

## Remuneration Policy

Philip Morris ČR a.s. (hereinafter also referred to as “PMCR” or the “Company”) establishes its remuneration policy (hereinafter referred to as the “Policy”) in accordance with Section 121k *et seq.* of the Act No. 256/2004 Coll., on Capital Market Undertakings, as amended (hereinafter referred to as the “Capital Market Undertakings Act”). The Policy is adopted as an internal regulation in accordance with Section 61 (1) of the Act No. 90/2012 Coll., on Business Companies and Cooperatives (the Business Corporations Act), as amended. In addition to the agreement on the performance of the office, the Policy forms another basis for remuneration of members of the Board of Directors, Supervisory Board and Audit Committee of the Company.

The Policy is established in accordance with the Company’s long-term interests, i.e. its business strategy and other Company values. The Policy reflects the requirements of legal regulations as well as the principles of good corporate governance. It focuses on sustainability and effective risk management. The Policy is also based on shareholder requirements regarding the growth of the value of the Company’s shares and the achievement of economically favourable business results of the Company. The Policy reflects this requirement primarily in the variable component of remuneration of members of the Board of Directors, Supervisory Board and Audit Committee of the Company; the amount of the remuneration achieved by the members of the given bodies is derived from the economic results achieved by the PMI group (as defined below) and the Company. The variable remuneration component also depends on the performance and fulfilment of targets of a particular member of the Company’s body and serves primarily to attract, retain and motivate members of the Company’s bodies. The fixed remuneration component is determined primarily on the basis of professional experience and responsibility of a particular employee and member of a Company’s body.

Pursuant to Section 121m (1) of the Capital Market Undertakings Act, the Policy applies exclusively to remuneration of members of the Board of Directors, Supervisory Board and Audit Committee of the Company (hereinafter referred to as a “Member” or “Members”). The Policy is structured into the following parts:

- a) fixed component of remuneration of Members who are employees of PMCR;
- b) fixed component of remuneration of Members who are employees of Philip Morris International Inc. (hereinafter referred to as “PMI”) or companies controlled by it, with the exception of PMCR (hereinafter referred to as the “PMI Group”);
- c) variable component of remuneration of Members who are employees of PMCR or the PMI Group;
- d) remuneration of Members who are not employees of PMCR or the PMI Group.

The remuneration of Members who are employees of the Company or the PMI Group includes a fixed and variable component. The remuneration of Members who are not employees of the Company or the PMI Group only includes a fixed component.

### **1. Fixed component of remuneration of Members who are employees of PMCR**

The fixed component of remuneration of a member who is a PMCR employee consists of the (i) salary; (ii) remuneration for the Member’s performance of office; (iii) other monetary remuneration; and (iv) non-monetary benefits.

A Member who is a PMCR employee is entitled to a salary based on his/her employment agreement with PMCR and to an annual remuneration for the performance of his/her office based on the agreement on the performance of the office of CZK 200,000.

Other monetary benefits and emoluments that may be provided to a Member who is a PMCR employee under certain conditions include severance payment and other benefits related to employment termination at an amount depending on the length of his/her employment but at least in the amount of three times the Member’s average earnings, namely according to the Member’s employment agreement with PMCR,

the applicable legal regulations and the relevant PMCR collective agreement valid and effective in the given year; monthly allowance for meals and leisure activities (e.g. in the form of education allowance, holiday allowance) according to the Member's employment agreement with PMCR and the PMCR collective agreement valid and effective in the given year; monthly contribution to supplementary pension insurance (up to 3 % of the basic monthly salary; the specific amount of the contribution varies according to the employee's job classification; early retirement benefit schemes are defined by the relevant pension fund with which the employee has an agreement); reimbursement of premiums of life and accident insurance covering permanent impairment; monetary benefits related to relocation (one-off relocation contribution, allowance in the case of a change of the residence address upon relocation in the amount based on the salary grade of the Member concerned according to the classification set out in the internal rules of PMCR, according to local conditions and the number of family members of the Member living with him/her in the common household; rent allowance or reimbursement of rent according to the relevant market conditions; allowance for moving, transport, etc.); contributions to working and personal anniversaries in the amount corresponding to the number of years worked according to the PMCR collective agreement valid and effective in the given year; health care contribution and preventive programme contribution within the framework of voluntary prevention and health care programmes with financial participation of the Member; compensatory allowance for temporary work incapacity and nursing of a family member under the PMCR collective agreement valid and effective in the given year.

If the stipulated conditions are met, a Member who is a PMCR employee may be provided, depending on his/her salary grade, with a business laptop, car and telephone, which the Member may also use for private purposes at the expense of PMCR.

## **2. Fixed component of remuneration of Members who are employees of the PMI Group**

The fixed component of remuneration of a Member who is an employee of the PMI Group consists of the (i) salary; (ii) remuneration for the Member's performance of office; (iii) other monetary remuneration; and (iv) non-monetary benefits.

A Member who is an employee of the PMI Group is entitled to a salary under his/her employment agreement with the PMI Group and to an annual remuneration for the performance of his/her office under the agreement on the performance of the office of CZK 200,000.

Other cash benefits and emoluments that may be provided to a Member who is an employee of the PMI Group under certain conditions include a monthly allowance for meals and leisure activities (e.g. in the form of education allowance, holiday allowance); monetary benefits related to relocation (one-off relocation contribution, allowance in the case of a change of the residence address upon relocation in the amount based on the salary grade of the Member concerned according to the classification set out in the internal rules of PMI, according to local conditions and the number of family members of the Member living with him/her in the common household; reimbursement of rent and service charges according to the relevant market conditions; allowance for tuition fees for family members of employees as a result of relocation; allowance for moving, transport, immigration matters, etc.); contributions to working and personal anniversaries; health care contribution and preventive programme contribution within the framework of voluntary prevention and health care programmes with financial participation of the Member.

If the stipulated conditions are met, a Member who is an employee of the PMI Group may be provided, depending on his/her salary grade, with a business laptop, car and telephone, which the Member may also use for private purposes at the expense of PMCR or the relevant company from the PMI Group which employs the particular Member.

## **3. Variable component of remuneration of Members who are employees of PMCR or the PMI Group**

A Member who is an employee of PMCR or the PMI Group and falls in salary grade 10 or higher as specified in the internal rules of PMCR or the PMI Group may be entitled to (i) a one-off annual performance-based financial bonus; and (ii) a bonus in the form of PMI shares. The granting of these bonuses depends on the assessment of the criteria below by the persons responsible for approving the bonuses. The one-off annual performance-based financial bonus and the bonus in the form of PMI shares are provided above the scope of the annual remuneration, remuneration for performance of office and other components of the fixed part of remuneration. The rules for their provision are specified in more detail in the Global Variable Compensation Programs Guidelines adopted at the PMI Group level.

### **One-off annual performance-based financial bonus**

The one-off annual performance-based financial bonus (*incentive compensation*) is awarded for the relevant business year and is expressed as a percentage of the basic monthly salary as stated in the employment agreement (excluding rewards), multiplied by 13.6. The amount of compensation depends on the assessment of the performance of the particular Member by his/her superior as well as on the overall results of the PMI Group. The following criteria are decisive for the provision and amount of the one-off annual performance-based financial bonus:

- a) annual salary;
- b) individual assessment of the employee's work by his/her superior; the value of this criterion is determined on a scale of 0 % to 150 %;
- c) key indicators of financial and non-financial performance of PMI (market share, net and operating income, earnings per share, operating cash flow and strategic projects); the value of this criterion is determined on a scale of 0 % to 150 %;
- d) the performance target of the particular employee, determined according to his/her salary grade; the value of this criterion is determined on a scale of 7 % to 135 % depending on the employee's salary grade.

The criteria for assessing the set objectives are quantitative (such as the achievement of operating profit, cash flows, sales volume and market share) and qualitative (such as portfolio management, innovative approach, compliance with internal rules and procedures, diversity and management skills development). The above criteria are set in accordance with the Company's long-term interests, business strategy and other values. Their fulfilment has a direct impact on the Company's financial results and thus contributes to the growth of the Company's value. The total amount of the one-off annual performance-based financial bonus will be determined as the product of the values under paragraphs (a) to (d) above after the assessment of the individual criteria. The ratio between the one-off annual performance-based financial bonus and the annual salary is individual and depends on the assessment of performance of the particular Member by his/her supervisor and the salary grade of the Member. The annual performance-based financial bonus usually amounts up to 23 % of the annual salary.

The CEO of the Company proposes the assessment to determine the amount of the bonus for the individual Members, and the President of the EU Region proposes the amount of the bonus for the CEO of the Company. These proposals are confirmed and approved by two management levels (the superior of the particular Member and the superior of that Member's superior). If the set criteria are met, the relevant person is entitled to receive the one-off annual performance-based financial bonus. Neither the Company nor the PMI Group have established any rules to postpone the entitlement to the one-off annual performance-based financial bonus or to require the Member to return any bonus paid earlier.

### **Bonus in the form of shares of Philip Morris International Inc.**

The remuneration in the form of PMI shares is primarily motivational. In this way, Members are encouraged to contribute to the Company's best results, as the Company's results and value have a direct impact on the value of PMI, whose shares are provided to Members as part of the variable remuneration component.

A Member who is an employee of PMCR or the PMI Group may receive remuneration in the form of PMI shares. The following criteria are decisive for the provision and amount of the remuneration in the form of PMI shares:

- a) annual salary;
- b) individual assessment of the employee's work by his/her superior; the value of this criterion is determined on a scale of 0 % to 150 %;
- c) the performance target of the particular employee, determined according to his/her salary grade; the value of this criterion is determined on a scale of 8 % to 315 % depending on the employee's salary grade.

The total number of shares provided to a Member will be determined as the product of the values under paragraphs (a) to (c) above, expressed in the relevant currency at the conversion rate as at the date of expiry of the decisive period (*vesting date*) and converted to a specified number of shares based on the current price per share. Share-based remuneration takes place under two programmes, with the employee's salary grade being decisive for the inclusion in a particular programme:

- (i) The Members who are employees of the PMCR or the PMI Group falling in salary grades 10 to 17 may receive remuneration in the form of shares connected with limited rights (Restricted Stock Units). They will become owners of the PMI shares after the expiry of the vesting period, which usually lasts three years, on condition that their employment relationship with PMCR or the PMI Group lasted throughout the vesting period. During the vesting period, Members are entitled to a dividend equivalent if granted to them by the relevant PMI body.
- (ii) Members who are employees of PMCR or the PMI Group falling in salary grade 18 or higher may receive remuneration in the form of shares connected with limited rights (Restricted Stock Units) under the conditions set out in point (i) and remuneration in the form of performance-based shares (Performance Share Units). They will become owners of the performance-based shares after the expiry of the vesting period, which usually lasts three years, on condition that their employment relationship with PMCR or the PMI Group lasted throughout the vesting period and that the set PMI financial and non-financial performance criteria have been achieved (market share, net and operating income, earnings per share, operating cash flow and strategic projects). After the end of the vesting period and the assessment of the achieved PMI results, the Members will be granted a certain number of performance-based shares and paid a dividend equivalent for the entire vesting period.

Any Member is entitled to dispose of such acquired shares under the restrictions set out in the relevant internal PMI directive.

#### **4. Remuneration of Members who are not employees of PMCR or the PMI Group**

A Member who is not an employee of PMCR or the PMI Group is entitled to an annual remuneration for performance of office of CZK 200,000. A Member who is not an employee of PMCR or the PMI Group is not entitled to any other remuneration or benefits in addition to the annual remuneration for performance of office.

#### **5. Other information**

The term of office of Members is three years. The Members who are in employment with the Company or with a company from the PMI Group usually have employment agreements for an indefinite period of time. The notice period of Members who are in employment with the Company applicable to their employment is governed by the Act No. 262/2006 Coll., the Labour Code, as amended (hereinafter referred to as the "Labour Code"), and is at least two months. A Member's office may be terminated:

- a) upon the expiry of the term for which the Member was elected, unless the Member is elected by the General Meeting of the Company or its employees for the next immediately following term of office;
- b) by the Member's recall by the General Meeting of the Company;
- c) by the Member's resignation from his/her office in a manner set out in the Articles of Association and in the relevant legal regulations;

- d) upon the emergence of obstacles preventing the Member from performing his/her office under applicable law; or
- e) in the manner set out in the Articles of Association of the Company and in the relevant legal regulations other than as set out above.

No remuneration will be granted to the Member in connection with the termination of the Member's office.

The conditions of termination of employment of Members who are PMCR employees will be governed by the Labour Code and the PMCR collective agreement. The conditions of termination of employment of Members who are employees of a company from PMI Group will be determined by the law of the country under which the employer of the respective Member is established, or by a collective agreement or an internal regulation of the particular company from the PMI Group that is the Member's employer.

During the preparation of the Policy, the salary and working conditions of employees of the Company and the companies from the PMI Group were taken into account, in particular in determining the variable component of remuneration; the Member's annual salary is reflected in the calculation of both components of the remuneration. Remuneration of Members will be provided in accordance with the principles of equal treatment.

The Policy is prepared by the Board of Directors of the Company in accordance with Section 121k of the Capital Market Undertakings Act; its approval and review fall within the competence of the General Meeting of the Company. The Policy is applied by the General Meeting of the Company in respect of the remuneration for the performance of office by a Member, and by the relevant Member's employer and its managers in respect of the employee benefits related to the particular Member's employment. In addition, the Compensation and Leadership Development Committee of PMI also participates in the application of the Policy; the Compensation and Leadership Development Committee approves the overall remuneration concept within the PMI Group and assesses the key indicators of financial and non-financial performance of PMI as one of the criteria for determining the amount of the one-off annual performance-based financial bonus. Potential conflicts of interest are avoided by involving different levels of management within the PMI Group in the approval of the individual remuneration components. The Company has not set up a compensation committee; there is the Compensation and Leadership Development Committee at the PMI Group level.

Kutná Hora, on 4 May 2020

Andrea Gontkovičová  
Chairperson of the Board of Directors

Petr Šedivec  
Member of the Board of Directors