

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 products¹¹ thanks to the growing *IQOS* adult user base¹². Our total *IQOS* adult users¹³, 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 portfolio¹⁵ (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.

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. RRP's are in various stages of development, scientific assessment and commercialization. RRP's 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

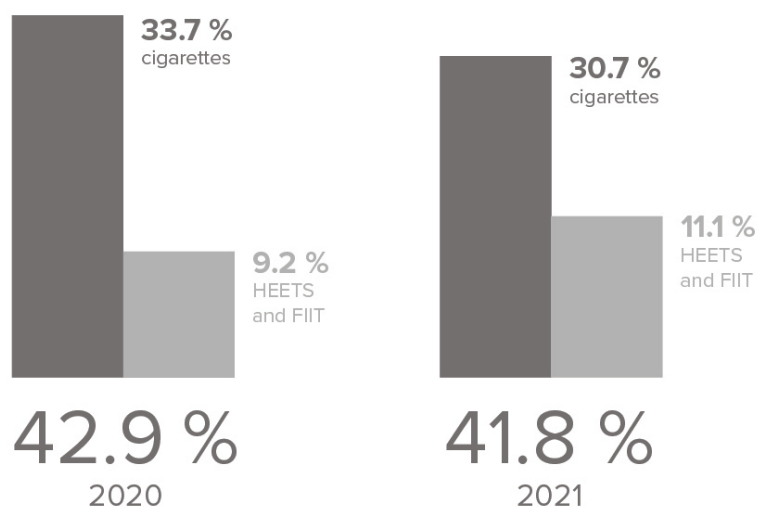
Domestic revenues, net of excise tax and VAT, grew by 7.6% to CZK 11.2 billion driven mainly by higher sales of *HEETS* and *IQOS* devices of CZK 0.6 billion, favorable pricing on our smoke-free tobacco products portfolio of CZK 0.7 billion and favorable pricing on our combustible portfolio of CZK 0.4 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 base¹⁶ 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

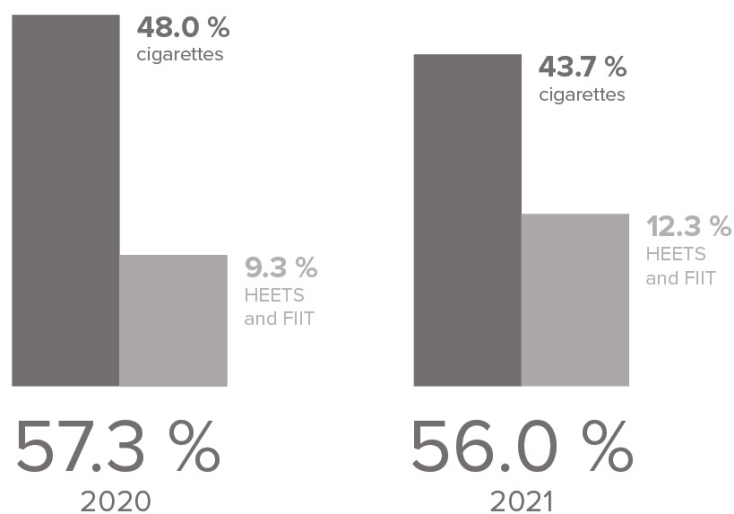
Philip Morris Slovakia s.r.o. revenues, net of excise tax and VAT, increased by 7.1% (vs. prior year) to EUR 208.4 million, driven mainly by higher sales of *HEETS* and *IQOS* devices of EUR 23 million and favorable pricing on combustible portfolio of EUR 13 million, partly offset by combustible portfolio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

The *IQOS* adult user base¹⁷ 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 1kg. 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 1kg to EUR 132.20 per 1kg. 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 year²¹. 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 housing²².

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 *Fiiit* 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/cr/tvorba-a-uziti-hdp-4-ctvrtleti-2021>

²¹ Source: <https://www.czso.cz/csu/czso/cr/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 certificate²³.

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.