PHILIP MORRIS ČR

MID-YEAR FINANCIAL REPORT

2022

Consolidated highlights

Consolidated highlights

(in CZK million)

Period ended June 30	2022	2021	Change in %
Revenues, net of excise tax and VAT	**9 810**	**8 887**	**10.4**
Profit from operations	**2 119**	**2 087**	**1.5**
Profit before income tax	**2 266**	**2 079**	**9.0**
Net income for the year	**1 830**	**1 729**	**5.8**

Shipments per Segment

(in billion units equivalent)[1]

Period ended June 30	2022	2021	Change in %
Czech Republic	3.5	3.5	**(0.3)**
Slovakia	2.0	2.0	**2.1**
Total	**5.5**	**5.5**	**0.6**

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

REVENUES NET
OF EXCISE TAX AND VAT
INCREASED BY:
10.4 %

PROFIT BEFORE
INCOME TAX
INCREASED BY:
9.0 %

NET INCOME
INCREASED BY:
5.8 %

2022
EARNINGS PER SHARE:
666 CZK

2021
EARNINGS PER SHARE:
630 CZK

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

Report of the Board of Directors for the period ended June 30, 2022

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, 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 SOLID* 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. is also 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 SOLID* device, in Slovakia.

The report of the Board of Directors is based on the condensed interim 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.

Important events in the first half of 2022

Overview of 2022 Selected Events

- Production constraints arising from the war in Ukraine
- One of PMI's production plants, located in Kharkiv, suspended operations in February 2022 for security reasons. Increase in production volume due to the allocation of part of the production capacity of the Kharkiv plant to the Czech factory in Kutná Hora.
- The total combined market of cigarettes and heated tobacco units increased in the first half of 2022, reflecting the higher border sales compared to the same period in 2021 caused by COVID-19 anti-pandemic lockdowns measures in 2021.
- Reduced risk products[2] portfolio:
    - Launched *Fiit Roxo* and *Fiit Regular Deep* variants in February 2022. These variants became one of the best performing variants in *Fiit* portfolio (Czech Republic, Slovakia)
    - Introduced 4 new variants of *VEEV* pods with lower nicotine content in February 2022 in Czech Republic
    - Offered new limited edition o*f IQOS 3 DUO* device in April 2022, which had very positive response from our adult users (Czech Republic, Slovakia)
    - Enhanced the portfolio of *VEEV* pods in Czech Republic in May 2022 with additional two variants – *VEEV Velvet Valley* and *VEEV Island Cascade*
    - Launched our most advanced vaping device, *IQOS VEEV*, in Slovakia in June 2022, together with a wide portfolio of *VEEV* e-liquid pods.
- Combustible portfolio[3]:
    - Discontinued the *Philip Morris* brand and transitioned its consumers to *Chesterfield* in the Czech Republic
    - Discontinued the *Philip Morris* brand and directed its consumers to *Marlboro Crafted* and *L&M LINK First Cut SSL* in Slovakia.
- The General Meeting of Shareholders, performed outside the meeting (per rollam) between 13 April to 23 May 2022, approved the distribution of the profit share for the year 2021 (dividend) in the gross amount of CZK 1,310 CZK per each share of the company Philip Morris ČR a.s.
- Our manufacturing plant in Kutná Hora was awarded two prestigious certificates: The Alliance for Water Stewardship (AWS) Certificate for responsible water management and Carbon Neutrality Certification recognizing that the plant continues to reduce production of CO^2.

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

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

Further description of the above events and other important events that occurred in the first six months of 2022 and their impact on the condensed set of financial statements, together with a description of the main risks and uncertainties for the remaining six months of 2022, are included in the 2022 Mid-Year Financial Report including this Report of the Board of Directors.

Consolidated Financial Results

We are pleased to report the results for the first half of 2022. Our performance remained solid despite the continuation of COVID-19 and the measures governments took to contain the spread of the virus as well as the impact of Russian invasion in Ukraine.

We enjoyed a continuing growth of sales of reduced-risk products[4] thanks to the growing *IQOS* adult user base[5]. Our total *IQOS* adult users[6], in both countries combined, reached approximately 830 thousand, of which approximately 570 thousand adult users have switched to *IQOS* and stopped smoking.[7]

Consolidated revenues, net of excise tax and VAT, grew by 10.4% or CZK 0.9 billion (vs. the first half of 2021) to CZK 9.8 billion, driven namely by higher sales of *HEETS* and *IQOS* devices (CZK 0.7 billion) and favorable pricing on our smoke-free tobacco products portfolio (CZK 0.1 billion), favorable pricing on our combustible portfolio[8] (CZK 0.3 billion), partly offset by lower combustible portfolio sales volumes (CZK 0.2 billion). Excluding the impact of currency, consolidated revenues, net of excise tax and VAT, increased by 11.9%.

Profit from operations of CZK 2.1 billion increased by 1.5 % (vs. the first half of 2021), mainly driven by favorable pricing on our combustible portfolio, partially compensated by higher business investment. Excluding the impact of currency, profit from operations increased by 4.2 %.

Net income of CZK 1.8 billion increased by 5.8% (vs. the first half of 2021), reflecting the items noted above.

Business in the Czech Republic

Domestic revenues, net of excise tax and VAT, grew by 14.1% to CZK 5.9 billion driven mainly by higher sales of *HEETS* and *IQOS* devices (CZK 0.5 billion), favorable pricing on our combustible portfolio (CZK 0.3 billion), partly offset by combustible portfolio sales decline (CZK 0.1 billion) due to production constraints arising from the invasion in Ukraine as well as the discontinuation of the *Philip Morris* brand and its merger into *Chesterfield*.

The *IQOS* adult user base[9] increased to around 530 thousand adult users.

The total combined market of cigarettes and heated tobacco units increased by an estimated 7.9% (vs. the first half of 2021) to 8.6 billion units, reflecting the higher border sales compared to the same period in 2021 caused by COVID-19 anti-pandemic lockdowns measures in 2021. The total cigarette market has increased by an estimated 4.9 % to 7.3 billion units.

The estimated combined market share of Philip Morris ČR a.s. decreased by 3 share points (vs. the first half of 2021) to 39.9%, mainly due to decrease of our cigarettes' market share of 3.5 share points to 27.9% caused by continuous switching of adult smokers to smoke-free alternatives and the discontinuation of the *Philip Morris* brand and its merger into *Chesterfield*. *HEETS* and *Fiit* market share increased by 0.5 share points to 12%.

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

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

[6] Estimated number of *IQOS* adult users that used PMI heated tobacco products (*HEETS* and *Fiit*) over the past seven days.

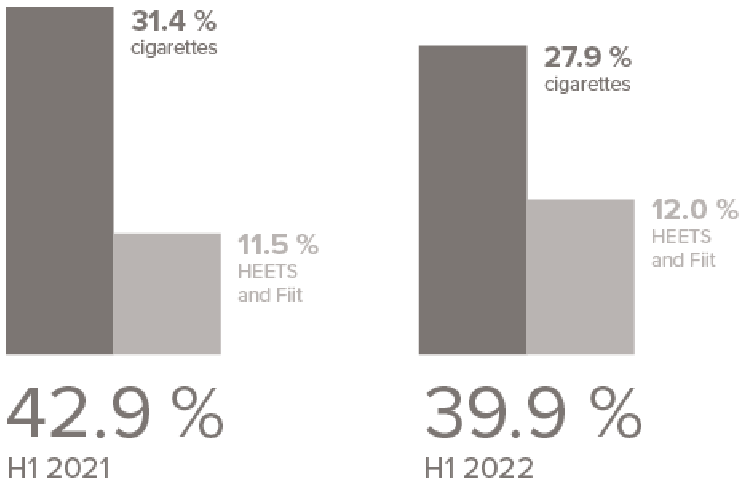
The above *IQOS* user metrics reflect Philip Morris estimates, which are based on consumer claims and sample-based statistical assessments with an average margin of error of +/-5% at a 95% Confidence Interval. The accuracy and reliability of *IQOS* user metrics may vary based on individual market maturity and availability of information.

[7] Estimated number of *IQOS* adult users, whose daily individual consumption of heated tobacco products represents the totality of their daily tobacco consumption over the past seven days, of which at least 70% are PMI heated tobacco products (*HEETS* and *Fiit*).

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

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

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 0.1 billion units (vs. the first half of 2021) to 2.5 billion units mainly reflecting lower market share, while our *HEETS* and *Fiit* shipments increased by 0.1 billion units and reached 1 billion units in the same period.

IQOS VEEV and *VEEV* pods, the electronic cigarette by *IQOS*, have had an immaterial impact on the financial results, albeit already demonstrating positive consumer feedback.

Business in Slovakia

Philip Morris Slovakia s.r.o. revenues, net of excise tax and VAT, increased by 7% (vs. the first half of 2021) to EUR 113 million, driven mainly by higher sales of *HEETS* and *IQOS* devices (EUR 12 million) and favorable pricing on combustible portfolio (EUR 1 million), partially offset by lower combustible volume (EUR 2 million).

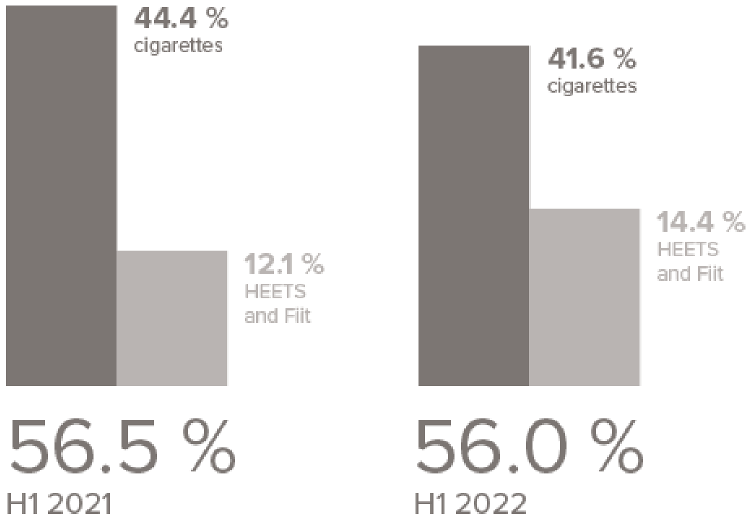
The *IQOS* adult user base[10] increased to an estimated 300 thousand adult users.

The total combined market of cigarettes and heated tobacco units has increased by an estimated 3.1% (vs. the first half of 2021) to 3.6 billion units. The total cigarette market has increased by an estimated 0.2 % to 3.1 billion units.

The combined market share of Philip Morris Slovakia s.r.o. decreased by 0.5 share points (vs. the first half of 2021) to 56.0%, mainly due to decrease of our cigarettes' market share of 2.8 share points to 41.6%, mainly due to underrepresentation in the more affordable cigarette segment, together with continuous switching of adult smokers to smoke-free alternatives and also due to production constraints arising from the invasion of Ukraine, partially offset by *HEETS* and *Fiit* market share increase of 2.3 share points to 14.4%.

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

Market share in Slovakia (%)



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

Newly launched *IQOS VEEV* and *VEEV* pods, the electronic cigarette by *IQOS* have had an immaterial impact on the financial results, albeit already demonstrating initial positive consumer feedback.

Domestic combustible portfolio shipments of Philip Morris Slovakia s.r.o. decreased by 0.1 billion units (vs. the first half of 2021) to 1.5 billion units, while *HEETS* and *Fiit* shipments increased by 0.1 billion units (vs. the first half of 2021) to 0.5 billion units.

Manufacturing Services

Revenues from manufacturing services increased by 1.6 % (vs. the first half of 2021) to CZK 1.1 billion mainly due to higher export production volume impacted by suspended PMI operation in Kharkiv.

Impact of Russia’s invasion of Ukraine

The War in Ukraine has impacted our operations and results in the first half of 2022.

First and foremost, it has affected the production plant in Kutná Hora, which currently uses natural gas as its main source of thermal energy. Although we have fixed energy prices for 2022, we expect them to rise next year and are therefore investing in other energy sources that would allow us to maintain production continuity. We have also experienced short-term material supply issues, which have caused short-term production outages and the need to change the production plan in the short term. According to available information, the supply situation should improve in the last quarter of the year. On the other hand, the war in Ukraine also brought an increase in production in Kutná Hora. One of PMI's production plants is located in Kharkiv and since the start of the war in February 2022, its operations have been suspended for security reasons. Part of the production capacity of the Kharkiv plant has been allocated to Kutná Hora, which should more than compensate for the short-term disruptions mentioned above. Thus, in 2022, we expect higher production volumes. At the same time, this required additional recruitment.

Our company has not faced employment problems due to the War in Ukraine. Similarly, there have been no major cyber events or an increase in threats related to War in Ukraine. In the first half of 2022, our company provided material and financial humanitarian support to the Central Bohemian Assistance Centre for refugees from Ukraine in Kutná Hora, funds to support education and integration of refugees in the Czech Republic, and a burn-treatment device for a hospital in Kharkiv for a total of CZK 6.7 million.

The war in Ukraine has impacted supply of finished products to the market. The above-mentioned production disruptions, which affected not only Kutná Hora but also other PMI production plants, resulted in short-term unavailability of certain products on the market, affecting a total of approximately 5% of our cigarette shipments and 3% of our heated tobacco shipments. Rapidly rising energy and other commodity prices are having a major impact on household purchasing power, with June 2022 headline inflation of 17.2%[11] in the Czech Republic and 13.2%[12] in Slovakia, but we have not yet observed an impact on demand for our products.

For more information on the impact of the Russian invasion on operations, see also the financial statements and notes thereto, note 18 Information on the impact of the Russia's invasion of Ukraine.

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 increases for years 2021 to 2023. In 2022, the specific component of the cigarette excise tax rate increased by CZK 90 to CZK 1,880 per 1,000 cigarettes, it will increase again by CZK 90 per 1,000 cigarettes in the following year. The minimum tax rate increased by CZK 160 to CZK 3,360 per 1,000 cigarettes in 2022 and will increase by CZK 160 per 1,000 cigarettes in the next year. The ad valorem component of the cigarette excise tax remains unchanged (at 30%). The excise tax rate on fine-cut tobacco increased by CZK 140 to CZK 2,860 per 1 kg of tobacco in 2022 and will increase by CZK 140 per kg of tobacco in the following year. The excise tax rate on heated tobacco products increased by CZK 139 to CZK 2,860 per kg of tobacco 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, 2022, the specific component for cigarettes increased from EUR 74.60 per 1,000 cigarettes to EUR 79.60 per 1,000 cigarettes, the minimum excise tax rate for cigarettes increased from EUR 116.50 to EUR 124.30 per 1,000 cigarettes. The ad valorem tax rate for cigarettes remained unchanged at 23 %. The fine-cut tobacco excise tax rate increased from EUR 89.30 per 1 kg to EUR 95.30 per 1kg and the excise tax rate for smokeless tobacco products increased from EUR 76.70 per 1 kg of tobacco to EUR 132,20 per 1 kg of tobacco. There will be another tax increase as of February 1, 2023. The specific excise tax rate for cigarettes will increase to EUR 84.60 per 1,000 cigarettes, the minimum excise tax rate for cigarettes will increase to EUR 132.10 per 1,000 cigarettes, the fine-cut tobacco excise tax rate will increase to EUR 101.30 per 1kg and the excise tax rate for smokeless tobacco products will increase to EUR 160.00 per 1 kg of tobacco. The excise tax increases are accompanied by a two-month retail sell-by-date regulation for cigarettes, six months for fine cut tobacco and three months for smokeless tobacco products.

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, came into force on September 7, 2016.

[11] https://www.czso.cz/csu/czso/ari/consumer-price-indices-inflation-june-2022
[12] https://slovak.statistics.sk:443/wps/portal?urile=wcm:path:/obsah-sk-inf-akt/informativne-spravy/vsetky/68aff15b-8a96-434d-820d-e4c61a035bb1

The legislation introduced new rules on – among others – the manufacturing, presentation and sale of tobacco 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.[13] 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 2019/904 (“Single-Use Plastics Directive” or “the Directive”) on the reduction of the impact of certain plastic products on the environment came 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 legislation by July 3, 2021. In the Slovak Republic the Directive was transposed into national law effective December 1, 2021. In the Czech Republic, the draft law was approved by both chambers of the Parliament of the Czech Republic and subsequently signed by the President of the Republic in August 2022.

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.[14]

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 2022 Mid-Year Financial Report.

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.

[13] 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.
[14] Article 1 of the Directive 2019/904 of June 5,2019 on the reduction of the impact of certain plastic products on the environment.

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. These effects continued to impact our business, most notably our tourist channel, which did not recover to the pre-pandemic levels.

According to the data from the Czech Statistical Office, the gross domestic product in year 2022 increased by 4.8% in Q1 and 3.7% in Q2[15] versus prior year. While this represented an improvement compared to the second half of 2021, a slight decrease is expected in the second half of 2022. Thus, for the full year 2022, gross domestic product is expected to grow by 2.2%[16].

The Russian invasion to Ukraine impacted the not yet recovered supply chains after the COVID pandemic, but it also triggered inflation growth. These factors impacted some of our suppliers as well as put additional inflationary pressure on our input costs. However, expected inflation for 2022 of 16.2%[17] will put additional pressure on consumer spending due to rising cost of energy and housing.

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 2022, we continued further expansion of the *IQOS VEEV* e-cigarette portfolio, and we have continued to expand *Fiit* smoke-free tobacco products to attract and further grow our adult consumer base. Our business will remain exposed to consumer down-trading to cheaper cigarettes and other nicotine-delivery alternatives further exacerbated by the worsening economic outlook and its impact on consumer spending, or to an increase in illicit trade.

After significant excise tax rates increases in 2020 and 2021, in 2022 a relatively modest increase in tobacco excise tax rates has been implemented, resulting in modest price increase in most of the tobacco product categories with minimal adverse impacts on the demand. Given the current economic situation significant increases in excise tax rates (as seen in 2020 and 2021) 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.

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 2022 Mid-Year Financial 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 2022 Mid-Year Financial 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.

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[15] Source: https://www.czso.cz/csu/czso/ari/gdp-resources-and-uses-1-quarter-of-2022
[16] Source: https://www.mfcr.cz/en/statistics/macroeconomic-forecast/2022/macroeconomic-forecast-august-2022-48478
[17] Source: https://www.mfcr.cz/en/statistics/macroeconomic-forecast/2022/macroeconomic-forecast-august-2022-48478

- 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 including the impact and consequences of Russia's invasion of Ukraine 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.

- Due to the unpredictability and volatility of energy prices expected in 2023, it is difficult to assess their impact on our cost base and profitability. Also, the supplies could curtail our production if we are unable to compensate with other energy sources.

- 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.

The PMI Group's approach to sustainability is focused on developing strategies that can successfully address environmental, social and governance issues. As part of the global assessment of the importance of topics related to sustainability (Sustainability Materiality Assessment), certain topics were identified as priority. Our strategy embodies the notion of two distinct views of social and environmental impact from two different angles – the impact generated by our products (what we produce) and the impact generated by our business operations (how we produce it). This approach emphasizes, in line with the results of our analysis of the significance of sustainability-related topics, that addressing the societal impacts generated by our products is at the heart of our strategy. These are the areas where we need to focus our resources to innovate and develop solutions contributing to answers to some of the most pressing challenges facing society. It also represents an opportunity for growth and our strongest competitive advantage. The biggest and most pressing negative externality that our strategy tries to address is the health effects of cigarette smoking. This is the most important contribution we can make to public health and is a cornerstone of the PMI group's purpose and business strategy, as our 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.

In December 2021, the local management of Czech and Slovak markets approved the implementation of an assessment of the significance of topics related to sustainability (Sustainability Materiality Assessment) within the Czech and Slovak markets. This assessment helped to identify topics that local stakeholders consider to be a priority on the Czech and Slovak markets. During the first half of 2022, internal and external stakeholder dialogues were implemented by an independent third party – the PONTIS Foundation.

Feedback from a total of 8 stakeholder groups (employees, suppliers, customers, consumers, national and local authorities' professional associations, non-profit organizations and the media) was collected on both markets through questionnaire surveys (online and printed questionnaires), online audiovisual transmissions and personal meetings in the framework of so-called round tables with stakeholders. In total, almost two thousand respondents participated in both countries. Based on the information obtained, a matrix of the importance of topics was prepared. The results of the analysis and the significance matrix were presented in July 2022 to management, who discussed them and approved the preparation of a local sustainability strategy based on the results presented. Detailed information is published in the brochure Sustainability and Responsible Entrepreneurship of Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o. 2021[18]

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

[18]https://www.pmi.com/resources/docs/default-source/czech-market/investors-relation/sustainability-report/2021-udr%C5%BEitelnost-a-odpov%C4%9Bdn%C3%A9-podnik%C3%A1n%C3%AD.pdf?sfvrsn=e02644b6_4

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 2022, 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 2022, 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 chairperson and the 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 and 2022, four principal areas of support were chosen: education; care for carers; chance for a quality life; and environmental issues. Moreover, again in the first half of the year 2022, our assistance was aimed at mitigating the consequences of disasters or efforts to prevent them, whether it was an ongoing coronavirus pandemic or the armed conflict in Ukraine.

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 more than two years already. I The Charter 77 Foundation has also become our partner in an effort to help refugees from Ukraine who find refuge in the Czech Republic. Our support is directed towards the education of Ukrainian children, financial assistance to schools and school facilities program to adapt to new conditions and facilitating the integration of newcomers from Ukraine into our society. We allocated 5.6 million CZK for this program.

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, theoretically and in practice. We also financially supported the organization BENEDIKTUS z.s. in order to build a rainwater retention system in their gardens and orchards. In 2022, we financially supported the establishment of an educational trail near the village of Suchdol (Kutná Hora district), connected with the planting of a fruit alley. Our employees personally helped to plant this avenue. We also support the spread of education about the protection of birds and nature in general in Moravia, with the association RADIBUDKY.cz. And last but not least, we contributed CZK 1 million in 2022 to the restoration of the municipal forest in Hodonín City, which was destroyed by a tornado in June 2021.

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, once again in 2022, we provided a grant to the PONTIS Foundation for the project Raising the Roof, through which the funds are used for the foundation's educational project – OPEN FUTURE, for the largest volunteer event Our City, and are also re-granted to various organizations – Vagus, Homeless Theater, Black White Horse, Cvernovka Foundation. The project is focused on solving the problem of homelessness as a state of extreme exclusion from society. This issue requires the maintenance of existing professional assistance projects, which give people a real chance to stand on their own feet again and the possibility of finding adequate housing, and also solves the public's perception of this issue.

Philip Morris Slovakia s.r.o. annually organizes clothes collections for disadvantaged people throughout Slovakia and participates in the volunteer program Our City, organized by the PONTIS Foundation. In 2022, we immediately responded to the crisis in Ukraine by helping refugees from Ukraine as much as possible. We provided financial support to the organizations People in Need and the Association of Christian Youth Communities, which help refugees. We also supported foundations in the most affected regions of Slovakia, which are located near the border with Ukraine, namely the Foundation of the Košice Self-Governing Region and the Foundation of the Prešov Self-Governing Region for Family Support. Many PMSK employees were helping refugees at the border. We managed to supply our Ukrainian colleagues who remained in Ukraine with food, medicine and clothing. We helped Ukrainian colleagues and their families who came to Slovakia by internal donation, providing psychological help or purchasing food and basic supplies.

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 August 2022, it successfully passed an external audit and received a certificate confirming carbon neutrality within the framework of emissions, under the direct operational control of Philip Morris ČR a.s. Kutná Hora manufacturing plant. Our factory is thus one of the first 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. The audit confirmed that we have been reducing the consumption of water in the long term and treating it sustainably at our production plant. Kutná Hora factory was therefore awarded AWS standard certificate (Alliance for Water Stewardship). It thus became historically the second factory in the Czech Republic to be awarded the AWS standard certificate[19]. During the autumn of 2022, we will undergo the surveillance audit which will verify that we comply with the commitments to AWS standard.

Further non-financial information is included in the separate Integrated Report 2021 of Philip Morris International Inc., which was published in May, 2022 and is accessible at www.pmi.com/sustainability.

Forward-Looking and Cautionary Statements

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.

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.

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

Financial information included in the 2022 Mid-Year Financial Report of Philip Morris ČR a.s. and its consolidated group for the half-year ended June 30, 2022, are not reviewed by the auditor.

Statutory Declaration of Persons Responsible for the Philip Morris ČR a.s. Mid-Year Financial Report

We confirm that to the best of our knowledge, the condensed set of financial statements gives a true and fair view of the assets, liabilities, financial position, and financial results of Philip Morris ČR a.s., and its consolidated group and the description pursuant to Section 119 (2) (b) of Act No. 256/2004 Coll., on business activities on the capital market, as amended, contains a faithful summary of the information required under this provision.

In Kutná Hora on September 27, 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.

Condensed Interim Consolidated Statement of Financial Position

at June 30, 2022 (in CZK million)

ASSETS	Note	30/06/2022	31/12/2021
Property, plant and equipment ("PP&E")	7	2 896	2 831
Right-of-use assets	8	294	298
Intangible assets		3	4
Deferred tax assets		51	59
Other financial assets	10	108	107
Non-current assets		**3 352**	**3 299**
Inventories	9	840	1 940
Trade and other financial receivables	10	1 845	980
Other non-financial assets	10	2 408	2 206
Current income tax prepaid		35	29
Cash and cash equivalents	11	8 577	9 290
Current assets		**13 705**	**14 445**
Total assets		**17 057**	**17 744**

EQUITY & LIABILITIES	Note	30/06/2022	31/12/2021
Registered capital		2 745	2 745
Share premium and other shareholders' contributions		2 373	2 371
Retained earnings		1 831	3 598
Other reserves		2	2
Equity attributable to the shareholders of the Company		**6 951**	**8 716**
Non-controlling interest		**—**	**1**
Total equity		**6 951**	**8 717**
Deferred tax liability		151	171
Lease liabilities	8	172	178
Non-current liabilities		**323**	**349**
Trade and other financial liabilities	12	5 242	3 603
Other non-financial liabilities	12	258	264
Current income tax liabilities		—	—
Other tax liabilities	13	4 138	4 652
Provisions		18	33
Lease liabilities	8	127	126
Current liabilities		**9 783**	**8 678**
Total liabilities		**10 106**	**9 027**
Total equity & liabilities		**17 057**	**17 744**

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

Condensed Interim Consolidated Statement of Comprehensive Income

for the half -year ended June 30, 2022 (in CZK million)

	Note	01/01/2022 - 30/06/2022	01/01/2021 - 30/06/2021
Revenues	6	9 810	8 887
Cost of sales	14	(5 351)	(4 946)
Gross profit		**4 459**	**3 941**
Distribution expenses	14	(1 444)	(1 200)
Administrative expenses	14	(819)	(646)
Other operating income		171	61
Other operating expense		(248)	(69)
Profit from operations		**2 119**	**2 087**
Financial expense		(26)	1
Financial income		173	(9)
Profit before income tax		**2 266**	**2 079**
Income tax expense		(436)	(350)
Net profit for the mid- year		**1 830**	**1 729**
Attributable to:			
Owners of the parent		1 830	1 728
Non-controlling interest		—	1
Other comprehensive income		**1**	**2**
Currency translation adjustments		1	2
Total comprehensive income for the mid-year		**1 831**	**1 731**
Attributable to:			
Owners of the parent		1 831	1 730
Non-controlling interest		—	1
Earnings per share basic and diluted (CZK/share)		**666**	**630**

The Currency translation adjustments will be reclassified subsequently to profit or loss when specific conditions are met.

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

Condensed Interim Consolidated Statement of Changes in Equity

for the half-year ended June 30, 2022 (in CZK million)

		Attributable to equity holders of the Company						
	Note	**Registered capital**	**Share premium and other shareholders' contributions**	**Statutory reserve fund**	**Cumulative translation adjustments**	**Retained earnings**	**Non-controlling interest**	**Total equity**
Balance as at 1/1/2021		**2 745**	**2 368**	**2**	**—**	**3 544**	**1**	**8 660**
Net profit for the year		—	—	—	—	1 728	1	**1 729**
Currency translation adjustments		—	—	—	2	—	—	**2**
Total comprehensive income for the mid-year		**—**	**—**	**—**	**2**	**1 728**	**1**	**1 731**
Transactions with owners								**—**
Profit distribution	15	—	—	—	—	(3 459)	(2)	**(3 461)**
Share based payments		—	(6)	—	—	—	—	**(6)**
Forfeited dividends		—	—	—	—	2	—	**2**
Other		—	—	—	(1)	(5)	—	**(6)**
Balance as at 30/06/2021 (unaudited)		**2 745**	**2 362**	**2**	**1**	**1 810**	**—**	**6 920**
Balance as at 01/01/2022		**2 745**	**2 371**	**2**		**3 598**	**1**	**8 717**
Net profit for the mid-year		—	—	—	—	1 830	—	**1 830**
Currency translation adjustments		—	—	—		—	—	**—**
Total comprehensive income for the mid-year		**—**	**—**	**—**	**—**	**1 830**	**—**	**1 830**
Transactions with owners								
Profit distribution	15	—	—	—	—	(3 596)	(1)	**(3 597)**
Share based payments		—	2	—	—	—	—	**2**
Forfeited dividends		—	—	—	—	1	—	**1**
Other		—	—			(2)		**(2)**
Balance as at 30/06/2022 (unaudited)		**2 745**	**2 373**	**2**	**—**	**1 831**	**—**	**6 951**

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

Condensed Interim Consolidated Cash Flow Statement

for the half-year ended June 30, 2022 (in CZK million)

	Note	01/01/2022 - 30/06/2022	01/01/2021 - 30/06/2021
Cash flow from operating activities			
Profit before tax		**2 266**	**2 079**
Depreciation and amortization expense, including intangibles	14	318	388
Impairment and disposal of PP&E	7	28	1
Net interest (income) / expense		(147)	9
Gain on disposal of PP&E		(1)	(1)
Change in provisions		(15)	(11)
Other non-cash transactions, net		13	(13)
Operating cash flows before working capital changes		**2 462**	**2 452**
Changes in:			
Trade and other financial receivables and other non-financial assets		(1 069)	(1 418)
Trade and other financial liabilities and other non-financial liabilities		(1 203)	1 010
Inventories		1 100	(567)
Cash generated from operations		**1 290**	**1 477**
Interest paid		(26)	(9)
Income tax paid		(456)	(597)
Net cash generated from operating activities		**808**	**871**
Cash flow from investing activities			
Purchase of PP&E	7	(348)	(67)
Proceeds from sale of PP&E		28	122
Purchase of intangible assets		—	(1)
Interest received		173	1
Net cash used by investing activities		**(147)**	**55**
Cash flow from financing activities			
Dividends paid to owners of the parent	15	(1 306)	(3 459)
Dividends paid to Non-controlling interest		—	(1)
Repayments of principle portion of lease liability		(63)	(93)
Net cash used by financing activities		**(1 369)**	**(3 553)**
Net increase in cash and cash equivalents		**(708)**	**(2 627)**
Cash and cash equivalents as at the beginning of the year	**11**	**9 290**	**8 209**
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(5)	(18)
Cash and cash equivalents as at the end of the year	**11**	**8 577**	**5 564**

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

Notes to the Condensed Interim Consolidated Financial Statements

for the half-year ended June 30, 2022

1. GENERAL INFORMATION

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

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

Philip Morris ČR a.s. is an affiliate of Philip Morris International Inc. (“PMI”). As at June 30, 2022, Philip Morris International Inc. is the ultimate controlling party of the Group.

As at June 30, 2022, the only entity directly holding more than 20% of the registered capital of the Group was Philip Morris Holland Holdings B.V. (the “Parent company”), which held 77.6% of the registered capital.

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

The Group's condensed interim consolidated financial statements were authorized for issue by the Board of Directors on September 27, 2022.

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting”. They do not include all the information required for a complete set of IFRS financial statements. Accordingly, they should be read in conjunction with the Group’s last annual consolidated financial statements as at and for the year ended December 31, 2021, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”).

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied in these condensed interim consolidated financial statements are the same as those applied in the last annual consolidated financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

New standards, amendments and interpretations effective from January 1, 2022 do not have a material effect on the Company’s financial statements.

4. ESTIMATES

The preparation of condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended December 31, 2021, with the exception of changes in estimates that are required in determining the provision for income taxes.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities are exposed to a variety of financial risks: market risk including foreign exchange and interest rate risk, credit risk and liquidity risk. The condensed interim consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at December 31, 2021. There have been no changes in the risk management processes since Year-End 2021 or in any risk management policies.

5.2. Liquidity risk

Compared to Year-End 2021, there was no material change in the contractual undiscounted cash out flows or financial liabilities.

6. SEGMENT REPORTING

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

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

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

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

The segment results for the period ended June 30, 2022 are as follows:

(in CZK million)	Czech Republic (Distribution)	Slovak Republic (Distribution)	Manufacturing Service	Total
Total gross segment revenues	7 015	2 789	—	9 804
Inter-segment revenues	(1 113)	—	—	(1 113)
Services provided	18	—	1 101	1 119
External revenues	**5 920**	**2 789**	**1 101**	**9 810**
Management gross profit	2 881	1 670	740	5 291
Management profit from operations	1 256	857	83	2 196

The segment results for the period ended June 30, 2021 are as follows:

(in CZK million)	Czech Republic (Distribution)	Slovak Republic (Distribution)	Manufacturing Service	Total
Total gross segment revenues	6 346	2 602	—	8 948
Inter-segment revenues	(1 167)	—	—	(1 167)
Services provided	23	—	1 083	1 106
External revenues	**5 202**	**2 602**	**1 083**	**8 887**
Management gross profit	2 578	1 501	726	4 805
Management profit from operations	1 199	793	104	2 096

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

(in CZK million)	30/06/2022	30/06/2021
Management gross profit	**5 291**	**4 805**
Royalties	(272)	(266)
Fixed manufacturing expenses	(560)	(598)
Gross profit	**4 459**	**3 941**

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

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

(in CZK million)	30/06/2022	30/06/2021
Management profit from operation	**2 196**	**2 096**
Other operating income / (expense), net	(77)	(8)
Interest income	173	1
Interest expense	(26)	(10)
Profit before tax	**2 266**	**2 079**

Depreciation, amortization and impairment charge included in management profit from operations allocated to individual segments in 2022 and 2021 is as follows:

(in CZK million)	Czech Republic (Distribution)	Slovak Republic (Distribution)	Manufacturing Service	Total
2022	31	19	296	**346**
2021	34	15	339	**388**

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

(in CZK million)	30/06/2022	30/06/2021
Sales of merchandise	8 691	7 781
Sales of services	1 119	1 106
Total	**9 810**	**8 887**

Revenue analysis by timing of revenue recognition:

(in CZK million)	30/06/2022	30/06/2021
Sales recognized at time of shipment	8 691	7 781
Revenues recognized over time	1 119	1 106
Total	**9 810**	**8 887**

Revenues from customers or groups of customers under common control exceeding 10% of the Group's revenues: revenue of CZK 2 725 million (2021: CZK 2 555 million) derived from one customer is included in segment Czech Republic (distribution) and revenue of CZK 1 101 million (2021: CZK 1 083 million) derived from the PMI group of companies is included in segment Manufacturing Services.

The total of the Group's non-current assets, other than deferred tax assets and other financial assets, located in the Czech Republic is CZK 3 115 million (at December 31, 2021: CZK 3 045 million) from which CZK 2 947 million is used to support Manufacturing service related activities (at December 31, 2021: CZK 2 881 million) and CZK 168 million to support Distribution related activities (at December 31, 2021: CZK 164 million) and those located in Slovak Republic supporting only Distribution activities is CZK 77 million (at December 31, 2021: CZK 88 million).

7. PROPERTY, PLANT AND EQUIPMENT

(in CZK million)	Property, Buildings & Constructions	Vehicles & Machinery Equipment	Furniture & Fixtures	Constructions in progress & Advances paid	Total
As at 1/1/2021					
Cost	2 258	6 983	75	230	9 546
Accumulated depreciation	(1 839)	(4 558)	(45)	—	(6 442)
Net carrying amount	**419**	**2 425**	**30**	**230**	**3 104**
Six months ended 30/06/2021					
Opening net carrying amount	419	2 425	30	230	3 104
Additions cost	—	8	—	59	67
Disposal net carrying amount	—	(1)	—	—	(1)
Transfers*	5	43	1	(49)	—
Depreciation charge	(42)	(280)	(7)	—	(329)
Closing net carrying amount	**382**	**2 195**	**24**	**240**	**2 841**
As at 30/06/2021					
Cost	2 263	6 773	73	240	9 349
Accumulated depreciation	(1 881)	(4 578)	(49)	—	(6 508)
Net carrying amount	**382**	**2 195**	**24**	**240**	**2 841**
As at 1/1/2022					
Cost	2 265	6 483	76	493	9 317
Accumulated depreciation	(1 902)	(4 530)	(53)		(6 485)
Net carrying amount	**363**	**1 953**	**23**	**493**	**2 832**
Six months ended 30/06/2022					
Opening net carrying amount	363	1 953	23	493	2 832
Additions cost	1	1	—	368	370
Disposal net carrying amount	—	(28)	—	—	(28)
Transfers*	—	235	—	(235)	—
Depreciation charge	(26)	(248)	(4)	—	(278)
Closing net carrying amount	**338**	**1 913**	**19**	**626**	**2 896**
As at 30/06/2022					
Cost	2 266	6 558	77	626	9 527
Accumulated depreciation	(1 928)	(4 645)	(58)	—	(6 631)
Net carrying amount	**338**	**1 913**	**19**	**626**	**2 896**

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

In the first six months of 2022 the Group disposed of several assets which have been identified as no longer needed and approved for scrapping in amount of net CZK 2 million (2021: CZK 1 million).

All investments in property, plant and equipment were financed by the Group’s own resources.

8. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

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

(in CZK million)	30/06/2022	31/12/2021
Office space and warehouse	136	174
Cars	48	43
Store	91	67
Employee flats	19	14
Total	**294**	**298**

The recognised lease liabilities relate to following types of liabilities:

(in CZK million)	30/06/2022	31/12/2021
Current liabilities	127	126
Non-current liabilities	172	178
Total	**299**	**304**

Interest expense on lease liabilities included in finance costs represented amount CZK 3 million (2021: CZK 4 million).

Depreciation expense of right-of-use assets represented amount CZK 67 million (2021: CZK 59 million).

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

Maturity analysis	<1 year	1-5 years	>5 years
Lease liabilities	127	135	37

9. INVENTORIES

(in CZK million)	30/06/2022	31/12/2021
Materials	63	52
Merchandise	777	1 888
Total	**840**	**1 940**

The costs of inventories recognized as an expense in Condensed Interim Consolidated statement of comprehensive income in the first six months of 2022 and included in costs of sales amounted to CZK 4 519 million (2021: CZK 4 082 million).

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

(in CZK million)	30/06/2022	31/12/2021
Trade and other financial receivables		
Trade receivables from third parties	1 313	809
Trade receivables from related parties	529	171
Other receivables	3	—
Total	**1 845**	**980**
Other non-financial assets		
Other assets - excise tax	2 364	2 162
Prepayments	42	44
Other assets	2	—
Total	**2 408**	**2 206**
Other non-current financial assets		
Other financial assets	108	107
Total	**108**	**107**

11. CASH AND CASH EQUIVALENTS

(in CZK million)	30/06/2022	31/12/2021
Cash on hand/in transit	6	—
Cash at banks	708	1 492
On-demand deposits with related parties (see Note 16)	7 863	7 798
Total	**8 577**	**9 290**

On-demand deposits with related parties are interest bearing short-term loans - see Note 16 for the analysis of short-term receivables from related parties.

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

(in CZK million)	30/06/2022	31/12/2021
Cash and cash equivalents	8 577	9 290
Total	**8 577**	**9 290**

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

(in CZK million)	30/06/2022	31/12/2021
Trade and other financial liabilities		
Third parties	848	787
Other related parties	1 273	1 812
Accrued expenses	704	900
Dividends payable	2 309	9
Other financial liabilities	108	95
Total	**5 242**	**3 603**
Other non-financial liabilities		
Amounts due to employees	167	180
Social security and health insurance	76	75
Advances received	2	—
Deferred revenues	10	9
Other liabilities	3	—
Total	**258**	**264**

Trade payables to related parties are disclosed in Note 16.

13. OTHER TAX LIABILITIES

(in CZK million)	30/06/2022	31/12/2021
VAT	443	406
Excise tax	3 546	4 230
Other taxes	149	16
Total	**4 138**	**4 652**

14. EXPENSES BY NATURE

(in CZK million)	30/06/2022	30/06/2021
Raw materials, consumables used and merchandise sold	4 476	3 951
Services	1 627	1 362
Royalties	272	266
Employee benefits expense	770	739
Depreciation and amortization	346	388
Other	123	86
Costs of sales, distribution and administrative expenses	**7 614**	**6 792**

15. PROFIT DISTRIBUTION

The dividends approved outside the General Meeting („per rollam“) between April and May 2022 and between April and May 2021 were CZK 3 597 million (CZK 1 310 per share) and CZK 3 459 million (CZK 1 260 per share), respectively.

16. RELATED PARTY TRANSACTIONS

The Group considers Parent company and other companies of the PMI group of companies (“Other related parties”), members of its Board of Directors, Supervisory Board and parties close to such members of management to be related parties.
Related party transactions were made on terms equivalent to those that prevail in arm’s length transactions are made only if such terms can be substantiated.

The following transactions were carried out with related parties:

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

(in CZK million)	30/06/2022	30/06/2021
Sales of merchandise		
Other related parties	19	15
Sales of materials		
Other related parties	1	2
Sales of PP&E		
Other related parties	49	1
Sales of services		
Other related parties	1 119	1 105
Recharges		
Other related parties	3	—
Interest Income		
Other related parties	150	—
Total	**1 341**	**1 123**

b) Purchases of merchandise and services from affiliates within PMI

(in CZK million)	30/06/2022	30/06/2021
Purchases of merchandise and materials		
Other related parties	3 265	4 183
Purchases of PP&E and intangible assets		
Other related parties	181	—
Purchases of services		
Other related parties	515	450
Royalties paid		
Other related parties	272	266
Total	**4 233**	**4 899**

c) Dividends

In 2022 Company paid to Philip Morris Holland Holdings B.V. dividends CZK 500 million in total. The remaining part of the dividend will be paid by the end of 2022. The dividends paid to Philip Morris Holland Holdings B.V. in 2021 amounted to CZK 2 684 million.
Except for dividends there were no other transactions with the Parent company during the last two years.

d) Balances with affiliates within PMI

(in CZK million)	30/06/2022	31/12/2021
Receivables from related parties		
Other related parties	529	171
Payables to related parties		
Other related parties	1 273	1 782
Loans and deposits		
Other related parties	7 863	7 798
Dividends payable		
Other related parties	2 290	—

Loans and deposits with related parties include interest-bearing on-demand deposits (cash pool) of CZK 7 863 million with Philip Morris Finance S.A. (At December 31, 2021: CZK 7 798 million). All short-term loans and deposits are classified as cash and cash equivalents in the Group's consolidated statement of financial position as at June 30, 2022 and as at December 31, 2021.

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

The actual interest rates reflect the current money market and the nature of the loan. The average effective interest rate of short-term loan and on-demand deposits for the half-year ended June 30, 2022 was 4,5% p.a. (at June 30,2021: 0,016% p.a.) in the Czech Republic and 0,01 % p.a. (at June 30, 2021: 0,01 %p.a.) in the Slovak Republic.

e) Contractual and other commitments to related parties

Contractual and other commitments to related parties that are not recorded in the condensed interim consolidated financial statements are considered as obligations to exchange resources in the future under binding agreements.
As at June 30, 2022, the Group had no material commitments in respect of related parties except for the future obligation to services purchase in the total estimated value of CZK 381 million (commitment value as at December 31, 2021: CZK 326 million).
The Group entered in the past into a number of binding service agreements, under which some performance obligations are yet to be delivered. Those agreements mostly have two or six month termination notice. The total estimated value of services to be purchased under these agreements during their respective termination terms is disclosed above.
According to the agreements with trademark owners, Philip Morris Global Brands Inc., Philip Morris Products S.A. and CTPM International S.A., the Group has to pay royalties in respect of tobacco products sold in the Czech and Slovak Republic. During the first half-year ended June 30, 2022, the Group incurred under these agreements royalties expense of CZK 272 million (2021: CZK 266 million). These agreements shall continue indefinitely until terminated by either party. Management expects the royalty expense in 2022 to be at approximately similar level as in 2021.

17. CONTINGENT LIABILITIES

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

18. INFORMATION ON THE IMPACT OF THE RUSSIA'S INVASION OF UKRAINE

The war in Ukraine impacted our operations and results in the first half of 2022 as described below.

Our production plant in Kutná Hora currently uses natural gas as its main source of thermal energy. Although we have energy prices for 2022 fixed, we expect them to increase significantly next year. Thus, we are investing close to CZK 10 million in other energy sources, such as the supply of light heating oil. This should enable us to maintain continuity of production, specifically the production of steam needed directly in the production process as well as to ensure optimal temperature conditions in general.

We have also experienced short-term supply issues, where, due to disruptions in the supply chains, some deliveries of tobacco and non-tobacco materials were delayed, causing short-term production outages and higher costs due to the need to adjust the production schedule in the short term. This was mainly related to the supply of materials sourced from Ukraine and Russia. However, these increased costs were largely absorbed by PMI and did not have a material impact on our company. In addition, according to available information, the supply situation is expected to improve in the last third of the year.

The war in Ukraine also brought an increase in production in Kutná Hora. The PMI's production plant located in Kharkiv suspended its operations at the start of the war in February 2022 due to security reasons. The production of the Kharkiv plant has been allocated to other PMI production sites, including Kutná Hora. This shift in production will more than compensate for the short-term disruptions mentioned above. For this reason, in 2022, we expect higher production volumes. At the same time, this required the recruitment of additional workforce.

Our company has not faced employment problems due to the War in Ukraine. Similarly, there have been no major cyber events nor an increase in threats related to War in Ukraine. In the first half of 2022, our company provided material and financial humanitarian support to the Central Bohemian Assistance Centre for refugees from Ukraine in Kutná Hora, funds to support education and integration of refugees in the Czech Republic, and a burn-treatment device for a hospital in Kharkiv for a total of CZK 6.7 million.

The war in Ukraine has been also having an impact on the supply of finished products to the market . The above-mentioned production disruptions, which affected not only Kutná Hora but also other PMI production plants, resulted in short-term unavailability of some products on the market, affecting in total around 5% of our cigarette shipments and 3% of our heated tobacco shipments (some of which was also caused by the disruption of global trade chains due to measures related to the COVID-19 pandemic). Rapidly rising energy and other commodity prices are having a major impact on household purchasing power, with June 2022 headline inflation of 17.2%[20] in the Czech Republic and 13.2%[21] in Slovakia. This can be expected to have major economic impacts in 2022 as well as in 2023. However, so far we have not observed an impact on demand for our products. Tobacco prices increased in 2022 due to the excise tax increase, but their overall price increase was less than the inflation rate in both the Czech Republic and Slovakia.

19. SUBSEQUENT EVENTS

No subsequent events have occurred after June 30, 2022 that would have a material impact on these condensed interim consolidated financial statements at June 30, 2022.

Authorization of the financial statements

These condensed interim consolidated financial statements for the period ended June 30, 2022 were authorized for issue by the Board of Directors and have been signed below on its behalf.

In Kutná Hora on September 27, 2022

Andrea Gontkovičová
Chairperson of the Board of Directors

Anton Stankov
Member of the Board of Directors

[20] https://www.czso.cz/csu/czso/ari/consumer-price-indices-inflation-june-2022
[21] https://slovak.statistics.sk:443/wps/portal?urile=wcm:path:/obsah-sk-inf-akt/informativne-spravy/vsetky/68aff15b-8a96-434d-820d-e4c61a035bb1

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