiplied by the expected loss rate.

2.10.3. Derecognition

Financial assets are derecognized if the right to receive cash flows from financial assets has expired or has been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2.11 Excise tax

Excise tax on purchased fiscal stamps is initially recognized in the category “Other non-financial assets” and a corresponding liability is recognized in the category “Other tax liabilities”. The asset is derecognized and reclassified to trade receivables upon sale of finished goods and merchandise subject to excise tax. Correspondingly, inventories and cost of goods sold do not include excise tax.

Excise tax in the Czech Republic has certain characteristics of sales tax while certain aspects of the taxation system are more of a production tax nature. Management has analyzed all the features of the excise tax system in the Czech Republic and came to the conclusion that the characteristics of the sale tax prevail. As a result the excise tax is excluded from revenues and operating expenses in the Group’s consolidated statement of comprehensive income.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months and less, bank overdrafts or other on-demand payable liabilities. Bank overdrafts and other on-demand payable liabilities are shown on the consolidated statement of financial position within Borrowings in current liabilities.

2.13 Trade Payables and Financial Liabilities

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.
The Group derecognizes financial liabilities only when the contractual liabilities of the Group are discharged, cancelled or expire. The difference between the carrying amount of a derecognized financial liability and the consideration paid is recognized in profit or loss.

2.14 Income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date in the countries where the subsidiaries operate and generate taxable income.

2.15 Deferred income tax

Deferred income taxation is calculated using the liability method applied to all temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor taxable profit nor loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Changes in deferred tax resulting from the changes in tax rates are recognized in the period in which the changes are enacted or substantially enacted.
Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.
Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited to other comprehensive income, in which case the deferred tax also affects other comprehensive income.

2.16 Employee benefits

a) Pension obligations

Contributions are made to the Government's retirement benefit and unemployment schemes at the statutory rates applicable during the year and are based on gross salary payments. The Group has no further payment obligations once the contributions have been paid. The expense for the contributions is charged to profit or loss in the same period as the related salary expense.
The Group also makes contributions to defined contribution schemes operated by external pension companies. These contributions are charged to profit or loss in the year to which the contributions relate. The Group has no further payment obligations once the contributions have been paid.

b) Redundancy and termination benefits

Redundancy and termination benefits are payable when employment is terminated before the normal retirement or contract expiry date. The Group recognizes redundancy and termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal.

c) Share-based payments

PMI runs certain compensation plans for management of all PMI companies. The plans relate to the stock of PMI. These plans are equity settled share-based payment transactions. There are Performance Incentive Plans in place under which eligible employees receive deferred stock awards representing long-term equity compensation that delivers shares of PMI after a three-year service period (the vesting period). The compensation cost for deferred stock awards is determined by using fair value of the equity instruments awarded as at the grant date. Compensation cost is recognized over the vesting period on a straight-line basis as a charge to the employee benefits expense with a corresponding entry in equity. Amounts recognized as compensation expense in 2021 and 2020 were immaterial.

2.17 Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the best estimate of the expenditure required to settle the present obligation as at the balance sheet date.

2.18 Reporting of revenues and expenses

All customer contracts are initially analyzed to identify all obligations and payments to the customer. Subsequently, the transaction price is determined, which is allocated in the case of more identified performance obligations according to the relevant key. Consequently, revenue is recognized for each performance obligation at the appropriate amount either at a certain point in time, or is recognized over several periods using accruals.

Revenues from the sale of goods are recognized when control is transferred to the buyer depending on the specific terms of the contract and when the amount of the consideration is agreed or is reliably determinable and payment is probable. This generally corresponds to the moment when products are delivered to wholesalers or when they are delivered to final consumers in the case of direct sales.

Revenues and costs are reported as follows:

a) Sales of goods

Revenue from sales of goods is recognized when the Group has transferred control over the assets to the buyer. The revenue is recognized at the date of shipment.

b) Sales of services

Revenue from the sale of services is recognized when the service is provided and the Group has the right to payment of a consideration. These are mainly processing services where the Group does not subsequently buy finished cigarettes and does not sell them on markets in the Czech Republic and Slovakia.

c) Cost of goods sold

Costs of goods sold include variable and fixed production costs, purchase price of purchased goods and royalties paid for products sold. Prior to the sale of goods, these costs are recorded in the value of inventory.

d) Distribution expenses

Distribution expenses include personnel costs and overheads, depreciation and amortization applicable to the distribution function, as well as the costs of shipping, advertising, sales promotion, market research and customer service. These costs are not recorded in the value of inventory.

e) Administrative expenses

Administrative expenses include personnel costs and overheads as well as depreciation and amortization applicable to the administrative functions.

2.19 Interest income / Interest expense

Interest income and expense is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liabilities to that asset's or liability's net carrying amount.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

2.21 Leases

As a lessee the Company recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses the estimated pre-tax cost of debt of the Company which reflects country-specific risk and the premium of the PMI group as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company applies judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal or termination options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

The Company has elected to apply a recognition exemption allowed by the standard not to recognise right-of-use assets and lease liabilities for short-term leases and leases for which the underlying asset is of low-value. Short-term leases are leases with a lease term of 12 months or less. Low-value leases comprise mainly IT and office equipment. Short-term leases and leases for which the underlying asset is of low-value do not have a material effect on the Company’s Consolidated financial statements.

The Company has also elected to apply allowed practical expedient not to separate non-lease components from lease components, and instead to account for them as a single lease component. This expedient is not applied in case of car leases.

The Company leases mainly office space, warehouses, cars and IT and office equipment. Cars are leased mostly for a period of 4 years.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities are exposed to a variety of financial risks: market risk including foreign exchange and interest rate risk, credit risk and liquidity risk. Market and liquidity risks are managed under approved policies by the central Treasury department of PMI group in Lausanne. Credit risk is managed primarily by the Group. PMI Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. Risk management is performed by the central Treasury department of PMI group in line with the written principles provided by the Board of Directors for overall risk management, which are based on PMI financial risk management policies.

a) Market risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future purchase and sale transactions and from assets and liabilities recognized in foreign currencies. To hedge part of this exposure, the Group occasionally uses currency option derivative instruments, transacted with PMI Treasury. No currency options were used by the Group in 2021 and 2020.

The split of financial assets by currencies is as follows (in CZK million):

Carrying amount as at 31/12/2021	CZK	EUR	USD	CHF	Other	Total
Receivables from third parties - domestic	605	204	—	—	—	809
Receivables from third parties - foreign	—	—	—	—	—	—
Receivables from PMI entities	3	99	68	—	1	171
Cash at banks	1 415	78	—	—	—	1 493
On-demand deposits with related parties	7 175	622	—	—	—	7 797
Other long term financial assets	106	1				107
Total	**9 304**	**1 004**	**68**	**—**	**1**	**10 377**

Carrying amount as at 31/12/2020	CZK	EUR	USD	CHF	Other	Total
Receivables from third parties - domestic	527	203	—	—	—	730
Receivables from third parties - foreign	3	—	—	—	—	3
Receivables from PMI entities	84	48	—	—	—	132
Cash at banks	1 145	82	—	—	—	1 227
On-demand deposits with related parties	6 513	469	—	—	—	6 982
Other long term financial assets	106	1	—	—	—	107
Total	**8 378**	**803**	**—**	**—**	**—**	**9 181**

The split of financial liabilities by currencies is as follows (in CZK million):

Carrying amount as at 31/12/2021	CZK	EUR	USD	CHF	Other	Total
Payables to third parties - domestic	1 194	368	1	—	—	1 563
Payables to third parties - foreign	74	135	3	6	10	228
Payables to PMI entities	477	1 273	4	51	7	1 812
Total	**1 745**	**1 776**	**8**	**57**	**17**	**3 603**

Carrying amount as at 31/12/2020	CZK	EUR	USD	CHF	Other	Total
Payables to third parties - domestic	928	123	—	—	—	1 051
Payables to third parties - foreign	79	153	2	1	5	240
Payables to PMI entities	569	565	7	42	13	1 196
Total	**1 576**	**841**	**9**	**43**	**18**	**2 487**

Sensitivity analysis

Sensitivity to exchange rates

The Group is exposed to the foreign currency risk arising from transactions performed mainly with companies in the European Union and companies within PMI group with the registered seat in Switzerland. The common currencies used by the Group are EUR, USD and CHF. The foreign currency risk is measured against the functional currency of the Company (CZK) as at the balance sheet date, when the financial assets and liabilities denominated in foreign currencies are recalculated to the CZK by applying the Czech National Bank exchange rate.

The sensitivity analysis considers financial assets and liabilities denominated in foreign currencies and it measures the impact from recalculation of these items as at the balance sheet date by using exchange rates published by the Czech National Bank as at December 31, 2021. The Group considers the movements of exchange rates against CZK in the following period +5% (appreciation of CZK) and -5% (depreciation of CZK) as possible.

The sensitivity analysis on exchange rate changes is prepared for individual currencies on the presumption that there is no movement in the exchange rates of other currencies.

The following table presents the impact on profit before tax of an appreciation +5% or depreciation -5% of the CZK to foreign currencies (in CZK million) in 2021 (2020: +5%, -5%):

2021	CZK depreciation by 5%		
Currency	EUR	USD	CHF
Increase / (decrease) in profit or loss	(36)	3	(3)
	CZK appreciation by 5%		
Currency	EUR	USD	CHF
Increase / (decrease) in profit or loss	36	(3)	3

2020	CZK depreciation by 5%		
Currency	EUR	USD	CHF
Increase / (decrease) in profit or loss	(2)	—	(2)
	CZK appreciation by 5%		
Currency	EUR	USD	CHF
Increase / (decrease) in profit or loss	2	—	2

Sensitivity to interest rates

The Group is exposed to interest rate risk mainly in relation to short-term borrowings and short-term on-demand deposits with PMI companies, and as well the Group is exposed to interest rate risk in relation to factoring transactions with receivables. The Group assumes the possible movements of the yield curve in the following period by +100/-25 basis points.

For short-term loans receivable and short-term on-demand deposits with PMI companies, the impact on profit or loss before tax is determined on the basis of a defined change in the interest rate, which would have arisen at the beginning of the accounting period and based on the assumption that no other changes in the interest rate occurred during the entire accounting period. Other financial assets and liabilities are not considered to be sensitive to interest rate movements.

The following table presents the possible impact on profit or loss before tax of an expected increase (+100 basis points) or decrease (-25 basis points) of interest rates (in CZK million):

2021	Interest rate increased by 100 basis points	Interest rate decreased by 25 basis points
Increase / (decrease) in profit or loss	61	(15)

2020	Interest rate increased by 100 basis points	Interest rate decreased by 25 basis points
Increase / (decrease) in profit or loss	44	(11)

b) Credit risk

The Group has policies in place to ensure that sales of products and merchandise on credit are made to customers who meet the Group's criteria for credit eligibility and have adequate credit history.

Considerable support in this area is provided by PMI Treasury specialists in Lausanne. Apart from PMI Treasury, the Group also uses the services of external rating agencies for counterparty analysis.

The financial insolvency of counterparty may result in immediate losses to the Group with an adverse impact on the Group's financial position. Therefore, the acceptance of new business is reliant on standard approval controls and procedures through the relevant departments of the Group. The Group's involvement with counterparties is managed by means of credit limits that are monitored and re-evaluated on a regular basis.

Active administration and management of receivables is incorporated into the credit risk management process and standard financial market instruments such as bank guarantees, advance payments and transfers of receivables through factoring without recourse are used to reduce the risks.

Receivables security

With respect to the security strategy of trade receivables, trade receivables are separated into receivables from domestic customers and PMI entities.

Bank guarantees, in certain cases, are used to secure receivables from domestic credit customers. Penalty interest on late payments is a compulsory preventative instrument for all contractual relationships. Trade receivables from domestic credit customers are divided into two groups: receivables secured by bank guarantees and unsecured receivables from customers eligible for unsecured credit. Unsecured credit is based on an overall and financial assessment of each individual customer including usage of external rating agencies.

Trade receivables from PMI entities are considered as low-risk receivables by the Group, and are therefore unsecured.

Carrying amount as at 31/12/2021 (in CZK million)	Unimpaired financial assets not yet due	Unimpaired financial assets past due	Total
Receivables from third parties - domestic	802	7	**809**
Receivables from third parties - foreign	—	—	**—**
Receivables from PMI entities	103	68	**171**
Cash at banks	1 492	—	**1 492**
On-demand deposits with related parties	7 798	—	**7 798**
Other long-term financial assets	107	—	**107**
Total	**10 302**	**75**	**10 377**

Carrying amount as at 31/12/2020 (in CZK million)	Unimpaired financial assets not yet due	Unimpaired financial assets past due	Total
Receivables from third parties - domestic	723	7	**730**
Receivables from third parties - foreign	—	3	**3**
Receivables from PMI entities	84	48	**132**
Cash at banks	1 227	—	**1 227**
On-demand deposits with related parties	6 982	—	**6 982**
Other long-term financial assets	107	—	**107**
Total	**9 123**	**58**	**9 181**

Credit risk concentration of trade receivables

The Group monitors the concentration of credit risk of trade receivables by distribution regions.

Classification of trade receivables by distribution regions:

Carrying amount as at 31/12/2021 (in CZK million)	Czech Republic	Slovak Republic	Other	Total
Receivables from third parties - domestic	606	204	—	**810**
Receivables from third parties - foreign	—	—	—	**—**
Receivables from PMI entities	—	—	170	**170**
Total	**606**	**204**	**170**	**980**

Carrying amount as at 31/12/2020 (in CZK million)	Czech Republic	Slovak Republic	Other	Total
Receivables from third parties - domestic	527	203	—	**730**
Receivables from third parties - foreign	—	—	3	**3**
Receivables from PMI entities	—	—	132	**132**
Total	**527**	**203**	**135**	**865**

The creditworthiness of financial assets at amortized cost

The Group uses the following criteria when determining the creditworthiness:

- Rating 1 includes receivables with a probability of default of up to 0.1%.
- Rating 2 includes receivables with a probability of default of up to 2%.
- Rating 3 includes receivables with a probability of default above 2%.
- Receivables from PMI companies and short-term loans provided within the PMI Group are classified as rating 1 (according to Standard & Poor's A-2 (2020: A-2)) in 2021
- Cash in banks is ranked according to Moody's long-term deposit ratings. Banks and financial institutions used by the Group are only eligible for A-3 or higher (2020: A-3) (rating 1).

Allowance for expected credit losses (ECL)

Balance as at 31/12/2021 (in CZK million)	Creditworthiness	Stage				
		Stage 1 12-month ECL	Stage 2 lifetime ECL - without individual impairment	Stage 3 lifetime ECL - individually impaired	Lifetime ECL according to matrix of impairment	Total
Cash incl. on-demand deposits	1	-	-	-	-	**-**
Other receivables and financial assets	1	-	-	-	-	**-**
Trade receivables	1	-	-	-	-	**-**
Total		**-**	**-**	**-**	**-**	**-**

Matrix of impairment for trade receivables at amortized cost

Balance as at 31/12/2021 (in CZK million)	From the due date:				
	Before due	Less than 1 month	1 – 3 month	More than 3 months	Total
Expected credit losses rate (in %)	0.01%	0.02%	0.05%	0.10%	**—**
Gross book value	814	—	77	89	**980**
Allowance	—	—	—	—	**—**

Allowance for expected credit losses (ECL)

Balance as at 31/12/2020 (in CZK million)	Creditworthiness	Stage				
		Stage 1 12-month ECL	Stage 2 lifetime ECL - without individual impairment	Stage 3 lifetime ECL - individually impaired	Lifetime ECL according to matrix of impairment	Total
Cash incl. on-demand deposits	1	-	-	-	-	**-**
Other receivables and financial assets	1	-	-	-	-	**-**
Trade receivables	1	-	-	-	-	**-**
Total		**-**	**-**	**-**	**-**	**-**

Matrix of impairment for trade receivables at amortized cost

Balance as at 31/12/2020 (in CZK million)	From the due date:				
	Before due	Less than 1 month	1 – 3 month	More than 3 months	Total
Expected credit losses rate (in %)	0.01%	0.02%	0.05%	0.10%	**—**
Gross book value	827	2	6	30	**865**
Allowance	—	—	—	—	**—**

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash. Liquidity of the Group is managed and controlled by the central Treasury department of PMI group via domestic and international cash pool arrangements. Based on PMI policies, the Group prepares a weekly cash flow projection for the following month and monthly cash flows projections for the following 12 months.

Contractual maturity analysis of liabilities (undiscounted cash flows)

Balance as at 31/12/2021 (in CZK million)	Less than 3 months
Trade payables to third parties and PMI entities	3 499
Dividend payable	9
Other financial liabilities	95
Total	**3 603**

Balance as at 31/12/2020 (in CZK million)	Less than 3 months
Trade payables to third parties and PMI entities	2 390
Dividend payable	8
Other financial liabilities	89
Total	**2 487**

To mitigate the risk and enhance cash and liquidity management, the Group sold a portion of its trade receivables to a financial institution in 2021 and 2020. In all those transactions, the Group retained no participating interests. The financial institution has no recourse for failure of debtors to pay when due.

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Equity as presented in these consolidated financial statements of the Company and its Subsidiary is considered as capital of the Group for the capital management purposes.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices as at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group makes assumptions that are based on market conditions existing as at each balance sheet date. The carrying amounts of current financial assets and current financial liabilities are assumed to approximate their fair values.

The carrying amounts of other non-current financial assets are also assumed to approximate their fair values, which were determined as the present value of future cash flows based on market interest rates at the balance sheet date, and which qualify for Level 2 in accordance with IFRS 13.

4. SEGMENT REPORTING

An operating segment is a component of an entity that earns revenues and incurs expenses and whose financial results are regularly reviewed by the Group's chief operating decision maker to make decisions about the allocation of resources and assessment of performance. The chief operating decision-maker has been identified as the Group's management team.

The Group's management team monitored performance of the Group with reference to the geographical areas covered by the Group's operations. Following the operating model change in Production as of January 1, 2015 the Group's management started to monitor performance with reference to the type of business activity in combination with the geographical area. In line with this change the Group's reportable segments as of 2015 are the Manufacturing Service related activities and the Distribution related activities further allocated by markets to Czech Republic and Slovak Republic.

For the decision making and resource allocation purposes the Group's management team reviews management profit from operations. Management profit from operations in segment reporting excludes other non-allocated operating income/expense, interest income/expense and provision for income taxes, as these are centrally managed and accordingly such items are not presented by segment since they are not regularly provided by segment to the Group's management team.

Information about total assets by segment is not disclosed because such information is not reported to or used by the Group's management team.

The segment results for the period ended December 31, 2021 are as follows:

(in CZK million)	Czech Republic (Distribution)	Slovak Republic (Distribution)	Manufacturing Service	Total
Total gross segment revenues	13 516	5 350	—	18 866
Inter-segment revenues	(2 267)	—	—	(2 267)
Services provided	45	—	2 223	2 268
External revenues	**11 294**	**5 350**	**2 223**	**18 867**
Management gross profit	5 437	3 098	1 649	10 184
Management profit from operations	2 416	1 591	298	4 305

The segment results for the period ended December 31, 2020 are as follows:

(in CZK million)	Czech Republic (Distribution)	Slovak Republic (Distribution)	Manufacturing Service	Total
Total gross segment revenues	12 803	5 024	—	17 827
Inter-segment revenues	(2 368)	—	—	(2 368)
Services provided	109	—	2 315	2 424
External revenues	**10 544**	**5 024**	**2 315**	**17 883**
Management gross profit	5 886	3 164	1 653	10 703
Management profit from operations	2 600	1 640	336	4 576

A reconciliation of management gross profit to gross profit is provided as follows:

(in CZK million)	31/12/2021	31/12/2020
Management gross profit	**10 184**	**10 703**
Royalties	(613)	(671)
Fixed manufacturing expenses	(1 290)	(1 294)
Gross profit	**8 281**	**8 738**

Royalties and fixed manufacturing expenses are for the purpose of Group's management team review excluded from management gross profit, but these amounts are deducted when determining profit from operation.

A reconciliation of management profit from operations to profit before income tax is provided as follows:

(in CZK million)	31/12/2021	31/12/2020
Management profit from operation	**4 305**	**4 576**
Other operating income / (expense), net	62	(122)
Interest income	42	33
Interest expense	(26)	(27)
Profit before tax	**4 383**	**4 460**

Depreciation, amortization and impairment charge included in management profit from operations allocated to individual segments in 2021 and 2020 is as follows:

(in CZK million)	Czech Republic (Distribution)	Slovak Republic (Distribution)	Manufacturing Service	Total
2021	69	32	724	**825**
2020	65	38	746	**849**

Revenues are derived from sales of tobacco products and services. Breakdown of the revenues is as follows:

(in CZK million)	31/12/2021	31/12/2020
Sales of merchandise	16 599	15 459
Sales of services	2 268	2 424
Total	**18 867**	**17 883**

Revenue analysis by timing of revenue recognition:

(in CZK million)	31/12/2021	31/12/2020
Sales recognized at time of shipment	16 599	15 459
Revenues recognized over time	2 268	2 424
Total	**18 867**	**17 883**

Revenues from customers or groups of customers under common control exceeding 10% of the Group's revenues: revenue of CZK 5 408 million (2020: CZK 6 207 million) derived from one customer is included in segment Czech Republic (distribution) and revenue of CZK 2 223 million (2020: CZK 2 315 million) derived from the PMI group of companies is included in segment Manufacturing Services.The total of the Group's non-current assets, other than deferred tax assets and other financial assets, located in the Czech Republic is CZK 3 045 million (at December 31, 2020: CZK 3 321 milion) from which CZK 2 881 million is used to support Manufacturing service related activities (at December 31, 2020: CZK 3 109 million) and CZK 164 million to support Distribution related activities (at December 31, 2020: CZK 212 million) and those located in Slovak Republic supporting only Distribution activities is CZK 88 million (at December 31, 2020: CZK 90 million).

5. PROPERTY, PLANT AND EQUIPMENT

(in CZK million)	Property, Buildings & Constructions	Vehicles & Machinery Equipment	Furniture & Fixtures	Constructions in progress & Advances paid	Total
As at 1/1/2020					
Cost	2 226	7 168	67	148	9 609
Accumulated depreciation	(1 755)	(4 215)	(40)	—	(6 010)
Net carrying amount	**471**	**2 953**	**27**	**148**	**3 599**
Year ended 31/12/2020					
Opening net carrying amount	471	2 953	27	148	3 599
Additions cost	16	105	8	205	334
Disposal net carrying amount	—	(120)	—	—	(120)
Transfers*	28	92	3	(123)	—
Depreciation charge	(96)	(605)	(8)	—	(709)
Closing net carrying amount	**419**	**2 425**	**30**	**230**	**3 104**
As at 31/12/2020					
Cost	2 258	6 983	75	230	9 546
Accumulated depreciation	(1 839)	(4 558)	(45)	—	(6 442)
Net carrying amount	**419**	**2 425**	**30**	**230**	**3 104**
Year ended 31/12/2021					
Opening net carrying amount	419	2 425	30	230	3 104
Additions cost	21	58	3	420	502
Disposal net carrying amount	—	(84)	(3)	—	(87)
Transfers*	7	146	4	(157)	—
Depreciation charge	(84)	(592)	(11)	—	(687)
Closing net carrying amount	**363**	**1 953**	**23**	**493**	**2 832**
As at 31/12/2021					
Cost	2 265	6 483	76	493	9 317
Accumulated depreciation	(1 902)	(4 530)	(53)	—	(6 485)
Net carrying amount	**363**	**1 953**	**23**	**493**	**2 832**

* Transfers represent capitalization of PP&E from construction in progress and advances paid.

During the period the Group disposed of several assets which have been identified as no longer needed and approved for scrapping in amount of net CZK 14 million (2020: CZK 10 million). All investments in property, plant and equipment were financed by the Group's own resources.

6. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

In 2021 the Group revised the net book value of equipment. As a result of this revision, there was no impairment loss recognized in 2021. There was no impairment loss recognized in 2020.

7. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The recognised right-of-use assets relate to following types of assets:

(in CZK million)	31/12/2021	31/12/2020
Office space and warehouse	174	172
Cars	43	50
Store	67	72
Employee flats	14	9
Total	**298**	**303**

The recognised lease liabilities relate to following types of liabilities:

(in CZK million)	31/12/2021	31/12/2020
Current liabilities	126	106
Non-current liabilities	178	204
Total	**304**	**310**

Interest expense on lease liabilities included in finance costs represented amount CZK 8 million (2020: CZK 10 million).

Depreciation expense of right-of-use assets represented amount CZK 122 million (2020: CZK 136 million).

Short-term leases and leases for which the underlying asset is of low-value do not have a material effect on the Company's financial statements.

Maturity analysis	<1 year	1-5 years	>5 years
Lease liabilities	126	168	10

8. INVENTORIES

(in CZK million)	31/12/2021	31/12/2020
Materials	52	78
Merchandise	1 888	813
Total	**1 940**	**891**

The costs of inventories recognized as an expense in Consolidated statement of comprehensive income in 2021 and included in costs of sales amounted to CZK 8 683 million (2020: CZK 7 180 million).

9. TRADE AND OTHER FINANCIAL RECEIVABLES AND OTHER NON-FINANCIAL ASSETS

(in CZK million)	31/12/2021	31/12/2020
Trade and other financial receivables		
Third parties	809	733
Related parties	171	132
Total	**980**	**865**
Other non-financial assets		
Other assets - excise tax	2 162	2 612
Prepayments	44	31
Other assets	—	6
Total	**2 206**	**2 649**
Other non-current financial assets		
Other financial assets	107	107
Total	**107**	**107**

10. CASH AND CASH EQUIVALENTS

(in CZK million)	31/12/2021	31/12/2020
Cash at banks	1 492	1 227
On-demand deposits with related parties (see Note 25)	7 798	6 982
Total	**9 290**	**8 209**

On-demand deposits with related parties are interest bearing short-term loans - see Note 25 for the analysis of short-term receivables from related parties.

Cash and cash equivalents and bank overdrafts for the purposes of the consolidated cash flow statement include the following:

(in CZK million)	31/12/2021	31/12/2020
Cash and cash equivalents	9 290	8 209
Total	**9 290**	**8 209**

11. REGISTERED CAPITAL

The Company's registered capital of 2 745 386 shares has a nominal value of CZK 1 000 per share and is fully paid. No changes in the registered capital or the number and type of shares have occurred during the last two years.

The registered capital is allocated as follows:

	Number of shares	Value in CZK
Unregistered ordinary shares certificated	831 688	831 688 000
Registered ordinary shares dematerialized	1 913 698	1 913 698 000
Total ordinary shares	**2 745 386**	**2 745 386 000**

The identification mark of the Company's shares according to the international numbering system is ISIN: CS0008418869.

The rights and obligations of the shareholders are set out in the legal regulations and in the Articles of Association of the Company, all shares bear the same rights and obligations.

The authorized owners of the shares are entitled to participate in the decision making at General Meetings. At the General Meeting the shareholders have the right to vote, to ask for explanations and to receive answers to questions about matters concerning the Company as well as matters concerning entities controlled by the Company, and to submit proposals and counterproposals.

Voting rights apply to all shares issued by the Company and may be limited or excluded only where stipulated by law. The Company is not aware of any restrictions on or exclusions of voting rights attached to the shares that it has issued other than those restrictions on and exclusions of voting rights stipulated by law.

The shareholders are further entitled to a share of the Company's profit (i.e. dividends). The shareholders may not demand a refund of their investment contribution during the existence of the Company or even in the event of its dissolution.

If the Company goes into liquidation, the shareholders are entitled to a share on the liquidation estate.

A shareholder is obliged to pay the issue price and the share premium, if any, for the shares he/she has subscribed.

The Company has not issued any securities with special rights excluding ordinary shares described above.

The Company's shares are admitted for trading on the public market organized by the Prague Stock Exchange and by the Czech shares trading system of the company RM-SYSTÉM, česká burza cenných papírů a.s. As at December 31, 2021, 2 745 386 shares were emitted, out of which 77.6% were held by the company Philip Morris Holland Holdings B.V and 22.4% is publicly held.

12. TRADE AND OTHER FINANCIAL LIABILITIES AND OTHER NON-FINANCIAL

(in CZK million)	31/12/2021	31/12/2020
Trade and other financial liabilities		
Third parties	787	501
Other related parties	1 812	1 024
Accrued expenses	900	865
Dividends payable	9	8
Other financial liabilities	95	89
Total	**3 603**	**2 487**
Other non-financial liabilities		
Amounts due to employees	180	160
Social security and health insurance	75	73
Deferred revenues	9	10
Other liabilities	—	1
Total	**264**	**244**

Trade payables to related parties are disclosed in Note 25.

13. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Carrying amount as at 31/12/2021 (in CZK million)	Trade and other financial receivables	Trade and other financial payables
Gross amounts of recognized financial assets / liabilities	779	3 402
Gross amounts of recognized financial liabilities / assets set off in the balance sheet	201	201
Net amount	**980**	**3 603**

Carrying amount as at 31/12/2020 (in CZK million)	Trade and other financial receivables	Trade and other financial payables
Gross amounts of recognized financial assets / liabilities	482	2 104
Gross amounts of recognized financial liabilities / assets set off in the balance sheet	383	383
Net amount	**865**	**2 487**

14. OTHER TAX LIABILITIES

(in CZK million)	31/12/2021	31/12/2020
VAT	406	424
Excise tax	4 230	3 601
Other taxes	16	19
Total	**4 652**	**4 044**

15. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The offset amounts are as follows:

(in CZK million)	31/12/2021	31/12/2020
Deferred tax assets not offset	59	45
Deferred tax assets	**59**	**45**
Deferred tax assets offset	53	58
Deferred tax liabilities	(224)	(264)
Deferred tax liability net	**(171)**	**(206)**
Deferred tax assets		
– Deferred tax assets to be recovered within 12 months	110	101
– Deferred tax asset to be recovered after more than 12 months	2	2
Total deferred tax assets	**112**	**103**
Deferred tax liabilities		
– Deferred tax liabilities to be recovered after more than 12 months	(224)	(264)
Total deferred tax liabilities	**(224)**	**(264)**

The gross movement in the deferred income tax is as follows:

(in CZK million)	2021	2020
January 1 - Deferred tax liability net	(161)	(186)
Charge to profit or loss	49	25
December 31 - Deferred tax liability net	**(112)**	**(161)**

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities (in CZK million)	Accelerated tax depreciation
As at 1/1/2020	**(288)**
Charge to profit or loss	24
As at 31/12/2020	**(264)**
Charge to profit or loss	40
As at 31/12/2021	**(224)**

Deferred tax assets (in CZK million)	Provisions for inventories	Share-based payments	Unrealized profit elimination	Other*	Total
As at 1/1/2020	**20**	**10**	**11**	**61**	**102**
Credit to profit or loss	8	(4)	(3)	—	1
As at 31/12/2020	**28**	**6**	**8**	**61**	**103**
Credit to profit or loss	(7)	1	12	3	9
As at 31/12/2021	**21**	**7**	**20**	**64**	**112**

*Includes temporary differences from other liabilities in timing between when expenses are deductible and recognized on the income statement.

Effective from January 1, 2010 the rate of 19% is used for calculation of corporate income tax and deferred tax in the Czech Republic.

Effective from January 1, 2017, the rate of 21% is used for calculation of corporate income tax and deferred tax in the Slovak Republic.

16. EXPENSES BY NATURE

(in CZK million)	2021	2020
Changes in inventories of merchandise	—	1 171
Raw materials, consumables used and merchandise sold	8 569	5 881
Services	2 924	2 902
Royalties	613	671
Employee benefits expense	1 471	1 471
Depreciation and amortization	825	849
Other	160	363
Costs of sales, distribution and administrative expenses	**14 562**	**13 308**

17. EMPLOYEE BENEFITS EXPENSE

(in CZK million)	2021	2020
Wages and salaries, including termination benefits of CZK 74 million (2020: CZK 65 million)	1 051	1 042
Social security and health insurance	125	125
Pension costs – defined contribution plans	212	211
Share-based payments	8	10
Other employee-related costs	75	83
Total	**1 471**	**1 471**

As at December 31, 2021 , the Group employed 1 247 employees, out of which 144 were employed by Philip Morris Slovakia s.r.o. in the Slovak Republic (2020: 1 527, in the Slovak Republic 158).

The Group is legally required to make contributions to government health, pension and unemployment schemes. During 2021 , the Group paid contributions at an average rate of 32 % of gross salaries (2020: 31 %) and is not required to make any contributions in excess of this statutory rate.

The Group has a voluntary pension plan for employees under which the Group makes contributions on behalf of the Group's employees to independent pension plan providers, under approved defined contribution schemes.

Principles of employment and remuneration are covered by the Collective Labour Agreement. Audit of the observances of labour law regulations in the Group takes place during the Collective Labour Agreement negotiations.

18. PROVISIONS

(in CZK million)	Carrying amount as at 1/1/2021	Provisions made in the reporting period	Amounts used during the reporting period	Amounts reversed during the reporting period	Carrying amount as at 31/12/2021
Provision for employment anniversary, jubilee and retirement bonuses	11	12	(2)	(9)	12
Provision for employment termination	3	84	(81)	—	6
Provision for reverse logistics	19	15	—	(19)	15
Total	**33**	**111**	**(83)**	**(28)**	**33**

As at December 31, 2021 Management did not identify any plans related to the organizational restructuring.

19. OTHER OPERATING INCOME

(in CZK million)	2021	2020
Foreign exchange rate gains	172	305
Gains on sale of PP&E	16	13
Other income	51	—
Total	**239**	**318**

20. OTHER OPERATING EXPENSE

(in CZK million)	2021	2020
Foreign exchange rate losses	154	425
Bank charges	9	5
Loss on sales of PP&E	—	1
Other expense	14	8
Total	**177**	**439**

21. INCOME TAX EXPENSE

(in CZK million)	2021	2020
Current tax expense for the current period	(911)	(951)
Current tax adjustment of prior year	(8)	(10)
Current tax	**(919)**	**(961)**
Deferred tax - Temporary differences (see Note 15)	53	23
Total	**(866)**	**(938)**

The statutory income tax rate in the Czech Republic for the 2021 and 2020 assessment periods was 19 %.

The statutory income tax rate in the Slovak Republic for the 2021 and 2020 assessment period was 21 %.

The tax on the Group's profit before taxes differs from the theoretical amount that would arise upon using the tax rate applicable to profits of the Group as follows:

(in CZK million)	2021	2020
Profit before tax	4 383	4 460
Applicable tax rate	19 %	19 %
Tax calculated at local tax rate applicable to profit before tax	**(833)**	**(848)**
Expenses not deductible for tax purposes	(34)	(71)
Income not subject to tax	—	(5)
Tax adjustment of prior year	(8)	(10)
Other	9	(2)
Tax charge	**(866)**	**(936)**

22. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the net profit attributable to shareholders of the Company by the number of ordinary shares in issue during the year.

	2021	2020
Income attributable to shareholders (in CZK million)	3 516	3 526
Number of ordinary shares in issue (in thousands)	2 745	2 745
Basic earnings per share in CZK	**1 281**	**1 285**

23. PROFIT DISTRIBUTION

The dividends approved outside the General Meeting („per rollam“) between April and May 2021 and between April and June 2020 were CZK 3 459 million (CZK 1 260 per share) and CZK 4 283 million (CZK 1 560 per share), respectively.

Besides dividends paid by Philip Morris ČR a.s., Philip Morris Slovakia s.r.o. paid dividends to Non-controlling interest in the amount of CZK 1 million (2020 : CZK 1 million).

Disbursement of dividends from the 2021 results will be decided outside the General Meeting („per rollam“) scheduled between April 13, 2022 and May 23, 2022.

24. CONTINGENT LIABILITIES

The Group does not have any pending legal, administrative or arbitration proceedings that had or might have a substantial effect on the financial situation of the Group.

The tax authorities may at any time inspect the books and records within 3 years subsequent to the reported tax year in the Czech Republic and within 5 years in the Slovak Republic, and may impose additional tax assessments and penalties. The Group's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

25. RELATED PARTY TRANSACTIONS

The Group considers Parent company and other companies of the PMI group of companies ("Other related parties"), members of its Board of Directors, Supervisory Board and parties close to such members of management to be related parties.

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

The following transactions were carried out with related parties:

a) Sales of goods, merchandise and services to affiliates within PMI

(in CZK million)	2021	2020
Sales of merchandise		
Other related parties	28	958
Sales of materials		
Other related parties	4	5
Sales of PP&E		
Other related parties	71	118
Sales of services		
Other related parties	2 427	2 427
Interest Income		
Other related parties	29	39
Total	**2 559**	**3 547**

b) Purchases of merchandise and services from affiliates within PMI

(in CZK million)	2021	2020
Purchases of merchandise and materials		
Other related parties	9 107	5 609
Purchases of PP&E and intangible assets		
Other related parties	281	149
Purchases of services		
Other related parties	889	896
Royalties paid		
Other related parties	613	671
Total	**10 890**	**7 325**

c) Dividends

In 2021 Company paid to Philip Morris Holland Holdings B.V. dividends CZK 2 648 million in total. The dividends paid to Philip Morris Holland Holdings B.V. in 2020 amounted to CZK 3 323 million.

Except for dividends there were no other transactions with the Parent company during the last two years.

d) Balances with affiliates within PMI

(in CZK million)	31/12/2021	31/12/2020
Receivables from related parties		
Other related parties	171	132
Payables to related parties		
Other related parties	1 782	1 024
Loans and deposits		
Other related parties	7 798	6 982

Loans and deposits with related parties include interest-bearing on-demand deposits (cash pool) of CZK 7 798 million with Philip Morris Finance S.A. (2020: CZK 6 982 million). All short-term loans and deposits are classified as cash and cash equivalents in the Group's consolidated statement of financial position as at December 31, 2021 and as at December 31, 2020.

Till December 3, 2021 the interest rate for on-demand deposits was calculated as overnight PRIMEAN - 0,25%, i.e. PRIMEAN ((overnight PRIBOR + overnight PRIBID)/2) plus/minus a margin applicable in accordance with market practice for deposits with similar duration and liquidity as of December 3, 2021 the interest rate for on-demand deposits is calculated as CZBBRREPO -1.75%/+ 0.25%

The actual interest rates reflect the current money market and the nature of the loan. The average effective interest rate of short-term loan and on-demand deposits in 2021 was 0,40% p.a. (2020: 0,50% p.a.) in the Czech Republic and 0,01 % p.a. (2020: 0,25 p.a.) in the Slovak Republic.

e) Contractual and other commitments to related parties

Contractual and other commitments to related parties that are not recorded in the consolidated financial statements are considered as obligations to exchange resources in the future under binding agreements.

As at December 31, 2021, the Group had no material commitments in respect of related parties except for the future obligation to services purchase in the total estimated value of CZK 326 million (commitment value as at December 31, 2020: CZK 356 million).

The Group entered in the past into a number of binding service agreements, under which some performance obligations are yet to be delivered. Those agreements mostly have two or six month termination notice. The total estimated value of services to be purchased under these agreements during their respective termination terms is disclosed above.

According to the agreements with trademark owners, Philip Morris Global Brands Inc., Philip Morris Products S.A. and CTPM International S.A., the Group has to pay royalties in respect of tobacco products sold in the Czech and Slovak Republic. During the 2021, the Group incurred under these agreements royalties expense of CZK 613 million (2020: CZK 671 million). These agreements shall continue indefinitely until terminated by either party. Management expects the royalty expense in 2022 to be at approximately similar level as in 2021.

26. SUBSEQUENT EVENTS

No subsequent events have occurred after the balance sheet date that would have a material impact on these consolidated financial statements at December 31, 2021.

Authorization of the financial statements

The consolidated financial statements were authorized for issue by the Board of Directors and have been signed below on its behalf. The consolidated financial statements are subject to approval by shareholders of the Company at the General Meeting of shareholders. Until this approval is given, the consolidated financial statements could be amended.

In Kutná Hora on March 28, 2022

Andrea Gontkovičová
Chairperson of the Board of Directors

Anton Stankov
Member of the Board of Directors

Separate Statement of Financial Position

at December 31, 2021 (in CZK million)

ASSETS	Note	31/12/2021	31/12/2020
Property, plant and equipment ("PP&E")	4	2 813	3 088
Right-of-use assets	6	229	230
Intangible assets		3	3
Investments in subsidiary	1	19	19
Other financial assets	8	107	107
Non-current assets		**3 171**	**3 447**
Inventories	7	1 752	713
Trade and other financial receivables	8	918	820
Other non-financial assets	8	2 159	2 609
Current income tax prepaid		9	—
Cash and cash equivalents	9	8 590	7 658
Current assets		**13 428**	**11 800**
Total assets		**16 599**	**15 247**

EQUITY & LIABILITIES	Note	31/12/2021	31/12/2020
Registered capital	10	2 745	2 745
Share premium and other shareholders' contributions		2 367	2 362
Retained earnings		3 603	3 463
Equity		**8 715**	**8 570**
Deferred tax liability	14	171	206
Lease liabilities	6	138	158
Non-current liabilities		**309**	**364**
Trade and other financial liabilities	11	2 775	2 009
Other non-financial liabilities	11	213	190
Current income tax liabilities		—	177
Other tax liabilities	13	4 465	3 839
Provisions	17	27	20
Lease liabilities	6	95	78
Current liabilities		**7 575**	**6 313**
Total liabilities		**7 884**	**6 677**
Total equity & liabilities		**16 599**	**15 247**

The accompanying notes form an integral part of the financial statements

Separate Statement of Comprehensive Income

for the year ended December 31, 2021 (in CZK million)

	Note	2021	2020
Revenues	18	15 808	15 301
Cost of sales	15	(8 828)	(8 003)
Gross profit		**6 980**	**7 298**
Distribution expenses	15	(1 704)	(1 922)
Administrative expenses	15	(1 066)	(1 032)
Other income		152	96
Other operating income	19	230	310
Other operating expense	20	(163)	(431)
Profit from operations		**4 429**	**4 319**
Financial income		42	34
Financial expense		(25)	(25)
Profit before income tax		**4 446**	**4 328**
Income tax expense	21	(849)	(867)
Net profit for the year		**3 597**	**3 461**
Other comprehensive income		—	—
Total comprehensive income for the year		**3 597**	**3 461**
Earnings per share basic and diluted (CZK/share)	**22**	**1 310**	**1 261**

The accompanying notes form an integral part of the financial statements

Separate Statement of Changes in Equity

for the year ended December 31, 2021 (in CZK million)

	Attributable to equity holders of the Company				
	Note	**Registered capital**	**Share premium and other shareholders' contributions**	**Retained earnings**	**Total equity**
Balance as at 1/1/2020		**2 745**	**2 381**	**4 284**	**9 410**
Total comprehensive income	22	—	—	3 461	3 461
Transactions with owners					
Profit distribution	23	—	—	(4 283)	(4 283)
Share based payments		—	(19)	—	(19)
Forfeited dividends		—	—	1	1
Balance as at 31/12/2020		**2 745**	**2 362**	**3 463**	**8 570**
Total comprehensive income	22	—	—	3 597	3 597
Transactions with owners					—
Profit distribution	23	—	—	(3 459)	(3 459)
Share based payments		—	5	—	5
Forfeited dividends		—	—	2	2
Balance as at 31/12/2021		**2 745**	**2 367**	**3 603**	**8 715**

The accompanying notes form an integral part of the financial statements

Separate Statement of Cash Flow

for the year ended December 31, 2021 (in CZK million)

	Note	2021	2020
Cash flow from operating activities			
Profit before tax		**4 446**	**4 328**
Depreciation and amortisation expense, including intangibles	15	706	691
Impairment and disposal of PPE	4,15	87	120
Net interest (income) / expense		(17)	(9)
Dividend income	25	(152)	(96)
Gain on disposal of PP&E		(15)	(4)
Change in provisions		7	(26)
Other non-cash transactions, net		(20)	(11)
Operating cash flows before working capital changes		**5 042**	**4 993**
Changes in:			
Trade and other financial receivables and other non-financial assets		352	621
Trade and other financial liabilities and other non-financial liabilities		1 415	536
Inventories		(1 038)	542
Cash generated from operations		**5 771**	**6 692**
Interest paid		(25)	(25)
Income tax paid		(1 070)	(868)
Net cash generated from operating activities		**4 676**	**5 799**
Cash flow from investing activities			
Purchase of PP&E	4	(464)	(323)
Proceeds from sale of PP&E		85	122
Purchase of intangible assets		(2)	(10)
Interest received		42	34
Dividends received	25	152	96
Net cash used by investing activities		**(187)**	**(81)**
Cash flow from financing activities			
Dividends paid	23	(3 459)	(4 283)
Repayments of principle portion of lease liability		(98)	(102)
Net cash used by financing activities		**(3 557)**	**(4 385)**
Net increase in cash and cash equivalents		**932**	**1 333**
Cash and cash equivalents as at the beginning of the year		**7 658**	**6 325**
Cash and cash equivalents as at the end of the year	**9**	**8 590**	**7 658**

The accompanying notes form an integral part of the financial statements

Notes to the Separate Financial Statements

for the year ended December 31, 2021

1. GENERAL INFORMATION

1.1 Company description

Philip Morris ČR a.s. (the "Company") is a joint-stock company registered in the Czech Republic and its main business is the production, sale, distribution and marketing of tobacco products. The Company was incorporated on March 28, 1991 and its registered address is Kutná Hora, Vítězná 1, Czech Republic. Its headquarters is in Prague and its manufacturing facility is in Kutná Hora.

Philip Morris ČR a.s. is an affiliate of Philip Morris International Inc. ("PMI"). As at December 31, 2021, Philip Morris International Inc. is the ultimate controlling party of the Company.

As at December 31, 2021, the only entity holding more than 20% of the registered capital of the Company was Philip Morris Holland Holdings B.V. (the "Parent company"), which held 77.6% of the registered capital.

Members of the Board of Directors and the Supervisory Board as at December 31, 2021 were:

Board of Directors

Andrea Gontkovičová – Chairperson	Peter Piroch
Piotr Andrzej Cerek	Petr Šedivec
Petr Šebek	Anton Kirilov Stankov as of September 29, 2021

Supervisory Board

Stefan Bauer– Chairman	Alena Zemplinerová
Sergio Colarusso	Stanislava Juríková
Roman Grametbauer Replaced Richard Vašíček as of July 1, 2021	Tomáš Hilgard

Members of the Board of Directors and the Supervisory Board as at December 31, 2020 were:

Board of Directors

Andrea Gontkovičová – Chairperson	Peter Piroch
Piotr Andrzej Cerek	Petr Šedivec
Petr Šebek Replaced Tomáš Korkoš as of January 20, 2020	

Supervisory Board

Stefan Bauer – Chairman	Alena Zemplinerová
Sergio Colarusso	Stanislava Juríková
Richard Vašíček	Tomáš Hilgard

The Company has a 99% interest in Philip Morris Slovakia s.r.o., Galvaniho 15/A, Bratislava, Slovakia. Registered share capital of Philip Morris Slovakia s.r.o. as at December 31, 2021 and as at December 31, 2020 was EUR 763 thousands (equivalent of CZK 19 million at historical cost).

In 2021, the profit after tax* of Philip Morris Slovakia s.r.o. was EUR 4.5 million, equivalent of CZK 116 million (2020: EUR 5.7 million, equivalent of CZK 151 million). Total equity of Philip Morris Slovakia s.r.o. was EUR 3.9 million as at December 31, 2021, equivalent of CZK 96 million (2020: EUR 5.4 million, equivalent of CZK 143 million).

The Company did not conclude a controlling agreement or agreement on profit transfer with Philip Morris Slovakia s.r.o.

The Company has its primary listing on the Prague Stock Exchange (Burza cenných papírů Praha, a.s.), trading from July 13, 1993.

The Company's separate financial statements were authorized for issue by the Board of Directors on March 28, 2022.

*The values presented for Philip Morris Slovakia s.r.o. are converted from Slovak GAAP to IFRS.

1.2 Translation note

The separate financial statements have been prepared in Czech and in English. In all matters of interpretation of information, views or opinions, the Czech version of these separate financial statements takes precedence over the English version.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation of separate financial statements

These financial statements of Philip Morris ČR a.s. as at December 31, 2021 and for the year then ended are the separate financial statements of the Company. They relate to the consolidated financial statements of Philip Morris ČR a.s. and its subsidiary Philip Morris Slovakia s.r.o. (together the “Group”) for the year ended December 31, 2021. These separate financial statements should be read in conjunction with the consolidated financial statements to obtain a complete understanding of the Group’s results and financial position.

These separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”).

The separate financial statements have been prepared under the historical cost convention except for financial instruments, which are initially recognised at fair value and subsequently measured in accordance with IFRS 9 as disclosed in the accounting policies below.

The preparation of separate financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company’s accounting policies. The Company makes assumptions and estimates related to the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The separate financial statements have been prepared based on the recognition and measurement requirements of IFRS standards and IFRIC interpretations issued and effective, to the extent that they have been endorsed by the European Commission by the time of preparing this report. The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The ongoing COVID-19 crisis and its related measures continued to have large negative impact on a lot of business and economic activities within the year ending December 31, 2021.

Besides the drop in cross-border shopping and tourism, which affected our sales volumes in the respective channels, the COVID-19 pandemic has otherwise had limited impact on our business model. We managed to minimize all potential risks to our day to day operations thanks to our approach of ensuring health and safety for all our employees, contractors and related third parties. In light of these facts, we have not applied for any funds provided by the government to help companies mitigate the impact of COVID-19.

In valuing the assets and liabilities of Philip Morris ČR a.s. and meeting its going concern basis, the Board of Directors (the management) has considered the impact of the new coronavirus pandemic causing COVID-19.

2.2 Changes in accounting policies and procedures

a) New standards, amendments, interpretations and improvements to existing standards mandatory for accounting periods beginning on or after January 1, 2021

Following new standards and amendments to IFRS are effective from January 1, 2021 but they do not have a material effect on the financial statements:

- Amendments to IFRS 9, ‘Financial Instruments‘, IAS 39, ‘Financial Instruments: Recognition and Measurement‘, IFRS 7, ‘Financial Instruments: Disclosures‘, IFRS 4, ‘Insurance Contracts‘ and IFRS 16, ‘Leases‘ called Interest Rate Benchmark Reform – Phase 2 that is a reaction of IASB on expected changes resulting from forthcoming reform of IBOR rates on financial reporting. The amendments clarify how to react in financial statements on possible changes in cash flows and hedge accounting due to changes in IBOR rates. Since the variable-interest bear loans and borrowings are based on IBOR rates such as EURIBOR, PRIBOR that are not affected by the reform and are confirmed to be used in forthcoming years, the amendments have no impact on these consolidated financial statements.

b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are not mandatory for the Company’s accounting periods beginning on January 1, 2021:

- In September 2014, amendments ‘Sale or Contribution of Assets between an Investor and its Associates or Joint Venture‘ on IFRS 10, ‘Consolidated Financial Statements’, (effective date deferred indefinitely) was issued. They clarify the accounting for transactions where a parent loses control of a subsidiary, that does not constitute a business as defined in IFRS 3, by selling all or part of its interest in that subsidiary to an associate or a joint venture that is accounted for using the equity method. The effective date will be determined as soon as project on equity is finished.

- In May 2017, IFRS 17, 'Insurance Contracts' (effective for annual reports beginning on or after January 1, 2021 later deferred on or after January 1, 2023) was issued and it will supersede currently effective IFRS 4. The standard provides complex accounting policies (recognition, measurement, presentation and disclosure) regarding insurance contracts. Since the business of the Group is different than insurance company and it does not present any insurance contract, the standard will not affect the consolidated financial statements.
- In January 2020, amendments to IAS 1, 'Presentation of Financial Statements' called "Classification of Liabilities as Current and Non-current' (effective for annual reports beginning on or after January 1, 2022 later deferred on or after January 1, 2023) were issued that provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. The amendments affect only the presentation of liabilities in the statement of financial position – not the amount or timing of their recognition or the information that entities disclose about them. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and is not affected by expectations about whether an entity will exercise its right to defer settlement. The Group will assess new approach but does not expect any significant changes in consolidated financial statements.
- In May 2020, amendments to IAS 16, 'Property, Plant and Equipment – Proceeds before Intended Use' (effective for annual reports beginning on or after January 1, 2022) were issued that prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The Group will assess new approach but does not expect any significant changes in consolidated financial statements.
- In May 2020, amendments to IAS 37, 'Provisions, Contingent Liabilities and contingent assets – Onerous Contracts – Cost of Fulfilling a Contract' (effective for annual reports beginning on or after January 1, 2022) were issued. Amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The Group will assess changes but does not expect any significant changes in consolidated financial statements.
- In May 2020, the 'Annual Improvements to IFRS cycle 2018 – 2020' including amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (all are effective for annual reports beginning on or after January 1, 2022) was issued. (i) The amendment to IFRS 1 provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. The Group is not first-time adopter and therefore, this amendments will not have any impact on consolidated financial statements. (ii) The amendment to IFRS 9 clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment. (iii) The amendment to IFRS 16 removes the illustration of the reimbursement of leasehold improvements. (iv) The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pretax or post-tax cash flows and discount rates for the most appropriate fair value measurement. The Group does not expect any impact on consolidated financial statements resulting from these amendments.
- In May 2020, amendments to IFRS 3, 'Business Combinations' (effective for annual reports beginning on or after January 1, 2022) were issued. These amendments only update references to the new Conceptual Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination. The Group will assess changes but does not expect any significant changes in consolidated financial statements.
- In June 2020, IFRS 17, amendments to IFRS 17, 'Insurance Contracts' (effective for annual reports beginning on or after January 1, 2023) were issued and these amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after January 1, 2023. The business of the Group is out of scope of IFRS 17.
- In July 2020, amendments to IAS 1, 'Presentation of Financial Statements' called "Classification of Liabilities as Current and Non-current' (effective for annual reports beginning on or after January 1, 2023) were issued and these amendments defer the date of initial application of amendments to annual reporting periods beginning on or after January 1, 2023.
- In February 2021, amendments to IAS 1, 'Presentation of Financial Statements' called "Disclosure of Accounting Policies" (effective for annual reports beginning on or after January 1, 2023) were issued and these amendments requires entities to disclose its material accounting policy information

instead of its significant accounting policies. Amendments also explain how an entity can identify material accounting policy information and to give examples of when information is likely to be material. The Group will assess changes but does not expect any significant changes in consolidated financial statements.

- In February 2021, amendments to IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' called "Definition of Accounting Estimates" (effective for annual reports beginning on or after January 1, 2023) were issued. The definition of a change in accounting estimates is replaced with a definition of accounting estimates and amendments also clarify how to distinguish accounting estimate and accounting policy. The Group will assess changes but does not expect any significant changes in consolidated financial statements.
- In March 2021, amendments to IFRS 16, 'Leases' called "COVID-19-Related Rent Concessions beyond June 30, 2021" (effective for annual reports beginning on or after April 1, 2021) were issued. Amendments permit a lessee to apply the practical expedient regarding COVID-19-related rent concessions to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022. The Group does not expect any effect on consolidated financial statements.
- In May 2021, amendments to IAS 12, 'Income Taxes' called "Deferred Tax related to Assets and Liabilities arising from a Single Transaction" (effective for annual reports beginning on or after January 1, 2023) were issued. The main change is an exemption from the initial recognition exemption provided in current IAS 12. Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition such as initial recognition of right of use of asset and lease liability. The Group will assess changes but does not expect any significant changes in consolidated financial statements. Nevertheless, the deferred tax from lease agreements will be recognized and presented in future consolidated financial statements.

c) New and amended standards issued by IASB but not yet endorsed by European Commission (EC):

At the approval date of these consolidated financial statement, the following standards and amendments to existing standards have been published by IASB but are not yet endorsed by EC to be used by European entities:

- IFRS 14, 'Regulatory Deferral Accounts' (issued in January 2014) – the EC has decided not to launch the endorsement process of this interim standard and to wait for the final IFRS Standard
- Amendments to IAS 1 'Classification of Liabilities as Current and Non-current' (issued in January 2020, amended in July 2020 and effective since January 1, 2023)
- Amendments to IAS 12 'Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction' (issued in May 2021 and effective since January 1, 2023)

2.3 Foreign currency transactions

a) Functional and presentation currency

Items included in the separate financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The separate financial statements are presented in Czech Crowns, which is the Company's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing as at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

2.4 Property, plant and equipment

All property, plant and equipment is initially recorded at cost and, except for freehold land, is subsequently carried at cost less any accumulated depreciation and impairment losses. Freehold land is subsequently stated at cost less any impairment charges. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. Such borrowing costs are capitalized as part of the cost of the asset when it is probable that they will result in future economic benefits to the Company and the costs can be measured reliably.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset when it is probable that they will result in future economic benefits to the Company and the costs can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Property, plant and equipment, excluding freehold land, are depreciated from the time they are available for use, using the straight-line method.

Estimated useful lives (in years) adopted in these separate financial statements are as follows:

Buildings and constructions	15 – 40
Machinery and equipment	8 – 15
IT equipment	3 – 5
Vehicles	3 – 8
Furniture and fixtures	5 – 10

Land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, as at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.7).

Property, plant and equipment that is retired, or otherwise disposed of, is eliminated from the separate statement of financial position, along with the corresponding accumulated depreciation. Any gain or loss arising from retirement or disposal is included in net operating income.

2.5 Intangible assets

Intangible assets include computer software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software to use. These costs are amortized over their estimated useful life (three to five years).

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs for more than one year, are recognized as intangible assets. Direct costs include the costs of employees involved in software development and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized over their estimated useful lives (three to five years).

2.6 Investment in subsidiary

Investment in Philip Morris Slovakia s.r.o. is recorded at historical cost.

2.7 Impairment of non-current assets

Property, plant and equipment, investments in subsidiary and other non-financial assets, including intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level, for which there are separately identifiable cash inflows (cash-generating units).

2.8 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories include the purchase price and related costs of acquisition (transport, customs duties, etc.). The carrying amount of merchandise is determined on the basis of FIFO. The carrying amount of materials, mainly represented by spare parts, is determined on the basis of weighted average costs.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.9 Financial assets

2.9.1. Classification and measurement

The Company classifies its financial assets at the time of acquisition and upon initial recognition of the financial asset. The Company classifies its financial assets within debt financial instruments.

A debt instrument is to mean any contract that gives rise to a financial asset of one party and a financial liability to the other party. Financial assets under debt instruments are classified according to the Company's business model and the nature of the contractual cash flows of the financial asset. In the context of the business model test, the Company verifies whether the objective of holding a financial asset is to collect all cash flows arising from it ("hold to maturity" model) or whether it is the objective to hold a financial asset and sell it (the "hold and sell" model). Further, the Company examines and determines whether the contractual terms and conditions associated with the cash flow rights relate only to the principal and interest, i.e. whether the debt instrument has only "basic debt characteristics". Interest is considered to be the compensation of the time value of money and the credit risk associated with lending the principal over a given period.

Under debt instruments, the Company classifies its financial assets into the following categories:

a) Financial assets subsequently measured at amortized cost determined by using the effective interest rate method (financial assets at amortized cost)

b) Financial assets subsequently measured at fair value included in profit or loss (financial assets at fair value through profit or loss)

Financial assets at amortized cost (portfolio AC)

In this category, the Company recognizes debt instruments that are held within the business model that is intended to collect all contractual cash flows and which also have contractual cash flows representing only principal and interest payments on the principal outstanding. They are then measured at amortized cost using the effective interest rate method (hereafter referred to as the amortized cost). During the financial years 2021 and 2020, the Company had only trade receivables held to maturity and loans and deposits within the PMI group. Loans and deposits are included in other financial assets.

Financial assets at fair value through profit or loss (FVPL portfolio)

Within this category, the Company classifies all other debt instruments that cannot be classified into the above category. These financial assets are held for trading or their contractual cash flows do not represent exclusively the payment of principal and interest on the principal outstanding. Consequently, they are measured at fair value through profit or loss. Under debt instruments, the Company had only trade receivables intended to be sold to factoring during the financial years 2021 and 2020 in this category.

Derivatives are classified in the FVPL category provided they do not qualify for hedge accounting. During the financial years 2021 and 2020, the Company did not have any assets in this category.

2.9.2. Impairment

The Company applies impairment model under which an allowance is recognized before the credit loss arises. This is a IFRS 9 impairment model reflecting expected credit losses (ECL). With the exception of trade receivables, the Company applies the so-called general approach to impairment for the relevant financial assets (debt instruments reported at amortized cost - in the AC portfolio and debt instruments in the FVOCI portfolio). For trade receivables, the Company has taken advantage of the possibility of applying a simplified approach using an impairment matrix.

General approach to impairment

Under the general approach, an entity recognizes an allowance for expected credit losses (ECL) over the life of the financial instrument if there is a significant increase in the credit risk (measured by the probability of default over the life of the asset) from the initial recognition of the financial asset. If, at the reporting date, the credit risk associated with a financial instrument has not significantly increased since initial recognition, the entity shall recognize an allowance for the 12-month expected credit loss. The expected credit loss over the lifetime indicates the expected credit losses that arise as a result of all potential failures during the expected duration of the financial instrument. The 12-month expected credit loss is part of the expected credit losses over the life of a financial instrument that may occur within 12 months from the reporting date.

The Company uses the three-step ECL model. Upon initial recognition of a financial asset, unless there is an evidence of a failure, the Company classifies the financial asset to Stage 1 and recognizes allowances corresponding to expected losses over the following 12 months. If the credit risk associated with the financial instrument has not significantly increased since the initial recognition date, the financial asset remains in Stage 1 and the allowance is measured at the date of the financial statement at the 12-month expected credit loss. If a significant increase in credit risk has occurred since the initial recognition date, the Company classifies the financial asset to Stage 2 and recognizes adjustments against the expected loss over the life of the financial asset at the reporting date. If the financial asset meets the definition of a default, the Company transfers it to Stage 3 and recognizes allowance corresponding to the expected loss over the life of the financial asset.

As a potential failure the Company considers a situation where it will not be able to collect any amounts owed under the terms initially agreed. As default indicators the Company considers significant financial difficulties of the borrower, the likelihood that the borrower will enter into bankruptcy or financial restructuring, delay in payments or non-compliance with maturity of the instrument.

For selected future scenarios of potential development, the Company calculates the expected credit loss and probability-weighted results using the following formula:

Expected credit losses (ECL) = probability of default (PD) x loss given default (LGD) x exposure at default (EAD)

Simplified approach to impairment

Simplified approach enables the Company to report expected credit losses over a period of time without the need to identify a significant increase in credit risk. For trade receivables and contract assets that do not have a significant element of financing, the Company recognizes an allowance for expected credit losses over its life (i.e. an entity must always apply a so-called simplified approach). For other trade receivables, other contractual assets, operating lease receivables and finance lease receivables, an accounting policy that can be applied separately to individual asset types (but which applies to all assets of the type) can be selected. An important element of financing exists when the timing of reimbursements agreed by the parties (explicitly or implicitly) results in a significant benefit for the customer or entity to finance the transfer of goods or services to the customer.

Application of simplified approach using impairment matrix

For trade receivables without a significant element of financing, the Company determines the amount of allowances using the impairment matrix. The impairment matrix is based on applying the appropriate rate of loss to unpaid balances of trade receivables (i.e. age analysis of receivables).

When determining the amount of allowances through simplified approach, the Company proceeds in the following steps. The Company first divides its individual trade receivables into certain groups of receivables with similar credit risk characteristics. The Company concurrently identifies the most important factors affecting the credit risk of each group. In the second step, the Company sets a historical loss rate for each group with similar credit risk characteristics. This rate is set for 3 consecutive accounting periods. In the next step, the Company determines the expected loss rate for each group of receivables, which is further subdivided into sub-categories by the number of days past due (e.g. loss rates for non-past due receivables, loss rates for receivables 1-30 days overdue, losses for receivables 31-60 days overdue, etc.). In determining the expected loss rate, the Company takes into account whether historical loss rates have been incurred under economic conditions that are consistent with the expected conditions during the exposure period of that portfolio of receivables at the reporting date. In the last step, the Company measures the amount of the allowance based on the current gross amount of receivables multiplied by the expected loss rate.

If the trade receivable is evaluated as irrecoverable, an allowance of 100% is created. Write-offs are recognized in profit or loss under Other operating expenses. In cases where receivables can no longer be recovered from the court (for example, the receivable was time-barred, based on the results of the resolutions due to lack of assets of the bankrupt, the debtor ceased without a legal successor, etc.), receivables are written off against the allowance.

2.9.3. Derecognition

Financial assets are derecognized if the right to receive cash flows from financial assets has expired or has been transferred and the Company has transferred substantially all the risks and rewards of ownership.

2.10 Excise tax

Excise tax on purchased fiscal stamps is initially recognized in the category “Other non-financial assets” and a corresponding liability is recognized in the category "Other tax liabilities". The asset is derecognized and reclassified to trade receivables upon sale of merchandise subject to excise tax. Correspondingly, inventories and cost of goods sold do not include excise tax.

Excise tax in the Czech Republic has certain characteristics of sales tax while certain aspects of the taxation system are more of a production tax nature. Management has analyzed all the features of the excise tax system in the Czech Republic and came to the conclusion that the characteristics of the sale tax prevail. As a result the excise tax is excluded from revenues and operating expenses in the Company’s separate statement of comprehensive income.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months and less, bank overdrafts or other on-demand payable liabilities. Bank overdrafts and other on-demand payable liabilities are shown on the separate statement of financial position within Borrowings in current liabilities.

2.12 Trade payables and financial liabilities

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

The Company derecognizes financial liabilities only when the contractual liabilities of the Company are discharged, cancelled or expire. The difference between the carrying amount of a derecognized financial liability and the consideration paid is recognized in profit or loss.

2.13 Income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date in the countries where the subsidiaries operate and generate taxable income.

2.14 Deferred tax

Deferred income taxation is calculated using the liability method applied to all temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the separate financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor taxable profit nor loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Changes in deferred tax resulting from the change in tax rates are recognized in the period in which the changes are enacted or substantially enacted.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited to other comprehensive income, in which case the deferred tax also affects other comprehensive income.

2.15 Employee benefits

a) Pension obligations

Contributions are made to the Government's retirement benefit and unemployment schemes at the statutory rates applicable during the year and are based on gross salary payments. The Company has no further payment obligations once the contributions have been paid. The expense for the contributions is charged to profit or loss in the same period as the related salary expense.

The Company also makes contributions to defined contribution schemes operated by external pension companies. These contributions are charged to profit or loss in the year to which the contributions relate. The Company has no further payment obligations once the contributions have been paid.

b) Redundancy and termination benefits

Redundancy and termination benefits are payable when employment is terminated before the normal retirement or contract expiry date. The Company recognizes redundancy and termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal.

c) Share-based payments

PMI runs certain compensation plans for management of all PMI companies. The plans relate to the stock of PMI. These plans are equity settled share-based payment transactions. There are Performance Incentive Plans in place under which eligible employees receive deferred stock awards representing long-term equity compensation that delivers shares of PMI after a three-year service period (the vesting period). The compensation cost for deferred stock awards is determined by using fair value of the equity instruments awarded as at the grant date. Compensation cost is recognized over the vesting period on a straight-line basis as a charge to the employee benefits expense with a corresponding entry in equity. Amounts recognized as compensation expense in 2021 and 2020 were immaterial.

2.16 Provisions

Provisions are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the best estimate of the expenditure required to settle the present obligation as at the balance sheet date.

2.17 Reporting of revenues and expenses

All customer contracts are initially analyzed to identify all obligations and payments to the customer. Subsequently, the transaction price is determined, which is allocated in the case of more identified performance obligations according to the relevant key. Consequently, revenue is recognized for each performance obligation at the appropriate amount either at a certain point in time, or is recognized over several periods using accruals.
Revenues from the sale of goods are recognized when control is transferred to the buyer depending on the specific terms of the contract and when the amount of the consideration is agreed or is reliably determinable and payment is probable. This generally corresponds to the moment when products are delivered to wholesalers or when they are delivered to final consumers in the case of direct sales.

Revenues and costs are reported as follows:

a) Sale of goods

Revenue from sales of goods is recognized when the Group has transferred control over the assets to the buyer. The revenue is recognized at the date of shipment, both in the case of domestic sales and export of products.

b) Sales of services

Revenue from the sale of services is recognized when the service is provided and the Group has the right to payment of a consideration. These are mainly processing services where the Group does not subsequently buy finished cigarettes and does not sell them on markets in the Czech Republic and Slovakia.

c) Cost of goods sold

Costs of goods sold include variable and fixed production costs, purchase price of purchased goods and royalties paid for products sold. Prior to the sale of goods, these costs are recorded in the value of inventory.

d) Distribution expenses

Distribution expenses include personnel costs and overheads, depreciation and amortization applicable to the distribution function, as well as the costs of shipping, advertising, sales promotion, market research and customer service. These costs are not recorded in the value of inventory.

e) Administrative expenses

Administrative expenses include personnel costs and overheads as well as depreciation and amortization applicable to the administrative functions.

2.18 Dividend income

Dividend income is recognized when the shareholder’s right to receive payment is established.

2.19 Interest income / expense

Interest income and expense is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liabilities to that asset’s or liability’s net carrying amount.

2.20 Dividend distribution

Dividend distribution to the Company’s shareholders is recognized as a liability in the Company’s separate financial statements in the period in which the dividends are approved by the Company’s shareholders.

2.21 Leases

As a lessee the Company recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The right-of-use asset is depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. Generally, the Company uses the estimated pre-tax cost of debt of the Company which reflects country-specific risk and the premium of the PMI group as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company applies judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal or termination options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

The Company has elected to apply a recognition exemption allowed by the standard not to recognise right-of-use assets and lease liabilities for short-term leases and leases for which the underlying asset is of low-value. Short-term leases are leases with a lease term of 12 months or less. Low-value leases comprise mainly IT and office equipment. Short-term leases and leases for which the underlying asset is of low-value do not have a material effect on the Company’s financial statements.

The Company has also elected to apply allowed practical expedient not to separate non-lease components from lease components, and instead to account for them as a single lease component. This expedient is not applied in case of car leases.

The Company leases mainly office space, warehouses, cars and IT and office equipment. Cars are leased mostly for a period of 4 years.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk including foreign exchange and interest rate risk, credit risk and liquidity risk. Market and liquidity risks are managed under approved policies by the central Treasury department of PMI group in Lausanne. Credit risk is managed primarily by the Company. PMI Treasury identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. Risk management is performed by the central Treasury department of PMI group in line with the written principles provided by the Board of Directors for overall risk management, which are based on PMI financial risk management policies.

a) Market risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future purchase and sale transactions and from assets and liabilities recognized in foreign currencies. To hedge part of this exposure, the Company occasionally uses currency option derivative instruments, transacted with PMI Treasury. No currency options were used by the Company in 2021 and 2020.

The split of financial assets by currencies is as follows (in CZK million):

Carrying amount as at 31/12/2021	CZK	EUR	USD	CHF	Other	Total
Receivables from third parties - domestic	605	—	—	—	—	**605**
Receivables from third parties - foreign	—	—	—	—	—	**—**
Receivables from PMI entities	3	242	68	—	—	**313**
Cash at banks	1 415	—	—	—	—	**1 415**
Short-term deposits with related parties	7 175	—	—	—	—	**7 175**
Other long-term financial assets	106	1	—	—	—	**107**
Total	**9 304**	**243**	**68**	**—**	**—**	**9 615**

Carrying amount as at 31/12/2020	CZK	EUR	USD	CHF	Other	Total
Receivables from third parties - domestic	527	—	—	—	—	**527**
Receivables from third parties - foreign	3	—	—	—	—	**3**
Receivables from PMI entities	84	206	—	—	—	**290**
Cash at banks	1 145	—	—	—	—	**1 145**
Short-term deposits with related parties	6 513	—	—	—	—	**6 513**
Other long-term financial assets	106	1	—	—	—	**107**
Total	**8 378**	**207**	**—**	**—**	**—**	**8 585**

The split of financial liabilities by currencies is as follows (in CZK million):

Carrying amount as at 31/12/2021	CZK	EUR	USD	CHF	Other	Total
Payables to third parties - domestic	1 193	36	1	—	—	**1 230**
Payables to third parties - foreign	14	79	2	6	7	**108**
Payables to PMI entities	447	942	3	40	5	**1 437**
Total	**1 654**	**1 057**	**6**	**46**	**12**	**2 775**

Carrying amount as at 31/12/2020	CZK	EUR	USD	CHF	Other	Total
Payables to third parties - domestic	928	9	—	—	—	**937**
Payables to third parties - foreign	—	116	2	1	4	**123**
Payables to PMI entities	565	338	6	31	9	**949**
Total	**1 493**	**463**	**8**	**32**	**13**	**2 009**

Sensitivity analysis

Sensitivity to exchange rates

The Company is exposed to the foreign currency risk arising from transactions performed mainly with companies in the European Union, including its Slovak subsidiary, and companies within PMI group with the registered seat in Switzerland. The common currencies used by the Company are EUR, USD and CHF. The foreign currency risk is measured against the functional currency (CZK) as at the balance sheet date, when the financial assets and liabilities denominated in foreign currencies are recalculated to the CZK by applying the Czech National Bank exchange rate.

The sensitivity analysis considers financial assets and liabilities denominated in foreign currencies and it measures the impact from recalculation of these items as at the balance sheet date by using exchange rates published by the Czech National Bank as at December 31, 2021. The Company considers the movements of exchange rates against CZK in the following period +5% (appreciation of CZK) and -5% (depreciation of CZK) as possible.

The sensitivity analysis on exchange rate changes is prepared for individual currencies on the presumption that there is no movement in the exchange rates of other currencies.

The following table presents the impact on profit before tax of an appreciation +5% or depreciation -5% of the CZK to foreign currencies (in CZK million) in 2021 (2020: +5%, -5%):

2021	CZK depreciation by 5%		
Currency	EUR	USD	CHF
Increase / (decrease) in profit or loss	(36)	3	(2)
	CZK appreciation by 5%		
Currency	EUR	USD	CHF
Increase / (decrease) in profit or loss	36	(3)	2

2020	CZK depreciation by 5%		
Currency	EUR	USD	CHF
Increase / (decrease) in profit or loss	(13)	—	(2)
	CZK appreciation by 5%		
Currency	EUR	USD	CHF
Increase / (decrease) in profit or loss	13	—	2

Sensitivity to interest rates

The Company is exposed to interest rate risk mainly in relation to short-term borrowings and short-term on-demand deposits with PMI companies, and as well the Company is exposed to interest rate risk in relation to factoring transactions with receivables. The Company assumes the possible movements of the yield curve in the following period by +100/-25 basis points.

For short-term loans receivable and short-term on-demand deposits with PMI companies, the impact on the profit or loss before tax is determined on the basis of a defined change in the interest rate, which would have arisen at the beginning of the accounting period and based on the assumption that no other changes in the interest rate occurred during the entire accounting period. Other financial assets and liabilities are not considered to be sensitive to interest rate movements.

The following table presents the possible impact on profit or loss before tax of an expected increase (+100 basis points) or decrease (-25 basis points) of interest rates (in CZK million):

2021	Interest rate increased by 100 basis points	Interest rate decreased by 25 basis points
Increase / (decrease) in profit or loss	56	(14)

2020	Interest rate increased by 100 basis points	Interest rate decreased by 25 basis points
Increase / (decrease) in profit or loss	44	(11)

b) Credit risk

The Company has policies in place to ensure that sales of merchandise on credit are made to customers who meet the Company's criteria for credit eligibility and have adequate credit history.

Considerable support in this area is provided by PMI Treasury specialists in Lausanne. Apart from PMI Treasury, the Company also uses the services of external rating agencies for counterparty analysis.

The financial insolvency of counterparty may result in immediate losses to the Company with an adverse impact on the Company's financial position. Therefore, the acceptance of new business is reliant on standard approval controls and procedures through the relevant departments of the Company. The Company's involvement with counterparties is managed by means of credit limits that are monitored and re-evaluated on a regular basis.

Active administration and management of receivables is incorporated into the credit risk management process and standard financial market instruments such as bank guarantees, advance payments and transfers of receivables through factoring without recourse are used to reduce the risks.

Receivables security

With respect to the security strategy of trade receivables, trade receivables are separated into receivables from domestic customers and PMI entities.

Bank guarantees, in certain cases, are used to secure receivables from domestic credit customers. Penalty interest on late payments is a compulsory preventative instrument for all contractual relationships. Trade receivables from domestic credit customers are divided into two groups: receivables secured by bank guarantees and unsecured receivables from customers eligible for unsecured credit. Unsecured credit is based on an overall and financial assessment of each individual customer, including usage of external rating agencies.

Trade receivables from PMI entities are considered as low-risk receivables by the Company, and are therefore unsecured.

Carrying amount as at 31/12/2021 (in CZK million)	Unimpaired financial assets not yet due	Unimpaired financial assets past due	Total
Receivables from third parties – domestic	602	3	**605**
Receivables from third parties – foreign	—	—	**—**
Receivables from PMI entities	244	69	**313**
Cash at banks	1 415	—	**1 415**
Short-term loans and deposits with related parties	7 175	—	**7 175**
Other long-term financial assets	107	—	**107**
Total	**9 543**	**72**	**9 615**

Carrying amount as at 31/12/2020 (in CZK million)	Unimpaired financial assets not yet due	Unimpaired financial assets past due	Total
Receivables from third parties – domestic	521	6	**527**
Receivables from third parties – foreign	—	3	**3**
Receivables from PMI entities	244	46	**290**
Cash at banks	1 145	—	**1 145**
Short-term loans and deposits with related parties	6 513	—	**6 513**
Other long-term financial assets	107	—	**107**
Total	**8 530**	**55**	**8 585**

Credit risk concentration of trade receivables

The Company monitors the concentration of credit risk of trade receivables by distribution regions.

Classification of trade receivables by distribution regions:

Carrying amount as at 31/12/2021 (in CZK million)	Czech Republic	Slovak Republic	Other	Total
Receivables from third parties – domestic	605	—	—	**605**
Receivables from third parties – foreign	—	—	—	**—**
Receivables from PMI entities	—	231	82	**313**
Total	**605**	**231**	**82**	**918**

Carrying amount as at 31/12/2020 (in CZK million)	Czech Republic	Slovak Republic	Other	Total
Receivables from third parties – domestic	527	—	—	**527**
Receivables from third parties – foreign	—	—	3	**3**
Receivables from PMI entities	—	164	126	**290**
Total	**527**	**164**	**129**	**820**

The creditworthiness of financial assets at amortized cost

The Group uses the following criteria when determining the creditworthiness:

- Rating 1 includes receivables with a probability of default of up to 0.1%.
- Rating 2 includes receivables with a probability of default of up to 2%.
- Rating 3 includes receivables with a probability of default above 2%.
- Receivables from PMI companies and short-term loans provided within the PMI group are classified as rating 1 (according to Standard & Poor's A-2 (2020: A-2)) in 2021.
- Cash in banks is ranked according to Moody's long-term deposit ratings. Banks and financial institutions used by the Group are only eligible for A-3 or higher (2020: A-3) (rating 1).

Allowance for expected credit losses (ECL)

Balance as at 31/12/2021 (in CZK million)	Creditworthiness	Stage				
		Stage 1 12-month ECL	Stage 2 lifetime ECL - without individual impairment	Stage 3 lifetime ECL - individually impaired	Lifetime ECL according to matrix of impairment	Total
Cash incl. on-demand deposits	1	-	-	-	-	-
Other receivables and financial assets	1	-	-	-	-	-
Trade receivables	1	-	-	-	-	-
Total		-	-	-	-	-

Matrix of impairment for trade receivables at amortized cost

Balance as at 31/12/2021 (in CZK million)	From the due date:				
	Before due	Less than 1 month	1 – 3 month	More than 3 months	Total
Expected credit losses rate (in %)	0.01%	0.02%	0.05%	0.10%	**—**
Gross book value	755	—	78	85	**918**
Allowances	—	—	—	—	**—**

Allowance for expected credit losses (ECL)

Balance as at 31/12/2020 (in CZK million)	Creditworthiness	Stage				
		Stage 1 12-month ECL	Stage 2 lifetime ECL - without individual impairment	Stage 3 lifetime ECL - individually impaired	Lifetime ECL according to matrix of impairment	Total
Cash incl. on-demand deposits	1	-	-	-	-	-
Other receivables and financial assets	1	-	-	-	-	-
Trade receivables	1	-	-	-	-	-
Total		-	-	-	-	-

Matrix of impairment for trade receivables at amortized cost

Balance as at 31/12/2020 (in CZK million)	From the due date:				
	Before due	Less than 1 month	1 – 3 month	More than 3 months	Total
Expected credit losses rate (in %)	0.01%	0.02%	0.05%	0.10%	**—**
Gross book value	784	—	6	30	**820**
Allowances	—	—	—	—	**—**

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash. Liquidity of the Company is managed and controlled by the central Treasury department of PMI group via domestic and international cash pool arrangements. Based on PMI policies, the Company prepares a weekly cash flow projection for the following month and monthly cash flow projections for the following 12 months.

Contractual maturity analysis of liabilities (undiscounted cash flows)

Balance as at 31/12/2021 (in CZK million)	Less than 3 months
Trade payables to third parties and PMI entities	2 671
Dividend payable	9
Other financial liabilities	95
Total	**2 775**

Balance as at 31/12/2020 (in CZK million)	Less than 3 months
Trade payables to third parties and PMI entities	1 912
Dividend payable	8
Other financial liabilities	89
Total	**2 009**

To mitigate the risk and enhance cash and liquidity management, the Company sold a portion of its trade receivables to a financial institution in 2021 and 2020. In all those transactions, the Company retained no participating interests. The financial institution has no recourse for failure of debtors to pay when due.

3.2 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Equity as presented in these separate financial statements is considered as capital of the Company for the capital management purposes.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices as at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company makes assumptions that are based on market conditions existing as at each balance sheet date. The carrying amounts of current financial assets and current financial liabilities are assumed to approximate their fair values.

The carrying amounts of other non-current financial liabilities are also assumed to approximate their fair values, which were determined as the present value of future cash flows based on market interest rates at the balance sheet date, and which qualify for Level 2 in accordance with IFRS 13.

4. PROPERTY, PLANT AND EQUIPMENT

(in CZK million)	Property, Buildings & Constructions	Vehicles & Machinery Equipment	Furniture & Fixtures	Constructions in progress & Advances paid	Total
As at 1/1/2020					
Cost	2 212	7 147	52	148	9 559
Accumulated depreciation	(1 751)	(4 194)	(34)	—	(5 979)
Net carrying amount	**461**	**2 953**	**18**	**148**	**3 580**
Year ended 31/12/2020					
Opening net carrying amount	461	2 953	18	148	3 580
Additions cost	15	103	8	205	331
Disposal net carrying amount	—	(120)	—	—	(120)
Transfers*	28	92	3	(123)	—
Depreciation charge	(93)	(604)	(6)	—	(703)
Closing net carrying amount	**411**	**2 424**	**23**	**230**	**3 088**
As at 31/12/2020					
Cost	2 243	6 966	61	230	9 500
Accumulated depreciation	(1 832)	(4 542)	(38)	—	(6 412)
Net carrying amount	**411**	**2 424**	**23**	**230**	**3 088**
Year ended 31/12/2021					
Opening net carrying amount	411	2 424	23	230	3 088
Additions cost	17	55	1	420	493
Disposal net carrying amount	—	(84)	(3)	—	(87)
Transfers*	7	146	4	(157)	—
Depreciation charge	(81)	(591)	(9)	—	(681)
Closing net carrying amount	**354**	**1 950**	**16**	**493**	**2 813**
As at 31/12/2021					
Cost	2 247	6 469	60	493	9 269
Accumulated depreciation	(1 893)	(4 519)	(44)	—	(6 456)
Net carrying amount	**354**	**1 950**	**16**	**493**	**2 813**

* Transfers represent capitalization of PP&E from construction in progress and advances paid.

During the period the Company disposed of several assets which have been identified as no longer needed and approved for scrapping in net amount of CZK 14 million (2020: CZK 1 million).

All investments in property, plant & equipment were financed by the Company's own resources.

5. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

In 2021 Company revised the net book value of equipment. As a result of this revision, there was no impairment loss recognized in 2021. There was no impairment loss recognized in 2020.

6. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The recognised right-of-use assets relate to following types of assets:

(in CZK million)	31/12/2021	31/12/2020
Office space and warehouse	169	160
Cars	21	35
Store	27	27
Employee flats	12	8
Total	**229**	**230**

The recognised lease liabilities relate to following types of liabilities:

(in CZK million)	31/12/2021	31/12/2020
Current liabilities	95	78
Non-current liabilities	138	158
Total	**233**	**236**

Interest expense on lease liabilities included in finance costs represented amount CZK 6 million (2020: CZK 9 million).

Depreciation expense of right-of-use assets represented amount CZK 97 million (2020: CZK 106 million).

Short-term leases and leases for which the underlying asset is of low-value do not have a material effect on the Company's financial statements.

Maturity analysis	<1 year	1-5 years	>5 years
Lease liabilities	95	136	3

7. INVENTORIES

(in CZK million)	31/12/2021	31/12/2020
Materials	52	78
Merchandise	1 700	635
Total	**1 752**	**713**

The costs of inventories recognized as an expense in Separate statement of comprehensive income in 2021 and included in costs of sales amounted to CZK 6 931 million (2020: CZK 6 046 million).

8. TRADE AND OTHER FINANCIAL RECEIVABLES AND OTHER NON-FINANCIAL ASSETS

(in CZK million)	31/12/2021	31/12/2020
Trade and other financial receivables		
Third parties	605	530
Subsidiary	231	164
Other related parties	82	126
Total	**918**	**820**
Other non-financial assets		
Other assets - excise tax	2 127	2 591
Prepayments	32	17
Other receivables	—	1
Total	**2 159**	**2 609**
Other non-current financial assets		
Other financial assets	107	107
Total	**107**	**107**

9. CASH AND CASH EQUIVALENTS

(in CZK million)	31/12/2021	31/12/2020
Cash at banks	1 414	1 145
On-demand deposits with related parties (see Note 25)	7 176	6 513
Total	**8 590**	**7 658**

On-demand deposits with related parties are interest-bearing short-term loans - see Note 25 for the analysis of short-term receivables from related parties.

Cash and cash equivalents and bank overdrafts for the purposes of the separate cash flow statement include the following:

(in CZK million)	31/12/2021	31/12/2020
Cash and cash equivalents	8 590	7 658
Total	**8 590**	**7 658**

10. REGISTERED CAPITAL

The Company's registered capital of 2 745 386 shares has a nominal value of CZK 1 000 per share and is fully paid. No changes in the registered capital or the number and type of shares have occurred during the last two years.

The registered capital is allocated as follows:

	Number of shares	Value in CZK
Unregistered ordinary shares certificated	831 688	831 688 000
Registered ordinary shares dematerialized	1 913 698	1 913 698 000
Total ordinary shares	**2 745 386**	**2 745 386 000**

The identification mark of the Company's shares according to the international numbering system ISIN is CS0008418869.

The rights and obligations of the shareholders are set out in the legal regulations and in the Articles of Association of the Company, all shares bear the same rights and obligations.

The authorized owners of the shares are entitled to participate in decision making at General Meetings. At the General Meeting the shareholders have the right to vote, to ask for explanations and to receive answers to questions about matters concerning the Company as well as matters concerning entities controlled by the Company, and to submit proposals and counterproposals.

Voting rights apply to all shares issued by the Company and may be limited or excluded only where stipulated by law. The Company is not aware of any restrictions on or exclusions of voting rights attached to the shares that it has issued other than those restrictions on and exclusions of voting rights stipulated by law.

The shareholders are further entitled to a share of the Company's profit (i.e. dividends). The shareholders may not demand a refund of their investment contribution during the existence of the Company or even in the event of its dissolution.

If the Company goes into liquidation, the shareholders are entitled to a share on the liquidation estate.

A shareholder is obliged to pay the issue price and the share premium, if any, for the shares he/she has subscribed.

The Company has not issued any securities with special rights excluding ordinary shares described above.

The Company’s shares are admitted for trading on the public market organized by the Prague Stock Exchange and by the Czech shares trading system of the company RM-SYSTÉM, česká burza cenných papírů a.s. As at December 31, 2021 out of 2 745 386 shares 77.6% were held by the company Philip Morris Holland Holdings B.V and 22.4% is publicly held.

11. TRADE AND OTHER FINANCIAL LIABILITIES AND OTHER NON-FINANCIAL LIABILITIES

(in CZK million)	31/12/2021	31/12/2020
Trade and other financial liabilities		
Third parties	576	347
Other related parties	1 436	949
Accrued expenses	659	616
Dividends payable	9	8
Other financial liabilities	95	89
Total	**2 775**	**2 009**
Other non-financial liabilities		
Amounts due to employees	151	131
Social security and health insurance	62	58
Other liabilities	—	1
Total	**213**	**190**

Trade payables to related parties are disclosed in Note 25.

12. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Carrying amount as at 31/12/2021 (in CZK million)	Trade and other financial receivables	Trade and other financial payables
Gross amounts of recognized financial assets / liabilities	1 119	2 976
Gross amounts of recognized financial liabilities / assets set off in the balance sheet	(201)	(201)
Net amount	**918**	**2 775**

Carrying amount as at 31/12/2020 (in CZK million)	Trade and other financial receivables	Trade and other financial payables
Gross amounts of recognized financial assets / liabilities	437	1 626
Gross amounts of recognized financial liabilities / assets set off in the balance sheet	383	383
Net amount	**820**	**2 009**

13. OTHER TAX LIABILITIES

(in CZK million)	31/12/2021	31/12/2020
VAT	311	327
Excise tax	4 140	3 495
Other taxes	14	17
Total	**4 465**	**3 839**

14. DEFERRED INCOME TAX

Deferred tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The offset amounts are as follows:

(in CZK million)		31/12/2021	31/12/2020
Deferred tax assets		53	58
Deferred tax liabilities		(224)	(264)
Deferred tax liability net		**(171)**	**(206)**
Deferred tax assets			
–	Deferred tax assets to be recovered within 12 months	51	56
–	Deferred tax assets to be recovered after more than 12 months	2	2
Total deferred tax assets		**53**	**58**
Deferred tax liabilities			
–	Deferred tax liabilities to be recovered after more than 12 months	(224)	(264)
Total deferred tax liabilities		**(224)**	**(264)**

The gross movement in the deferred income tax is as follows:

(in CZK million)	2021	2020
January 1 - Deferred tax liability net	(206)	(230)
Charge to profit or loss	35	24
December 31 - Deferred tax liability net	**(171)**	**(206)**

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances, is as follows:

Deferred tax liabilities (in CZK million)	Accelerated tax depreciation
As at 1/1/2020	**(288)**
Charge to profit or loss	23
As at 31/12/2020	**(264)**
Charge to profit or loss	40
As at 31/12/2021	**(224)**

Deferred tax assets (in CZK million)	Provisions for inventories	Share based payments	Other*	Total
As at 1/1/2020	**18**	**8**	**32**	**58**
Credit / (charge) to profit or loss	9	(4)	(5)	—
As at 31/12/2020	**27**	**4**	**27**	**58**
Credit / (charge) to profit or loss	(7)	1	1	(5)
As at 31/12/2021	**20**	**5**	**28**	**53**

*Includes temporary differences from other liabilities in timing between when expenses are deductible and recognized on the income statement.

Effective from January 1, 2010, the rate of 19% is used for calculation of corporate income tax and deferred tax.

15. EXPENSES BY NATURE

(in CZK million)	2021	2020
Raw materials, consumables used and merchandise sold	6 721	5 773
Services	2 081	2 144
Royalties	614	668
Employee benefits expense	1 250	1 242
Depreciation and amortization	793	811
Other	139	319
Costs of sales, distribution and administrative expenses	**11 598**	**10 957**

16. EMPLOYEE BENEFITS EXPENSE

(in CZK million)	2021	2020
Wages and salaries, including termination benefits of CZK 55 million (2020: CZK 62 million)	896	890
Social security and health insurance	101	98
Pension costs – defined contribution plans	183	177
Share-based payments	7	8
Other employee related costs	64	69
Total	**1 250**	**1 242**

As at December 31, 2021, the number of employees was 1 103 (2020: 1 369).

The Company is legally required to make contributions to government health, pension and unemployment schemes. During 2021, the Company paid contributions at an average rate of 32 % of gross salaries (2020: 31 %) and is not required to make any contributions in excess of this statutory rate.

The Company has a voluntary pension plan for employees under which the Company makes contributions on behalf of the Company's employees to independent pension plan providers, under approved defined contribution schemes.

Principles of employment and remuneration are covered by the Collective Labour Agreement. Audit of the observances of labour law regulations in the Company takes place during the Collective Labour Agreement negotiations.

17. PROVISIONS

(in CZK million)	Carrying amount as at 1/1/2021	Provisions made in the reporting period	Amounts used during the reporting period	Amounts reversed during the reporting period	Carrying amount as at 31/12/2021
Provision for employment anniversary, jubilee and retirement bonuses	11	12	(2)	(9)	12
Provision for employment termination	—	63	(60)	—	3
Provision for reverse logistics	9	12	—	(9)	12
Total	**20**	**87**	**(62)**	**(18)**	**27**

As at December 31, 2021 did not identify any plans related to the organizational restructuring.

18. REVENUES

(in CZK million)	2021	2020
Sales of merchandise	13 516	12 858
Sales of services	2 292	2 443
Total	**15 808**	**15 301**

Revenue analysis by timing of revenue recognition:

(in CZK million)	2021	2020
Sales reported at time of shipment	13 516	12 858
Revenues reported over time	2 292	2 443
Total	**15 808**	**15 301**

19. OTHER OPERATING INCOME

(in CZK million)	2021	2020
Foreign exchange rate gains	169	300
Gains on sale of PP&E	15	4
Other income	46	6
Total	**230**	**310**

20. OTHER OPERATING EXPENSE

(in CZK million)	2021	2020
Foreign exchange rate losses	145	419
Bank charges	6	9
Other expense	12	3
Total	**163**	**431**

21. INCOME TAX EXPENSE

(in CZK million)	2021	2020
Current tax expense for the current period	(873)	(889)
Current tax adjustment of prior year	(12)	(1)
Current tax	**(885)**	**(890)**
Deferred tax - Temporary differences (see Note 14)	36	24
Total	**(849)**	**(867)**

The statutory income tax rate for the 2021 and 2020 assessment periods was stipulated by the law in 19 %.

The tax on the Company's profit before taxes differs from the theoretical amount that would arise upon using the tax rate applicable to profits of the Company:

(in CZK million)	2021	2020
Profit before tax	4 446	4 328
Applicable tax rate	19 %	19 %
Tax calculated at local tax rate applicable to profit before tax	**(845)**	**(822)**
Expenses not deductible for tax purposes	(28)	(57)
Income not subject to tax	29	18
Tax adjustment of prior year	(12)	(1)
Other	7	(5)
Tax charge	**(849)**	**(867)**

22. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the net profit attributable to shareholders of the Company by the number of ordinary shares in issue during the year.

	2021	2020
Income attributable to shareholders (in CZK million)	3 597	3 461
Number of ordinary shares in issue (in thousands)	2 745	2 745
Basic earnings per share in CZK	**1 310**	**1 261**

23. PROFIT DISTRIBUTION

The dividends approved outside the General Meeting („per rollam") between April and May 2021 and between April and June 2020 were CZK 3 459 million (CZK 1 260 per share) and CZK 4 283 million (CZK 1 560 per share), respectively.

Disbursement of dividends from the 2021 results will be decided outside the General Meeting („per rollam") scheduled between April 13, 2022 and May 23, 2022.

24. CONTINGENT LIABILITIES

The Company does not have any pending legal, administrative or arbitration proceedings that had or might have a substantial effect on the financial situation of the Company.

The tax authorities may at any time inspect the books and records within 3 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

25. RELATED PARTY TRANSACTIONS

The Company considers Parent company, Subsidiary and other companies of the PMI group of companies (“Other related parties”), members of its Board of Directors, Supervisory Board and parties close to such members of management to be related parties.

Related party transactions were made on terms equivalent to those that prevail in arm’s length transactions are made only if such terms can be substantiated.

The following transactions were carried out with related parties:

a) Sales of merchandise and services to affiliates within PMI

(in CZK million)	2021	2020
Sales of merchandise		
Subsidiary	2 267	2 371
Other related parties	21	51
Sales of PP&E		
Other related parties	71	118
Sales of materials		
Other related parties	4	5
Sales of services		
Subsidiary	25	56
Other related parties	2 267	2 344
Interest received		
Other related parties	29	29
Total	**4 684**	**4 974**

b) Purchases of merchandise and services from affiliates within PMI

(in CZK million)	2021	2020
Purchases of merchandise and materials		
Subsidiary	7	19
Other related parties	7 350	4 702
Purchases of PP&E and intangible assets		
Other related parties	281	149
Purchases of services		
Subsidiary	8	3
Other related parties	722	742
Royalties paid		
Other related parties	614	668
Total	**8 982**	**6 283**

c) Dividends

Dividends received from Philip Morris Slovakia s.r.o. in 2021 amounted to CZK 152 million (2020: CZK 96 million).

In 2021 Company paid to Philip Morris Holland Holdings B.V. dividends CZK 2 684 million in total(2020: CZK 3 323 million).

Except for dividends there were no other transactions with the Parent company during the last two years.

d) Balances with affiliates within PMI

(in CZK million)	31/12/2021	31/12/2020
Receivables from related parties		
Subsidiary	231	164
Other related parties	82	126
Total	**313**	**290**
Payables to related parties		
Other related parties	1 437	949
Loans and deposits		
Other related parties	7 176	6 513

Loans and deposits with related parties include interest-bearing on-demand deposits (cash pool) of CZK 7 176 million with Philip Morris Finance S.A. (2020: CZK 6 513 million). All short-term loans and deposits are classified as cash and cash equivalents in the Company's Separate statement of financial position as at December 31, 2021 and as at December 31, 2020.

The interest rate for on-demand deposits was calculated as overnight PRIMEAN - 0,25%, i.e. PRIMEAN ((overnight PRIBOR + overnight PRIBID)/2) plus/ minus a margin applicable in accordance with market practice for deposits with similar duration and liquidity until December 3rd 2021, as of December 3rd 2021 the interest rate for on-demand deposits is calculated as CZBBRREPO -1.75%/+ 0.25%

The actual interest rates reflect the current money market and the nature of the loan. The average effective interest rate of short-term loan and on-demand deposits in 2021 was 0.4% p.a. (2020: 0.5% p.a.).

e) Contractual and other commitments to related parties

Contractual and other commitments to related parties that are not recorded in the separate financial statements are considered as obligations to exchange resources in the future under binding agreements.

As at December 31, 2021, the Company had no material commitments in respect of related parties except for the future obligation to services purchase in the total estimated value of CZK 262 million (commitment value as at December 31, 2020: CZK 297 million).

The Company entered in the past into a number of binding service agreements, under which some performance obligations are yet to be delivered. Those agreements mostly have two or six month termination notice. The total estimated value of services to be purchased under these agreements during their respective termination terms is disclosed above.

According to the agreements with trademark owners, Philip Morris Global Brands Inc., Philip Morris Products S.A. and CTPM International S.A., the Company has to pay royalties in respect of tobacco products sold in the Czech and Slovak Republic. During the 2021, the Company incurred under these agreements royalties expense of CZK 614 million (2020: CZK 668 million). These agreements shall continue indefinitely until terminated by either party. Management expects the royalty expense in 2022 to be at approximately similar level as in 2021.

26. SUBSEQUENT EVENTS

No subsequent events have occurred after the balance sheet date that would have a material impact on these separate financial statements at December 31, 2021.

Authorization of the financial statements

The separate financial statements were authorized for issue by the Board of Directors and have been signed below on its behalf. The separate financial statements are subject to approval by shareholders of the Company at the General Meeting of shareholders. Until this approval is given, the separate financial statements could be amended.

In Kutná Hora on March 28, 2022

Andrea Gontkovičová
Chairperson of the Board of Directors

Anton Stankov
Member of the Board of Directors

Report on Relations between Controlling Entity and Controlled Entity, and between Controlled Entity and Entities Controlled by the same Controlling Entity (the "Report on Relations")

for the 2021 Calendar Year Accounting Period

The following additional disclosures are provided for the 2021 accounting period in accordance with Section 82 of Act No. 90/2012 Coll., on Corporations and Cooperatives (the "Business Corporations Act").

a. Structure of relations

Controlled Entity: Philip Morris ČR a.s.
Controlling Entity: Philip Morris Holland Holdings B.V.

Entities controlled by the same controlling entity (the "jointly controlled entities"): Companies controlled directly or indirectly by Philip Morris Holland Holdings B.V. as well as by Philip Morris International Inc., which is the ultimate managing entity of this group ("PMI group").

Philip Morris ČR a.s. (the "Company") is controlled by Philip Morris Holland Holdings B.V. (holding 77.6% shares), which is controlled by Philip Morris Brands Sàrl (holding 100% shares), which is controlled by Philip Morris Global Brands Inc. (holding 100% shares), which is controlled by Philip Morris International Inc. (holding 100% shares).

b. Role of the controlled entity in structure of relations pursuant to Section a) above (PMI group)

Philip Morris ČR a.s. is the leading manufacturer and seller of tobacco products and is also a distributor of smoke-free tobacco products *HEETS*, *IQOS* devices, electronic cigarette *IQOS VEEV* and *VEEV* pods, KT&G-licensed brands *FIIT* with *LIL* device and related accessories in the Czech Republic, and is also active in the Slovak Republic by means of its 99% share in Philip Morris Slovakia s.r.o. As part of the cooperation among the individual members of the PMI group, Philip Morris ČR a.s. is also involved in the distribution, marketing and sale of tobacco products of Czech and other brands from the portfolio of the PMI group, which are sold to third parties in the Czech Republic, Slovak Republic or other companies within the PMI group.

c. Form and means of control

Philip Morris Holland Holdings B.V. participates in the management of Philip Morris ČR a.s. through its shareholding rights, especially by exercising of its voting rights at general meeting. As a member of the PMI group ultimately controlled (managed) by Philip Morris International Inc., Philip Morris ČR a.s. carries out its activities in line with the globally developed and focused business, financial, investment, and other plans of the PMI group. Decisions on the day-to-day activities and business of Philip Morris ČR a.s. (e.g. budgets, marketing, HR policy, etc.) fall naturally within the autonomous powers of Philip Morris ČR a.s., while taking into account the PMI group's global policy. No holding agreement, joint-venture agreement, agreement on the exercise of voting rights, nor any other similar agreement concerning Philip Morris ČR a.s. was entered into.

d. Overview of actions taken during the 2021 calendar year accounting period at the initiative, or in the interest, of the controlling entity or entities controlled by such controlling entity where such actions related to assets in excess of 10% of the controlled entity's equity as reported in the 2020 financial statements

During the relevant period, Philip Morris ČR a.s. made the following legal acts and other measures at the initiative of the controlling entity or other entities controlled by the controlling entity, which would involve assets exceeding in value 10% of the equity of Philip Morris ČR a.s. represented by the amount of CZK 857 million reported in the latest financial statements as at 31 December 2020:

a. Provision of production services to Philip Morris International Management S.A. in the amount of CZK 2 223 million.

b. Purchase of goods for resale from Philip Morris Products S.A. in the amount of CZK 7 774 million.

c. Sale of goods to Philip Morris Slovakia s.r.o. in the amount of CZK 2 267 million.

d. Dividend payment to Philip Morris Holland Holdings B.V. in the total amount of CZK 2 684 million.

Except for the above mentioned transactions no other measures were adopted during the accounting period in the interest, or at the initiative of, the controlling entity or entities controlled by the same controlling entity, which would relate to assets in excess of 10% of Philip Morris ČR a.s. equity as reported in the financial statements for the accounting period immediately preceding the accounting period, for which the report on relations is being produced.

The Company (i.e. Board of Directors as well as other responsible persons) assessed the conclusion of transactions also with regard to the legal requirements of Section 121s et seq. of the Act No. 256/2004 Coll., in business activities on the capital market, as amended (the "Act on Business Activities on the Capital Market"). The transactions were concluded within the ordinary course of business and under the standard market conditions, thus in accordance with the provisions of the Act on Business Activities on the Capital Market relating to the assessment of the significant transactions with related parties, in particular with Section 121v (1) thereof.

e. Overview of agreements and amendments to existing agreements entered into between the controlled entity and the controlling entity or jointly controlled entities during 2021

Company	Contract	Date
Purchase of goods and services		
Philip Morris Products S.A.	Amendment No. 3 to Distribution Agreement	7/2021
Philip Morris Finance SA	Amendment to the Citibank N.A. Zero Balancing contract	12/2021

Company	Contract	Date
Sale of goods and services		
Philip Morris Kazakhstan LLP	Purchase - Sale Contract No. 4513244	1/2021
Philip Morris Slovakia s.r.o.	Distribution Agreement – Amendment No.6	1/2021
Philip Morris Products S.A.	Manufacturing Services Agreement	1/2021
Philip Morris Tutunski Kombinat Prilep D.O.O Skopje (Macedonia)	Agreement to sell	8/2021

Other performances and counter-performances as specified in the Notes to separate financial statements, Note 25, were fulfilled based on contracts concluded in prior accounting periods, and on negotiated offers and purchase orders without having concluded written contracts.

The controlled entity carried out transactions with the controlling entity and the following jointly controlled entities in 2021

Philip Morris Products S.A. Manufacturing

Intertaba S.p.A

Philip Morris France S.A.S.

Philip Morris Services S.A.

Philip Morris Polska S.A.

Philip Morris Operations a.d. NIS

Papastratos Cigarette Manufacturing Company S.A.

PHILSA Philip Morris Sabanci Sigara ve Tutunculuk Sanayi ve Ticaret A. S.

Philip Morris Hungary Ltd.

Philip Morris International Management S.A.

Philip Morris Slovakia s.r.o.

PJSC Philip Morris Ukraine

PHILIP MORRIS KAZAKHSTAN LLP

Tabaqueira - Empresa Industrial de Tabacos S.A.

Philip Morris Manufacturing GmbH

Philip Morris Products S.A.

Philip Morris Romania S.R.L.

f6 Cigarettenfabrik GmbH & Co. KG

Philip Morris Korea Inc.

UAB Philip Morris Lietuva

AO Philip Morris Izhora

PMFTC, Inc.

PT HANJAYA MANDALA SAMPOERNA TBK.

MASSALIN PARTICULARES S.R.L.

PT PHILIP MORRIS INDONESIA

Philip Morris Productos y Servicios, S. de R.L. C.V. Mexico

PHILIP MORRIS TUTUNSKI KOMBINAT Prilep D.O.O

Philip Morris International Inc.

Philip Morris Global Brands Inc.

CTPM International S.A.

PMI Service Center Europe Sp. z o.o.

Philip Morris International IT Service Center Sàrl

Philip Morris International Insurance (Ireland) Limited

PHILIP MORRIS INVESTMENTS B.V. JORDAN LTD CO.

All the above mentioned companies are ultimately controlled by Philip Morris International Inc.

f. Assessment of advantages and disadvantages arising from the relations between the controlled entity, controlling entity and jointly controlled entities

Various advantages arise to Philip Morris ČR a.s. from its membership in the PMI group.

The PMI group is the leading global producer and distributor with wide portfolio of established brands of cigarettes having a strong financial background, which is beneficial for Philip Morris ČR a.s. particularly when making transactions with its business partners and negotiating with banks and other facility providers.

No disadvantages arise to Philip Morris ČR a.s. from its membership in the PMI group.

No risks arise to Philip Morris ČR a.s. from the relations within the PMI group.

Philip Morris ČR a.s. incurred no damage from the performances, contracts, other acts, other measures, or from any other performances received or provided (including those which were provided in the interest or at the initiative of the other members of the PMI group) contained in this Report on Relations. Transactions between the controlling entity and the jointly controlled entities are detailed in the Notes to separate financial statements, Note 25.

g. Description of the measures taken against abuse of control

Philip Morris ČR a.s. has not taken any special measures against abuse of control by the main shareholder - Philip Morris Holland Holdings B.V. Philip Morris ČR a.s. uses statutory instruments against abuse of control and decisive influence of the controlling entity, in particular:

1. the obligation to draw up a report on relations between the controlling entity and controlled entity and between controlled entity and entities controlled by the same controlling entity;
2. equal treatment of all shareholders of Philip Morris ČR a.s;
3. the prohibition of abuse of a majority of votes in Philip Morris ČR a.s;
4. the obligation of the controlling entity to compensate for harm caused to Philip Morris ČR a.s; and
5. the liability of statutory body of the controlling entity and Philip Morris ČR a.s.

In Kutná Hora on March 28, 2022

Andrea Gontkovičová
Chairperson of the Board of Directors

Anton Stankov
Member of the Board of Directors

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INDEPENDENT AUDITOR'S REPORT

on the consolidated and separate financial statements as at 31 December 2021 of Philip Morris ČR a.s.

<u>Identification data:</u>

Company name:	Philip Morris ČR a.s.
Registration number:	148 03 534
Company address:	Vítězná 1 284 03 Kutná Hora
Balance sheet date:	31 December 2021
Audited period:	from 1 January 2021 to 31 December 2021
Financial reporting framework:	International Financial Reporting Standards as endorsed by the European Union
Date of issue auditor's report:	28 March 2022
Auditor:	Jan Kellner Licence No. 2225 Mazars Audit s.r.o. Licence No. 158

mazars

Independent Auditor's Report for the shareholders of Philip Morris ČR a.s.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Philip Morris ČR a.s. (hereinafter also the "Group") prepared in accordance with International Financial Reporting Standards as endorsed by the European Union, which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated income statement and the statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Group, see Note 1 to the consolidated financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Philip Morris ČR a.s. as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council,4 and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation 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 and the Group in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic 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 for our opinion.

Other Matter

The consolidated financial statements of Group for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those statements on 29 March 2021.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Audit approach
Third party revenue recognition	
For management's disclosure of the revenue recognition related to accounting policies, judgment and estimates see note 2.18 of the consolidated financial statements. We focused on revenue recognition from sales to third parties, because the Group operates a number of incentive schemes for its customers (wholesale and retail organisations). There is an implicit risk that these arrangements might not be appropriately reflected in the consolidated financial statements and revenue is overstated or understated. It also involves a general risk that revenue may be overstated due to possible incorrect recognition of discounts and incentives due to the pressure local management may feel to achieve performance targets.	Our procedures included considering the appropriateness of the Group's revenue recognition accounting policies, including those relating to discounts, incentives and returns. As a response to the general risk of inaccuracy or bias, we performed a walkthrough of the end-to-end process to obtain an understanding of revenue recognition process and tested, on a sample basis, related internal controls around the completeness, accuracy and cut-off of the revenues from the sales to third parties. We also agreed the amounts recorded during the current period to invoices, payments and terms of respective contracts on a sample basis. We tested that revenues, discounts, incentives and returns were recorded in the appropriate period and in the appropriate amount, assessing the performance obligations fulfilment to selected customers during a period shortly before and after the year-end. Based on the procedures described above, we did not identify any material misstatements in revenue recognition, related discounts and incentives.

Other Information in the Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company and the Group obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Company's Board of Directors, Supervisory Board and Audit Committee for the Consolidated Financial Statements

The Board of Directors of Philip Morris ČR a.s. is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors of Philip Morris ČR a.s. is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's financial reporting process in cooperation with the Audit Committee of Philip Morris ČR a.s.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 the above mentioned laws and regulations 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 consolidated financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors of Philip Morris ČR a.s.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain a sufficient and appropriate audit evidence about the financial information of the entities included in the Group and its business activities in order to express an opinion on the consolidated financial statements. We are responsible for overseeing and supervising the Group's audit. The auditor's opinion on the consolidated financial statements is our sole responsibility.

We communicate with the Board of Directors, the Supervisory Board and the Audit Committee 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.

We also provide the Audit Committee with a statement showing that we have complied with the relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's opinion unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweight the public interest benefits of such communication.

REPORT ON THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying separate financial statements of Philip Morris ČR a.s. (hereinafter also the "Company") prepared in accordance with International Financial Reporting Standards as endorsed by the European Union, which comprise the statement of financial position as at 31 December 2021, the income statement and the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Company, see Note 1 to the separate financial statements.

In our opinion, the separate financial statements give a true and fair view of the financial position of Philip Morris ČR a.s. as at 31 December 2021 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council,4 and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation 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 Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic 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 for our opinion.

Other Matter

The separate financial statements of Company for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those statements on 29 March 2021.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Audit approach
Third party revenue recognition	
For management's disclosure of the revenue recognition related to accounting policies, judgment and estimates see note 2.17 of the separate financial statements. We focused on revenue recognition from sales to third parties, because the Group operates a number of incentive schemes for its customers (wholesale and retail organisations). There is an implicit risk that these arrangements might not be appropriately reflected in the separate financial statements and revenue is overstated or understated. It also involves a general risk that revenue may be overstated due to possible incorrect recognition of discounts and incentives due to the pressure local management may feel to achieve performance targets.	Our procedures included considering the appropriateness of the Group's revenue recognition accounting policies, including those relating to discounts, incentives and returns. As a response to the general risk of inaccuracy or bias, we performed a walkthrough of the end-to-end process to obtain an understanding of revenue recognition process and tested, on a sample basis, related internal controls around the completeness, accuracy and cut-off of the revenues from the sales to third parties. We also agreed the amounts recorded during the current period to invoices, payments and terms of respective contracts on a sample basis. We tested that revenues, discounts, incentives and returns were recorded in the appropriate period and in the appropriate amount, assessing the performance obligations fulfilment to selected customers during a period shortly before and after the year-end. Based on the procedures described above, we did not identify any material misstatements in revenue recognition, related discounts and incentives.

Responsibilities of the Company's Board of Directors, Supervisory Board and Audit Committee for the Separate Financial Statements

The Board of Directors of Philip Morris ČR a.s. is responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the Board of Directors of Philip Morris ČR a.s. is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's financial reporting process in cooperation with the Audit Committee of Philip Morris ČR a.s.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 the above mentioned laws and regulations 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 separate financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate 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 the Board of Directors of Philip Morris ČR a.s.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting 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 separate 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors, the Supervisory Board and the Audit Committee 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.

We also provide the Audit Committee with a statement showing that we have complied with the relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's opinion unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweight the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENT

Information required by the Regulation (EU) No. 537/2014 of the European Parliament and of the Council

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Group and the Company by the General Meeting of Shareholders on 24 May 2021 and our uninterrupted engagement has lasted for 1 year.

Consistency with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of Philip Morris ČR a.s., which we issued on 28 March 2022 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

Provision of Non-audit Services

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided.

Report on the compliance with the requirements of the ESEF

We have undertaken a reasonable assurance engagement on the compliance of all financial statements included in the consolidated annual report with the provisions of Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format ("the ESEF Regulation"), related to the financial statements.

Responsibilities of the Board of Directors

The Company's Board of Directors is responsible for the preparation of consolidated financial statements that comply with the ESEF Regulation. This responsibility includes:

- the design, implementation and maintenance of internal control relevant to the application of the ESEF Regulation;
- the preparation of all financial statements included in the consolidated annual report in the applicable XHTML format; and
- the selection and application of XBRL mark-ups as required by the ESEF Regulation.

Auditor's Responsibilities

Our responsibility is to express an opinion on whether the financial statements included in the consolidated annual report comply, in all material respects, with the ESEF Regulation based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information (hereinafter "ISAE 3000").

The nature, timing and extent of procedures selected depend on the auditor's judgment. Reasonable assurance is a high level of assurance, but is not a guarantee that an assurance engagement conducted in accordance with the above standard will always detect any existing material non-compliance with the ESEF Regulation.

Our selected procedures included:

- obtaining an understanding of the requirements of the ESEF Regulation;
- obtaining an understanding of the Company's internal control relevant to the application of the ESEF Regulation;
- identifying and assessing the risks of material non-compliance with the ESEF Regulation, whether due to fraud or error; and
- based on the above, designing and performing procedures to respond to the assessed risks and to obtain reasonable assurance for the purpose of expressing our conclusion.

The objective of our procedures was to evaluate whether:

- the financial statements included in the consolidated annual report were prepared in the applicable XHTML format;
- the disclosures in the consolidated financial statements as specified in the ESEF Regulation were marked up, with all mark-ups meeting the following requirements:
    - the XBRL mark-up language was used;
    - the elements of the core taxonomy specified in the ESEF Regulation with the closest accounting meaning were used, unless an extension taxonomy element was created in compliance with the ESEF Regulation; and
    - the mark-ups complied with the common rules on mark-ups specified in the ESEF Regulation.

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

Conclusion

In our opinion, the Company's financial statements for the year ended 31 December 2021 included in the consolidated annual report are, in all material respects, in compliance with the ESEF Regulation.

Prague, 28 March 2022

UNSIGNED VERSION

Mazars Audit s.r.o.
Licence No. 158
Pobřežní 620/3
186 00 Praha 8

Represented by Jan Kellner

UNSIGNED VERSION

Jan Kellner
Statutory auditor, Licence No. 2225

The report above represents the auditor's report that relates solely and exclusively to the official annual report prepared in the XHTML format. This document is a copy of the independent auditor's report issued on 28 March 2022 on the statutory annual report of Philip Morris ČR a.s. as prepared in accordance with the provision of the ESEF Regulation. The attached copy of the annual report is not prepared in accordance with the ESEF Regulation and therefore does not constitute a statutory annual report and like this copy of the auditor's report, is not a statutory binding document.

Other Information for Shareholders

For the 2021 calendar year accounting period

1. General information on remuneration

In accordance with Section 121r of Act No. 256/2004 Coll., on Business Activities on the Capital Market (hereinafter as the "Act on Business Activities on the Capital Market"), Philip Morris ČR a.s. (hereinafter as the "Company") does not state the information pursuant to Section 118 (4) (f) to (h) of the Act on Business Activities on the Capital Market in its Annual Report. The figures and information on all cash and non-cash income received for the 2021 accounting period by persons with management authority from the Company and from persons/entities controlled by the Company, as well as the information on the number of shares or similar securities representing participations in the Company which are owned by persons with management authority, as well as numerical information on options and other comparable investment tools whose value relates to shares or similar securities representing participations in the issuer and whose parties are the said persons, or which are executed for the benefit of the said persons, are listed in the remuneration report prepared in accordance with Section 121o of the Act on Business Activities on the Capital Market. The principles of providing remuneration to persons with the management authority of the issuer are set out in the remuneration policy of the Company which was approved by a resolution of the General Meeting adopted outside the meeting (per rollam) on 30 June 2020 and is available on the website www.philipmorris.cz, in the section "For Shareholders". In addition to the agreement on performance of office, the remuneration policy forms another basis for remuneration of members of the Board of Directors, Supervisory Board and Audit Committee of the Company.

In 2021, no facts that would lead to a conflict of interest were identified in relation to any member of the Board or any member of the Supervisory Board.

2. Auditor's Fees

In 2021, the following fees were paid for audit and audit-related services rendered to the Company:

Fees for audit and audit-related services

(in CZK million)	2021	2020
Audit of the annual financial statements	6	7
Other verification services	0	0
Tax consultancy - charged by other than statutory auditor	2	1
Other non-audit related services	0	0
Total fees	**8**	**8**

In 2021, the following fees were paid for audit and audit-related services rendered within the Group:

Fees for audit and audit-related services

(in CZK million)	2021	2020
Audit of the annual financial statements	7	8
Other verification services	0	0
Tax consultancy - charged by other than statutory auditor	2	1
Other non-audit related services	0	0
Total fees	**9**	**9**

3. Investments

In 2021, the Company mainly invested in the production equipment to extend its production portfolio and to increase the efficiency of its production. All Company investments in 2021 were implemented in the Czech Republic.

Investments (at cost)

(in CZK million)	2021	2020
Investments in equipment for leaf processing	18	2
Investments in equipment to increase capacity	459	226
Other projects	43	121
Investments in software	2	4
Total investments	**522**	**353**

All investments in intangible and tangible fixed assets were financed from the Company's own sources.
In 2022, the Company plans aggregate investments of CZK 738 million; the Company already committed itself to the purchases amounting to CZK 380 million of the amount above as at 31 December 2021. The Company's investment programs are subject to periodic reviews, but the actual costs may differ from the planned estimates

4. Land plots, buildings and equipment – additional information

As at 31 December 2021, the Company owned land plots, buildings and structures in the net carrying amount of CZK 354 million (2020: CZK 411 million), of which buildings and land plots represented CZK 173 million (2020: CZK 221 million).

Buildings and land

(in CZK million)	Location	Utilization	2021	2020
Buildings (net carrying amounts)	Kutná Hora	Factory	71	110
	Kutná Hora	Warehousing premises	40	42
	Kutná Hora, Strážnice	Other premises	51	58
Total buildings			**162**	**210**
Land (acquisition value)	Kutná Hora	Factory and warehousing premises	11	11
Total land			**11**	**11**
Total buildings and land			**173**	**221**

As at 31 December 2021, the Company owned vehicles and machinery equipment in the amount of CZK 1,950 million (2020: CZK 2,424 million), of which the leaf processing equipment amounted to CZK 160 million (2020: CZK 182 million) and the production machines amounted to CZK 1,532 million (2020: CZK 1,788 million).

The assumed useful life of the leaf processing and cigarette production and packaging equipment is as follows:

Machinery equipment

(in CZK million)	Useful lives in years	2021	2020
Machinery equipment for the leaf processing	5	4	4
(net carrying amounts)	8	18	4
	15	138	174
Total leaf processing equipment		**160**	**182**
Machinery equipment for the production of cigarettes (net carrying amounts)	5	95	10
	8	443	651
	15	994	1 127
Total equipment for the production of cigarettes		**1 532**	**1 788**

As at 31 December 2021, the Company owned other equipment in the net carrying amount of CZK 236 million (2020: CZK 427 million), vehicles in the net carrying amount of CZK 0 million (2020: CZK 0 million), and equipment for data processing in the net carrying amount of CZK 21 million (2020: CZK 27 million).

5. Branch or other part of a business enterprise abroad

The Company has no branch or other part of a business enterprise abroad.

6. Miscellaneous

In the 2021 accounting period, no business interruptions of the Company's activities occurred that had or might have had a significant effect on the financial situation of the Company.

The absolute priority of the Company in 2021 was the protection of health and safety of all employees of the Company, including agency workers and employees of third parties working on the Company's premises. Already in March 2020, the Company's management took a number of extraordinary epidemiological measures to achieve maximum health protection and prevent the spread of COVID-19.

The rules were significantly tightened and the minimum requirements for entry into all areas of the Company and the production plant were adjusted, including the introduction of mandatory body temperature measurement in an automated manner. The Company regularly updated those rules and communicated with all employees accordingly.

The individual work teams were separated in the building of the Kutná Hora production plant and the organisation of work was adjusted so that mutual contact between employees was eliminated at most. All employees were provided with appropriate protective equipment and their use was always enforced even beyond the relevant government regulations.

The Company has created the conditions and promoted safe work from home for all positions that allow it, including the introduction of psychological support programs for employees and a number of online seminars focused on mental health, physical health and the specifics of working from home.

The operation of the Company's headquarters offices was significantly reduced during the year. Every employee's presence on the premises required approval and registration in the system and adherence to strict hygiene measures.

All employees were regularly and transparently informed about the development and impacts of the COVID-19 infection on the Company's operations. All new countermeasures were always consulted with trade union representatives before their introduction, and new financial and non-financial remuneration programmes for employees related to compliance with the set extraordinary anti-pandemic measures at work were implemented.

In the light of government regulations adopted in response to the spread of COVID-19, the Company partially modified its business model to continue to offer adult smokers alternatives that posed a lower health risk than continuing to smoke conventional cigarettes. These changes consisted primarily in prioritising business channels so as to minimise the impact on the Company's business results.

The Company did not use any public support from government-announced subsidy programs as the Company's business was not affected to such an extent that the Company considered it appropriate to apply for such support.

Thanks to proactive cooperation with the Company's suppliers, all risks were minimised, and thus the Company's supply chain was not significantly affected by the situation.

Environmental protection is secured in accordance with the Czech environmental legislation. The Company has been consistently striving to reduce the environmental impact of its activities over the long-term period. For example, it is taking steps for reduction of the energy and water consumption, if this is economically and technologically feasible. Projects of other plants within the PMI group shared through the Knowledge Transfer Package are a source of innovation in this area for the Kutná Hora production plant as well.

Climate protection is a clear priority. The Company supports the Paris Agreement and is adapting its objectives to the recommendations of the Intergovernmental Panel on Climate Change (IPCC).

The Company implements a wide range of activities leading to the reduction of emissions and energy consumption. PMI revised its global target of achieving carbon neutrality across all PMI direct operations (scope 1+2) by 2030. In 2021, PMI released its Low-Carbon Transition Plan (LCTP) which sets company´s ambitious new sustainability targets. Recognizing the urgent action required to tackle the climate change crisis, the LCTP brings forward PMI's aim to achieve carbon neutrality in its direct operations (Scopes 1+2) already in 2025. In 2021, PMI's factory in Kutna Hora underwent a rigorous external audit and has been awarded a carbon neutrality certificate. It ranks among the five PMI´s carbon-neutral factories and is an example of continuous improvement and operational efficiency.

In 2021, the Kutná Hora manufacturing plant also successfully passed a rigorous external audit focused on water management. In the first half of 2021, the so-called pre-assessment phase took place, followed by a professional external audit took place at the production plant. The audit confirmed that we have been reducing the consumption of water in the long term and treating it sustainably at our production plant. Kutná Hora factory was therefore awarded AWS standard certificate (Alliance for Water Stewardship).

According to the non-profit organisation CDP (Carbon Disclosure Project), the PMI group is already one of the 10 best companies in the world in the protection of climate, forests and drinking water.

The Company's supply chain is responsible for a significant part of the Company's social and environmental footprint. As the Company's supply chain integrates and globalises, the Company's ability to balance security of supply, cost-effectiveness, high quality requirements, and environmental and social standards is a top priority as well as a challenge.

The supply chain may be exposed to potentially significant environmental, social and governance risks. The PMI Group is fully committed to continuously identifying and addressing these risks, while increasing the sustainability of its supply chain.

The Company does not carry out any research and development activities.

The Company considered climate changes when accessing the impact and is not aware of any major impacts that could adversely affect its business and future operating results.

Additional non-financial information will be included in the separate Integrated Report 2021 of Philip Morris International Inc., which will be published no later than on 30 June 2022 and will be freely accessible at www.pmi.com.

The Company is not a party to any pending legal, administrative or arbitration proceedings that have or might have a substantial effect on the financial situation of the Company.

7. Dividend Policy of the Company

The Company does not have an established dividend policy; the profit of the Company (or other Company's own sources, if applicable) is distributed in the manner approved by the General Meeting according to the economic results of the Company based on a proposal of the Board of Directors and after a review of the proposal by the Supervisory Board. In general, the shares in profit are usually paid to the Company´s shareholders, provided that all the statutory criteria are met, from the Company's profit for the respective accounting period remaining after the payment of tax and other similar liabilities and, if approved by the General Meeting of the Company, also from a part of the Company's retained earnings from prior years. In accordance with Articles 6 (7) and 23 (5) of the Company's Articles of Association, valid and effective in 2021 as well as in accordance with the Act No. 90/2012 Coll., on Commercial Companies and Cooperatives (Business Corporations Act) is based on the proportion of the nominal value of shares owned by that shareholder to the registered capital of the Company.

The shares in the Company's profit (in other Company's own sources) are paid to the Company's shareholders: in case of book-entered shares to those listed in the extract from the Issue Register of the Company, i.e. in the register of book-entered securities maintained in accordance with a special legal regulation as at the date decisive for exercising the right to a share in the profit and, in the case of certificated shares, to those listed in the list of the Company's shareholders as at the date decisive for exercising the right to a share in the profit (unless it is proven that the relevant entry in the list of the Company's shareholders as at that date fails to reflect the actual state of affairs).

8. Members of the administrative, management or supervisory bodies of Philip Morris ČR a.s. and other persons described in item 12.1. of Annex 1 to Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004 (hereinafter as the "Members of the Company's Bodies")

The Members of the Company's Bodies are not at present, and were not during the previous five years, members of any administrative, management or supervisory bodies of or shareholders (partners) of other companies, except for the information referred to in the section of the Annual Report titled "Members of the Board of Directors, Supervisory Board and Audit Committee of Philip Morris ČR a.s.".

None of the Members of the Company's Bodies was convicted in relation to any fraudulent offences in the previous five years.

None of the Members of the Company's Bodies was connected with any bankruptcies, receiverships or liquidations in the previous five years.

None of the Members of the Company's Bodies was deprived of capability to perform office as a member of administrative, management or supervisory bodies or a managing function of any issuer in the previous five years.

The Members of the Company's Bodies have no family relationships between themselves.

No official public accusations were made against any Member of the Company's Bodies and no sanctions were imposed by statutory or regulatory authorities on any Member of the Company's Bodies in the previous five years.

9. Members of the Board of Directors

No bankruptcy has been declared in respect of assets of any member of the Board of Directors. No member of the Board of Directors has been restricted in dealing with his/her assets by a preliminary injunction issued in the course of insolvency proceedings, nor has any insolvency petition been filed against any member of the Board of Directors and rejected on the grounds that the assets of that member of the Board of Directors were insufficient to cover the costs of the insolvency proceedings.

All members of the Board of Directors are persons of good repute within the meaning of the Trade Licensing Act No. 455/1991 Coll., as amended (the "Trade Licensing Act"), i.e. they have not been finally and conclusively sentenced for any criminal offence committed wilfully in connection with the business activities or scope of business of the Company, and there is no obstacle preventing any of the members of the Board of Directors from carrying on a trade, and in particular no court or administrative authority has restrained any of the members of the Board of Directors from any activities relating to the carrying on a trade.

10. Description of the measures taken against abuse of control

The Company has not taken any special measures against abuse of control by the main shareholder – Philip Morris Holland Holdings B.V. The Company uses statutory instruments against abuse of control and decisive influence of the controlling entity.

In Kutná Hora, on 28 March 2022

Andrea Gontkovičová
Chairperson of the Board of Directors

Anton Stankov
Member of the Board of Directors

A. Summary Explanatory Report of the Board of Directors of Philip Morris ČR a.s.

for the 2021 calendar year accounting period pursuant to Section 118 (9) of Act No. 256/2004 Coll., on Business Activities on the Capital Market, as amended (the "Act on Business Activities on the Capital Market"), regarding the matters pursuant to Section 118 (5) (a) to (k) of the Act on Business Activities on the Capital Market

(i) Information about the structure of the issuer's equity, including securities which have not been admitted for trading on a European regulated market and, if applicable, specification of the various classes of shares or similar securities representing participation in the issuer and specification of the share in the registered capital of each class of shares or similar securities representing participation in the issuer:

The equity of Philip Morris ČR a.s. (the "Company") consists of three basic components: the registered capital, share premium and other shareholders' contributions and accumulated retained earnings.

(in CZK million)	2021	2020
Registered capital	2 745	2 745
Share premium and other shareholders' contributions	2 367	2 362
Accumulated retained earnings	3 603	3 463
Total Equity	**8 715**	**8 570**

The Company's registered capital comprises 2,745,386 registered shares with a nominal value of CZK 1,000 each. The Company has been primarily listed on the Prague Stock Exchange, trading from 13 July 1993. 1,913,698 book-entry registered shares have been admitted for trading on the main market of the Prague Stock Exchange (Burza cenných papírů Praha, a.s.). These shares are book-entry shares in accordance with Act No. 90/2012 Coll., on Business Corporations and Cooperatives (the Business Corporations Act). The remaining 831,688 registered shares (these shares are certificated shares in accordance with the Business Corporations Act specified above) have not been admitted for trading on any European regulated market. The Company's registered capital has been fully paid up.

(ii) Information about limitations on the transferability of securities:

For the transfer of the Company's shares, it is necessary to meet only the requirements set by the legal regulations. The Company's Articles of Association do not set any limitations on the transfer of the Company's shares, and there are no other restrictions from the Company relating to the transferability of the Company's shares.

(iii) Information about significant direct and indirect participation in the issuer's voting rights:

The information on significant direct participations in the issuer's voting rights as at 31 December 2021 is specified in the Notes to the financial statements, point 1.1. Company description, and in the report on relations between controlling entity and controlled entity and between controlled entity and entities controlled by the same controlling entity (the "Report on Relations between Related Parties"), including information about the corresponding shares in the Company's registered capital.

The composition of significant direct participation in the Company's voting rights as at 31 December 2021 is only known to the Company in the case of the controlling entity, Philip Morris Holland Holdings B.V. This entity has the same voting rights as the other shareholders.

The other shareholders of the Company whose participation in the Company's registered capital (and thus in the Company's voting rights) amounts to at least 1% in accordance with Section 122 of the Act on Business Activities on the Capital Market, are the following funds managed by the company:

- Clearstream Banking, S.A., with its registered office at 42 Avenue JF Kennedy, Luxembourg, 1855 Luxembourg, voting rights 1%;

- Chase Nominees Limited, with its registered office at 25 Bank Street, Canary Wharf, London, E14 5JP, United Kingdom of Great Britain and Northern Ireland, voting rights 1 %;

Save for Philip Morris Holland Holdings B.V. and the funds managed by Clearstream Banking, S.A., Chase Nominees Limited, the Company is not aware of (i) any other significant direct or indirect participations in the Company's voting rights; or (ii) any Company's shareholders whose participations in the Company's voting rights amount to at least 3%.

(iv) Information about the holders of securities with special rights, including the description of such rights:
The Company did not issue any shares with special rights; it only issued the shares specified in section (i) above.

(v) Information about limitations on voting rights:
Voting rights apply to all shares issued by the Company and may only be limited or excluded where stipulated by law. The Company is not aware of any restrictions on or exclusions of voting rights attached to the shares that it has issued other than those restrictions on and exclusions of voting rights stipulated by law.

(vi) Information about agreements between shareholders or similar holders of securities representing participation in the issuer that may reduce the transferability of shares or similar securities representing participation in the issuer or transferability of voting rights, if known to the issuer:
The Company is not aware of any agreements between shareholders that may reduce the transferability of shares or similar securities representing participation in the Company or transferability of voting rights.

(vii) Information about special rules regulating the election and recalling of members of the statutory body and changes to the Articles of Association or any other similar document(s) of the issuer:
The members of the Company's Board of Directors are elected and recalled by the General Meeting of the Company. The conditions relating to the election of the members of the Board of Directors are stipulated by law and by the Company's Articles of Association. The Company has no special rules regulating the election and recalling of members of the Board of Directors. The Company also does not have any special rules regulating amendments and changes to the Articles of Association of the Company.

(viii) Information about special powers of the statutory body pursuant to the Business Corporations Act:
The members of the Board of Directors have no special powers.

(ix) Information about significant agreements to which the issuer is a party and which will become effective, be amended or cease to exist in the event of a change of control of the issuer as a result of a take-over bid, and about the effects arising from such agreements, with the exception of agreements whose disclosure would cause serious harm to the issuer; this does not limit any other obligation to disclose such information pursuant to the Act on Business Activities on the Capital Market or any other legal regulations in force:
The Company has not entered into any agreements that will become effective, be amended or cease to exist in the event of a change of control of the issuer as a result of a take-over bid.

(x) Information about agreements between the issuer and the members of its statutory body or employees that bind the issuer to take on any commitments in the event of termination of their offices or employment in connection with a take-over bid:
The Company has not entered into any agreements with the members of the Board of Directors or employees that bind the Company to take on any commitments in the event of termination of their offices or employment in connection with a take-over bid.

(xi) Information about schemes on the basis of which employees and members of the Company's statutory body may acquire participation securities in the Company, options concerning such securities or any other rights related to these securities, under more favourable terms, and information about how these rights are exercised:

The Company has no schemes on the basis of which employees or members of the Board of Directors of the Company may acquire participation securities in the Company, options concerning such securities or any other rights related to these securities under more favourable terms.

(xii) Non-financial information
Under Act on Accounting No. 563/1991 Coll. the Company is obliged to provide non-financial information. As non-financial information will be included in a separate report by Philip Morris International Inc. (the "PMI"), the Company used the exemption not to disclose non-financial information in the annual report or in the consolidated annual report, or in a separate report of the Company. This procedure is expressly allowed by the Act on Accounting (Section

32g (7)). Non-financial information will be included in the separate Sustainability Report of PMI, which will be published no later than on 30 June 2022 and freely accessible at www.pmi.com.

B. Information on Application of the Rules of Corporate Governance

Information about the Company for the 2021 calendar year accounting period pursuant to Section 118 (4) (j), and Section 118 (6), of the Act on Business Activities on the Capital Market

The Company voluntarily complies with and meets the main criteria, principles and recommendations of the PMI Code of Conduct based on the OECD Principles, which was adopted in 2004 by the Securities Commission (the "Code"). The Code is available at the registered office of the Company or in a manner allowing for remote access at the following website: www.philipmorris.cz. The Company respects and complies with the principles set out by the Code that correspond to the interests of the Company's shareholders and methods of the Company's business and implements these principles in its internal procedures. In 2021, there were no material changes in the Company that would have an adverse effect on the corporate governance standards.
The Company is firmly dedicated to maintain and develop an efficient framework for the control and management of the Company's business. The Company properly ensures the compliance with all rights of shareholders, in particular the right to equal treatment of all shareholders in compliance with applicable legal regulations. The Company strongly prides itself on its transparency, not only in relation to the convocation of the General Meetings, but also in relation to providing information about matters within the Company and disclosing its financial results, business plans and relationships with related entities. Members of the Company's bodies act with due managerial care, diligently and with the necessary knowledge, and comply with the applicable legal regulations while performing any of their acts.

Information about the Company for the 2021 calendar year accounting period pursuant to Section 118 (4) (b), (c), (d), (e) and (l) of the Act on Business Activities on the Capital Market

(i) Information about the principles and procedures related to internal control and the rules relating to the approach of the issuer and its consolidated group to the risks that the issuer and its consolidated group are facing or may face in relation to the financial reporting process:
In its operations, the Company faces a number of external and internal risks as presented in the report of the Board of Directors and in the notes to the financial statements and the consolidated financial statements. The Company has therefore set up procedures and processes that aim to identify, quantify and mitigate these risks in order to prevent and manage them effectively.

The internal controls department represents an important component of corporate governance and provides the bodies of the Company with objective assessments of the adequacy and operating effectiveness of the Company's internal control system. In 2021, the internal controls department carried out a number of audits, as per the risk-based annual audit plan and requirements of the bodies of the Company.

The internal controls department assesses the control mechanisms, procedures and systems in place to ensure reliability and integrity of financial and operational information, safeguarding of the Company's assets, compliance with the Company's internal policies and the cost effective and efficient use of resources.

In order to prevent or promptly detect any possible errors and frauds related to the financial reporting process, the Company has implemented controls in the form of internal policies covering the risk areas of the business (e.g. revenue recognition, capital assets and leases, inventory valuation, costs and expenses, etc.), whose adequacy and effectiveness are continuously assessed by the internal controls department.

The internal controls department reports its findings to the Board of Directors, the Supervisory Board and the Audit Committee, provides them with objective assessments of the Company's control system and formulates measures to remedy deficiencies, if any deficiencies are identified. The results of the control system assessments are also discussed with the Company's external auditor.

The Company takes appropriate measures to correct deficiencies identified during audits. The internal controls department then monitors the implementation of such measures and reports to the management of the Company and its bodies.

The work of the internal controls department is also overseen by the Audit Committee. In 2021, the Audit Committee did not ascertain any deficiencies that could materially affect the financial reporting process.

(ii) Description of the decision-making procedures and composition of the issuer's statutory body, supervisory board or any other executive or controlling body and of the issuer's committees if any, as well as information about the audit committee pursuant to Section 44 et seq. of the Act No. 93/2009 Coll., on Auditors:

The Board of Directors of the Company is the statutory body that manages the Company's activities, acts for the Company and on its behalf in the manner defined in the Company's Articles of Association, and consists of six members who are elected and recalled by the General Meeting. Members of the Board of Directors shall elect from amongst themselves one member as the Chairperson of the Board of Directors and shall also recall the Chairperson. The Board of Directors decides by way of resolutions which are generally adopted at Board of Directors meetings. The Board of Directors is quorate if a simple majority of all its members are present. Resolutions are adopted if they are approved by a simple majority of the members of the Board of Directors present. Every member of the Board of Directors has one vote. In the event of a tie, the Chairperson's vote shall be decisive.

If so proposed by the Chairperson or, if the Board of Directors does not have a Chairperson, by any other member of the Board of Directors, the Board of Directors may adopt resolutions outside of a meeting, provided that all members of the Board of Directors agree with this. The Board of Directors is quorate for outside-of-meeting voting if a simple majority of all members of the Board of Directors participate in such voting. Resolutions are adopted if they are approved by a simple majority of the members of the Board of Directors participating in the outside-of-meeting voting. In the event of a tie, the Chairperson's vote shall be decisive.

In the 2021 calendar year accounting period, the Board of Directors consisted of the following members:

a. Mrs. Andrea Gontkovičová (Chairperson of the Board of Directors) (for the whole accounting period), who has an Agreement on the Performance of the Office of Member of the Board of Directors concluded with the Company and an Employment Agreement dated 1 May 1997 with PMI;
b. Mr. Petr Šebek (for the whole accounting period), who had an Agreement on the Performance of the Office of Member of the Board of Directors concluded with the Company and an Employment Agreement dated 1 April 2011 with the Company;
c. Mr. Petr Šedivec (for the whole accounting period), who has an Agreement on the Performance of the Office of Member of the Board of Directors and an Employment Agreement dated 1 October 2010 concluded with the Company;
d. Mr. Peter Piroch (for the whole accounting period), who has an Agreement on the Performance of the Office of Member of the Board of Directors concluded with the Company and an Employment Agreement dated 1 April 1993 with Philip Morris Slovakia s.r.o.;
e. Mr. Piotr Andrzej Cerek (for the whole accounting period), who has an Agreement on the Performance of the Office of Member of the Board of Directors concluded with the Company and an Employment Agreement dated 8 August 1994 with Philip Morris Polska S.A.;
f. Mr. Anton Stankov (as of 29 September 2021, when he was, in accordance with Article 14 (4) of the Company's Articles of Association, appointed as a substitute member of the Board of Directors), who has an Agreement on the Performance of the Office of Member of the Board of Directors and an Employment Agreement dated 5 October 1998 concluded with PMI.

The Supervisory Board consists of six members, who may be natural persons or legal entities and must comply with the requirements stipulated by law. Two members of the Supervisory Board are elected and recalled by the Company's employees in accordance with the Business Corporations Act and the remaining four members are elected and recalled by the General Meeting. The members of the Supervisory Board elect from amongst themselves one member as the Chairperson and also recall the Chairperson. The Supervisory Board is quorate if a simple majority of all its members are present. Every member of the Supervisory Board has one vote. Resolutions are adopted if they are approved by a simple majority of all members of the Supervisory Board. The same rules as those for adopting resolutions outside the Board of Directors meetings apply to adopting resolutions outside the Supervisory Board meetings; approval by the majority of votes of all members of the Supervisory Board is required for such a resolution to be adopted. In the event of a tie, the Chairperson's vote shall be decisive.

a. Mr. Stefan Bauer (Chairman of the Supervisory Board) (for the whole accounting period), who has an Agreement on the Performance of the Office of Member of the Supervisory Board concluded with the Company and an Employment Agreement with PMI dated 17 November 1997;
b. Mrs. prof. Ing. Alena Zemplinerová (for the whole accounting period), who has an Agreement on the Performance of the Office of Member of the Supervisory Board concluded with the Company;

c. Mr. Tomáš Hilgard (for the whole accounting period) (member of the Supervisory Board representing the Company's employees), who has an Agreement on the Performance of the Office of Member of the Supervisory Board and an Employment Agreement dated 1 January 1993 concluded with the Company;

d. Mr. Richard Vašíček (until 30 June 2021) (member of the Supervisory Board representing the Company's employees), who had an Agreement on the Performance of the Office of Member of the Supervisory Board and an Employment Agreement dated 1 March 1991 concluded with the Company, which ended 30 June 2021;

e. Mr. Roman Grametbauer (as of 1 July 2021) (replaced Mr. Richard Vašíček as a member of the Supervisory Board representing the Company's employees), who has an Agreement on the Performance of the Office of Member of the Supervisory Board and an Employment Agreement dated 1 June 2017 concluded with the Company;

f. Mrs. Stanislava Juríková (for the whole accounting period), who has an Agreement on the Performance of the Office of Member of the Supervisory Board concluded with the Company; and

g. Mr. Sergio Colarusso (for the whole accounting period), who has an Agreement on the Performance of the Office of Member of the Supervisory Board concluded with the Company and an Employment Agreement with PMI dated 1 December 2002;

were the Members of the Supervisory Board of the Company in the 2021 calendar year accounting period.

Employment agreements of members of the Board of Directors and the Supervisory Board are usually concluded for an indefinite period. Upon termination of employment of the Board of Directors' and the Supervisory Board's members employed by the Company, such members are entitled to severance payment subject to the length of their employment, however at least to three times their average earnings, pursuant to the applicable legal regulations and the respective Company's collective labor agreement. Upon termination of the employment of the Board of Directors' and the Supervisory Board's members employed by PMI or companies controlled by PMI other than the Company (the "PMI Group"), such members are entitled to emoluments related to the termination of employment pursuant to the applicable legal regulations of the respective country or pursuant to the collective labor agreement or the relevant internal regulation of a PMI Group company that employed the particular Board of Directors' or the Supervisory Board's member.

The Audit Committee consists of three members, who may be individuals or legal entities meeting the requirements of the relevant legal regulations with respect to the performance of this office and the performance of the office of member of the Supervisory Board. The members are appointed and recalled by the General Meeting. The members of the Audit Committee elect and recall from amongst themselves one member as the Chairperson. The Audit Committee is quorate if a simple majority of all its members are present at its meeting. Every member of the Audit Committee has one vote. Resolutions of the Audit Committee are adopted if they are approved by a simple majority of all members of the Audit Committee, unless the Articles of Association or the legal regulations require a higher number of votes necessary for the adoption of resolutions. The same rules as those for adopting resolutions outside the Board of Directors meetings apply to adopting resolutions outside the Audit Committee meetings; approval by the majority of votes of all members of the **Audit Committee is required for such a resolution to be adopted. In the event of a tie, the Chairperson's vote shall be decisive:**

a. Mr. Stefan Bauer (Chairperson of the Audit Committee) (for the whole accounting period);

b. Mr. Johannis van Capelleveen (until 30 June 2021);

c. Mr. Petr Šobotník (as of 1 July 2021); and

d. Mrs. Stanislava Juríková (for the whole accounting period);

were the Members of the Audit Committee of the Company in the 2021 calendar year accounting period.

(iii) Description of the rights and obligations relating to the relevant classes of shares or similar securities representing participation in the issuer, at least by way of reference to the Business Corporations Act and the issuer's Articles of Association with regard to classes of shares, or reference to a similar foreign legal regulation or a document similar to the Articles of Association with regard to classes of such similar securities representing participation in the issuer:
The rights and obligations of shareholders are set out in legal regulations, in particular the Business Corporations Act and Act No. 89/2012 Coll., the Civil Code, and in the Articles of Association of the Company.

The authorized holders of the shares are entitled to take part in the Company's management. This right is principally exercised by the shareholders at General Meetings, which they have a right to attend. At the General Meeting, the shareholders have the right to vote, to ask for and receive explanations regarding matters concerning the Company as well as matters concerning persons/entities controlled by the Company, should any such explanations be necessary for the assessment of the content of matters on the agenda of the General Meeting or for the exercise of shareholders' rights at the General Meeting, and to submit proposals and counterproposals in relation to the matters on the agenda of the General Meeting.

The shareholders are further entitled to receive shares in the Company's profit (dividends) and in other Company's own sources. The shareholders may not demand a refund of their investment contribution during the existence of the Company or in the event of its dissolution.

If the Company is wound up with liquidation, each shareholders is entitled to receive a share in the liquidation balance

A shareholder is obliged to pay the issue price and the share premium, if any, for the shares that the shareholder has subscribed to.

(iv) Description of the decision-making procedures and the basic scope of powers of the issuer's general meeting or a similar meeting of holders of securities representing participation in the issuer:
The General Meeting is the supreme body of the Company. It makes decisions on all matters of the Company that fall within its powers pursuant to law or the Company's Articles of Association.

The powers of the General Meeting particularly include the power to amend the Articles of Association, to resolve on changes to the amount of the registered capital or on the authorization of the Board of Directors to increase the registered capital, to resolve on the approval of the ordinary, extraordinary or consolidated financial statements and, where stipulated by law, also interim financial statements, to resolve on the issue of convertible or priority bonds, on the winding-up of the Company with liquidation and on any transformation of the Company, unless the law governing transformations of companies and cooperatives stipulates otherwise.

Furthermore, it is within the powers of the General Meeting to resolve on the possibility of setting off a receivable from the Company against a receivable of the Company regarding payment of the issue price, to elect and recall members of the Company's Board of Directors, the Supervisory Board and the Audit Committee, unless the law stipulates otherwise, to resolve on the distribution of profit or other Company's sources or on the settlement of a loss, to resolve on filing of any application for the acceptance of participating securities of the Company for trading on a European regulated market or for withdrawal of these securities from trading on a European regulated market, to appoint and recall a liquidator, to approve the agreement on performance of the liquidator office, to approve the final report on the course of the liquidation and a proposal for use of the liquidation balance, to approve any transfer or pledge of an enterprise or such a part of the assets and liabilities that would mean a material change to the actual scope of business or activities of the Company, to resolve on the assumption of the effect of acts performed for and on behalf of the Company before its establishment, to approve any agreement on silent partnership (company) and any other agreement establishing a right to a share in the Company's profit or other Company's own sources, to resolve on the approval of the agreements on performance of office of member of the Board of Directors, the Supervisory Board and the Audit Committee, and on their remuneration or the provision of any other benefits to which they are not entitled on the basis of a legal regulation or the agreement on performance of office approved by the General Meeting or on the basis of an internal regulation approved by the General Meeting, to resolve on changes to the rights attached to a certain class of shares, to resolve on changes to the class and type of shares, to resolve on share splitting or merger of a number of shares into a single share, to resolve on the restriction of share transferability or any change thereto, to resolve on the acquisition by the Company of its own shares in accordance with the applicable legal regulations, to resolve on the appointment of an auditor of the Company, to resolve on the approval of the compensation policy, to resolve on the approval of the compensation report, to resolve on the approval of any significant transaction under the conditions stipulated in Section 121s of the Act on Business Activities on the Capital Market, and to resolve on any other matters which the law or these Articles of Association place under the authority of the General Meeting.

Each share with a nominal value of CZK 1,000 shall represent one vote. The General Meeting is quorate if attended by shareholders holding shares whose nominal value or number exceeds 30% of the Company's registered capital. The General Meeting shall adopt its resolutions by a simple majority of votes of the shareholders present, unless required otherwise by the Business Corporations Act or by the Articles of Association of the Company. A shareholder may not exercise its voting rights in the cases stipulated by law. At the General Meeting, voting is performed by ballot, in which case shareholders receive the ballots upon their registration in the attendance list, or in any other suitable manner allowing for electronic voting. The General Meeting shall resolve whether the voting shall be performed by ballot or electronically. The General Meeting shall first vote on the proposals submitted by the Board of Directors or the Supervisory Board. If no such proposals are submitted or adopted, shareholders' (counter-)proposals are voted on.

(v) A description of the diversity policy applied to the statutory body, the supervisory board, the managing board or any other similar body of the issuer, taking into account, for example, the age, gender or education criteria and the expertise and experience, including information on the objectives of the policy, on how the diversity policy is being implemented and what results its implementation has brought in the relevant financial year.

If the issuer does not apply a diversity policy, it shall state in the place of its description the reasons why it does not apply this policy.

The Company does not apply any specific diversity policy to the Board of Directors, the Supervisory Board or the Audit Committee. This is mainly due to the way in which these Company's bodies are elected. Members of the Board of Directors, the Supervisory Board and the Audit Committee are elected by the General Meeting of the Company. Another reason is the observance of the principles of non-discrimination and equal treatment towards all persons in filling managerial positions and positions in the Company's bodies; these principles are present in all activities that the Company performs. The Company complies with these principles as well as with the rules set forth in the relevant legal regulations, and is concerned to prevent any non-equality, unfavorable treatment or any other forms of discrimination, whether direct or indirect. These principles are always respected in the election of members of the Company's bodies. With regard to the high-quality requirements applicable to members of the Company's bodies, to the specific sector in which the Company conducts its business and to the respect for the free election of shareholders, the members of the Board of Directors, the Supervisory Board and the Audit Committee are always elected on a non-discriminatory basis, mainly on the basis of their professional experience, professional knowledge, qualifications for the good performance of their offices, irrespective of origin or characteristics of the candidates.

Members of Board of Directors, Supervisory Board and Audit Committee of Philip Morris ČR a.s.

as of the publication date of this annual report

Pursuant to Articles 14, 17 and 20 of the Articles of Association, the terms of office of a member of the Board of Directors, the Supervisory Board and the Audit Committee is three years. A member of any of these corporate bodies may be re-elected.

Board of Directors

Andrea Gontkovičová, Chairperson of the Board of Directors

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mrs. Gontkovičová was appointed to the position of the General Manager responsible for the Czech Republic, the Slovak Republic and Hungary, and elected the Chairman of the Board of Directors Philip Morris ČR a.s. with effect from October 1, 2019.

She started working for Philip Morris Slovakia s.r.o. in 1997 and held various positions within the company, including Corporate Affairs department. In 2004 she was relocated to Philip Morris International Inc. in Switzerland and she gained new experiences in the regional Strategic Planning department. Upon her return in December 2005 she was appointed as the Head of the Corporate Affairs department in Philip Morris Slovakia s.r.o. In September 2009 she started a new role as a Director Corporate Affairs and Member of the Board of Directors of Philip Morris ČR a.s. In 2012 she was appointed Director Corporate Affairs for EU Region of Philip Morris International Inc. in Switzerland and in 2016 she became Director RRP Commercialization. Upon her return to Philip Morris ČR a.s. in 2016 she was appointed to the position of Director RRP CZ, SK & HU. In September 2018 she was appointed to the position of Director Commercial Development CZ, SK, HU at Philip Morris ČR a.s. in September 2018. Since April 26, 2019 Mrs. Andrea Gontkovičová has been a member of the Board of Directors.

Mrs. Gontkovičová holds a master's degree in Philosophy.

Mrs. Gontkovičová was elected as a member of the Board of Directors of Philip Morris ČR a.s. by the Annual General Meeting of Shareholders on April 26, 2019 for a period of three years. Mrs Gontkovičová was elected as a Chairperson of the Board of Directors by the other members of the Board of Directors with effect from October 1, 2019.

In the previous five years Mrs Gontkovičová was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Chairperson of the Board	Philip Morris ČR a.s.	Czech Republic	1.10.2019	
Member of the Board	Philip Morris ČR a.s.	Czech Republic	26.4.2019	

Anton Stankov, member of the Board of Directors

Contact address: Philip Morris ČR a.s., Vítězná 1, 284 03 Kutná Hora

Mr. Stankov joined Philip Morris in 1998 in Switzerland, having previously worked with Arthur Andersen &Co. He was appointed Director Finance with responsibility for Czech Republic, Slovakia, and Hungary on May 1, 2021. Throughout his career with Philip Morris, Mr. Stankov has held numerous roles in Corporate Audit and Finance in Switzerland, moving on to Controller Mexico, CFO Pakistan, Finance Director Philippines and overseeing the finance and business planning functions in those affiliates.

Mr. Stankov holds a Business Administration degree from the American University in Bulgaria, a diploma in International Business and Trade from American University in Washington, D.C., and is a Fellow Certified Chartered Accountant with the ACCA in the United Kingdom.

Pursuant to Article 14 par. 4 of the Articles of Association, Mr. Stankov was appointed as a member of the Board of Directors of Philip Morris ČR a.s. by the other members of the Board of Directors on September 29, 2021 until the next General Meeting.

In the previous five years Mr. Stankov was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Member of the Board	Philip Morris ČR a.s.	Czech Republic	29.9.2021	
Director	Philip Morris Philippines Manufacturing Inc.	Philippines	1.3.2019	1.6.2021
Director	PMFTC Inc.	Philippines	1.3.2019	7.5.2021
Executive Director	Philip Morris (Pakistan) Limited	Pakistan	2.3.2016	11.2.2019

Petr Šedivec, member of the Board of Directors

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mr. Šedivec was appointed to the position of General Manager of Philip Morris Slovakia s.r.o. in April 2021. He began his career with Philip Morris ČR a.s. in 2010 as Manager Business Development and Planning, followed by the positions of Manager Commercial Intelligence and Manager Business Development and Planning and Director Finance and IS with responsibility for the Czech Republic, Slovakia and Hungary.. Prior to joining Philip Morris ČR a.s. he worked for thirteen years for Procter & Gamble where he held number of positions in Commercial and Customer Finance, Brand, Accounting, Corporate Audit, Strategic planning for multiple markets across EU and Eastern Europe.

Mr. Šedivec graduated in Accounting from South-Bohemian University in České Budějovice.
On April 27, 2018 Mr. Šedivec was elected as a member of the Board of Directors of Philip Morris ČR a.s. by the Annual General Meeting of Shareholders for a period of three years. On May 22, 2021 Mr. Šedivec was re-elected as a member of the Board of Directors of Philip Morris ČR a.s. by the General Meeting of Shareholders performed outside the meeting (per rollam) for a period of three years.

In the previous five years Mr. Šedivec was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Member of the Board	Philip Morris ČR a.s.	Czech Republic	27.4.2018	
Executive Director	Philip Morris Slovakia s.r.o.	Slovakia	30.3.2021	

Petr Šebek, member of the Board of Directors

Contact address: Philip Morris ČR a.s., Vítězná 1, 284 03 Kutná Hora

Mr. Šebek was appointed to the position of Director External Affairs in January 2020. He began his career with Philip Morris ČR a.s. in 2011 as a Manager Regulatory and Fiscal Affairs, followed by the positions of Manager Corporate Affairs for Slovakia and Director Communications for the Czech Republic, Slovakia and Hungary. Prior to joining Philip Morris ČR a.s., he held several positions in public sector at the Region of South Bohemia and the European Parliament. Before 2000, he worked for regional TV and radio stations.

Mr. Šebek graduated from South-Bohemian University in České Budějovice in 1997.

Pursuant to Article 14 par. 4 of the Articles of Association, Mr. Šebek was appointed as a member of the Board of Directors of Philip Morris ČR a.s. by the other members of the Board of Directors on January 20, 2020 until the next General Meeting. On July 1, 2020 Mr. Sebek was elected as a member of the Board of Directors of Philip Morris ČR a.s. by the General Meeting of Shareholders performed outside the meeting (per rollam) for a period of three years.

In the previous five years Mr Šebek was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Member of the Board	Philip Morris ČR a.s.	Czech Republic	20.1.2020	
Executive Director	Philip Morris Slovakia s.r.o.	Slovakia	30.4.2015	26.4.2019

Piotr Andrzej Cerek, member of the Board of Directors

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mr. Cerek was appointed to the position of Director Operations of Philip Morris ČR a.s in October 2019. He joined Philip Morris in 1994 in Poland as a trainee in production department. Subsequently he held a number of managerial positions in Operations. In 2006 he started his first international assignment as Production Manager in Kharkov factory in Ukraine followed by assignments in Supply Chain Poland, Manufacturing Director in Russia, Operations Director in Ukraine, followed by the position of Director Manufacturing Equipment Engineering in Switzerland.

Mr Cerek holds a master’s degree in Engineering from Krakow Technology University in Poland.
Pursuant to Article 14 par. 4 of the Articles of Association, Mr. Cerek was appointed as a member of the Board of Directors of Philip Morris ČR a.s. by the other members of the Board of Directors on September 23, 2019 until the next General Meeting. On July 1, 2020 Mr. Cerek was elected as a member of the Board of Directors of Philip Morris ČR a.s. by the General Meeting of Shareholders performed outside the meeting (per rollam) for a period of three years.

In the previous five years, Mr. Cerek was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Member of the Board	Philip Morris ČR a.s.	Czech Republic	23.9.2019	
Member of the Board	PMI Engineering S.A.	Switzerland	1.1.2017	2.12.2019
Director	PrJSC Philip Morris Ukraine	Ukraine	28.9.2012	29.12.2016

Peter Piroch, member of the Board of Directors

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mr. Piroch was appointed to the position of Director Commercial Deployment of Philip Morris ČR a.s. in May 2019. Since January 1, 2020 the position has been renamed to Director Commercial Operations CZ.
He began his career with Philip Morris Slovakia s.r.o. in 1993. Subsequently he held a number of managerial positions in Sales and Marketing in Slovakia, complemented his assignment in Philip Morris International Inc. in Business Development & Strategy for Middle East & Africa Hub in Switzerland and then RRP Strategy in Germany. Since April 2017 he acted as Head of RRP B2C channel in CZ. Since April 26, 2019 Mr. Peter Piroch has been a member of the Board of Directors.
Mr. Piroch holds a master’s degree in Civil Engineering.
Mr. Piroch was elected as a member of the Board of Directors of Philip Morris ČR a.s. by the Annual General Meeting of Shareholders on April 26, 2019 for a period of three years.

In the previous five years Mr. Piroch was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Member of the Board	Philip Morris ČR a.s.	Czech Republic	26.4.2019	
Executive Director	Philip Morris Slovakia s.r.o.	Slovakia	8.10.2010	16.12.2016

Supervisory Board

Stefan Bauer, Chairman of the Supervisory Board

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mr. Bauer joined Philip Morris in 1997 in Germany. Subsequently he worked for Philip Morris as Manager Finance in the United Kingdom, as Director Finance in the Italian and Japanese affiliates, and as Vice president Finance and Business Planning for the EEMA and later the MEA & PMI Duty Free Regions. He currently holds the position of Vice President EU Finance in Philip Morris Products S.A., with responsibility for Finance in the European Union.

Mr. Bauer holds a master's degree in Business Administration from Augsburg University in Germany.

Pursuant to Article 17 par. 2 of the Articles of Association, Mr. Bauer was appointed as a member and elected as a Chairman of the Supervisory Board of Philip Morris ČR a.s. by the other members of the Supervisory Board on September 23, 2019 until the next General Meeting. On July 1, 2020 Mr. Bauer was elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the General Meeting of Shareholders performed outside the meeting (per rollam) for a period of three years.
In the previous five years Mr. Bauer was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Chairman of Supervisory Board	Philip Morris ČR a.s.	Czech Republic	23.9.2019	
Supervisory Board Member	Philip Morris Polska Społka Akcyjna	Poland	27.2.2020	
Member of the Board	Philip Morris Finland Oy	Finland	5.12.2019	
Director	Philip Morris ApS	Denmark	2.12.2019	
Director	Philip Morris Italia S.r.l.	Italy	3.10.2019	
Director	Acrin (Tobaccos) Limited	United Kingdom	1.10.2019	
Director	George Dobie & Son Limited	United Kingdom	1.10.2019	
Director	Godfrey Phillips Limited	United Kingdom	1.10.2019	
Director	Orecla Investments Limited	United Kingdom	1.10.2019	
Director	Park (U.K.) Limited	United Kingdom	1.10.2019	

Director	Park Tobacco Limited	United Kingdom	1.10.2019	
Director	Philip Morris & Company (UK) Limited	United Kingdom	1.10.2019	
Director	Philip Morris Limited	United Kingdom	1.10.2019	
Director	United Kingdom Tobacco Company Limited (The)	United Kingdom	1.10.2019	
Director	Nicocigs Limited	United Kingdom	1.10.2019	
Member	Papastratos Cigarettes Manufacturing Company S.A.	Greece	16.9.2019	
Director	Philip Morris Benelux B.V.	Belgium	15.9.2019	
Member of the Board	Philip Morris Norway AS	Norway	15.9.2019	
President	Philip Morris Switzerland Sarl	Switzerland	30.9.2019	
Director	PM Tobakk Norge AS	Norway	15.9.2019	
Liquidator	Pan Africa Entrepreneurs Sarl	Switzerland	12.7.2019	15.9.2019
Liquidator	Pan Africa Invest Company Sarl	Switzerland	28.5.2019	17.10.2019
Director	Pan Africa Entrepreneurs Limited	United Kingdom	14.12.2017	9.9.2019
Member of the Board	Philip Morris Services S.A.	Switzerland	5.12.2016	15.9.2019
Director	Foreign Investors (FZC)	United Arab Emirates	30.6.2016	30.5.2020
Management Board Member	Pan Africa Entrepreneurs Sarl	Switzerland	30.3.2015	12.7.2019
Gerant	Pan Africa Invest Company Sarl	Switzerland	6.3.2015	28.11.2018
Director	Philip Morris Misr Limited Liability Company	Egypt	11.5.2014	12.12.2019
Supervisory Board Member	Megapolis Distribution B.V.	Netherlands	12.12.2013	31.7.2018
Director	Emirati Investors - TA (FZC)	United Arab Emirates	8.12.2013	27.3.2020
Member of the Board	Philip Morris Pazarlama ve Satis A.S.	Turkey	22.10.2013	15.9.2019
Member of the Board	Philip Morris Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkey	22.10.2013	15.9.2019
Director	Philip Morris South Africa (Proprietary) Limited	South Africa	1.7.2013	19.9.2019
Director	Philip Morris South Africa Holdings (Proprietary) Limited	South Africa	1.7.2013	19.9.2019
Director	Leonard Dingler (Proprietary) Limited	South Africa	1.7.2013	19.9.2019

Gerant President	Philip Morris Exports Sàrl	Switzerland	1.7.2013	15.9.2019
Director	Philip Morris Management Services B.V.	Netherlands	1.7.2013	21.5.2018
Member of the Board	Philip Morris International Service Center, S.L. Sociedad Unipersonal	Spain	4.3.2020	
Vice Chairman	Philip Morris International Service Center, S.L. Sociedad Unipersonal	Spain	4.3.2020	
Vice Chairman	Philip Morris Spain, S.L.	Spain	4.3.2020	
Member of the Board	Philip Morris Spain, S.L.	Spain	4.3.2020	
Manager	Philip Morris Luxembourg S.a.r.l.	Luxembourg	18.3.2020	

Sergio Colarusso, member of the Supervisory Board

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mr. Colarusso joined Philip Morris International in 2002 in Switzerland. Subsequently he worked in the Middle East (UAE), first as Business Development Manager for the area, and then as Finance Director since 2008. Subsequently, he was appointed Finance Director for the BeNeLux business in 2012 and for the French business in 2015. Mr. Colarusso currently holds the position of EU Controller in Philip Morris Products S.A. in Switzerland with the responsibility for the European Union Region.

Mr. Colarusso holds a master's degree in Banking and Finance from HEC Lausanne in Switzerland.
Pursuant to Article 17 par. 2 of the Articles of Association, Mr. Colarusso was appointed as a member of the Supervisory Board of Philip Morris ČR a.s. by the other members of the Supervisory Board on 24, September 2018 until the next General Meeting. On April 26, 2019 Mr. Colarusso was elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the Annual General Meeting of Shareholders for a period of three years.

In the previous five years Mr. Colarusso was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	**Company Name**	**Jurisdiction of Incorporation**	**Date Appointed**	**Date Resigned**
Supervisory Board Member	Philip Morris ČR a.s.	Czech Republic	24.9.2018	

Stanislava Juríková, member of the Supervisory Board

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mrs. Stanislava Juríková held the position of Director Finance & IS for the Czech Republic, Slovakia and Hungary in Philip Morris ČR a.s. since September 2016 till March 2018, as her latest position in the executive team of the company. Mrs. Stanislava Juríková began her career with Philip Morris Slovakia s.r.o. in 1996 and has held various positions overseeing finance activities related to accounting, internal controls, reporting, capital expenditure, budgeting and planning. In 2006 she was relocated to Philip Morris ČR a.s. as Manager Planning & Business Development, responsible for Czech market, followed by an assignment in Philip Morris International Inc. in Switzerland in the global Financial Planning, Management Reporting & Systems department. Since November 2008 she managed the Finance & Administration department in Philip Morris Slovakia s.r.o. and she performed the function until her appointment to the position of Director Finance & IS for the Czech Republic and Slovakia in December 2011.

Mrs. Juríková holds a bachelor's degree in Management from the Comenius University in Bratislava and a Professional Diploma in Management from the Open University Business School, Milton Keynes, UK.

On April 27, 2018 Mrs. Juríková was elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the Annual General Meeting of Shareholders for a period of three years. On May 22, 2021 Mrs. Juríková was re-elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the General Meeting of Shareholders performed outside the meeting (per rollam) for a period of three years.

In the previous five years Mrs. Juríková was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	**Company Name**	**Jurisdiction of Incorporation**	**Date Appointed**	**Date Resigned**
Supervisory Board Member and Audit Committee Member	Philip Morris ČR a.s.	Czech Republic	27.4.2018	
Member of the Board	Philip Morris ČR a.s.	Czech Republic	27.4.2012	27.4.2018
Chairperson of Supervisory Board	sapientis biotech SE	Czech Republic	17.1.2022	

Prof. Ing. Alena Zemplinerová, CSc., member of the Supervisory Board

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Prof. Zemplinerová studied at Princeton University and worked for Solomon Brothers, Inc., Research Department, Emerging Market Group during 1991-1992. Since 1993 she was working as a senior researcher at CERGE-EI. Since 1999 she was lecturing at the University of Economics in Prague (VŠE) where she was since 2012 member of the Scientific Board of the Faculty of Economics. During 2010-2013 she was a head of the Department of Economics and Management at CEVRO Institute and since 2014 she has been full time professor at Anglo-American University Prague. She was managing and coordinating numerous projects within the OECD, EU, The World Bank, EBRD focusing on restructuring and foreign direct investments and European integration. During 2004-2006 she served as a member of the Economic Advisory Group for Competition Policy at DG-Competition, European Commission, DG Competition.

On April 26, 2013 Prof. Zemplinerová was elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the Annual General Meeting of Shareholders. On April 30, 2015 she was re-elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the Annual General Meeting. On April 27, 2018 Prof. Zemplinerová was re-elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the Annual General Meeting of Shareholders for a period of three years. On May 22, 2021 Prof. Zemplinerová was re-elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the General Meeting of Shareholders performed outside the meeting (per rollam) for a period of three years.

In the previous five years Prof. Zemplinerová was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	**Company Name**	**Jurisdiction of Incorporation**	**Date Appointed**	**Date Resigned**
Supervisory Board Member	Philip Morris ČR a.s.	Czech Republic	26.4.2013	

Tomáš Hilgard, member of the Supervisory Board (until February 14, 2022)

Contact address: Philip Morris ČR a.s., Vítězná 1, 284 01 Kutná Hora

Mr. Hilgard joined Philip Morris CR a.s. in January 1993. Subsequently he worked for the company in the position of Sales Representative, Supervisor of Sales Team in Prague, Supervisor of Training Group, Business Communication Manager, Corporate Affairs Manager, Regional Sales Manager, and 3rd Party Manager in Sales and Distribution He currently holds the position of COD Manager in the area of reduced risk products.

Mr. Hilgard graduated from the High school and the Electro-technical School in Prague, currently he attends University of Economics and Management, specialization Marketing and PR.

Mr. Hilgard was elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the employees of Philip Morris ČR a.s. on February 15, 2019 as their representative for a period of three years.
In the previous five years Mr. Hilgard was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Supervisory Board Member	Philip Morris ČR a.s.	Czech Republic	15.2.2019	14.2.2022

Roman Grametbauer, member of the Supervisory Board
Contact address: Philip Morris ČR a.s., Vítězná 1, 284 01 Kutná Hora

Mr. Grametbauer joined Philip Morris ČR a.s. in June 2017. Subsequently he worked for the company in the position of External Affairs Executive in Corporate Affairs Department. He currently holds the position of Manager Sustainability within the External Affairs Department.

Mr. Grametbauer holds a master´s degree in International Relations and European Studies from Metropolitan University Prague. He is also a graduate of the Business Sustainability Management program at the University of Cambridge Institute for Sustainability Leadership.

On July 1, 2021 Mr. Grametbauer took a position of a member of the Supervisory Board of Philip Morris ČR a.s. elected by the employees of Philip Morris ČR a.s. as their representative instead of Mr. Richard Vašíček, whose term of office ended on June 30, 2021 (for other reason than its expiry), for a period of three years from the election of Mr. Vašíček, i.e. until December 9, 2022.

In the previous five years Mr. Grametbauer was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Supervisory Board Member	Philip Morris ČR a.s.	Czech Republic	1.7.2021	

Audit Committee

Stefan Bauer, Chairman of the Audit Committee

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mr. Bauer joined Philip Morris in 1997 in Germany. Subsequently he worked for Philip Morris as Manager Finance in the United Kingdom, as Director Finance in the Italian and Japanese affiliates, and as Vice president Finance and Business Planning for the EEMA and later the MEA & PMI Duty Free Regions. He currently holds the position of Vice President EU Finance in Philip Morris Products S.A., with responsibility for Finance in the European Union.

Mr. Bauer holds a master's degree in Business Administration from Augsburg University in Germany.

Pursuant to Article 20 par. 4 of the Articles of Association, Mr. Bauer was appointed as a member and elected as a Chairman of the Audit Committee of Philip Morris ČR a.s. by the other members of the Audit Committee on September 23, 2019 until the next General Meeting. On July 1, 2020 Mr. Bauer was elected as a member of the Audit Committee of Philip Morris ČR a.s. by the General Meeting of Shareholders performed outside the meeting (per rollam) for a period of three years.

In the previous five years Mr. Bauer was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Chairman of Supervisory Board	Philip Morris ČR a.s.	Czech Republic	23.9.2019	
Supervisory Board Member	Philip Morris Polska Społka Akcyjna	Poland	27.2.2020	
Member of the Board	Philip Morris Finland Oy	Finland	5.12.2019	
Director	Philip Morris ApS	Denmark	2.12.2019	
Director	Philip Morris Italia S.r.l.	Italy	3.10.2019	
Director	Acrin (Tobaccos) Limited	United Kingdom	1.10.2019	
Director	George Dobie & Son Limited	United Kingdom	1.10.2019	
Director	Godfrey Phillips Limited	United Kingdom	1.10.2019	
Director	Orecla Investments Limited	United Kingdom	1.10.2019	
Director	Park (U.K.) Limited	United Kingdom	1.10.2019	
Director	Park Tobacco Limited	United Kingdom	1.10.2019	
Director	Philip Morris & Company (UK) Limited	United Kingdom	1.10.2019	
Director	Philip Morris Limited	United Kingdom	1.10.2019	
Director	United Kingdom Tobacco Company Limited (The)	United Kingdom	1.10.2019	
Director	Nicocigs Limited	United Kingdom	1.10.2019	
Member	Papastratos Cigarettes Manufacturing Company S.A.	Greece	16.9.2019	
Director	Philip Morris Benelux B.V.	Belgium	15.9.2019	
Member of the Board	Philip Morris Norway AS	Norway	15.9.2019	
President	Philip Morris Switzerland Sarl	Switzerland	30.9.2019	
Director	PM Tobakk Norge AS	Norway	15.9.2019	
Liquidator	Pan Africa Entrepreneurs Sarl	Switzerland	12.7.2019	15.9.2019
Liquidator	Pan Africa Invest Company Sarl	Switzerland	28.5.2019	17.10.2019
Director	Pan Africa Entrepreneurs Limited	United Kingdom	14.12.2017	9.9.2019

Member of the Board	Philip Morris Services S.A.	Switzerland	5.12.2016	15.9.2019
Director	Foreign Investors (FZC)	United Arab Emirates	30.6.2016	30.5.2020
Management Board Member	Pan Africa Entrepreneurs Sarl	Switzerland	30.3.2015	12.7.2019
Gerant	Pan Africa Invest Company Sarl	Switzerland	6.3.2015	28.11.2018
Director	Philip Morris Misr Limited Liability Company	Egypt	11.5.2014	12.12.2019
Supervisory Board Member	Megapolis Distribution B.V.	Netherlands	12.12.2013	31. 7. 2018
Director	Emirati Investors - TA (FZC)	United Arab Emirates	8.12.2013	27.3.2020
Member of the Board	Philip Morris Pazarlama ve Satis A.S.	Turkey	22.10.2013	15.9.2019
Member of the Board	Philip Morris Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkey	22.10.2013	15.9.2019
Director	Philip Morris South Africa (Proprietary) Limited	South Africa	1.7.2013	19.9.2019
Director	Philip Morris South Africa Holdings (Proprietary) Limited	South Africa	1.7.2013	19.9.2019
Director	Leonard Dingler (Proprietary) Limited	South Africa	1.7.2013	19.9.2019
Gerant President	Philip Morris Exports Sàrl	Switzerland	1.7.2013	15.9.2019
Director	Philip Morris Management Services B.V.	Netherlands	1.7.2013	21.5.2018
Member of the Board	Philip Morris International Service Center, S.L. Sociedad Unipersonal	Spain	4.3.2020	
Vice Chairman	Philip Morris International Service Center, S.L. Sociedad Unipersonal	Spain	4.3.2020	
Vice Chairman	Philip Morris Spain, S.L.	Spain	4.3.2020	
Member of the Board	Philip Morris Spain, S.L.	Spain	4.3.2020	
Manager	Philip Morris Luxembourg S.a.r.l.	Luxembourg	18.3.2020	

Stanislava Juríková, member of the Audit Committee

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mrs. Stanislava Juríková held the position of Director Finance & IS for the Czech Republic, Slovakia and Hungary in Philip Morris ČR a.s. since September 2016 till March 2018, as her latest position in the executive team of the company. Mrs. Stanislava Juríková began her career with Philip Morris Slovakia s.r.o. in 1996 and has held various positions overseeing finance activities related to accounting, internal controls, reporting, capital expenditure, budgeting and planning. In 2006 she was relocated to Philip Morris ČR a.s. as Manager Planning & Business Development, responsible for Czech market, followed by an assignment in Philip Morris International Inc. in Switzerland in the global Financial Planning, Management Reporting & Systems department. Since November 2008 she managed the Finance & Administration department in Philip Morris Slovakia s.r.o. and she performed the function until her appointment to the position of Director Finance & IS for the Czech Republic and Slovakia in December 2011.

Mrs. Juríková holds a bachelor's degree in Management from the Comenius University in Bratislava and a Professional Diploma in Management from the Open University Business School, Milton Keynes, UK.

On April 27, 2018 Mrs. Juríková was elected as a member of the Audit Committee of Philip Morris ČR a.s. by the Annual General Meeting of Shareholders for a period of three years. On May 22, 2021 Mrs. Juríková was re-elected as a member of the Audit Committee of Philip Morris ČR a.s. by the General Meeting of Shareholders performed outside the meeting (per rollam) for a period of three years.

In the previous five years Mrs. Juríková was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	**Company Name**	**Jurisdiction of Incorporation**	**Date Appointed**	**Date Resigned**
Supervisory Board Member and Audit Committee Member	Philip Morris ČR a.s.	Czech Republic	27.4.2018	
Member of the Board	Philip Morris ČR a.s.	Czech Republic	27.4.2012	27.4.2018
Chairperson of Supervisory Board	sapientis biotech SE	Czech Republic	17.1.2022	

Petr Šobotník, member of the Audit Committee

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mr. Šobotník graduated from the University of Economics and Business in Prague. In the years 1983-1991 Mr. Šobotník led the accounting sections in the telecommunications and post departments at the corporate and departmental level. From 1991 to 2010 he worked for the audit firm Coopers & Lybrand/ PricewaterhouseCoopers, from 1995 as a Partner in senior positions in the audit department. He became a certified auditor in 1991 and worked 27 years as a statutory auditor and a member of the Chamber of Auditors of the Czech Republic. From 2007 to 2014 he was re-elected President of the Chamber of Auditors of the Czech Republic in two terms. Currently Mr. Šobotník primarily performs function of independent member of the audit committees.

Pursuant to Article 20 par. 4 of the Articles of Association, Mr. Šobotník was appointed as a member of the Audit Committee of Philip Morris ČR a.s. by the other members of the Audit Committee on July 1, 2021 until the next General Meeting.

In the previous five years Mr. Šobotník was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	**Company Name**	**Jurisdiction of Incorporation**	**Date Appointed**	**Date Resigned**
Member of the Audit committee	Philip Morris ČR a.s.	Czech Republic	1.7.2021	
Chairman of the Audit Committee	Letiště Praha, a.s.	Czech Republic	23.1.2014	
Member of the Supervisory Board	Letiště Praha, a.s.	Czech Republic	7.3.2017	
Chairman of the Audit Committee	ČEPRO, a.s.	Czech Republic	1.1.2016	
Chairman of the Audit Committee	Kofola Československo a.s.	Czech Republic	21.6.2017	
Member of the Supervisory Board	Československá obchodní banka, a.s.	Czech Republic	1.2.2011	31.12.2018
Chairman of the Audit Committee	Československá obchodní banka, a.s.	Czech Republic	7.4.2016	

Chairman of the Audit Committee	ČSOB Stavební spořitelna, a.s.	Czech Republic	4.2.2019	
Member of the Audit Committee	ČSOB Penzijní společnost, a.s.	Czech Republic	3.2.2016	2.1.2020
Chairman of the Audit Committee	ČSOB Penzijní společnost, a.s.	Czech Republic	2.1.2020	
Member of the Audit Committee	MERO, a.s.	Czech Republic	6.1.2021	14.9.2021
Vice Chairman of the Audit Committee	MERO, a.s.	Czech Republic	15.9.2021	
Chairman of the Audit Committee	Severomoravské vodovody a kanalizace, a.s.	Czech Republic	25.5.2017	7.5.2021
Vice Chairman of the Audit Committee	Severomoravské vodovody a kanalizace, a.s.	Czech Republic	7.5.2021	

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