

## REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR ENDED DECEMBER 31, 2020

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 novel smokeless tobacco products, *HEETS*\* with *IQOS* devices, as tobacco heating system, and *IQOS VEEV*, as electronic cigarette, 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 and novel smokeless tobacco products, *HEETS* and *IQOS* devices, in Slovakia.

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 our results for year 2020. Despite the COVID-19 outbreak and the measures governments took throughout the year to contain the spread of the virus, our performance remained solid:**

We enjoyed a continuing growth of sales of *HEETS* and *IQOS* devices thanks to the growing *IQOS* adult user base<sup>10</sup>. Our total *IQOS* adult users<sup>11</sup>, in both countries combined, increased by 177,000 (vs. 2019) and reached 629,000, of which 430,000 adult users have stopped smoking and switched to *IQOS*<sup>12</sup>.

Consolidated revenues, net of excise tax and VAT, grew by 4.6% (vs. prior year) to CZK 17.9 billion, driven namely by higher sales of *HEETS* and *IQOS* devices of CZK 1.5 billion and favorable pricing on our combustible portfolio<sup>13</sup> of CZK 0.4 billion, partly offset by lower combustible portfolio sales volumes of CZK 1.2 billion. Excluding the impact of currency, consolidated revenues, net of excise tax and VAT, increased by 3.8%.

Profit from operations of CZK 4.5 billion declined by 11.1% (vs. prior year), due primarily to lower combustible portfolio volumes. Excluding the impact of currency, profit from operations decreased by 11.2%.

Net income of CZK 3.5 billion decreased by 12.3% (vs. prior year), reflecting the items noted above.

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\* In the Czech Republic, the product was launched as *HEETS FROM MARLBORO* in 2017. The brand name changed as of Q1 2018 to *HEETS*. Hereinafter a single brand name *HEETS* is used throughout the 2020 Annual Report for this product in both countries.

<sup>10</sup> Sources: *IQOS* adult user panel, Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o. internal estimates.

<sup>11</sup> Estimated number of adult *IQOS* users that used *HEETS* for at least 5% of their daily tobacco consumption over the past seven days

<sup>12</sup> Estimated number of adult *IQOS* users, whose daily individual consumption of heated tobacco units represents the totality of their daily tobacco consumption over the past seven days, of which at least 70% are *HEETS*

<sup>13</sup> Combustible portfolio includes cigarettes, cigarillos, tobacco for make-your-own cigarettes and volume tobacco for make-your-own cigarettes

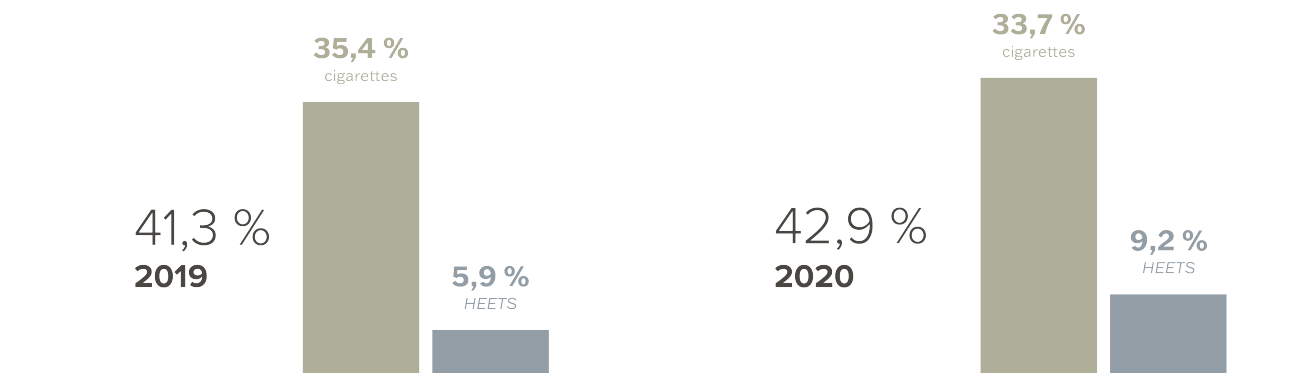
## Business in the Czech Republic

Domestic revenues, net of excise tax and VAT, grew by 3.0% to CZK 10.4 billion driven by higher sales volumes of *HEETS* and *IQOS* devices of CZK 1.6 billion and pricing on our combustible portfolio of CZK 0.3 billion. These positive impacts were partly offset by combustible portfolio sales volume decline of CZK 1.0 billion due primarily to lower cross-border shopping and continuous switching of legal age smokers to smoke-free alternatives.

The *IQOS* adult users<sup>14</sup> base increased by 95,000 (vs. prior year) to 417,000, of which 284,000 adult users have stopped smoking and switched to *IQOS*<sup>15</sup>.

The total combined market of cigarettes and heated tobacco units has decreased by an estimated 10.9% (vs. prior year) to 18.7 billion unit, due primarily to lower border sales. The total cigarette market has decreased by an estimated 14% to 17.0 billion units, due primarily to lower border sales, trade inventory changes and continuous switching of adult smokers to smokeless alternatives.

The estimated combined market share of Philip Morris ČR a.s. increased by 1.6 share points (vs. prior year) to 42.9%. The growth was driven by the market share of *HEETS*, which increased by 3.3 share points to 9.2%, while our cigarette share declined by 1.7 share points to 33.7%.



Combustible portfolio shipments of Philip Morris ČR a.s. decreased by 1.2 billion units (vs. prior year) to 6.5 billion units, while our *HEETS* shipments increased by 0.5 billion units and reached 1.7 billion units in the same period.

*IQOS VEEV*, the electronic cigarette launched in December 2020, while it met with an initial positive consumer feedback, had an immaterial impact on the financial results.

<sup>14</sup> Estimated number of adult *IQOS* users that used *HEETS* for at least 5% of their daily tobacco consumption over the past seven days

<sup>15</sup> Estimated number of adult *IQOS* users, whose daily individual consumption of heated tobacco units represents the totality of their daily tobacco consumption over the past seven days, of which at least 70% are *HEETS*

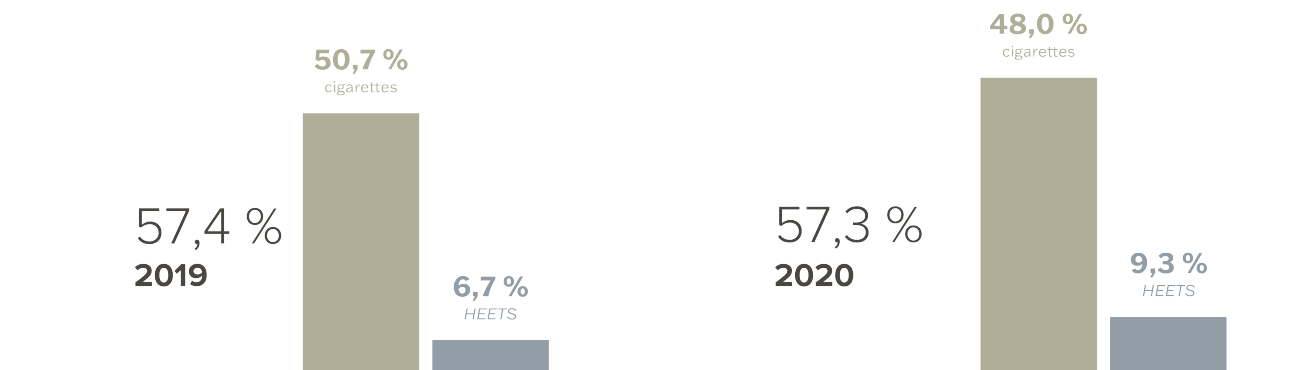
## Business in Slovakia

Philip Morris Slovakia s.r.o. revenues, net of excise tax and VAT, increased by 8% (vs. prior year) to EUR 190 million, driven by higher sales volumes of *HEETS* and *IQOS* devices of EUR 22 million and favorable pricing on combustible portfolio of EUR 3 million, partly offset by combustible portfolio volume decline of EUR 8 million.

The *IQOS* adult users<sup>16</sup> base increased by 82,000 (vs. prior year) and reached 212,000, of which 146,000 adult users have stopped smoking and switched to *IQOS*<sup>17</sup>.

The total combined market of cigarettes and heated tobacco units has decreased by an estimated 0.7% (vs. prior year) to 7.6 billion units. The total cigarette market has decreased by an estimated 3.5% to 6.9 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 0.1 share points (vs. prior year) to 57.3%, where the *HEETS* market share increase of 2.6 share points to 9.3% was partly offset by the decrease of our cigarettes' market share of 2.7 share points, mainly due to *HEETS* cannibalization and underlying cigarettes' portfolio performance



Domestic combustible portfolio shipments of Philip Morris Slovakia s.r.o. decreased by 0.2 billion units (vs. prior year) to 3.7 billion units, while our *HEETS* shipments of Philip Morris Slovakia s.r.o. increased by 0.2 billion units (vs. prior year) to 0.7 billion units.

<sup>16</sup> Estimated number of adult *IQOS* users that used *HEETS* for at least 5% of their daily tobacco consumption over the past seven days

<sup>17</sup> Estimated number of adult *IQOS* users, whose daily individual consumption of heated tobacco units represents the totality of their daily tobacco consumption over the past seven days, of which at least 70% are *HEETS*

## Manufacturing Services

Revenues from manufacturing services decreased by 1.5% (vs. prior year) to CZK 2.3 billion.

## Excise Tax

In the Czech Republic, an amendment to the Act on excise taxes came into force on April 1, 2019 and introduced an excise tax on heated tobacco products. The tax rate is at parity with fine-cut tobacco. Effective as of March 1, 2020, excise duty rates on all tobacco products were increased. The specific component of the cigarette excise tax rate increased by CZK 150 to CZK 1,610 per 1,000 cigarettes, the ad-valorem component increased by 3 percentage points to 30% and the minimum excise tax rate increased by CZK 270 to CZK 2,900 per 1,000 cigarettes. The tax rate on fine-cut tobacco and heated tobacco products increased by CZK 224 to CZK 2,460 per 1 kg of tobacco. The above-mentioned excise tax increases were accompanied by a three-month retail sell-by-date anti-forestalling regulation applicable only to cigarettes, which was subsequently extended by one month until the end of June 2020.

Another amendment to the Act on excise taxes entered into force on 1 February 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 did not change. 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, and it will increase by CZK 139 in 2022 and 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 only to cigarettes and a six-month retail sell-by-date anti-forestalling regulation applicable only to heated tobacco products.

In Slovakia, Amendment to Act no. 106/2004 Coll. on Tobacco Excise Tax was adopted and published as Act no. 390/2020 Z. z. 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 1kg. An additional increase will be 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 introduces increase in excise tax for smokeless tobacco products not consumed through a process of combustion (excluding nasal and chewing tobacco). The taxable base for smokeless tobacco products is the weight of tobacco in the smokeless tobacco product and the excise tax rate increases from EUR

76.70 per 1kg to EUR 132.20 per 1kg. Further increase will be 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 is 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 the recent years make it possible to shift the tobacco and nicotine market towards a future in which cigarettes are replaced by less harmful, yet satisfying, 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 the 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 only. 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 continue to apply.

In Slovakia, the Tobacco Products Directive was transposed to the Slovak national legislation by Act no. 89/2016 Coll.<sup>18</sup> 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.

### **Single-Use Plastics Directive**

EU Directive on the reduction of the impact of certain plastic products on the environment 2019/904 (Single-Use Plastics Directive<sup>19</sup>) entered into force on July 2, 2019 throughout the EU Member States. EU Member States, including the Czech Republic and Slovakia, are obliged to transpose its provisions into national legislations by July 3, 2021.

The objectives of this 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.<sup>19</sup>

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 Single-Use Plastics 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 to cost for awareness raising measures designed to inform consumers to correctly dispose cigarette butts and thereby reducing litter. Measures will be 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 need 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 with the above-mentioned measures will only be known after the adoption of any implementing acts by the EU itself and then the local transposition legislation by the Czech Republic and Slovakia to be adopted by the end of June 2021.

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<sup>18</sup> 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.

<sup>19</sup> Article 1 of the Directive 2019/904 of 5 June 2019 on the reduction of the impact of certain plastic products on the environment

## Expected economic and financial situation

Even in 2021, the main factor of the economic development will be the current COVID-19 pandemic and the emergency measures the governments might implement to contain the spread of the disease. Such measures resulted in a substantial slowdown in economic activity already in 2020. At this point in time we cannot predict the extent of the impact.

According to the Ministry of Finance forecast, real gross domestic product decreased by 6.1% in 2020 and a growth of 3.1% is expected for 2021; thus, the economic performance in 2021 will still be below that of 2019. The decline in the purchasing power of the population may be reflected in a decrease in demand. There is also a significant decrease in cross-border shopping by foreign tourists due to border closures and a decrease in tourism.

Sales of *IQOS* devices and *HEETS* are growing and we shall continue with our efforts to further increase our *IQOS* adult user base in 2021. In 2020, we launched the *IQOS VEEV* electronic cigarette and we will also strive to further increase its adult base in 2021. 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. The increase is significantly higher than, for example, tax rate increases in 2016 to 2018. Translated into higher retail selling prices, it 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 cross-border purchases of foreign tourists in the Czech Republic or to an increase in demand for illicit products, although the cross-border purchases were limited due to border closures in 2020 and still are limited also in 2021. A relatively modest increase in tobacco excise tax rates is approved for 2022 and 2023.

We remain committed to continuing to implement our planned productivity initiatives to manage our cost base.

## 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 2020 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 2020 Annual Report.

- The impact that the recent COVID-19 outbreak and the emergency measures the governments have introduced and might choose to introduce in future to contain the disease's spread might have on our business is uncertain. The extent to which this pandemic impacts 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 will 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 will adversely impact our

business, results of operations, cash flows and financial position during the continuation of the pandemic. Our business continuity plans and other safeguards may not be effective to mitigate the results of the pandemic.

- Currently, significant risks include our 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 due to the COVID-19 outbreak. 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.

- 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 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', and, from the premium price to the mid- or low-price cigarette categories, where we may be under-represented, and from local sales to legal cross-border purchases of lower price 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:
  - a. promote brand equity successfully;
  - b. anticipate and respond to new consumer trends;
  - c. develop new products or acquire distribution rights to these in order to broaden brand portfolios;
  - d. improve productivity;
  - e. convince adult smokers to convert to our smokeless nicotine products
  - f. ensure effective adult consumer engagement, including communication about product characteristics and usage of smokeless nicotine products;
  - g. provide excellent customer care;
  - h. ensure adequate production capacity to meet demand for our products; and
  - i. be able to protect or enhance margins through price increases.

In periods of economic uncertainty, adult consumers may tend to purchase lower-price 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. The tobacco industry competes for talent with consumer products and other companies that enjoy greater societal acceptance. As a result, we may be unable to attract or retain the best talent.
- The failure of our information systems to function as intended, or their penetration by outside parties with the intent to corrupt them or our failure to adhere to strict data governance and cybersecurity protocols and to comply with privacy laws and regulations, could result in business disruption, litigation and regulatory action, and loss of revenue, assets or personal or other sensitive data. We use information systems to help manage business processes, collect and interpret business data and communicate internally and externally with employees, suppliers, customers and others. Some of these information systems are managed by third-party service providers. We have backup systems and business continuity plans in place, and we work with our internal specialists and these third-party service providers to protect our systems and data from unauthorized access. Nevertheless, failure of our systems to function as intended, or penetration of our systems by outside 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 or personal or other sensitive data, litigation and regulatory action, cause damage to our reputation and that of our brands and result in significant remediation and other costs to us. Failure to protect personal data and respect the rights of data subjects and to adhere to strict data governance and cybersecurity protocols could subject us to substantial fines under regulations such as the EU General Data Protection Regulation.

### **Sustainability and Social Responsibility**

For us, sustainability means creating a 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. 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. One day we want 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.

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 seventh consecutive year. We are also an EQUAL-SALARY Certificate holder. This prestigious certification is awarded by the Swiss EQUALSALARY 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 2019, Philip Morris Slovakia s.r.o. continued to support the youth smoking prevention 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 2020 Philip Morris ČR a.s. launched a Youth Access Prevention (YAP) Project for the Czech Republic at all retail points-of-sales (POS) of tobacco / nicotine-containing products. 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. The importance we attach to the protection of minors from tobacco and nicotine is also evidenced by a letter from the company's CEO, Andrea Gontkovičová, to tobacco and nicotine products' retailers in September 2020. It confirms 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 more than 29 years, Philip Morris ČR a.s. has been contributing significantly to charitable activities. When donating finances to charity, our company acts in accordance with the internal regulations of the Philip Morris International Inc. (PMI), which has designated key areas of support that define the company's charity program worldwide. In 2020, we continued to support organizations and projects aimed at helping disadvantaged or vulnerable groups and we focused also on education. The La Strada Czech Republic, which is the only organization in the Czech Republic that systematically tackles the problems of human trafficking and exploitation, can be mentioned as an example. We also continued our long-term cooperation with major charitable organizations in the Czech Republic, such as “Sun for All” and the largest platform for responsible business “Business for Society.” We also cooperated with Charta 77 Foundation, which is focused on supporting a wide range of projects. We also supported community projects focused on access to education within the location of our operations in the Kutná Hora Region, but we do not limit ourselves to this location exclusively.

In Slovakia, our charitable activities were focused on the areas of economic development and empowering women. Philip Morris Slovakia s.r.o. yearly organizes clothes collection for disadvantaged people across Slovakia and participates in the volunteering program “Our City” organized by the Pontis Foundation. 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.

The year 2020 was marked by COVID-19 situation. Within the Czech Republic, first of all we have prioritized our employees. We equipped them with the personal protection aids and made the disinfection available for them everywhere in the factory. Our overall financial and in-kind contribution to external stakeholders reached more than two tens of million within the Czech Republic. We have started with a rapid support of those in the front-line of the fight with COVID-19 by supporting three major central hospitals via an Extraordinary Fund of Philip Morris ČR a.s., at the very beginning of the pandemic. We have allocated CZK 7,245,000 for them. Funds were intended for procurement of lung ventilators and personal protection equipment (surgical masks, respirators, disposable gloves, disinfection etc.). We have purchased ozone generators for ambulances of the Medical Rescue Service of the Central Bohemian Region. We donated CZK 200,000 to the Kutná Hora Hospital, as part of the Kolín Regional Hospital, a.s., a hospital in the Central Bohemian Region, for the purchase of personal protective equipment. In addition, we have provided funding to Czech Association of Nurses for the recovery activities of nurses and other non-medical hospital staff involved in the care of patients with COVID-19 disease.

At the end of year 2020, we decided to establish the Extraordinary Fund of Philip Morris ČR a.s. No. II., to continue our support of those in the front-line of the fight with COVID-19. For this fund, we dedicated another several million Czech crowns intended for hospitals to acquire e.g., ultra-low freezers for the vaccines storage, but also for the purchase of personal protective equipment. We also provided financial resources to the Local Charity of Červený Kostelec, organization which operates the Home of St. Josef in Žireč and takes care of patients with multiple sclerosis. The money was intended to cover extra costs associated with the fight against COVID-19 (purchase of medical supplies and equipment). We contributed also to Hospice of St. Jan N. Neumann in Prachatice to purchase a vehicle, which simplified the access to mobile field service (testing on COVID-19) for people in home care in the region of South Bohemia. We supported the Regional Charity Kutná Hora by monetary contribution intended for the implementation of the COVID-related program. The aim is to prevent the spread of the disease to homeless people and to protect charity clients.

Concerning the in-kind donations in 2020, we consider the project Tablet from a heart to be the crucial one. This helped to equip number of retirement homes across the country, which were sealed off (family members could not visit relatives), with 900 pieces of digital tablets with data SIM cards. Elderly people could stay in touch with their families and connect with each other audio-visually.

We also distributed more than 200,000 pieces of surgical masks and over 1,380 litres of ANTI-COVID disinfection to municipalities, authorities, retirement homes, dentists etc. We launched food initiative to support communities – our factory canteen provided every working day for 2 months 50 meals to children and their families in precarious social and economic situation. Also an internal Philip Morris ČR employee's initiative “We are sewing together” (sewing of face masks for charity and for families and our employees) was successfully implemented.

Philip Morris Slovakia s.r.o. donated a total of 19 lung ventilators worth more than EUR 300,000 to hospitals in Bratislava and Košice to help fight COVID-19. We also helped vulnerable groups such as pensioners, single mothers with children, firefighters and medics in 11 cities across Slovakia by donating lunches purchased in HORECAs which were also significantly affected by COVID-19 crisis. In total, we donated 37,500 lunches worth a total of EUR 187,000. The project Tablet from a Heart was also implemented in Slovakia. As part of the project, we donated 550 tablets with SIM cards to the most vulnerable group in the retirement homes, so they could connect with their loved ones even during the times of

corona crisis. Philip Morris Slovakia s.r.o. has also donated protective equipment and disinfection to various NGOs, hospitals and volunteers to be used during COVID-19 public testing.

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.

Further non-financial information will be included in the separate Integrated Report 2020 of Philip Morris International Inc., which will be published no later than on 30 June 2021 and accessible at [www.pmi.com](http://www.pmi.com).

### **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,” “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 2020 Annual Report and the 2020 consolidated Annual Report gives 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.

In Kutná Hora on March 29, 2021



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



**Petr Šedivec**  
Member of the Board of Directors  
Philip Morris ČR a.s.