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Business Results 2023

Consolidated financial results

Despite navigating a challenging environment shaped by both ongoing macroeconomic conditions and the recent ban on characterizing flavored heated tobacco products in the Czech Republic, our company demonstrated resilience throughout 2023.

While inflationary pressures persisted, particularly in the first half of the year, we are encouraged by the stabilization observed in the latter part of the year. Additionally, our unwavering commitment to providing adult consumers with superior alternatives has remained steadfast as we continue to leverage on our product innovation pipeline not only on Heat not Burn, but also on vaping with promising early results of VEEV relaunch in Czech Republic.

Although these headwinds impacted our results, we persevered, leading to a decrease of our reported consolidated revenues, net of excise tax and VAT by 1.8% or CZK 0.4 billion to

CZK 20.6 billion (vs. prior year). Excluding currency, our consolidated revenues, net of excise tax and VAT, decreased by 1.2% or CZK 0.2 billion. This was primarily driven by lower combustible portfolio¹ sales volumes (CZK 1.2 billion) reflecting total market contraction and share of market development, as well as negative pricing on IQOS devices (CZK 0.5 billion). This was partially offset by favorable net pricing on combustible and smoke-free² portfolios (CZK 1.1 billion) as well as higher manufacturing services (CZK 0.4 billion).

Profit from operations of CZK 3.9 billion decreased by 8.8% (vs. prior year) mainly due to inflation weighing on manufacturing costs. Excluding the impact of currency, profit from operations decreased by 7.6%.

Net income of CZK 3.3 billion decreased by 8.0% (vs. prior year), reflecting the items noted above.

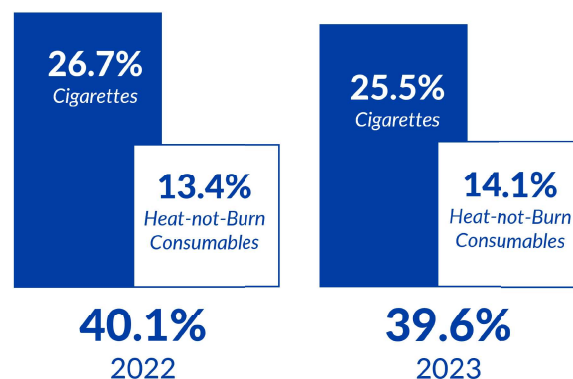
Business in the Czech Republic

Domestic revenues, net of excise tax and VAT, decreased by 4.9% (vs. prior year) to CZK 12.1 billion driven by lower volumes essentially combustible (CZK 0.9 billion) and negative pricing on IQOS devices (CZK 0.5 billion), partially offset by favorable net pricing on combustible and smoke-free portfolios (CZK 0.8 billion).

The total combined market of cigarettes and heated tobacco units decreased by an estimated 10.3% (vs. prior year) to 15.6 billion units mainly driven by cigarette market contraction primarily due to cross border sales deterioration coupled with underlying lower consumption.

The estimated combined market share of Philip Morris ČR a.s. decreased by 0.5 share points (vs. prior year) to 39.6% mainly due to cigarettes total market dynamics and the annualization of the net loss of Philip Morris brand merger into Chesterfield in 2022. This decrease of 1.2 share points was partially offset by growth of 0.7 share points on heated tobacco units reflecting the

Market share in the Czech Republic (%)



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

¹ Combustible portfolio includes cigarettes and volume tobacco for make-your-own cigarettes.

² Smoke-free portfolio includes heated tobacco products, which is the term we use to describe consumables for heated tobacco devices, which include HEETS, TEREA, LEVIA and licensed KT&G Fiit brands, as well as electronic cigarettes VEEV ONE and VEEV NOW/VEEBA.

consumer driven market dynamics to look for smoke-free alternatives. Domestic combustible portfolio shipments (cigarettes and fine-cut tobacco, combined) of Philip Morris ČR a.s. decreased by 0.7 billion units (vs. prior year) to 4.1 billion units, reflecting the decline in total market and lower market share.

Business in Slovakia

Philip Morris Slovakia s.r.o. revenues, net of excise tax and VAT, decreased by 0.5% (vs. prior year) to EUR 232 million, driven by lower combustible product sales (EUR 11.5 million), negative pricing of IQOS devices (EUR 2.2 million) and smoke-free product mix (EUR 0.6 million), offset by favorable combustible pricing (EUR 13.1 million).

The total combined market of cigarettes and heated tobacco units decreased by an estimated 4.0% (vs. prior year) to 7.1 billion units driven by cigarette market contraction due to underlying decline in consumption.

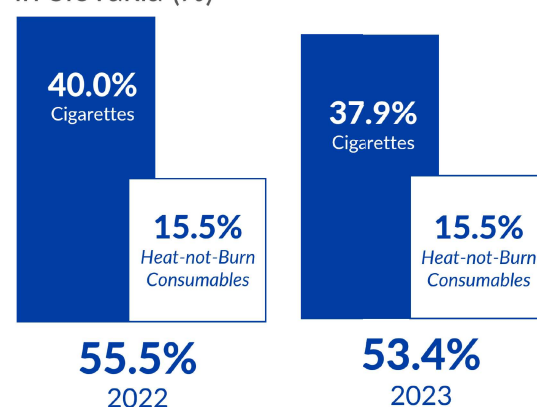
The combined market share of Philip Morris Slovakia s.r.o. decreased by 2.1 share points (vs. prior year) to 53.4% due to cigarettes portfolio underrepresentation in the growing more affordable segment.

Domestic combustible portfolio shipments of Philip Morris Slovakia s.r.o. slightly decreased by 0.3 billion units (vs. prior year) to 2.7 billion units, reflecting the decline in total market and lower market share.

The shipments of smoke-free products³ remained essentially flat at 2.3 billion units in the same period, with the organic growth being offset by both trade inventory movements and the ban on heated tobacco products with characterizing flavours introduced in October 2023.

The shipments of smoke-free products⁴ remained flat at 1.1 billion units in the same period, with the organic growth being offset by trade inventory movements.

Market share in Slovakia (%)



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

Manufacturing services

Revenues from manufacturing services increased by 14.4% (vs. prior year) to CZK 2.8 billion mainly due to continuation of higher export production volume sourced from the suspended PMI operations in Kharkiv in 2022.

In 2023 the total production volume of Kutná Hora factory reached 38.8 billion units, representing an increase by 5.7% (vs. prior year).

³ Smoke-free products include heated tobacco units as the term we use to refer to heated tobacco consumables, which include HEETS, TERE, and the KT&G' licensed brand Fiit, non-tobacco consumables LEVIA, as well as electronic cigarettes such as VEEV ONE and VEEV NOW/VEEBA.

⁴ Smoke-free products include heated tobacco units as the term we use to refer to heated tobacco consumables, which include HEETS, TERE, and the KT&G' licensed brand Fiit, as well as electronic cigarettes such as VEEBA, VEEV ONE and VEEV NOW.

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Risk Factors 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 2023 Annual Financial Report of Philip Morris ČR a.s.

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 report.

We are aware of the risks impacting our business and taking appropriate actions to mitigate them.

Overall business risks

Our ability to grow profitability may be limited by our inability to successfully introduce new products, improve our margins through higher pricing and improvements in our brand mix, promote brand equity or develop strategic business relationships.

This can be influenced by several factors described below.

Competitive environment

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 based on 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.

Consumer preferences

We may be unable to anticipate changes in adult consumer preferences or to respond to consumer behaviours, limiting our ability to further scale up our smoke-free products (SFP) and encourage current adult smokers who would otherwise continue to smoke to switch to smoke-free products. 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.

Business model

Our profitability, and consequently, the amount of our dividend pay-out reflects our dual role of being a full risk entrepreneur of combustible portfolio products and a limited risk distributor for smoke-free products.

Our remuneration for commercialization of smoke-free products is based on a set margin on revenues from sales. As a limited risk distributor, we do not own intellectual property rights for smoke-free 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 smoke-free products, the impact of the sales volume variances of such products on our profitability is limited. Consequently, if the current consumer preference trend towards smoke-free products continues and volume declines of combustible portfolio products accelerate, we do not expect that over time the additional profit generated from increased sales of smoke-free products will offset the decreasing profits generated from the sales of combustible portfolio products.

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.

Illicit trade

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.

Talent attraction and retention

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.

Risks related to strong regulations within our industry

The tobacco and nicotine industry is heavily regulated and subject to significant governmental measures to reduce and/or prevent smoking and the use of tobacco products. Their abrupt changes can have a significant impact on consumer preferences and their late communication can disrupt the production and availability of our products in the market. There is also a risk that regulation of tobacco and nicotine products will not be differentiated according to the risk profile of individual products and will not adequately protect those under 18 years of age. This chapter describes risks we face in relation to current or anticipated developments in each regulatory area.

Excise tax

Tobacco products are subject to excise taxes with tax rates expressed in currency units per physical quantity which requires their periodic adjustments for inflation. There are risks that the excise tax rates in neighbouring countries will be raised less than in the domestic country which could encourage domestic consumers to buy tobacco and nicotine products in other countries and discourage consumers in other countries from buying tobacco and nicotine products in the domestic country, as well as that the excise tax increases will lead to price increases higher than inflation, which might reduce demand for our products.

In the Czech Republic, Act no. 349/2023 Coll. amending certain laws in connection with the consolidation of public budgets, amended also Act no. 353/2003 Coll. on excise taxes. This amendment came into force on January 1, 2023 and introduced the following changes:

- A four-year calendar of tobacco excise tax increases for years 2024 to 2027. As of 1st February 2024, the specific component of the cigarette excise tax rate increased by 10% and the minimum tax rate increased by 20%. The excise tax rate on tobacco for smoking increased by 10%. In 2025-2027, these tax rates will increase by 5% each year. The ad valorem component of the cigarette excise tax remains unchanged (at 30%). The excise tax rate on heated tobacco products increased by 15% in 2024 and will increase by 15% annually in 2025-2027. These excise tax increases are accompanied by sell-by-date anti-forestalling regulation applicable to cigarettes with a three-month period and heated tobacco products with a six-month period.
- The introduction of an excise tax on e-liquids for e-cigarettes with a tax rate of CZK 2.5 per ml in 2024 with further increases up to CZK 10 per ml in 2027.

The table shows tax rates in 2023-2027:

	2023	2024	2025	2026	2027
Cigarettes					
– specific component (CZK per 1000 sticks)	1,970	2,170	2,280	2,390	2,510
– ad valorem component (%)	30%	30%	30%	30%	30%
– minimum excise tax (CZK per 1000 sticks)	3,520	4,220	4,440	4,660	4,890
Tobacco for smoking (CZK per kg)	3,000	3,300	3,470	3,650	3,830
Heated tobacco products (CZK per kg of tobacco)	3,000	3,450	3,970	4,570	5,260
E-liquids for e-cigarettes (CZK per ml)	n/a	2.5	5	7.50	10

In Slovakia, Act no. 530/2023 Coll. amending certain laws in connection with the consolidation of public budgets amended also Act no. 106/2004 Coll. on tobacco excise taxes. As of February 1, 2024, the specific tax rate on cigarettes increased by 8%, the ad valorem component increased by 2 percentage points, the minimum excise tax on cigarettes increased by 12%, the excise tax rate on fine-cut tobacco increased by 37% and the excise tax rate on smokeless tobacco products increased by 13%.

Further tax rate increases for years 2025 and beyond can be expected to be approved during 2024.

The table shows tax rates for 2023 and 2024:

	2023	2024
Cigarettes		
– specific component (€ per 1000 sticks)	84.6	91.3
– ad valorem component (%)	23%	25%
– minimum excise tax (€ per 1000 sticks)	132.1	148.0
Tobacco for smoking (€ per kg)	101.3	139.0
Smoke-free tobacco products (€ per kg of tobacco)	187.8	211.3

Tobacco and nicotine products regulation

There is a risk that regulation of tobacco and nicotine products will not be differentiated according to the health risks which would hinder our ability to inform adult users about the relative risks of individual products.

In the EU, tobacco and nicotine products are regulated by the Tobacco Products Directive (2014/40/EU), which entered into force on May 19, 2014, and became applicable in the EU Member States as of May 20, 2016.

The legislation lays down 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:

- the prohibition on placing on the market of tobacco products containing flavourings in any of their components, such as filters, papers, packages, capsules, or any technical features allowing modification of the smell or taste of the tobacco products concerned or their smoke intensity, covering cigarettes, roll-your-own tobacco, and heated tobacco products (the so-called “flavour ban”)
- a pre-launch notification requirement
- 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
- related products, enhanced reporting obligations, a ban on tobacco products with characterizing flavours (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
- tracking and tracing requirements for cigarettes and roll-your-own tobacco, other tobacco products will be subject to tracking and tracing as of May 20, 2024.

In the Czech Republic, the Directive is transposed by Act no. 110/1997 Coll. on foodstuffs and tobacco products and other related laws together with:

- Decree no. 261/2016 Coll. on tobacco products
- Decree no. 37/2017 Coll. on electronic cigarettes and herbal products for smoking

The extension of the “flavour ban” to heated tobacco products, which had already existed for cigarettes and roll-your-own tobacco, became effective on November 23, 2022, when Commission Delegated Directive 2022/2100 (“Directive 2022/2100”) of June 29, 2022, amending Directive 2014/40/EU of the European Parliament and of the Council as regards the withdrawal of certain exemptions in respect of heated tobacco products, entered into force. On May 30, 2023, the Czech Parliament approved the Amendment to Act No. 110/1997 Coll., on food and tobacco products, where the new provisions were transposed and entered into force on October 23, 2023.

Not all neighbouring countries have yet transposed the new rules into their national legislation. In the case of the Czech Republic, there is therefore a risk that domestic adult users will be encouraged to buy flavoured heated tobacco products in other countries.

In Slovakia, the Directive is transposed by Act no. 89/2016 Coll. on the manufacture, labelling and sale of tobacco products and related products and on the amendment and supplement to selected laws. The extension of the “flavour ban” to heated tobacco products has not yet been transposed into the national legislation.

Single-use plastics regulation

The objectives of the EU Directive 2019/904 ("Single-Use Plastics Directive" or "the 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 market⁵.

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 were required to introduce marking requirements on product packaging and implement Extended Producer Responsibility Schemes ("EPR"), which requires 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 with EPR fully in place in the EU Member States by January 5, 2023. In the Czech Republic the effective date for EPR for producers of tobacco products with filters was January 1st, 2023, while in Slovakia it is December 1, 2024.

In order to ensure the collective fulfilment of the obligations of manufacturers of tobacco products with filters and filters placed on the market for use in combination with tobacco products in the territory of the Czech Republic, Philip Morris ČR a.s., in accordance with the requirements of Act No. 243/2022 Coll.⁶, became one of the founders of joint-stock company NEVAJGLUJ a.s. (hereinafter referred to as "NEVAJGLUJ") with a stake of 24%. NEVAJGLUJ was registered in the Commercial Register in March 2023, and in July 2023 it submitted an application to the Ministry of the Environment of the Czech Republic for authorization to operate a collective system (EPR system), which included a proposal for the method of calculating the reimbursement of the costs of municipalities for ensuring activities associated with the cleaning and collection of littered tobacco products with a filter after their consumption in public spaces. The authorization was granted on October 10th, 2023. Philip Morris ČR a.s. is being represented in statutory bodies of the NEVAJGLUJ, namely holds a position of the Chairman of the Board of Directors, and also one member of the Supervisory Board. More information on EPR system NEVAJGLUJ in the Czech Republic is available at www.nevajgluj.cz.

In Slovakia, Philip Morris Slovakia s.r.o. became one of the founders of joint-stock company SPAK-EKO s.r.o. with a stake of 25%. SPAK-EKO s.r.o. was registered in the Commercial register in September 2023. Philip Morris Slovakia s.r.o. is being represented in statutory bodies of SPAK-EKO s.r.o., namely holds a position of the Chairman of the Board of Directors, and also one member of the Supervisory Board. In order for SPAK-EKO to have authorization to operate a collective system (EPR system) from 1.12.2024 a change in legislation is needed. The Ministry of Environment is planning to change the respective Act. No. 79/2015 on waste and on amendments to certain laws in 2024.

The part of the 2023 annual costs of the EPR system establishment and operation borne by Philip Morris ČR a.s. amounts to CZK 32 million, including registered capital paid. The part borne by Philip Morris Slovakia s.r.o. amounts to EUR 153 thousand.

Risks related to other external factors

We also face risk factors arising from adverse developments in the economic situation and external environment which could affect our financials, disrupt our supply chain, manufacturing capabilities, and distribution channels or undermine our data protection efforts. Some risks can be anticipated and appropriate business-continuation plans can be adopted in advance but some risks, for example the global events such as covid-19 pandemic or war in Ukraine, cannot.

Expected economic and financial situation

The overall macroeconomic situation, GDP development, inflation, fluctuating energy prices are impacting our cost base as well as influencing our revenues.

After the COVID-19 induced economic shocks in 2020 and 2021, and initial shock triggered by Russian invasion of Ukraine in 2022, the 2023 economic situation and consumer mood started to cautiously recover. Most notably, both the Czech Republic and Slovakia, were

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

⁶ Act No. 243/2022 Coll. on the reduction of the impact of certain plastic products on the environment.

adversely hit by stagnating GDP and increasing inflationary pressures impacting the consumption patterns of households in both countries, however improving most notably in the second half of the year.

According to the data from the Czech Statistical Office, the gross domestic product in 2023 decreased by 0.4pp versus prior year⁷. Inflation decreased by 9.0pp year-on-year and ended-up at 6.9% in December 2023⁸, improving, yet, well above the long-term CNB goal of 2%. Compared to last year, real wages of households declined by 1.2% due to inflation⁹, however after a very strong decline in Q1 recorded positive trend quarter-by-quarter during the year. Despite the positive macroeconomic development in the second half of 2023, consumer confidence did not fully recover. Retail sales value increased and stabilized; however, this was driven by price increases while the retail volume remained subdued. The consumer remains cautious, limiting non-essential purchases and seeking cheaper alternatives.

Natural gas and electricity are the main source of energy in our production plant in Kutná Hora. In 2023, the energy prices tripled despite Government interventions in the form of established price caps and compensation of the price differences to energy suppliers¹⁰. The total utilities cost increase in 2023 represented around CZK 200 million. The investments we made to energy consumption related projects were not able to fully compensate for such a high price increase, however they enable us to maintain continuity of production and will allow us to continually reduce the energy burden on our operations.

We expect 2024 outlook to remain optimistic. According to the latest projections of CNB, it is expected that inflation will further decline towards the long-term goal of 2%, GDP to recover from mild declines to 1.2% growth, and energy prices are expected to stabilize. All of this should improve consumer sentiment and consumer spending.

Our business will remain exposed to consumer down-trading to cheaper cigarettes and other nicotine-delivery alternatives, as well as to an increase in cross border transactions. We also remain committed to continuing to implement our planned productivity initiatives to manage our cost base and maximize the return on our investments.

Adverse events

Natural disasters, pandemics, armed conflict, threats of war, or other adverse political and/or economic developments could disrupt our supply chain, materials availability, manufacturing and/or distribution capabilities.

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

Despite our business continuity plans and other safeguards in place, our business, operations and financial results will depend on numerous continuously evolving factors that we may not be able to accurately predict.

Cyber-security threats

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 considering 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.

⁷ Source: [Key macroeconomic indicators | CZSO](#)

⁸ Source: [Inflation - Types, Definition, Tables | CZSO](#)

⁹ Source: [Key macroeconomic indicators | CZSO](#)

¹⁰ Government Regulation No. 298/2022 Coll. on the determination of electricity and gas prices in an extraordinary market situation and on the determination of the related highest permissible range of the customer's property benefit.

05

Sustainability and Social Responsibility

Sustainability is core to the transformation of the PMI Group, including Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o. (the Company). For us, sustainability means creating long-term value while minimizing the negative impacts associated with our products, operations and value chain and maximizing the positive impact we have on the world around us. We maintain a focus on sustainability in all parts of our business.

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 a priority. PMI's 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). Our ambition is to be a true leader in sustainable business practices. It also represents an opportunity for growth and our strongest competitive advantage.

Starting as of 2021, with its Integrated Report, PMI has revamped bespoke reporting of key performance indicators (KPIs) linked to its most recent sustainability materiality results, introducing PMI's Sustainability Index, to measure and communicate progress rigorously and quantitatively against its aspirations, using a set of clearly defined and verifiable metrics. In 2023, in conjunction with the 2022 Integrated Report, PMI's ESG KPI Protocol was also updated, detailing the definition, scope, and methodology of each KPI included in the index.

Reporting on governance, strategy, targets and aspirations, programs, and metrics transparently and in line with PMI Group's ESG priorities helps the Company communicate progress in a structured way, alongside the PMI Integrated Report.

In the Czech Republic and Slovakia, we are aligned with the global approach. In 2022 we went through local validation of the global Sustainability Materiality Assessment to tailor the global strategy to local needs. More information on the local assessment is available in the document "Udržitelnost a odpovědné podnikání 2022"¹¹ (available in Czech language only).

Currently we are preparing for new sustainability reporting requirements raising from the European Corporate Sustainability Reporting Directive (CSRD).

¹¹ Source: <https://www.pmi.com/...>

Governance

We conduct business ethically and with integrity. We clearly define the ethical and compliance expectations to which we hold ourselves and the third parties with whom we work, and we back up these expectations with governance and management systems to ensure we deliver on them.

The key rules are formalized in PMI's Code of Conduct¹² setting clear standards and expectations addressing key risk areas, including but not limited to:

- anti-bribery and anti-corruption, which prohibits all forms of bribery and facilitating payments; regulates interactions with government officials and entities, as well as with private individuals, both directly and through third parties; describes acceptable forms of giving and receiving gifts or entertainment, govern political and social contributions; and sets clear preapproval, reporting, and registration requirements,
- anti-competitive practices,
- conflicts of interest,
- information protection security and data privacy,
- responsible marketing and sales,
- scientific integrity,
- supply chain responsibility,
- workplace integrity.

Its mandatory provisions apply to all employees, officers, and directors. The Code of Conduct is supplemented with Internal Policies, which provide more specific guidance on these and other topics.

The Company's supply chain is responsible for a significant part of the Company's social and environmental footprint. As the Company's supply chain integrates and globalises, the Company's ability to balance security of supply, cost-effectiveness, high quality requirements, and environmental and social standards is a top priority as well as a challenge. As detailed also in the Minimum Social Safeguards section of the Taxonomy Disclosure 2023, PMI is committed to conducting its business according to the UN Guiding Principles on Business and Human Rights (UNGPs) and thus identifying, analysing, and mitigating human rights risks and adverse impacts along its value chain. As part of our human rights due diligence processes, PMI regularly conducts Human Rights Impact Assessments (HRIAs). PMI has set the ambition to cover the 10 highest-risk countries in which it operates by 2025.

Social

Our long-term business success relies on our people: human capital in the form of our employees' dedication, talent, and passion. It is essential for us to provide a fair and inclusive workplace that upholds good working conditions and labour rights, protects the health and safety of employees, promotes their well-being, and offers opportunities to grow, increase their skills and capabilities, and improve their employability.

As at December 31, 2023, we employed in total 1 136 employees in the Czech Republic (of which 40% are women) and 165 employees in Slovakia (of which 54% are women).

Investing in our people and providing them with meaningful opportunities helps us to recruit and retain talented individuals who can contribute to our company's purpose and achieve high productivity and efficient operations in a context of rapid change. Furthermore, we strongly believe that an inclusive culture embracing diversity better attracts talent and improves decision-making, innovation, customer orientation, and employee satisfaction.

In November 2023, Philip Morris ČR a.s. was awarded Top responsible large company 2023, by the organization Byznys pro společnost (Business for Society). Philip Morris Slovakia s.r.o. was certified Top Employer Slovakia 2023.

¹² Source: <https://www.pmi.com/>.

Diversity, inclusion, and equality

We regard our employees' diversity as one of our greatest assets. We therefore seek to cultivate an inclusive environment where diversity can thrive and all employees feel respected, supported, and engaged. We aim to celebrate all types of diversity, both demographic (e.g., race, ethnicity, sexual orientation, gender identity or expression, age group, creed, national identity, marital or family status, and visible or invisible disability) and experiential (how people think, work, communicate, and live). The principles of respectful, inclusive and safe work environment, as well as diverse and inclusive organization, are an integral part of our Global Workplace Integrity Policy.

Since 2019, Philip Morris ČR a.s. is a signatory of the European Diversity Charter in Czechia. Philip Morris Slovakia s.r.o. is a European Diversity Charter in Slovakia signatory since 2017. Together with other businesses involved in European Diversity Charter, we are committed to developing a tolerant working environment, irrespective of age, religion, gender, sexual orientation, or health status.

Both our affiliates are holders of the prestigious EQUAL-SALARY pay equality certification awarded by the Swiss EQUAL-SALARY Foundation in cooperation with the University of Geneva and consulting company PwC, as an independent confirmation of equal pay for men and women for equal work. This confirms that we have a long-term equal pay policy, and that we are a good employer, regardless of gender, age or the position in which the employee works (commercial or manufacturing). It is an important confirmation for us that we take the topic of diversity and inclusion of employees very seriously, as it is one of the main pillars of our corporate culture.

Concerning the gender equality, we are improving a representation of women in managerial roles. In 2023 we reached 41% proportion in Philip Morris ČR a.s., and 54% in Philip Morris Slovakia s.r.o. respectively. In addition, as at 31 December 2023, Philip Morris ČR a.s. had a 30% share of women in the Board of Directors and the Supervisory Board combined.

We are proud that in 2023, we established two Employee Resource Groups (ERGs) within our organization. These employee-led groups are dedicated to specific dimensions of diversity, aiming to cultivate an environment of inclusion, equity, and belonging. By offering a space for increased understanding and visibility of diverse experiences and identities, these ERGs play a pivotal role in enriching our company culture. Each of these ERGs is steered by a committee of volunteer employees and receives sponsorship from a Senior Management Team (SMT) member, ensuring both leadership support and alignment with our broader organizational goals. Designed to be welcoming and accessible, these groups are open to all employees, fostering a truly inclusive community where every voice can be heard and valued.

Equitable and fair employment conditions are crucial for societal harmony and well-being and are central to a sustainable and prosperous future for all. Effective professional development opportunities ensure that employees can pursue professional opportunities and contribute meaningfully to society. By ensuring that all people who work with us enjoy a safe and healthy work environment, and by attending to their physical and mental well-being, we can positively impact their lives beyond their time spent at work. During 2023, in the framework of Lifelong Learning initiative we have implemented an "iDev" learning & development program and created one-stop-shop Learning Catalog via internal communication channels, accessible to all employees.

Fair working conditions

We ensure our employees are informed of their rights by People & Culture (P&C) team, as well as via our Code of Conduct and related principles and practices, including our Workplace Integrity Policy, and Collective Labour Agreement.

In Philip Morris ČR a.s., fair working conditions are formed based on collective bargaining and are anchored in the Collective Labour Agreement. In June 2023, representatives of the employer and Trade Unions signed a renewed Collective Labour Agreement, for a period of the next 3 years. Fair working conditions are further formed via continuous involvement and dialogue of company management with employees, employee participation in the evaluation of their performance and setting work goals, an effective system of complaints and initiatives and a transparent approach when filling vacant job positions. We are convinced that our Collective Labour Agreement, as output and proof of our collaboration between management and Trade Unions, supports our employees in key areas and guarantees regular dialogue between employer and Trade Unions.

In Philip Morris Slovakia s.r.o., fair working conditions are being formed by a continuous dialogue with employees, namely through face-to-face meetings or by Employee Council, and formalized as internal recommendations and/or guidelines.

As more extensively detailed in the Minimum Social Safeguards section of the Taxonomy Disclosure, both Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o. have internal disclosure (whistleblowing) systems in place in accordance with their local legislations (the Whistleblower Protection Laws) for submission of complaints about possible infringements that directly affect the company.

Safety and health protection

The absolute priority of the Company in 2023 was the protection of health and safety of all employees of the Company. The Company works systematically to prevent and eliminate health and safety risks in order to create a safe and motivating work environment. Employees are continuously trained, educated and motivated. The Kutná Hora manufacturing plant is certified by external entities as per ISO 45001 (Health and Safety), as well as the factory achieved a year without safety incidents resulting in LTIs (Lost Time due to Injuries).

Employee remuneration

We recognize that our employees are the cornerstone in achieving a smoke-free future. We understand that offering competitive compensation and benefits is crucial in nurturing a strong and collaborative relationship that aligns with our collective objectives. To this end, we conduct annual reviews of our employees' salaries and compensation packages. This process is guided by factors such as developments in the Czech and Slovak labour markets, internal equity, and individual employees' contribution to our Company's success. Our commitment to maintaining high standards in compensation and benefits ensures that we meet the competitive benchmarks in our industry.

In response to mitigate the impact of the rising consumer price index (CPI) on employee's income and financial security, our leadership team took decisive and unprecedented steps to mindfully adjust salaries by an average of 10% across our entire employee base effective April 2023. As of October 2023, we also introduced the option for employees to request an advance on their salaries to be paid ahead of the regular payday. Both, in order to reduce the hardship employees would be facing and thus addressing the challenges in the area of emotional and financial well-being.

On top of the regular monthly salaries, the Company provides a set of additional benefits, including possibility to use Employee Assistance Program (EAP), a confidential support service designed to assist our employees in addressing a broad spectrum of personal and professional challenges at no cost, which was revitalized in 2023. Recognizing the demands of our fast-paced world, it can be difficult to maintain personal well-being while juggling work duties and home responsibilities. The EAP provides timely, expert support to help employees navigate life's complexities with ease. Employees can reach the EAP Care Access Centre toll-free, 24/7, ensuring support is always available when they need it.

Product impact on society

Addressing the health impacts associated with smoking by offering smoke-free, science-based alternatives that have been proven to be a better choice than cigarettes for those adults who would otherwise continue to smoke, is the most important contribution we can make to public health. We intentionally work toward phasing out cigarettes. We commercialize science-based smoke-free alternatives, making them available at both markets, and we continue to increase the total number of adult users switching from cigarettes to smoke-free products.

Corporate philanthropy / Social contributions

Regarding social contributions, for more than 30 years, Philip Morris ČR a.s. has been contributing significantly to charitable projects across a wide range of organizations and specializations. There are four principal areas of support at the Czech market: Education; Care for carers; Chance for a quality life; and Environmental issues. Moreover, there is a special program area aimed at mitigating the consequences of disasters or efforts to prevent them. Our traditional long-term partners, implement their projects with our financial support, including among others, organizations with a nation wide impact:

- the Charter 77 Foundation and their projects helping people with disabilities in their rehabilitation and personal assistance, the brand-new program of the cancer prevention, and many projects and activities helping the refugees from Ukraine.
- two other organizations, the Slunce pro všechny Endowment Fund and the Livia and Václav Klaus Endowment Fund dedicating their effort in the field of education, focused on physically and mentally handicapped children or pupils in a difficult economic situation.
- regional Charity Červený Kostelec, an 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, and its remarkable program focusing on innovations in the development and use of alternative communication.

In the field of the environment, we cooperate with the POD HORAMI association for several years, which is focused on the education of children in the field of environmental care, theoretically and in practice. We also financially support the organization BENEDIKTUS z.s. (community of people with and without intellectual disabilities), to rebuild a sheltered housing for its members, considering the ecological water and energy management. Also, the project: www.KAMsNIM.cz to Schools, implemented by the organization Uklid'me Česko, helps building awareness and spreading information on proper waste management among pupils and students.

The Care for carers program is becoming increasingly important helping people to care about others, formally or informally, in various areas of their need. Our partners are organizations Chance 4 Children and TILIA (projects aimed to children's homes), the association VOLNO Kolín (the support services for families caring for autistic people), and the Sue Ryder Home (specialized care for elderly with dementia).

Philip Morris ČR a.s. organized a spring and autumn voluntary blood donation initiative within the premises of Kutná Hora manufacturing site in 2023. Our volunteers also participated in a global initiative World Clean Up Day and have cleaned up the environment surrounding our manufacturing site in April and September.

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, we again provided a grant to the Pontis Foundation and its re-grantees for the project Raising the Roof 2023, focused on solving the issue of homelessness as a state of extreme exclusion from society. This requires the upkeep of the existing projects of professional help giving people a real chance to stand on their own feet again and find adequate housing (OZ Vagus) and also deal with the public perception of this issue (Theatre With No Home). Since 2019, the program has expanded to include other socially excluded groups, namely children with health disabilities (Black and White Horse, Stopy snov), as well as the topics of gender equality and economic opportunity (Cvernovka).

We also supported our long-term grantees:

- Divé Maky, their project Young Roma Leaders 3 is aimed at the continuous preparation of young Roma leaders for advocacy activities towards the authorities through leadership training and mentoring.
- new organization Rozmanita o.z, is a non-profit organization building a model for diverse and inclusive schools in Slovakia and beyond. Their vision is to contribute to a capable, fair and sustainable society for everyone by creating safer and more inclusive educational spaces in public schools for all children, including those from various minorities.
- new organization non-investment fund Nadačný fond TU SME, its main activities include the implementation of programs aimed at the integration and inclusion of citizens with disabilities into society. They create conditions for supported employment of citizens with altered work ability. Another activity supported by the fund is the education of professional and voluntary workers who participate in the creation of programs, as well as educational and publication activities for the benefit of people with disabilities.

When possible, Philip Morris Slovakia s.r.o. provides also In-kind donations. In 2023, we donated 200 second hand tablets to beneficiaries of Pontis n.o. to help them with education. At the end of the year, we provided Earthquake Relief financial support to Nadácia PSK na podporu rodiny.

Philip Morris Slovakia s.r.o. organized spring and autumn clothes collections among its employees. Collected clothes and other necessities were donated to Centrum pre deti a rodiny Bernolákovo, Gaudeamus - community rehabilitation facility and OZ Persona. In June 2023, our colleagues once again participated in volunteering activity Naše Mesto (Our City). We volunteered in 4 cities/ towns across Slovakia – in Žilina, Nitra, Trnava and Bratislava. For the 3rd time we participated in global initiative World Clean Up Day. We cleaned our environment in Žilina and Bratislava together with our recycling partner EcoButt. We managed to adopt 19 beehives from Slovak beekeeper to support biodiversity and raise awareness on this topic. Eight of our colleagues were handing out pocket ashtrays on the largest festival in Slovakia – Pohoda, where we also had a media event focused on sustainability and recycling. On the occasion of the company's 30th anniversary, our colleagues raised the amount of EUR 2,136 for the Social Services Home Integra. With the collected funds, we were able to purchase an interactive whiteboard, treadmill for walking with a handrail, notebook with a printer and some sweets for Saint Nicholas Day.

Environmental

Climate-related matters

Climate change is among the greatest threats to society. There is broad scientific consensus about the urgent need to reduce greenhouse gas (GHG) emissions to limit the rise in the global temperature to 1.5°C above pre-industrial levels, aligned with the Paris Agreement. The Company supports the Paris Agreement and is adapting its objectives to the recommendations of the Intergovernmental Panel on Climate Change (IPCC).

Achieving the goal requires increasing efforts to mitigate the impacts of climate change and resilience to them. This includes for example reducing greenhouse gas (GHG) emissions, increasing efficiency as well as energy savings. It means doing business steps to apply

innovative low-carbon technologies that initially require certain investments, but they offer meaningful emissions reductions and returns in the medium to long term.

In 2022, PMI has completed an in-depth climate-related risk and opportunity assessment (the s.c. Climate Change Risk and Opportunity - CCRO), which is shaping the content of further reporting, aligned to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)¹³.

CCRO complements PMI's Low-Carbon Transition Plan (LCTP)¹⁴, published in 2021, which provides a transparent and detailed view on how PMI plans to achieve its climate ambitions, measure success, and report on progress, as it adapts its business model to succeed in a net-zero carbon economy.

The outcome of the above-mentioned assessments as well as the plans and targets apply also to our markets.

Climate goals, activities, and progress

Recognizing the urgent actions required to tackle the climate change crisis, the PMI Group has set a goal of becoming a carbon-neutral company in its direct operations by 2025 (Scope 1+2). Further to this, the PMI Group has also set the goal of achieving net-zero emissions across its entire value chain (Scopes 1+2+3) by 2040. In 2023, PMI has been awarded a Triple A score by the CDP¹⁵ for the fourth consecutive year in recognition of its efforts to combat climate change, protect forests, and promote water security.

Kutná Hora, manufacturing facility in the Czech Republic contributes to the PMI's global carbon neutrality target, it even fulfils it already. Since 2020, the site is being repeatedly declared as a carbon neutral factory (Scope 1+2). In 2023, an external company SGS United Kingdom Limited verified the Carbon Neutrality Declaration of Kutná Hora plant¹⁶ for the year 2022. During the year 2024, the plant will be audited again by an external third-party, regarding the carbon neutrality for 2023, and the fulfilment of the criteria needed to obtain a carbon neutrality certificate for 2023 will be verified. In 2024 we will start working with third parties in our value chain to be prepared for reporting on local GHG emissions Scope 3 as of 2025, in compliance with national and European requirements.

Environmental protection is secured in accordance with the Czech environmental legislation. The Company has been consistently striving to reduce the environmental impact of its activities over the long-term period. The company continuously identifies opportunities for technical innovation with a focus on energy consumption reduction and emissions reduction at Kutná Hora manufacturing plant. The goal is to reduce the impact on the environment and keep a carbon neutrality certificate for the factory.

At the manufacturing site, the company also focuses on reducing water consumption (certification according to the AWS Standard), reducing the amount of waste and forwarding it for recycling. For the fourth year already, no production waste is landfilled. The Kutná Hora manufacturing plant is also a certificate ISO 14001 (Environment) holder.

Within the framework of Product Sustainability Strategy, in 2023 we continued with activities focused on post-consumer waste reduction, Device Take Back and Consumables Take Back programs (Circular Programs) to ensure proper recycling of electronic devices within the framework of the PMI CIRCLE project and take care of used heated tobacco sticks. In February 2024 we launched an IQOS ILUMA Refreshed initiative, offering our adult users a refurbished IQOS device for purchase. In other words, we are evolving from a collection-for-recycling-only model to a collection-for-reuse-and-recycling model. Even with this step, we want to further reduce environmental impact of our products and reduce their carbon footprint respectively.

More information on PMI's global approach and performance on environmental, social and governance issues, including GHG emissions Scope 3, can be found in the Integrated Report 2023 of Philip Morris International Inc., which will be published on 28 March 2024 and will be accessible at www.pmi.com/sustainability. The above section complements the mandatory disclosures pursuant to the Act of Accounting and the EU Taxonomy Regulation.

¹³ Source: <https://www.pmi.com/...>

¹⁴ Source: <https://www.pmi.com/...>

¹⁵ Source: <https://www.pmi.com/...>

¹⁶ Source: <https://www.pmi.com/...>

EU Taxonomy

General principles and reporting obligations

As a non-financial undertaking, Philip Morris ČR a.s. ("PM ČR") reports on turnover, capital expenditure and operating expenditure that are associated with Taxonomy-eligible and Taxonomy-aligned economic activities pertaining to itself or its consolidated affiliate Philip Morris Slovakia s.r.o. ("PM Slovakia") and together with PM ČR also ("the Company"), in accordance with Article 8 of EU Regulation 2020/852 ("Taxonomy Regulation"), and the supplementing delegated acts.

The EU Taxonomy reporting period is aligned with financial reporting period and covers calendar year ended December 31, 2023.

Eligibility assessment

In line with our obligation as per the EU Taxonomy Regulation, we performed a thorough assessment to identify activities representing the Company's contribution towards the six environmental objectives set out in the Article 9 of the Taxonomy Regulation.

Our key economic activities, manufacturing of tobacco products and distribution of tobacco and other nicotine containing products in Czech and Slovak markets, are not as such included in the Taxonomy defined classification system and thus are out of scope of current Taxonomy KPI reporting.

The Company is committed to embed sustainability in every aspect of its business and to deliver progress on priority environmental and social areas, yet only several non-essential activities can be considered eligible under Taxonomy Regulation. These pertain mainly to the Company's efforts in reducing the environmental impacts associated with own buildings and leased car fleet. We provide below an outline of activities that we have assessed as Taxonomy-eligible, including the environmental objectives to which they are contributing to:

Economic activities	Objective	Description
7.6 Installation, maintenance and repairs of renewable energy technologies	Climate Change Mitigation	installing and operating heat recovering equipment (heat pumps and heat exchangers)
7.3 Installation, maintenance and repair of energy efficiency equipment	Climate Change Mitigation	replacing current equipment maintaining ambient conditions in buildings by more efficient ones
7.4 Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)	Climate Change Mitigation	installing and operating charging stations for electric/plug-in vehicles
6.5 Transport of motorbikes, passenger cars and light commercial vehicles	Climate Change Mitigation	replacing car fleet with alternative powertrain vehicles (leasing)
5.1 Construction, extension and operation of water collection, treatment and supply systems	Climate Change Adaptation	using well water for steam production (instead of tap water)
2.2 Production of alternative water resources for purposes other than human consumption	Circular Economy	using rainwater for lawn irrigation (instead of tap water)

Climate change mitigation and adaptation

Climate protection is a priority for us, and in alignment with the goals set out in the 2015 Paris Agreement, we have identified opportunities for technical innovations with a focus on energy consumption related savings and reduction of carbon emissions.

We gradually invest into heat pumps and heat exchanger type of equipment which can recover the heat generated in various areas of manufacturing operation and subsequently use it to preheat the outside air for ventilation and/or heat the water, both aimed for heating in our own buildings. At the same time, we are replacing current equipment maintaining ambient conditions (e.g. temperature, humidity, etc.) in our buildings by more efficient ones. Both are contributing to electricity and natural gas consumption savings.

We are also gradually replacing our car fleet with alternative power train vehicles with aspiration to have 100% alternative power train fleet, in both Czech Republic and Slovakia, by 2025 and thus reducing carbon emissions. To support the alternative cars' usage for business purposes, we installed eight charging stations for electric/plug-in vehicles in Kutná Hora factory premises (parking slots).

On top of the above-described energy saving and carbon emission reducing activities, we are also utilizing the water from four wells located in the area around the factory in Kutná Hora for the usage in the steam boiler room (representing 100% of the boiler room's consumption). The produced steam is then used for technological purposes and for heating. By doing so, approx. 20,000m³ of drinking water from the water supply of the city of Kutná Hora is saved per year.

Circular economy

In 2022, we installed the underground reservoir within our production facility in Kutná Hora with the capacity of 48m³ which allows us to collect rainwater from the roofs of buildings and use it to irrigate the lawn in the area around, thus decreasing the consumption of tap water.

Alignment assessment

All identified Taxonomy eligible activities were firstly assessed for their **"Substantial Contribution"** to at least one environmental objective. Then we assessed that the activities **"Do No Significant Harm"** to the remaining five environmental objectives. Both assessments were performed against the technical screening criteria (TSC) set out in relevant Commission Delegated Regulations (see below). In parallel, the assessment of **"Minimum Social Safeguards"** was performed. All steps are described below.

Given the level of uncertainty in some definitions and their interpretations, the assessment was done on the best-effort basis, utilizing in-house sustainability expertise combined with external consultancy.

Considering all the above, five of the previously identified Taxonomy-eligible activities for 2023 were evaluated as Taxonomy aligned, while only one resulted as not aligned.

Substantial Contribution

In order to determine whether the Taxonomy eligible activities substantially contribute to one of the environmental objectives, the technical screening criteria were assessed and evaluated on activity level. Namely, TSC set out in Annex II of (EU) 2023/2486 for activities falling under Circular economy, TSC set out in Annex I or Annex II of (EU) 2021/2139 amended by (EU) 2023/2485 for activities falling under Climate change ("Commission Delegated Regulations").

Several activities were meeting requirements for both, Climate change mitigation and Climate change adaptation. In such cases we reported the respective KPIs under Climate change mitigation considering that the purpose of nature of these activities is primarily connected to Climate change mitigation.

Do No Significant Harm (DNSH)

DNSH was also assessed on activity level and further on asset level where applicable. The evaluation was performed against the TSC set out in the same Commission Delegated Regulations as for substantial contribution.

The most important DNSH criterion requires identification of physical climate risks that are material to the activity by performing a robust climate and vulnerability assessment.

In 2022, PMI completed an in-depth climate-related risk and opportunity assessment (the s.c. Climate Change Risk and Opportunity - CCRO), which is shaping the content of further reporting, aligned to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)¹⁷.

While no separate climate risk assessment was performed on local level, PMI's approach in conducting the CCRO fulfils the Taxonomy criteria on climate change adaptation, is aligned with Appendix A technical recommendations and did not identify any material risks for the Czech manufacturing site to justify the implementation of adaptation measures.

¹⁷ <https://www.pmi.com/>.

Minimum Social Safeguards

Article 3(c) of the EU Taxonomy Regulation requires the Company to conduct its economic activities in compliance with the Minimum Social Safeguards standards specified in art. 18 of the EU Taxonomy Regulation, i.e. in accordance with the OECD Guidelines for Multinational Enterprises ("OECD MNEs") and the United Nations Guiding Principles on Business and Human Rights ("UNGPs"), including the principles and rights set forth in the eight core conventions identified in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

With regard to the Minimum Social Safeguards disclosure, the Company makes reference to the guidelines presented in the "Final Report on Minimum Safeguards" published by the Platform on Sustainable Finance (advisory body of the European Commission) in October 2022, as well as to the European Commission's notice "on the interpretation and implementation of certain legal provisions of the EU Taxonomy Regulation and the links to the Sustainable Finance Disclosure Regulations" (2023/C 211/01).

The assessment considered the design of the Company's processes, in conjunction with those of the wider PMI group ("PMI Group" or "PMI") to which PM ČR and PM Slovakia are part, and their adequacy in identifying and preventing possible negative impacts on the environment and on society, as well as their compliance with the principles and the effectiveness with which any events were managed by recourse to corrective actions.

The Company ensures compliance with the minimum social safeguards (that includes due diligence and remedy procedures implemented by the Company) and, as part of the wider PMI Group, is committed to business practices that respect internationally recognized human rights and environmental principles.

Indeed, at PMI, we uphold the principles enshrined in the UNGPs and commit to respect the International Bill of Human Rights and the International Labour Organization's 1998 Declaration on Fundamental Rights and Principles at Work, and to endorse the OECD MNEs as well as the OECD Due Diligence Guidance for Responsible Business Practices. Across its value chain, PMI works to identify - and seeks to prevent and mitigate - impacts that are connected to its operations, products and services by a business relationship, and maximizes opportunities to drive positive change for people whom its activities may affect.

Due diligence and remedy procedures implemented by the Company

As described in detail in the latest Human Rights Report 2023¹⁸, PMI's approach to human rights is based on four pillars: a sound policy framework, rigorous and continuous due diligence, remediation - including through grievance mechanism channels - and transparency. In addition to that, PMI's integration of sustainability and human rights into the Company relies on a formal governance structure with clear accountabilities at different levels of the organization.

PMI's rigorous and continuous due diligence is based on a company-wide saliency mapping, firstly conducted in 2017 and then refreshed in 2020 to reflect changes in the business in the context of rapid transformation and heightened understanding of human rights. Like the 2017 mapping, the 2020 refresh focused on key groups of rightsholders: consumers, employees and contractors, suppliers and supply chain workers, and communities.

The mapping highlighted, among others, the need to focus on PMI's biggest and most pressing negative externality: the health impacts of cigarette smoking. PMI's aim is to ultimately make its legacy product, cigarettes, obsolete. For this reason, while working toward this aim, it is essential that PMI establishes and implements policies and practices that guide the responsible commercialization of its products.

More specifically, in line with the above, the following PMI's policy instruments cover specific areas of the value chain:

- PMI's own operations: the Code of Conduct (CoC) formally documents PMI's and the Company's commitment to compliance, ethics, business integrity and brings together a set of policy frameworks. It applies to all employees.
- PMI's supply chain: the Responsible Sourcing Principles (RSP) details the process and performance requirements PMI expects all suppliers to apply on areas such as: Business Integrity, Human Rights (including labour rights), and Environment. The RSP echo and reflect the same values and principles set by the CoC internally, and are binding for all of PMI's suppliers, contractors and business partners.
- Commercialization: PMI's Marketing Codes establish core principles, practices and governance processes to follow when developing, designing, marketing, engaging with adult consumers, and selling PMI's nicotine containing products.

¹⁸ Source: <https://www.pmi.com/...>

PMI's policies, rules, and procedures are set and applied globally within the group, and are then operationalized and implemented at local level, by PM ČR and PM Slovakia.

Employee's knowledge and understanding of the different relevant policy instruments is evaluated and enforced through regular mandatory training. Employees are in fact required to undergo awareness-raising and training initiatives covering, among others: business & human rights, security & human rights, inclusion & diversity, and ethics & compliance (including anti-corruption, workplace integrity, speaking up, conflicts of interest, responsible marketing, privacy).

Providing access to effective grievance mechanisms in operations and across the supply chain is a core element of PMI's due diligence approach. Internally, PMI – and the Company – work to ensure that robust processes are in place to encourage employees to speak up if necessary, ask questions and raise concerns relating to any potential misconduct of the internal policy framework, through their supervisors or functional leadership, key Ethics & Compliance contacts, as well as the dedicated PMI Compliance Help Line. In addition, PM ČR and PM Slovakia have internal disclosure (whistleblowing) systems in place in accordance with their local legislations (the Whistleblower Protection Laws) for submission of complaints about possible infringements that directly affect the company. A disclosure of an infringement may be made by an employee, a member of the company's body, a supplier or other persons pursuant to the Whistleblower Protection Laws. A whistleblower who fulfils the conditions for making a disclosure under the Whistleblower Protection Act is guaranteed protection. The whistleblower can use the internal whistleblowing system to disclose information about a possible infringement that has the characteristics of a criminal offence or a misdemeanor under the Whistleblower Protection Laws or violates it or any other legal regulations of European Union in the area referred in the Whistleblower Protection Laws which the whistleblower has obtained in connection with work or other similar activity for the Company. The designated Compliance Officer assesses the validity of a disclosure made, proposes measures to remedy or prevent any unlawful situation further to the disclosure made, maintains confidentiality of the facts of which the Compliance Officer has become aware in the course of Compliance Officer's activities and notifies the whistleblower in writing of the results of the assessment.

PMI reviews its mechanisms for speaking up regularly. The Ethics & Compliance Department trains employees to investigate concerns that are raised, and a quality assurance program following investigations (if any) is run to ensure that our processes are fair, unbiased, and respectful.

With regard to its engagement with local suppliers, the Company has been gradually ensuring local deployment of the RSP by starting to contractually enforcing it within agreements between PM ČR and/or PM Slovakia and local suppliers.

Suppliers' performance and compliance with the RSP is monitored through self-declarations, online assessments, audits, or inspections, and through the conduction of appropriate due diligence. The Company retains the right to terminate the business relationship with the supplier, in cases where non-compliance cannot be remediated.

Finally, in relation to transparency, PMI committed to “disclose progress about (its) work on (the) Human Rights Commitment, and the KPI (it is) using to assess (its) performance in (its) Sustainability Reports, published annually.” By reporting periodically on progress through an annual, integrated report and targeted, thematic communication, PMI enables external scrutiny, allowing stakeholders to assess PMI's transformation, as well as the work related to our social and environmental potential risks.

Meeting the principle of ‘do no significant harm’ of the EU Sustainable Finance Disclosure Regulation

In addition to alignment with the international instruments for sustainability due diligence, such as the OECD MNEs and the UNGPs, the Company has considered a list of principal adverse indicators provided in the Delegated Regulation (EU) 2022/1288 that specify the DNSH principle referred to in Article 2(17) of the Sustainable Finance Disclosure Regulation (“SFDR”).

This has been done in accordance with the European Commission's consideration that, in the context of the Article 18(2) of the EU Taxonomy Regulation, the link between the minimum safeguards and the principle of DNSH of the SFDR is to be understood, as a minimum, through the SFDR principal adverse impact indicators for social and employee matters, respect for human rights, anti-corruption and anti-bribery matters listed in the table 1 of Annex I of the SFDR Delegated Regulation.

Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	<p>In alignment with the guidelines of the Platform on Sustainable Finance, our assessment - complemented by the below independent sources -, the Company does not appear in any open controversy in relation to social and human rights, and more specifically:</p> <ul style="list-style-type: none"> – Philip Morris ČR a.s. has not received any complaint and does not have an open case with the National Contact Point for the OECD Guidelines for Multinational Enterprises (Ministry of Industry and Trade of the Czech Republic); – Philip Morris ČR a.s. has not been accused of human rights violations by the Business and Human Rights Resource Centre (BHRRR), nor has it received a request to comment on an open case with controversy; – Philip Morris ČR a.s. is not and has not been committed of human and labour rights violations during reported year.
Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	<p>Philip Morris ČR a.s. has implemented sustainability due diligence processes and compliance mechanism as explained above.</p>
Unadjusted gender pay gap	<p>Both Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o., are holders of the EQUAL-SALARY pay equality certification awarded by the Swiss EQUAL-SALARY Foundation in cooperation with the University of Geneva and consulting company PwC, as an independent confirmation of equal pay for men and women for equal work. This confirms that we have a long-term equal pay policy. Criteria for the successful certification include, but are not limited to, proving by statistical analysis pay gap within the threshold, proving implementation of equal remuneration system, existence of gender balance related objectives in the top management's goals, sufficient internal communication of all new policies and guidelines, explanation for all cases that could potentially be seen as discriminatory.</p>
Board gender diversity	<p>Philip Morris ČR a.s. had a 30% share of women in total on the Board of Directors and the Supervisory Board, combined as of 31 December 2023. Philip Morris Slovakia s.r.o. had 50% share of women in total on the Board of Directors as of 31 December 2023. The Company (including its affiliate Philip Morris Slovakia s.r.o.) had in total a 37,5% a share of women on the Company's boards as of 31 December 2023.</p>
Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	<p>Philip Morris ČR a.s. confirms, also on behalf of its affiliate, that it is in no way involved in commercial activities linked to the manufacture or selling of controversial weapons (including anti-personnel mines, cluster munitions, chemical weapons, and biological weapons).</p>

Key Performance Indicators (KPI)

Philip Morris ČR a.s. is publishing its consolidated financial statements prepared in accordance with IFRS. The EU Taxonomy disclosure is prepared on the same accounting rules and policies.

For EU Taxonomy KPIs reporting purposes the Templates as per Annex II to the Commission Delegated Regulation (EU) 2021/2178 are used.

Turnover

Due to the nature of our business operations, we do not have any Taxonomy-eligible or Taxonomy-aligned turnover to be reported.

Our key business activities are not included in the classification list of the EU Taxonomy and none of the Taxonomy eligible activities identified by us are turnover generating activity. Hence, we do not disclose Turnover KPI for EU Taxonomy purposes.

Capital Expenditure (CapEx)

Total CapEx consists of additions to Property, Plant and Equipment (PPE), including Right-of-use assets as per IFRS rules, represented by the gross amount before depreciation, amortization, and any kind of re-measurements, including revaluations and/or impairment.

For the purpose of Taxonomy, additions to PPE are triggered by capitalization of costs to particular assets within Property, Plant and Equipment to better reflect the timing when the asset is put into use. Costs are associated solely with one individual asset and are not double counted. Additions in Construction in progress, neither advances paid are not included.

There were no additions to PPE due to business combinations or investment properties acquired. Short-term leases are not recognized as fixed assets and thus are not included in the CapEx calculation.

The total CapEx in 2023 amounts to CZK 651 million, and is the sum of additions and transfers, excluding construction in progress, as presented in the Note 5 to the Consolidated financial statements.

CapEx associated to Taxonomy eligible activities consist of:

- equipment used for heating and other conditioning of buildings,
- charging stations for electric/plug-in vehicles,
- leased cars capitalized as Right-of-use assets under IFRS.

				Substantial Contribution Criteria						DNSH criteria ('Does Not Significantly Harm')								
ECONOMIC ACTIVITIES	Code(s)	Absolute CapEx	Portion of CapEx	Climate Change Mitigation	Climate Change Adaptation	Water	Circular Economy	Pollution	Biodiversity and ecosystems	Climate Change Mitigation	Climate Change Adaptation	Water	Circular Economy	Pollution	Biodiversity	Minimum Safeguards	Category (enabling activity)	Category (transitional activity)
		CZK millions	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	E	T
A. Taxonomy eligible activities																		
A.1. Environmentally sustainable activities (Taxonomy aligned)																		
Installation, maintenance and repair of renewable energy technologies	7.6.	10.6	1.6	100						—	Y	n/a	n/a	n/a	n/a	Y		
Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)	7.4.	1.8	0.3	100						—	Y	n/a	n/a	n/a	n/a	Y		
A.1. CapEx of Environmentally sustainable activities (Taxonomy aligned)		12.4	1.9															
A.2. Taxonomy eligible, but not environmentally sustainable activities (Taxonomy not aligned)																		
Transport by motorbikes, passenger cars and light commercial vehicles	6.5.	23.1	3.6	EL														
A.2. CapEx of Taxonomy eligible, but not environmentally sustainable activities (Taxonomy not aligned)		23.1	3.6															
Total (A.1 + A.2)		35.5	5.5															
B. Taxonomy non-eligible activities																		
B. CapEx of Taxonomy non-eligible activities		615.5	94.5															
Total (A + B)		651.0	100.0															

Total OpEx consists of direct non-capitalized expenditures incurred in relation to the day-to-day servicing of assets that are necessary to ensure the continued and effective functioning of such assets.

The total OpEx in 2023 amounts to CZK 288.7 million and represents a part of cost items shown in various lines of the Expenses by nature as presented in the Note 16 to the Consolidated financial statements.

- repair and maintenance costs (including materials like spare parts) associated with energy efficiency technology & equipment,
- repair and maintenance costs (including materials like spare parts) associated with car fleet.

[illegible]

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Forward-Looking and Cautionary Statements

This report and related communications contain, and Philip Morris ČR a.s. may from time to time make, written or oral forward-looking statements, including statements contained in filings with the Czech National Bank or other authorities, in reports to shareholders and in press releases and investor webcasts. You can identify these forward-looking statements by use of words such as “strategy,” “expects,” “continues,” “plans,” “anticipates,” “believes,” “will,” “estimates,” “intends,” “projects,” “goals,” “targets” and other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts.

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

This 2023 Annual Financial Report of Philip Morris ČR a.s. 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.

In Kutná Hora on March 26, 2024



Andrea Gontkovičová

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



Eugenia Panato

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