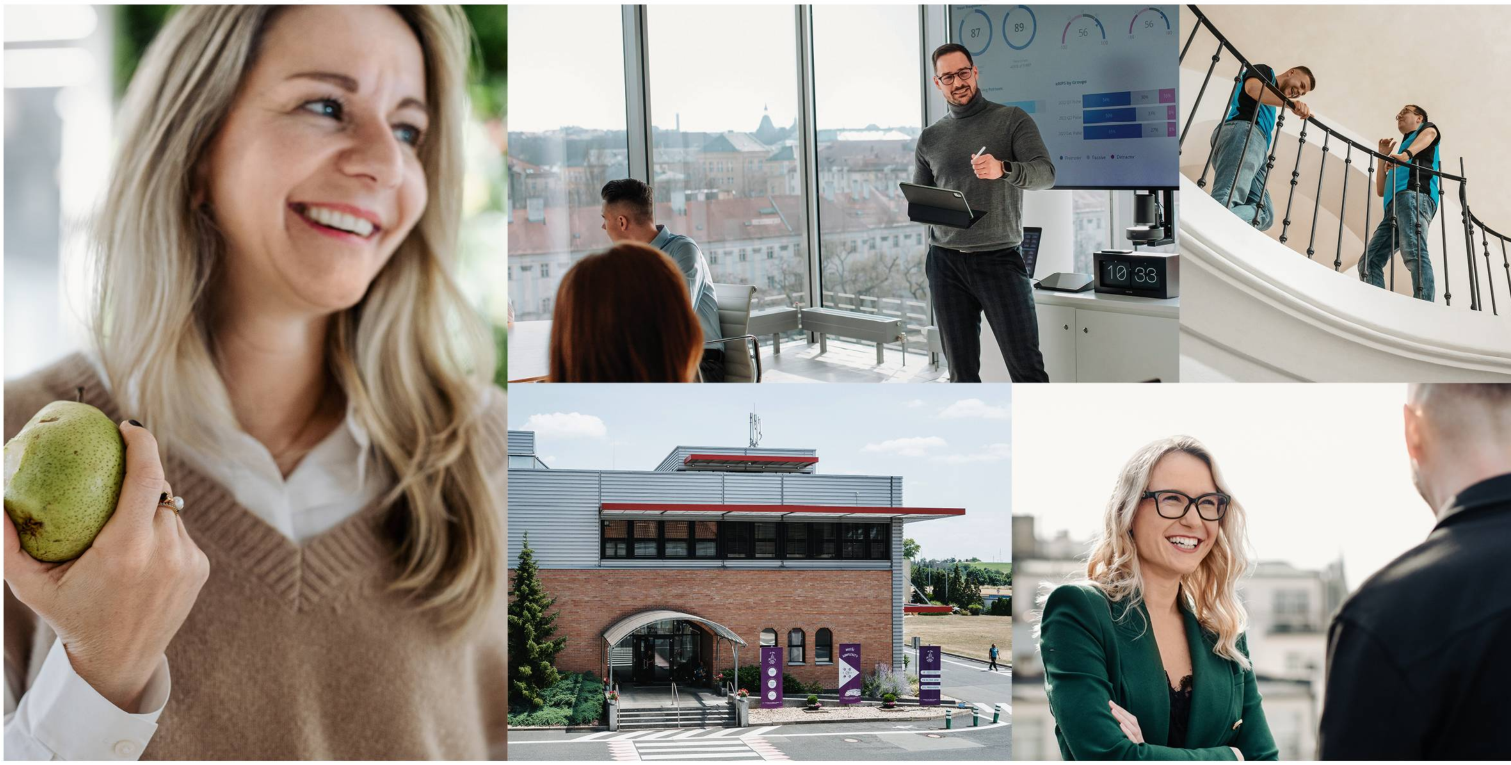
Annual Financial Report

2023



PHILIP MORRIS INTERNATIONAL

PHILIP MORRIS ČR

Statutory Declaration of Persons Responsible for the Philip Morris ČR a.s. Annual Financial Report

We confirm that to the best of our knowledge, the financial statements and consolidated financial statements, drawn up in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and financial results of the issuer, Philip Morris ČR a.s., and the units included in the consolidation as a whole, and the consolidated annual report according to the law regulating accounting, contains a true overview of the development and results of the issuer and the position of the issuer and the units included in the consolidation as a whole, together with a description of the main risks and uncertainties it faces.

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.

Introductory Word

Dear Shareholders,

There are companies in the world that maintain traditions and that do what they know and are able to do. I am convinced that the current times full of dynamic, often unexpected, and fundamental changes are not conducive for such companies. On the contrary, those companies that not only protect and improve the “family jewels”, but also open new possibilities, constructing their own future on innovations and the newest technologies and in which the top experts from various fields of work are in the limelight. However, the goal is actually quite simple - to bring better and more progressive solutions to various areas of our life and to show trends.

This year, it will be ten years that the PMI company came to be at the forefront of the nicotine revolution that started in Italy and Japan. I am proud of the fact that Philip Morris ČR a.s. also plays an essential role in it. Not only do the Czech Republic and Slovakia belong among those groundbreaking countries, in which adult smokers who would otherwise continue smoking conventional cigarettes can choose one of our provably less harmful nicotine products. We are also one of the few global markets where practically the entire portfolio of PMI products is available - the *IQOS* heated tobacco devices or the licensed *lil SOLID*, as well as the *VEEV ONE* and *VEEV NOW* electronic cigarettes. At the same time, we often are one of the first markets that the newest innovations from the PMI workshops are introduced to - for instance, most recently it was the *LEVIA* tobacco-free sticks meant for *IQOS* devices. And more new smoke-free alternative portfolio products are already being prepared.

This, truly, is not a matter of course. We owe this not only to our customers, who value innovation, or to our partners, who stand by our sides, but primarily to the entire team of people that has a hand in developing the company, and who considers our customers - that is, adult users - to be the focus of its attention. From the perspective of company management, this is a huge transformation, and I am incredibly grateful for its commitment, support, and determination to push through. We have shifted from the traditional transaction model, typical for more than a century of our operations, to the relationship model. We had to come to understand our customers and offer them such products and services that they remain our customers.

In the past years, we have undergone significant organizational changes, and we established a new business model featuring a network of premium brick-and-mortar *IQOS* stores and innovative digital business channels with new business partners and an assistance hotline. And we continue in these efforts.

This, of course, primarily requires curiosity, courage, a new awareness, and cutting-edge knowledge, and it also presents challenges that we have yet not experienced ourselves. We are learning as we go along, we are searching for solutions, we are pinpointing mistakes, and we pay attention to each opinion that our customers and partners have, whenever and wherever. I am delighted to report that the number of individuals who have successfully quit smoking in the Czech Republic and Slovakia, thanks to the adoption of our smoke-free products, is 580 thousand. The growing popularity and general awareness of the nature, benefits, and risks of alternative nicotine products motivate us to continually introduce innovative products and stay one step ahead.

Our goal remains creating a cigarette smoke-free world. I am convinced that we have made significant progress during the year that this annual report pertains to, and that this one-way street is the right direction.

Thank you, our shareholders, for your trust and support.

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

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This document created in HTML format is a translation from the original which was prepared in the Czech language. It represents non-official version of the Annual Financial Report. The company has taken all steps to ensure that this version conforms to the original. The official version of the Annual Financial Report prepared in single electronic reporting format („ESEF"), which is the XHTML format, can be accessed at: https://www.pmi.com/resources/docs/default-source/czech-market/investors-relation/annual-meeting-2024/pmcr-vyrocni-zprava-2023.zip
In case of any content discrepancies the official version of the Annual Financial Report always takes precedence over this document.

Our vision is to achieve a smoke-free future. This is why we bring you provably better alternatives to conventional cigarettes in the form of smoke-free products based on the most innovative scientific discoveries and research findings.

01

Company Profile

About us

We are Philip Morris ČR a.s., an affiliate of Philip Morris International Inc. (PMI) We spearhead the transformation of the nicotine industry by providing adults who would otherwise continue to smoke or use other nicotine products with innovative smoke-free alternatives that reduce or have the potential to reduce risk compared to traditional cigarette consumption.

Since 2017, we have been offering our adult consumers a wide portfolio of innovative smoke-free products, which we are constantly expanding. In the Czech Republic and Slovakia, we distribute the heated-tobacco solutions, *IQOS ILUMA* with *TEREA* and *LEVIA* consumables, KT&G-licensed *lil SOLID* with *Fiit* consumables, as well as *HEETS* consumables for original *IQOS* devices. At the same time, we distribute electronic cigarettes *VEEV ONE* and *VEEV NOW*[1] and provide a variety of related accessories and services to adult nicotine users. We are also providing adult smokers with popular international and local brands such *Marlboro*, *L&M*, *Chesterfield*, *Petra Klasik*, *Sparta*, *RGD* or *Start by Chesterfield*.

Philip Morris ČR a.s. is listed on the Prague Stock Exchange (Burza cenných papírů Praha) and holds a 99% interest in Philip Morris Slovakia s.r.o., registered in the Slovak Republic.

Philip Morris ČR a.s. runs the production plant in Kutná Hora, which has a tradition of more than two hundred years of tobacco processing. Today, the plant is one of the most modern and efficient operations, which is as environmentally friendly as possible.

In the Czech Republic and Slovakia, PMI employs more than 1,300 employees, who make a significant contribution to the company's development and transformation. For this reason, we continuously strive to further improve our inclusive and high-standard work environment. We aim to offer the best possible conditions, so that every employee can fully meet their potential. Being awarded the EQUAL SALARY certification in both countries validates our high performance in this area.

Being part of a global leading tobacco company, we keep focus on sustainability in any part of our business. We are mindful of and committed to our responsibility towards communities and environments in which we operate. We work hard to address sustainability issues that are material to us. At the same time, we have been contributing significantly to charitable projects across a wide range of organizations and specializations, including programs aimed at improving living conditions in communities.

[1] *Introduced in February 2023 under the name VEEBA.*

Consolidated highlights

Key Financial Results (in CZK million)

Period ended December 31	2023	2022	Change in %
Revenues, net of excise tax and VAT	20,570	20,948	(1.8)
Profit from operations	3,870	4,243	(8.8)
Profit before income tax	4,198	4,596	(8.7)
Net income for the year	3,344	3,636	(8.0)
Earnings per share (CZK)	1,218	1,324	

Shipments per Segment (in billion units equivalent)[2]

Period ended December 31	2023	2022	Change in %
Czech Republic	6.3	7.1	(11.1)
Slovakia	3.8	4.1	(7.3)
Total	**10.1**	**11.2**	**(9.7)**

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

[2] *Shipments in the Czech Republic include cigarettes and high-volume tobacco for hand-made cigarettes (0.60 g is the equivalent of one cigarette), and smoke-free products such as HEETS, TEREA tobacco consumables, LEVIA tobacco-free nicotine consumables and Fiit refills from KT&G as well as VEEV e-cigarettes consumables (recalculated to cigarette equivalents). Shipments in Slovakia include cigarettes and smoke-free products such as heated HEETS, TEREA tobacco consumables, and Fiit refills from KT&G as well as VEEV e-cigarettes consumables and VEEBA disposables (recalculated to cigarette equivalents).*

Overview of selected events in 2023

January

– As part of streamlining our cigarette offer, the portfolio was adjusted for several variants of our brands *Chesterfield Crown* and *Chesterfield Tuned Bright*. At the turn of the year, we stopped selling several variants of the *L&M* brand (*L&M FIRST CUT BLUE KS/100s* and *L&M FIRST CUT RED KS/100s*) and the *RGD 100s* brand (*BLUE* and *RED*)

– For the ninth year in a row, the Philip Morris Slovakia s.r.o. was awarded the prestigious international certificate Top Employer Slovakia 2023. The parent company, PMI, subsequently earned this award on a global scale. The certification is granted by the Top Employers Institute, which audits companies, evaluates the quality of their HR processes, and assesses companies in terms of being the best employer. Only those companies that meet the strict requirements in human resources management and that are independently audited can receive the certification.

February

– *Marlboro Crafted*, a new product line of the *Marlboro* brand was introduced to the Czech market in a super low-price segment. The product offers the quality of the *Marlboro* brand at a more affordable price, which made it an instant success among price sensitive adult smokers.

– We launched a new category of vaping products under the *VEEBA*[3] brand, premium disposable e-cigarettes without the need to clean charge and refill e-liquid. A total of 7 flavours were launched.

March

– Joint-stock company NEVAJGLUJ a.s. was registered in the Commercial Register and in July it applied to the Ministry of the Environment of the Czech Republic for authorization to operate a collective system (EPR system).
Philip Morris ČR a.s., in accordance with the requirements of Act No. 243/2022 Coll[4]., became one of the founders of NEVAJGLUJ a.s. with a stake of 24%.

April

– The Annual General Meeting of Philip Morris ČR a.s. was held on 28 April 2023, in Kutná Hora. Based on the company's financial results, the general meeting, among other things, approved a dividend for the past year in the amount of CZK 1,310 per share, which is the third highest in the company's history.

June

– The management of the company and the Trade Union representing the company's employees concluded negotiations on a new collective labour agreement for the next three years until 30 June 2026. The new agreement provides employees with conditions within the scope of the previous agreement. With the benefits offered, Philip Morris ČR a.s. continues to rank among the most attractive employers in the region and in the whole of the Czech Republic.

– Philip Morris International announced a planned investment exceeding one billion Czech crowns to the plant in Kutná Hora, which has long been one of the company's key production locations. In addition to the existing production of classic products, it will build a new infrastructure to produce consumables for smoke-free devices, including new laboratories.

July

– The first limited edition of the *IQOS ILUMA* device, *IQOS ILUMA WE Limited Edition*, was presented to customers.

August

– As of August, all vaping products have been transitioned to the *VEEV* brand, which is now independent of the *IQOS* brand in terms of both products and communication. The objective is to establish a robust brand presence in the vaping segment. In pursuit of this objective, the *VEEBA* disposable e-cigarette has been rebranded as *VEEV NOW*. Additionally, a significant development involved the introduction of the sophisticated *VEEV ONE* vaping device—an e-cigarette with refillable pods.

September

– Philip Morris ČR a.s. has disclosed its financial and economic performance for the first half of the year. Consolidated revenues (excluding excise duty and VAT) reached CZK 9.7 billion, indicating a 1% decrease compared to the first half of 2022. The half-year consolidated net profit amounted to CZK 1.7 billion, reflecting a 10.3% year-on-year decline in the sales of heated tobacco products and smoking products in the Czech Republic and Slovakia.

[3] *From August 2023, the product is available under the name VEEV NOW*
[4] *Act. No 243/2002 Coll. on the reduction of the impact of certain plastic products on the environment*

October

- On 23 October, flavour ban prohibiting the sale of heated tobacco sticks with a characteristic flavour took effect in the Czech Republic. As a result, the sale of multiple variants of *TEREA*, *HEETS*, and *Fiit* sticks has been discontinued.

- Philip Morris Slovakia s.r.o. has entered into a memorandum of cooperation with one of Bratislava's premier four-star hotels in the city centre, Radisson Blu Carlton. This collaboration marks a significant milestone as Radisson Blu Carlton becomes the first hotel where guests have the option to select an *IQOS FRIENDLY* room, permitting the use of smoke-free devices.

November

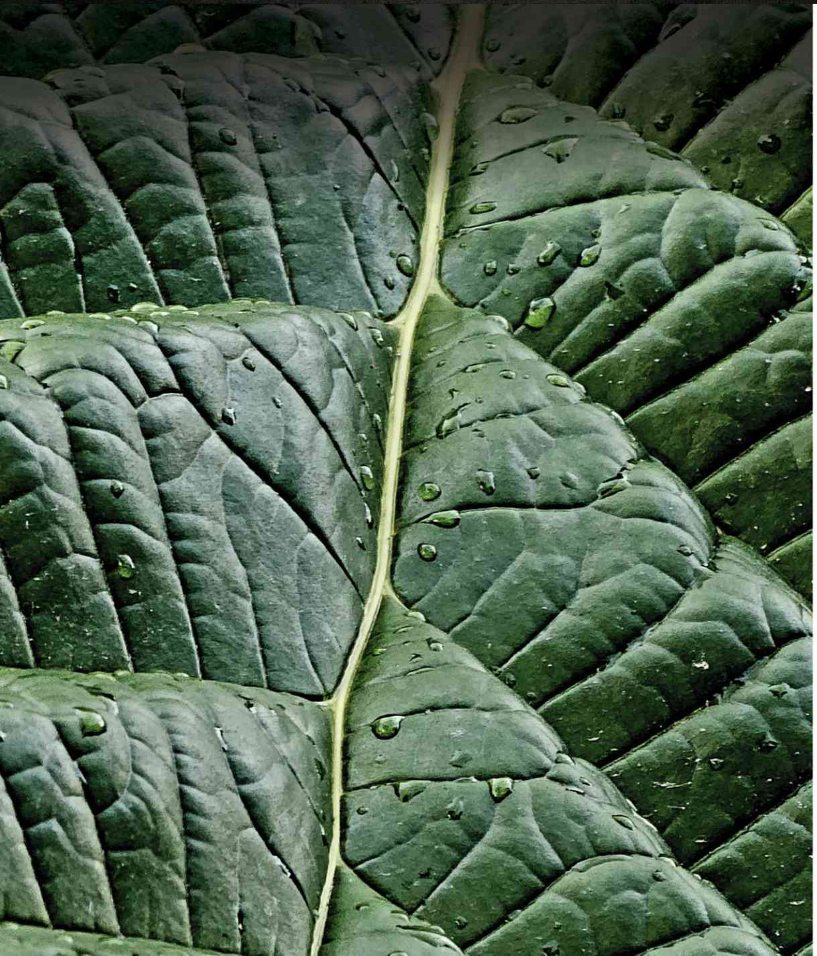
- The Czech Republic achieved a global milestone by being the first country to introduce the innovative nicotine tobacco-free sticks *LEVIA* tailored for *IQOS ILUMA* heated tobacco devices. This novelty was launched with two variants featuring fresh flavours.

- Philip Morris ČR a.s. has earned recognition by being among the twenty-five companies awarded the title of Top Responsible Large Company. This acknowledgment comes from the independent Top Responsible Company ranking, organized for the twentieth time by the "Business for Society" alliance.

- In November, Philip Morris Slovakia s.r.o. signed a memorandum of cooperation with Piešťany, the renowned Slovak spa town. Emulating the smoke-free initiatives in Karlovy Vary and Špindlerův Mlýn, Piešťany has become the first smoke-free city in Slovakia. The primary goal of this initiative is to encourage both residents and visitors to adopt a better lifestyle.

December

- The nationwide initiative for the collection and subsequent recycling of used refills from *IQOS* smoke-free products has successfully concluded its inaugural year of operation. In 2023, adult consumers collectively contributed 26.5 tons of material in both countries, with 15.4 tons in the Czech Republic and 11.1 tonnes in Slovakia. EcoButt, a company in Slovakia, manages the processing of this material, transforming it into an additive for asphalt mixtures. In the Czech Republic, alongside planned collaboration with a Slovak recycler, ongoing research is being conducted in partnership with selected universities and scientific institutions to explore alternative methods for processing used refills.



Every person is unique. This is why we have developed a product portfolio for our customers with a varied offer of smoke-free alternatives that appeals to the range of styles, tastes, habits, or various price preferences of all adult smokers who would otherwise continue to smoke.

02

Our Products

Our portfolio

Following the debut of *IQOS ILUMA* in autumn 2022, our primary focus has been on the extensive expansion of our flagship product and its associated accessories for both existing adult customers and adult smokers seeking an alternative to traditional cigarettes. In the realm of electronic cigarettes, we introduced two pivotal innovations to the market: the disposable electronic cigarette *VEEV NOW* (initially released under the *VEEBA* brand) and a completely new iteration of the popular electronic cigarette, *VEEV ONE*. Our portfolio of classic cigarettes has experienced several innovations, coupled with a strategic consolidation of our offerings.

Heated tobacco devices

IQOS ILUMA

IQOS ILUMA is a key product in our portfolio of smoke-free alternatives. Like the previous generation of *IQOS* devices, it doesn't burn tobacco and thus create no smoke. Thanks to the Smartcore Induction System induction heating technology, the device creates an aerosol that contains 95% less harmful substances than cigarette smoke[5]. The core of this technology is an innovative metal heating element coated with stainless steel, which is inserted in the centre of the filling for optimal heating of the tobacco. The result is easier coating, a large amount of aerosol and a taste that does not change during use. Unlike previous generations of devices, *IQOS ILUMA* does not have a heating blade, so there is no risk of it breaking and the device does not require any cleaning.

IQOS ILUMA is offered in three variants – *IQOS ILUMA PRIME, IQOS ILUMA* and *IQOS ILUMA ONE*. Each device has a different design so that adult users can choose the one that best suits their needs and preferences. All *IQOS ILUMA* devices are compatible with *TEREA* tobacco consumables, which are offered in classic and light tobacco flavours.

As part of the EU regulation and the prohibition of characteristic flavours in the category of heated tobacco, we stopped selling several variants of *TEREA* with fruit and menthol flavours on the Czech market on 23rd October 2023. In order to continue to offer our users the best experience, we have introduced many new features along with the discontinuation of some variants. First, in August 2023 we added three new tobacco variants to the *TEREA* range with subtle undertones. These are the *TEREA Wind Fuse*, *TEREA Soft Fuse* and *TEREA Blond Fuse* variants.

The biggest innovation in the portfolio of consumables for *IQOS ILUMA* was presented to consumers in October, when we were the first in the world to introduce the completely new and ground-breaking tobacco-free consumable *LEVIA* to the Czech market, which brings nicotine infused fresh menthol and fruit flavours to *IQOS ILUMA* device users.

In the first months, *LEVIA* was only available at the *IQOS* e-shop and *IQOS* stores and partner stores. In the coming months, however, we will expand the availability of *LEVIA* to the entire market.

lil SOLID

In addition to distributing its own line of *IQOS* products, PMI cooperates with the South Korean company KT&G and offers a tobacco heating device called *lil SOLID* in selected markets, including the Czech Republic. *lil SOLID* uses heating tip technology and heats the tobacco from the inside. As a result, it delivers a smoke-free, ashless tobacco experience and produces less odour than cigarettes. The technology used by *lil SOLID* device is the result of thorough scientific research, thanks to which the adult user can indulge in a smoke-free tobacco experience with significantly less harmful substances than cigarettes[6]. *lil SOLID* represents the next step in building a smoke-free future and is designed primarily for adult smokers and nicotine users looking for a simple and affordable device.

[5] *It represents the average reductions in levels of a range of harmful chemicals (excluding nicotine) compared to the smoke of a reference cigarette (3R4F). This does not necessarily represent a 95% risk reduction.*
[6] *It represents the average reductions in levels of a range of harmful chemicals (excluding nicotine) compared to the smoke of a reference cigarette (3R4F). This does not necessarily represent a 95% risk reduction.*

In 2023, we launched a limited edition of its *Fiit* refills with *Fiit Change Beach* and *Fiit Change Valley* capsules on the Czech market focused on fruit flavours that users could enjoy during the summer months. We also stopped selling several variants with fruit and menthol flavours on the Czech market as part of the EU regulation and the prohibition of characteristic flavours in the category of heated tobacco. We have also prepared several tobacco alternatives with soft undertones for adult users of *Fiit* refills. The new products in the *Fiit* portfolio are called *Fiit Waterfal*l, *Fiit Fall* and *Fiit Cay*. The biggest news was the launch of the new *lil SOLID EZ* device series, which gradually replaces the previous *lil SOLID 2.0* version. The new series offers an improved design, a choice of more colour options and significantly less weight of the device.

Vaping

Since the launch of *IQOS VEEV* on the Czech and Slovak market in 2020, we significantly expanded the portfolio and the availability of offered products.

Aligned with our objective to establish a powerful and easily recognizable brand for adult users, the entire *IQOS VEEV* portfolio and its accessories were discontinued across all sales channels at the end of July 2023. In its place, we introduced the advanced premium vaping device, *VEEV ONE*. Simultaneously, the premium disposable e-cigarette, formerly known as *VEEBA* and launched in February of the preceding year, has been rebranded as *VEEV NOW*.

VEEV ONE represents an affordable and user-friendly device that delivers the ultimate vaping experience. The incorporation of intelligent technology ensures a consistently delightful taste with each inhalation, offering enduring satisfaction. We provide *VEEV ONE* pods in a comprehensive range of 11 flavours, available in two nicotine intensities.

At the other end of the market, *VEEV NOW* is a premium, pocket-sized device distinguished by its buttonless design and automatic swipe start, rendering it continuously ready for use. This device requires no maintenance – no cleaning, charging, or e-liquid refilling. *VEEV NOW* offers up to 500 puffs with its pre-charged battery[7] and is available in 13 distinctive flavours.

Cigarettes

In 2023, we resumed activities to support our cigarette portfolio A significant milestone was reached with the celebration of the fiftieth anniversary of the presence of *Marlboro*, the best-selling international cigarette brand since 1972. In commemoration of this milestone, we introduced a limited edition of *Marlboro* available in three distinct forms. Each box captured iconic moments from the *Marlboro* story. At the outset of the year, we unveiled a new product line within the highly affordable price segment – *Marlboro Crafted*. Due to the escalating popularity of this product line, we expanded our offerings throughout the year. This included introducing additional variants such as the limited-edition *Marlboro Crafted 21* and the *Marlboro Crafted Compact* variant, featuring tobacco flavour with subtle undernotes of fresh taste in a compact format.

In the previous year, there was a consolidation within our cigarette portfolio as several variants of the *L&M, RGD*, and *Chesterfield* brands were discontinued. Changes were implemented at *Chesterfield Crown*, adjusting the number of cigarettes in packs (from 23 to 22 and from 28 to 25, respectively). Additionally, we introduced various innovations, including a new colour design for the mouthpiece paper in the *L&M Link SSL Blue* and *Violet*, *L&M Loft*, and *Marlboro Touch* variants. To address the serious environmental issue of cigarette butt litter and support a concept of sustainability, we launched two limited editions of *Marlboro* and *L&M* last year featuring QR codes providing links to tips on how to responsibly manage cigarette butts and promote environmentally friendly behaviours.

[7] Estimated puff count is based on the battery capacity of a newly manufactured product with a 1-second puff and may vary depending on individual usage patterns.

Development of products with reduced risk

The World Health Organization (WHO) estimates that there will be more than 1 billion smokers[8] worldwide by 2025. Since smoking prevalence remains largely unchanged in the long term, there is a need to offer new effective solutions that can help deliver more ambitious public health goals. Philip Morris International (PMI) therefore directs its efforts towards developing less harmful alternatives to cigarettes.

As a company, we have publicly declared that our goal is to help support all current adult smokers who would otherwise continue to smoke, to switch to smoke-free products. We announced our updated ambition for more than two-thirds of the company's total net revenues to come from smoke-free products by 2030.

Tobacco Harm Reduction

It has been scientifically substantiated that the primary cause of smoking related diseases is not nicotine, but the inhalation of harmful and potentially harmful constituents (HPHC)[9] created as a result of the combustion process. The harm reduction concept is, thus, based on the elimination of the process.

For any smoke-free alternative to be successful in reducing harm compared with continued smoking, it must fulfil two criteria: it must be scientifically substantiated as significantly less harmful than cigarettes; and it should be satisfying for current adult smokers so that they completely switch.

This is the goal that the PMI Group is actively working to achieve, and it underlines the motivation behind initiating its independent journey towards a smoke-free future. Smoking prevention, as well as a quality addiction system, must continue to play a primary role in the protection of public health. However, we are convinced that science-based, innovative smoke-free products can also make a significant contribution to permanently reducing the harm and risks associated with smoking cigarettes. The overall goal, therefore, is to develop smoke-free alternatives that present significantly less risk of harm than continued smoking, that are acceptable to current adult smokers who would otherwise continue to smoke cigarettes, and which are generally not attractive to youth, non-smokers, or former smokers.

Extensive Scientific Research

Since 2008 Philip Morris International Inc. has invested over USD 12.5 billion[10] into the development, the scientific research and the capacity building of smoke-free products portfolio based on heating of tobacco or liquid. To this end, the company employs nearly 1,200 world-class engineers and experts that drive forward our research, including laboratory and clinical trials.

Robust and transparent scientific research is the cornerstone of the development and assessment of our smoke-free products.

Our extensive Research and assessment program draws from the universally recognized methods used by the pharmaceutical industry and follows the instructions of the US Food and Drug Administration (FDA) for Modified Risk Tobacco Products (MRTP).

Our clinical trials show both the potential of our smoke-free products to reduce exposure to harmful and potentially harmful constituents as well as to reduce risk of smoking related diseases. The assessment program includes post-market consumer perception and behaviour studies conducted to verify whether consumers correctly understood the product communication and determine how they will use our products in real life.

Combustion, Heating and Nicotine

Nicotine containing products are addictive and therefore not risk-free. However, a long-term expert consensus has determined that nicotine is not the main cause of smoking related diseases. The majority of harmful effects of smoking are caused by chemical constituents formed as part of the tobacco combustion process.

The combustion process generates cigarette smoke that incorporates flavours from the tobacco blend, along with nicotine naturally present in tobacco leaves. When combusted, the temperature of the tip of a cigarette can reach up to 800 degrees Celsius. Such high temperatures lead to the creation of more than 6 thousand different chemical constituents[11,12] many of which are harmful or potentially harmful. These harmful and potentially harmful constituents are classified according to comprehensive lists created by international organizations and public institutions in the area of public health. These include the U.S. Food and Drug Administration, Health Canada or World Health Organization. Around 100 of these chemicals are considered to be a cause or a probable cause of smoking related diseases such as lung cancer, cardiovascular diseases, or chronic obstructive pulmonary disease.

[8] Bilano V, Gilmour S, Moffiet T, d'Espaignet ET, Stevens GA, Commar A, Tuyl F, Hudson I, Shibuya K. (2015) Global trends and projections for tobacco use, 1990–2025: an analysis of smoking indicators from the WHO Comprehensive Information Systems for Tobacco Control (Globální trendy a předpovědi pro použití tabáku, 1990–2025: analýza indikátorů kouření od Světové zdravotnické organizace – Souhrnný informační systém pro kontrolu tabáku). Lancet 385:966-76.
[9] Harmful and Potentially Harmful Constituents
[10] As of December 31,2023, source: https://www.pmi.com
[11] How Tobacco Smoke Causes Disease: The Biology and Behavioural Basis for Smoking-Attributable Disease: A Report of the Surgeon General. https://www.pmiscience.com/cs/ our-products/combustion#be439e85-2f88-696a-9e88-ff000043f5e9.
[12] The Chemical Components of Tobacco and Tobacco Smoke, Second Edition. https://www.pmiscience.com/cs/our-products/combustion#d07d9f85-2f88-696a-9e88- FF000043F5E9.

Through years of research and development, we have therefore developed a new class of breakthrough products that do not rely on the principle of burning, and therefore do not produce smoke. Instead, we have found several ways to produce a flavourful nicotine-containing vapor that a consumer can inhale, but that has significantly lower levels of harmful chemicals than cigarettes[13]. We conduct a very precise temperature monitoring in our heated tobacco products. This is to ensure that the tobacco temperature does not reach a level of burning. By preventing combustion, we reduce or eliminate the formation of harmful or potentially harmful constituents. Heating the tobacco is still necessary for it to release aroma and nicotine. The elimination of the combustion process and a subsequent significant reduction of harmful or potentially harmful constituents is the cornerstone of the development of smoke-free products. Our goal is not only to reduce or eliminate harmful or potentially harmful constituents, but to also offer a taste ritual and nicotine level comparable to cigarettes. This is to enable adult smokers who would otherwise continue to smoke to completely switch from cigarettes to smoke-free products.

Our electronically heated tobacco product *IQOS* is the most advanced of PMI's reduced risk products, where tobacco contained in a stick and inserted into the device is heated to around 300 – 320 degrees, and no combustion process takes place in the heated tobacco product. *IQOS* is therefore a better choice than cigarettes for those adult smokers that would otherwise continue to smoke cigarettes. Switching completely to *IQOS* represents less risk to health of adult smokers than continuing to smoke. *IQOS* emits on average 95% lower levels of harmful chemicals compared to cigarettes[14].

Another segment within the array of smoke-free alternatives includes tobacco-free products containing liquid nicotine extracted from tobacco leaves. These products are recognized as e-cigarettes and are available under the *VEEV* brand. A nicotine-containing e-liquid is heated to generate an aerosol. Thanks to breakthrough technology, they are a better alternative for adult smokers than continued smoking. It is crucial to emphasize that products containing tobacco and/or nicotine are not risk-free. They contain nicotine, which is addictive. Minors, pregnant women, nursing mothers, and people with existing conditions such as heart disease, high blood pressure, diabetes, or epilepsy should not use nicotine-containing products. In particular, it is important that products containing tobacco or nicotine are not available to minors.

Key Scientific Findings

We have conducted, as part of our scientific assessment program, a range of clinical trials related to Platform 1 (*IQOS*). The most significant study to date is the six months Exposure Response Study (ERS) complemented by six months extension study that compared exposure response of adult individual following a switch from cigarettes to *IQOS*. The results of the first six months of clinical testing proved that participants – adult users of the *IQOS* product – are exposed to significantly less chemicals than adult cigarette smokers and all eight major Clinical Risk Endpoints (CREs) associated with smoking-related diseases improved favorably and in the same direction as those of smokers who quit.

These clinical endpoints concern, amongst others, lipid metabolism, acute effect on cardiovascular system, inflammation, endothelial dysfunction, oxidative stress, and respiratory tract damage. The majority, specifically five out of eight of these endpoints, showed a statistically significant difference between *IQOS* adult users and those who continued to smoke cigarettes. Furthermore, the results after twelve months confirmed that the alterations in all eight monitored biomarkers of potential risk, observed during the transition to heated tobacco, are entirely comparable to the data achieved when quitting smoking.
You can find more information about IQOS and PMI's scientific research at www.pmi.com and www.pmiscience.com.

Decision of the U.S. Food and Drug Administration (FDA) to Grant Modified Risk Tobacco Product Status

On 7 July 2020, the U.S. Food and Drug Administration (FDA) authorized the Modified Risk Tobacco Product (MRTP) status with the "reduced exposure order" for *IQOS* and three HeatSticks[15] variants. The granting of the MRTP status is a result of an assessment of a wide range of detailed scientific evidence submitted to the FDA by PMI in December 2016[16]. The decision concerns exclusively PMI's business activities in the United States. So far, it is only the second tobacco product and the first in the category of heated tobacco products, eligible to use this status. The FDA justified the MRTP authorization for *IQOS* as being suitable for the support of public health goals and is expected to benefit the health of population as a whole. Furthermore, it was confirmed that data submitted by the company shows that marketing these particular products with the authorized information could help addicted adult smokers' transition away from combusted cigarettes and reduce their exposure to harmful chemicals, but only if they completely switch. The FDA decision finds that PMI has demonstrated that the *IQOS* system heats and does not burn tobacco, thereby significantly reducing the production of harmful and potentially harmful constituents compared to cigarette smoke. FDA further confirms that PMI's scientific studies have shown that a complete switch from conventional cigarettes to the *IQOS* product significantly reduces human exposure to harmful and potentially harmful constituents. Thus, according to the FDA, the completeness of the scientific evidence presented indicates that it is very likely that later studies will establish measurable and substantial reductions in morbidity and mortality among individual tobacco users.

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[13] *Smoke-free products are better alternative to smoking, the best way to avoid the harms of smoking is to quit, or never to start. Some people, including pregnant women, nursing mothers, and people with existing conditions such as heart disease, high blood pressure, or diabetes should not use nicotine-containing products. Minors should not have access to or use tobacco- or nicotine-containing products.*
[14] *Average reduction of wide range of harmful chemical constituents (apart from nicotine) in comparison with a smoke from a reference cigarette (3R4F). This does not necessarily mean a 95% risk reduction.*
[15] *Marlboro HeatSticks, Marlboro Smooth Menthol HeatSticks and Marlboro Fresh Menthol HeatSticks.*
[16] *https://www.fda.gov/tobacco-products/advertising-and-promotion/modified-risk-orders*

The transformation of our company is the prerequisite for its sustainable development, to which we have made a commitment to our shareholders and employees.

03

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 portfolio[17] 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-free[18] 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.

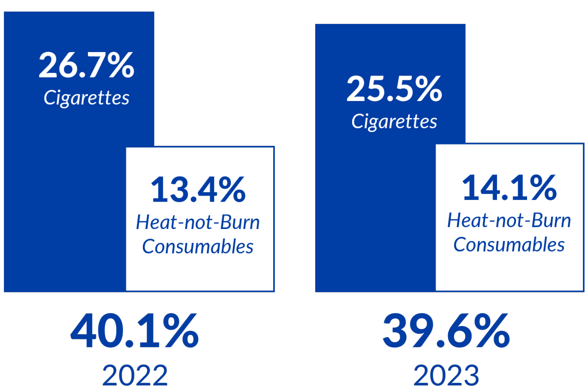
Business in the Czech Republic

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

[17] *Combustible portfolio includes cigarettes and volume tobacco for make-your-own cigarettes.*
[18] *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.

The shipments of smoke-free products[19] 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.

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).

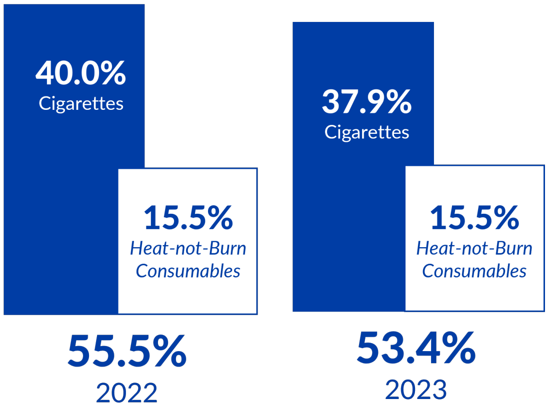
The total combined market of cigarettes and heated tobacco units decreased by an estimated 4.0% (vs. prior year) to 7.1 billion units driven by cigarette market contraction due to underlying decline in consumption.

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 products[20] 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).

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

We do responsible business. We are accelerating our transformation to a smoke-free company, and we strictly adhere to the rules of sales, we create equal opportunities for our employees, and we support socially responsible projects.

04

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 market[21].

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.[22], 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

[21] Article 1 of the Directive 2019/904 of June 5,2019 on the reduction of the impact of certain plastic products on the environment.
[22] 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 year[23]. Inflation decreased by 9.0pp year-on-year and ended-up at 6.9% in December 2023[24], 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 inflation[25], 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 suppliers[26]. 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.

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[23] *Source: Key macroeconomic indicators | CZSO*
[24] *Source: Inflation - Types, Definition, Tables | CZSO*
[25] *Source: Key macroeconomic indicators | CZSO*
[26] *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.*

We are actively attempting to decrease the impact of our business operations on the environment. Our production plant in Kutná Hora ranks among the safest and most sustainable production operations of PMI worldwide. Together with our adult users, we are developing unique recycling programs for our used devices and fillings.

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[27] (available in Czech language only).

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

[27] 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 Conduct[28] 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.

[28] 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 Ukliďme 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^{o}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)[29].

CCRO complements PMI´s Low-Carbon Transition Plan (LCTP)[30] , 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 CDP[31] 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 plant[32] 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.

[29] *Source: https://www.pmi.com/...*
[30] *Source: https://www.pmi.com/...*
[31] *Source: https://www.pmi.com/...*
[32] *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 48m^3 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 DHSH 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)[33].

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.

[33] 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 2023[34], 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.

[34] *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 SDFR Delegated Regulation.

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Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	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: – 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	Philip Morris ČR a.s. has implemented sustainability due diligence processes and compliance mechanism as explained above.
Unadjusted gender pay gap	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.
Board gender diversity	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.
Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	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).

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**															

Operating Expenditure (OpEx)

EU Taxonomy has a very strict and narrow definition of what should be considered as OpEx, thus only a small portion of OpEx as per IFRS rules is reported in OpEx KPI.

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.

In general, this includes costs of repair and maintenance services and materials determined based on dedicated accounts and cost of staff dedicated to regular maintenance as well as unplanned repairs of the assets, calculated as related headcount multiplied by average annual salary, including social security and health insurance.

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.

OpEx associated to Taxonomy eligible activities consist of:

– 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.

The allocation to individual Taxonomy eligible activities was strictly done on the activity or asset base, with no double counting. All such activities/assets are individual and do not have joint costs associated with them.

					Substantial Contribution Criteria						DNSH criteria ('Does Not Significantly Harm')								
	ECONOMIC ACTIVITIES	Code(s)	Absolute OpEx	Portion of OpEx	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.	0.5	0.2	100						–	Y	n/a	n/a	n/a	n/a	Y		
	Installation, maintenance and repair of energy efficiency equipment	7.3.	2.8	1.2	100						—	Y	n/s	n/a	Y	n/a	Y		
A.1.	OpEx of Environmentally sustainable activitieS (Taxonomy aligned)		3.3	1.4															
A.2.	Taxonomy eligible, but not environmentally sustainable activities (Taxonomy not aligned)																		
	Transport by motorbikes, passenger cars and light commercial vehicles	6.5.	1.6	0.7	EL														
A.2.	OpEx of Taxonomy eligible, but not environmentally sustainable activities (Taxonomy not aligned)		1.6	0.7															
	Total (A.1 + A.2)		**4.9**	**2.1**															
B.	Taxonomy non-eligible activities																		
B.	OpEx of Taxonomy non-eligible activities		223.8	97.9															
	Total (A + B)		**228.7**	**100.0**															

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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.

We are fair.
We approach everyone without discrimination, and we help all our colleagues fully realize their talent and fulfil their potential. We were the first Czech and Slovak company to be awarded the EQUAL-PAY certification.

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Report of the Supervisory Board

Report of the Supervisory Board of Philip Morris ČR a.s. on the results of its supervisory activities in the 2023 calendar year accounting period

The Supervisory Board of the company Philip Morris ČR a.s. (the "Company") conducted its activities in accordance with Article 16 of the Company's Articles of Association and the relevant legal regulations.

Throughout 2023, the Company's Supervisory Board monitored and reviewed the progress and management of the Company's activities while paying special attention to its financial state. During the year, the Company's Supervisory Board was fully advised of the financial measures passed and also reviewed the capital expenditures against the budgets and the timetables for their implementation. Within its supervisory activities, the Supervisory Board also closely cooperated with the Audit Committee of the Company in all matters falling within the scope of these two bodies of the Company, including recommendation on statutory auditor.

The Company's Supervisory Board confirms that all projects of the Company were fully justified in terms of the Company's current and future needs. The Company's Supervisory Board agrees with the Company's business activities in 2023 and considers its economic results for the said year satisfactory.

As the Company's Supervisory Board found no shortcomings in the Company's business activities or operations, it hereby refers the shareholders to the Company's Annual Financial Report for the 2023 calendar year accounting period, the report of the Board of Directors on the Company's Business Activities for the accounting period of 2023 and the Report of the Company's Board of Directors on Relations between Controlling Entity and Controlled Entity, and between Controlled Entity and Entities Controlled by the same Controlling Entity for the 2023 calendar year accounting period, with which it fully agrees.

Statement of the Company's Supervisory Board regarding the report of the Company's Board of Directors on Relations between Controlling Entity and Controlled Entity, and between Controlled Entity and Entities Controlled by the same Controlling Entity (the "Report on Relations") for the 2023 calendar year accounting period:

The Company's Supervisory Board reviewed the Report on Relations for the 2023 calendar year accounting period within the meaning of Section 83 (1) of the Act No. 90/2012 Coll., on Corporations and Cooperatives, as amended (the "Business Corporations Act") and finds all the data contained therein accurate and has no reservations about it.

The Company's Supervisory Board agrees with the conclusion of the Company's Board of Directors that, in the relevant period, the Company suffered no detriment as a result of the execution of agreements between the Company and other entities from the group into which the Company belongs, other acts or measures carried out by the Company in the interest of these entities or at their initiative, or any performance or counter-performance by the Company, as stated in the Report on Relations for the 2023 calendar year accounting period. Consequently, no assessment of the settlement of any detriment pursuant to Sections 71 and 72 of the Business Corporations Act was necessary.

Statement of the Company's Supervisory Board to the Company's 2023 ordinary financial statements, the Company's 2023 ordinary consolidated financial statements and the proposal by the Board of Directors to approve the 2023 ordinary financial statements and the 2023 ordinary consolidated financial statements and distribute the profit, including the determination of the amount of profit shares:

The Company's Board of Directors presented to the Company's Supervisory Board the Company's ordinary financial statements for the 2023 calendar year accounting period and the Company's ordinary consolidated financial statements for the 2023 calendar year accounting period (the "Financial Statements") and the proposal by the Company’s Board of Directors to approve the Financial Statements and to distribute the profit, including the determination of the amount of profit shares (the "Proposal by the Board of Directors").

The Company’s Supervisory Board reviewed the Financial Statements and concluded that the accounting procedures used by the Company are appropriate and that the Company’s accounting records are kept properly, both in accordance with the relevant legal and accounting regulations, and with the Company’s Articles of Association.

The Company’s Supervisory Board also reviewed the Proposal by the Board of Directors, found it to be fully compliant with the Company’s economic condition and fully agrees with it.

In view of the above, the Company’s Supervisory Board recommends that the Company’s Ordinary General Meeting approves the Financial Statements as well as the Proposal by the Board of Directors.

In Prague on March ###, ###

Tamara Milovanovic
Chairperson of the Supervisory Board

Our customers are the focus of our interest. We tirelessly work to consistently present them top-notch innovations. We consider their needs of today and think how they can develop in the future.

08

Consolidated Financial Statements

Consolidated Statement of Financial Position

at December 31, 2023 (in CZK million)

ASSETS	Note	31/12/2023	31/12/2022
Property, plant and equipment (“PP&E”)	5	2,820	2,783
Right-of-use assets	7	338	282
Intangible assets		1	2
Deferred tax assets	15	54	50
Investments in associates		2	—
Other financial assets	9	113	109
Non-current assets		**3,328**	**3,226**
Inventories	8	1,109	1,851
Trade and other financial receivables	9	1,627	1,548
Other non-financial assets	9	2,263	2,111
Current income tax receivable		49	34
Cash and cash equivalents	10	7,526	7,631
Current assets		**12,574**	**13,175**
Total assets		**15,902**	**16,401**

EQUITY & LIABILITIES	Note	31/12/2023	31/12/2022
Registered capital	11	2,745	2,745
Share premium and other shareholders' contributions	11	2,384	2,383
Retained earnings		3,382	3,635
Other reserves		5	2
Equity attributable to the shareholders of the Company		**8,516**	**8,765**
Non-controlling interest		**1**	**1**
Total equity		**8,517**	**8,766**
Deferred tax liability	15	155	153
Lease liabilities	7	207	159
Non-current liabilities		**362**	**312**
Trade and other financial liabilities	12	2,498	2,871
Other non-financial liabilities	12	310	292
Current income tax liabilities		15	38
Other tax liabilities	14	4,050	3,985
Provisions	19	23	16
Lease liabilities	7	127	121
Current liabilities		**7,023**	**7,323**
Total liabilities		**7,385**	**7,635**
Total equity & liabilities		**15,902**	**16,401**

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

Consolidated Statement of Comprehensive Income

for the year ended December 31, 2023 (in CZK million)

	Note	2023	2022
Revenues	4	20,570	20,948
Cost of sales	16	(11,652)	(11,718)
Gross profit		**8,918**	**9,230**
Distribution expenses	16	(3,113)	(3,085)
Administrative expenses	16	(1,846)	(1,807)
Other operating income	20	112	258
Other operating expense	21	(201)	(353)
Profit from operations		**3,870**	**4,243**
Financial income	4,22	410	414
Financial expense	4,22	(82)	(61)
Profit before income tax		**4,198**	**4,596**
Income tax expense	23	(854)	(960)
Net profit for the year		**3,344**	**3,636**
Attributable to:			
Owners of the parent		3,343	3,635
Non-controlling interest		1	1
Other comprehensive income			
Currency translation adjustments *		4	—
Total comprehensive income for the year		**3,348**	**3,636**
Attributable to:			
Owners of the parent		3,347	3,635
Non-controlling interest		1	1
Earnings per share basic and diluted (CZK/share)	24	**1,218**	**1,324**

*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 consolidated financial statement.

Consolidated Statement of Changes in Equity

for the year ended December 31, 2023 (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 1/1/2022		**2,745**	**2,371**	**2**	**—**	**3,598**	**1**	**8,717**
Net profit for the year	24	—	—	—	—	3,635	1	3,636
Total comprehensive income for the year		**—**	**—**	**—**	**—**	**3,635**	**1**	**3,636**
Transactions with owners								
Profit distribution	25	—	—	—	—	(3,597)	(1)	(3,598)
Share based payments		—	12	—	—	—	—	12
Forfeited dividends		—	—	—	—	2	—	2
Other		—	—	—	—	(3)	—	(3)
Balance as at 31/12/2022		**2,745**	**2,383**	**2**	**—**	**3,635**	**1**	**8,766**
Net profit for the year	24	—	—	—	—	3,343	1	3,344
Currency translation adjustments		—	—	—	4	—	—	4
Total comprehensive income for the year		**—**	**—**	**—**	**4**	**3,343**	**1**	**3,348**
Transactions with owners								
Profit distribution	25	—	—	—	—	(3,597)	(1)	(3,598)
Share based payments		—	1	—	—		—	1
Forfeited dividends		—	—	—	—	4	—	4
Other		—		—	(1)	(3)	—	(4)
Balance as at 31/12/2023		**2,745**	**2,384**	**2**	**3**	**3,382**	**1**	**8,517**

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

Consolidated Cash Flow Statement

for the year ended December 31, 2023 (in CZK million)

	Note	2023	2022
Cash flow from operating activities			
Profit before tax		**4,198**	**4,596**
Depreciation and amortization expense	16	672	675
Impairment loss and loss on disposal of PP&E	16	35	49
Net interest (income) / expense		(328)	(353)
Gain on disposal of PP&E		(6)	(1)
Change in provisions		7	(17)
Other non-cash transactions, net		(7)	(6)
Operating cash flows before working capital changes		**4,571**	**4,943**
Changes in:			
Trade and other financial receivables and other non-financial assets		(250)	(466)
Trade and other financial liabilities and other non-financial liabilities		(253)	(1,375)
Inventories		742	89
Cash generated from operations		**4,810**	**3,191**
Interest paid	4,22	(82)	(61)
Income tax paid		(948)	(934)
Net cash generated from operating activities		**3,780**	**2,196**
Cash flow from investing activities			
Purchase of PP&E	5	(607)	(571)
Proceeds from sale of PP&E		39	49
Interest received	4,22	410	414
Net cash used by investing activities		**(158)**	**(108)**
Cash flow from financing activities			
Dividends paid to owners of the parent	25	(3,597)	(3,597)
Dividends paid to non-controlling interest		(1)	(1)
Repayments of principle portion of lease liability		(138)	(139)
Net cash used by financing activities		**(3,736)**	**(3,737)**
Net increase in cash and cash equivalents		**(114)**	**(1,649)**
Cash and cash equivalents as at the beginning of the year		**7,631**	**9,290**
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		9	(10)
Cash and cash equivalents as at the end of the year	10	**7,526**	**7,631**

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

Notes to the Consolidated Financial Statements

for the year ended December 31, 2023

1. General information

1.1 Group description

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 December 31, 2023, Philip Morris International Inc. is the ultimate controlling party of the Group.

As at December 31, 2023, 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.

Members of the Board of Directors and the Supervisory Board as at December 31, 2023 were:

Board of Directors

Andrea Gontkovičová – Chairperson	Tamás Szabados as of June 1, 2023
Petr Šebek	Anton Kirilov Stankov until December 31, 2023
Manuel Joao Almeida Do Vale Goncalves Marques	Petr Šedivec until May 31, 2023
Cemal Berk Temuroglu	

Supervisory Board

Stefan Bauer– Chairperson until September 26, 2023	Alena Zemplinerová
Sergio Colarusso until March 27, 2023	Stanislava Juríková
Tamara Milovanovic - Chairperson as of September 26, 2023	Tomáš Hilgard as of March 17, 2023
Seamus Minihan as of April 28, 2023	Jan Kodaj as of March 17, 2023

Members of the Board of Directors and the Supervisory Board as at December 31, 2022 were:

Board of Directors

Andrea Gontkovičová – Chairperson	Anton Kirilov Stankov
Petr Šebek	Petr Šedivec
Piotr Andrzej Cerek until June 15, 2022	Peter Piroch until July 31, 2022
Manuel Joao Almeida Do Vale Goncalves Marques as of June 15, 2022	Cemal Berk Temuroglu as of August 8, 2022

Supervisory Board

Stefan Bauer– Chairperson	Alena Zemplinerová
Sergio Colarusso	Stanislava Juríková
Roman Grametbauer until December 10, 2022	Tomáš Hilgard until February 15, 2022

The Group has a 24% interest in Nevajgluj, a.s., Na strži 1702/65, Nusle, 140 00 Praha 4. Registered share capital of Nevajgluj, a.s. as at December 31, 2023 was CZK 4 million. The Group has a 25% interest in SPAK-EKO a. s., Vajnorská 100/B, 831 04 Bratislava. Registered share capital of SPAK-EKO a. s. as at December 31, 2023 was CZK 0.6 mio CZK.

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

These consolidated financial statements were authorized for issue by the Board of Directors on March 26, 2024.

1.2 Translation note

This annual report and the consolidated financial statements have been prepared in Czech and in English. In all matters of interpretation of information, views or opinions, the Czech version of these consolidated financial statements takes precedence over the English version.

2. Summary of significant accounting policies

2.1 Basis of preparation of consolidated financial statements

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

The consolidated financial statements have been prepared under the historical cost convention except for financial instruments, which are initially recognized at fair value and subsequently measured in accordance with IFRS 9 as disclosed in the accounting policies below.

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The Group is responsible for estimates and assumption relating to the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The consolidated financial statements have been prepared based on the recognition and measurement requirements of IFRS standards and IFRIC interpretations issued and effective, to the extent that they have been endorsed by the European Commission by the time of preparing this report. The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.2 The assumption of continuity of the entity

The consolidated financial statements are prepared on the basis that the Group is able to continue as a going concern as the Board of Directors believes that the Group has the necessary resources to continue in business for the foreseeable future.

2.3 Changes in accounting policies and procedures

a) New and amended IFRS accounting standards adopted by the Group

Following new standards and amendments to IFRS are effective from 1 January 2023 but they do not have a material effect on the consolidated financial statements in comparison with consolidated financial statements prepared for the previous year 2022:

a) IFRS 17, 'Insurance Contracts' provides complex accounting policies (recognition, measurement, presentation and disclosure) regarding insurance contracts. Since the business of the Group is different than insurance company and it does not present any insurance contract, the standard is not relevant to be used when preparing consolidated financial statements.

b) Amendments to IAS 1, 'Presentation of Financial Statements' called "Disclosure of Accounting Policies require entities to disclose its material accounting policy information instead of its significant accounting policies. Amendments also explain how an entity can identify material accounting policy information and to give examples of when information is likely to be material. The amendment does not affect the presentation of the Group's financial situation and performance, and compared to the previous year, the structure and content of the notes in the section describing the accounting policies was revised and some insignificant information was omitted.

c) Amendments to IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' called "Definition of Accounting Estimates" that replace a definition of a change in accounting estimates with a definition of accounting estimates and clarify how to distinguish accounting estimate and accounting policy. The Group's accounting policies are set in accordance with amendments and therefore, amendments did not have any impact on these consolidated financial statements.

d) Amendments to IAS 12, 'Income Taxes' called "Deferred Tax related to Assets and Liabilities arising from a Single Transaction" that adjust an exemption from the initial recognition exemption provided in existing IAS 12. Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition such as initial recognition of right of use of asset and lease liability. The Group has adopted the amendments to IAS 12 for the first time in the current year. The aforementioned change relating to these amendments was applied to the presented deferred tax assets and liabilities. The disclosed deferred tax in the consolidated financial statements was adjusted retrospectively in line with the IAS 12 requirements without any effect on retained earnings.

e) Amendments to IFRS 17, ‘Insurance Contracts‘ and IFRS 9, ‘Financial Instruments‘ called 'Initial Application of IFRS 17 and IFRS 9 — Comparative Information (Amendment to IFRS 17)' that improve the usefulness of the comparative information presented on initial application of IFRS 17 and IFRS 9. Since the business of the Group is different than insurance company and it does not present any insurance contract, the standard the standard is not relevant to be used when preparing consolidated financial statements.

b) Standards, amendments and interpretations to existing IFRS accounting standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are not mandatory for the Group’s accounting periods beginning on 1 January 2023 and therefore, they were not considered in preparation of these consolidated financial statements for the year ended 31 December 2023:

a) In January 2020, amendments to IAS 1, ‘Presentation of Financial Statements‘ called “Classification of Liabilities as Current and Non-current‘ (effective for annual reports beginning on or after 1 January 2022 later deferred on or after 1 January 2024) were issued that provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. The amendments affect only the presentation of liabilities in the statement of financial position – not the amount or timing of their recognition or the information that entities disclose about them. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and is not affected by expectations about whether an entity will exercise its right to defer settlement. The Group will assess new approach but does not expect any significant changes in consolidated financial statements.

b) In September 2022, amendments to IFRS 16, ‘Lease Liabilities in a Sale and Lease-back‘ (effective for annual reports beginning on or after 1 January 2024) were issued to clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments are effective retrospectively. However, the Group does not expect any significant changes in consolidated financial statements.

c) In October 2022, amendments to IAS 1, ‘Non-current Liabilities with Covenants‘ (effective for annual reports beginning on or after 1 January 2024) were issued to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments are effective retrospectively. However, the Group does not expect any significant changes in consolidated financial statements.

d) In May 2023, amendments to IAS 7 and IFRS 7, ‘Supplier Finance Arrangements (effective for annual reports beginning on or after 1 January 2024) were issued to add disclosure requirements, and ‘signposts’ within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements. The Group does not expect any significant changes in consolidated financial statements.

e) In May 2023, amendments to IAS 12, ‘International Tax Reform – Pillar Two Model Rules (exception can be apply immediately upon issuance of the amendments; the remaining disclosure requirements are required for annual reporting periods beginning on or after 1 January 2023) were issued and introduce an exception to the requirements in the standard that an entity does not recognize and does not disclose information about deferred tax assets and liabilities related to the OECD pillar two income taxes. The Group will become the taxpayer of OECD pillar two income tax in 2024. The Group expects no additional tax expense related to this tax in 2024.

f) In August 2023, an amendment to IAS 21, ‘ Effects of Changes in Foreign Currency Exchange Rates: Lack of Exchangeability‘ (effective for annual reports beginning on or after January 1, 2025) was issued, which clarifies the definition of exchangeable currency and at the same time provides rules on how to determine the exchange rate in a situation where the currency is not exchangeable (e.g. at the balance sheet date). The amendments add additional disclosure for situations where the exchange rate is not exchangeable. The amendments will extend the regulation with an application guide and an illustrative example. The Group does not expect a major impact of these amendments on the consolidated financial statements at present, as foreign currency transactions are carried out in currencies that are generally exchangeable.

c) New and amended IFRS accounting standards issued by IASB but not yet endorsed by European Commission (EC):

At the approval date of these consolidated financial statement, the following standards and amendments to existing standards have been published by IASB but are not yet endorsed by EC to be used by European entities:

(I) IFRS 14, 'Regulatory Deferral Accounts' (issued in January 2014) – the EC has decided not to launch the endorsement process of this interim standard and to wait for the final IFRS Standard

(II) Amendments to IAS 7 and IFRS 7, 'Supplier Finance Arrangements (issued in May 2023 and effective since 1. 1. 2024)

(III) Amendments to IAS 21, 'The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability (issued in August 2023 and effective since 1. 1. 2025)

2.4 Consolidation

Subsidiary undertakings, which are those companies in which the Company, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date when the Group ceases to have control.

Intra-group transactions, balances and unrealized gains/losses on transactions between Group companies are eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies for the subsidiary are changed, where necessary, to ensure consistency with the policies adopted by the Company.

2.5 Segment reporting

Operating segments are reported in the manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group management team that makes strategic decisions.

2.6 Foreign currency transactions

a) Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which each entity of the Group operates (the "functional currency"). The consolidated financial statements are presented in Czech crowns, which is the Company's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing as at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

c) Subsidiary

The results and financial position of the Subsidiary that has a functional currency different from the presentation currency are translated into the presentation currency as follows:

(I) assets and liabilities are translated at the exchange rate as at the closing date;

(II) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated as at the dates of the transactions);

(III) all resulting exchange differences are recognized as a separate component of other comprehensive income.

2.7 Property, plant and equipment

All property, plant and equipment is initially recorded at cost and, except for freehold land, is subsequently carried at cost less any accumulated depreciation and impairment losses. Freehold land is subsequently stated at cost less any impairment charges. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. Such borrowing costs are capitalized as part of the cost of the asset when it is probable that they will result in future economic benefits to the Group and the costs can be measured reliably.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset when it is probable that they will result in future economic benefits to the Group and the costs can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Property, plant and equipment, excluding freehold land, are depreciated from the time they are available for use, using the straight-line method.

Estimated useful lives (in years) adopted in these consolidated financial statements are as follows:

Buildings and constructions	15 – 40
Machinery and equipment	8 – 15
IT equipment	3 – 5
Vehicles	3 – 8
Furniture and fixtures	5 – 10

Land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, as at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.10).

Property, plant and equipment that is retired, or otherwise disposed of, is eliminated from the consolidated statement of financial position, along with the corresponding accumulated depreciation. Any gain or loss arising from retirement or disposal is included in net operating income.

2.8 Intangible assets

Intangible assets include computer software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software to use. These costs are amortized over their estimated useful life (three to five years).

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs for more than one year, are recognized as intangible assets. Direct costs include the costs of employees involved in software development and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized over their estimated useful lives (three to five years).

2.9 Investment in associates

Associates are those entities in which the Group has significant influence that is the power to participate in the financial and operating policy decisions of the investee without the power to control or jointly control those policies.

Financial investments held in associates are initially measured at cost including purchase price and all directly attributable transaction costs. Subsequently, investments are measured using equity method. The carrying amount of investments is adjusted by share of the Group on a change in equity of associates that is recognized in profit or loss for the period.

The investment is reviewed for impairment. Impairment test is based on calculation of present value of net future cash flows generated from equity share in associate. Whether the recoverable amount of investment is estimated as lower than carrying amount of investment, impairment loss is recognized in profit or loss for the year.

2.10 Impairment of non-current assets

Property, plant and equipment and other non-financial assets, including intangible assets and right of use assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level, for which there are separately identifiable cash inflows (cash-generating units).

2.11 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories include the purchase price and related costs of acquisition (transport, customs duties, etc.). The carrying amount of inventory is determined on the basis of FIFO. The carrying amount of materials, mainly represented by spare parts, is determined on the basis of weighted average costs.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Financial assets

2.12.1. Classification and measurement

The Group classifies its financial assets at the time of acquisition and upon initial recognition of the financial asset. The Group classifies its financial assets within debt financial instruments.

A debt instrument is to mean any contract that gives rise to a financial asset of one party and a financial liability to the other party. Financial assets under debt instruments are classified according to the Group's business model and the nature of the contractual cash flows of the financial asset. In the context of the business model test, the Group verifies whether the objective of holding a financial asset is to collect all cash flows arising from it ("hold to maturity" model) or whether it is the objective to hold a financial asset and sell it (the "hold and sell" model). Further, the Group examines and determines whether the contractual terms and conditions associated with the cash flow rights relate only to the principal and interest, i.e.. whether the debt instrument has only "basic debt characteristics". Interest is considered to be the compensation of the time value of money and the credit risk associated with lending the principal over a given period.

Under debt instruments, the Group classifies its financial assets into the following categories:

a) Financial assets subsequently measured at amortized cost determined by using the effective interest rate method (financial assets at amortized cost)
b) Financial assets subsequently measured at fair value included in profit or loss (financial assets at fair value through profit or loss)

Financial assets at amortized cost (portfolio AC)

In this category, the Group recognizes debt instruments that are held within the business model that is intended to collect all contractual cash flows and which also have contractual cash flows representing only principal and interest payments on the principal outstanding. They are then measured at amortized cost using the effective interest rate method (hereafter referred to as the amortized cost). During the financial years 2023 and 2022, the Group had only trade receivables held to maturity and loans and deposits within the PMI group. Loans and deposits are included in other financial assets.

Financial assets at fair value through profit or loss (FVPL portfolio)

Within this category, the Group classifies all other debt instruments that cannot be classified into the above category. These financial assets are held for trading or their contractual cash flows do not represent exclusively the payment of principal and interest on the principal outstanding. Consequently, they are measured at fair value through profit or loss.

Derivatives are classified in the FVPL category provided they do not qualify for hedge accounting. During the financial years 2023 and 2022, the Group did not have any assets in this category.

2.12.2. Impairment of financial assets

The Group applies impairment model under which an allowance is recognized before the credit loss arises. This is a IFRS 9 impairment model reflecting expected credit losses (ECL). With the exception of trade receivables, the Group applies the so-called general approach to impairment for the relevant financial assets (debt instruments reported at amortized cost - in the AC portfolio. For trade receivables, the Group has taken advantage of the possibility of applying a simplified approach using an impairment matrix.

General approach to impairment

Under the general approach, an entity recognizes an allowance for expected credit losses (ECL) over the life of the financial instrument if there is a significant increase in the credit risk (measured by the probability of default over the life of the asset) from the initial recognition of the financial asset. If, at the reporting date, the credit risk associated with a financial instrument has not significantly increased since initial recognition, the entity shall recognize an allowance for the 12-month expected credit loss. The expected credit loss over the lifetime indicates the expected credit losses that arise as a result of all potential failures during the expected duration of the financial instrument. The 12-month expected credit loss is part of the expected credit losses over the life of a financial instrument that may occur within 12 months from the reporting date.

The group uses the three-step ECL model. Upon initial recognition of a financial asset, unless there is an evidence of a failure, the Group classifies the financial asset to Stage 1 and recognizes allowances corresponding to expected losses over the following 12 months. If the credit risk associated with the financial instrument has not significantly increased since the initial recognition date, the financial asset remains in Stage 1 and the allowance is measured at the date of the financial statement at the 12-month expected credit loss. If a significant increase in credit risk has occurred since the initial recognition date, the Group classifies the financial asset to Stage 2 and recognizes adjustments against the expected loss over the life of the financial asset at the reporting date. If the financial asset meets the definition of a default, the Group transfers it to Stage 3 and recognizes allowance corresponding to the expected loss over the life of the financial asset.

As a potential failure the Group considers a situation where it will not be able to collect any amounts owed under the terms initially agreed. As default indicators the Group considers significant financial difficulties of the borrower, the likelihood that the borrower will enter into bankruptcy or financial restructuring, delay in payments or non-compliance with maturity of the instrument.

For selected future scenarios of potential development, the Group calculates the expected credit loss and probability-weighted results using the following formula:

Expected credit losses (ECL) = probability of default (PD) x loss given default (LGD) x exposure at default (EAD)

Simplified approach to impairment

Simplified approach enables entities to report expected credit losses over the full period of time without the need to identify a significant increase in credit risk. For trade receivables and contract assets that do not have a significant element of financing, an entity recognizes an allowance for expected credit losses over its life (i.e. an entity must always apply a so-called simplified approach). For other trade receivables, other contractual assets, operating lease receivables and finance lease receivables, an accounting policy that can be applied separately to individual asset types (but which applies to all assets of the type) can be selected. An important element of financing exists when the timing of reimbursements agreed by the parties (explicitly or implicitly) results in a significant benefit for the customer or entity to finance the transfer of goods or services to the customer.

Application of simplified approach using impairment matrix

For trade receivables without a significant element of financing, the Group determines the amount of allowances using the impairment matrix. The impairment matrix is based on applying the appropriate rate of loss to unpaid balances of trade receivables (i.e. age analysis of receivables).

When determining the amount of allowances through simplified approach, the Group proceeds in the following steps. The Group first divides its individual trade receivables into certain groups of receivables with similar credit risk characteristics. The Group concurrently identifies the most important factors affecting the credit risk of each group. In the second step, the Group sets a historical loss rate for each group with similar credit risk characteristics. This rate is set for 3 consecutive accounting periods. In the next step, the Group determines the expected loss rate for each group of receivables, which is further subdivided into sub-categories by the number of days past due. In determining the expected loss rate, the Group takes into account whether historical loss rates have been incurred under economic conditions that are consistent with the expected conditions during the exposure period of that portfolio of receivables at the reporting date. In the last step, the Group measures the amount of the allowance based on the current gross amount of receivables multiplied by the expected loss rate.

2.12.3. Derecognition

Financial assets are derecognized if the right to receive cash flows from financial assets has expired or has been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2.13 Excise tax

Excise tax on purchased fiscal stamps is initially recognized in the category “Other non-financial assets” and a corresponding liability is recognized in the category “Other tax liabilities”. The asset is derecognized and reclassified to trade receivables upon sale of finished goods and merchandise subject to excise tax. Correspondingly, inventories and cost of goods sold do not include excise tax.

Excise tax in the Czech Republic has certain characteristics of sales tax while certain aspects of the taxation system are more of a production tax nature. Management has analyzed all the features of the excise tax system in the Czech Republic and came to the conclusion that the characteristics of the sale tax prevail. As a result the excise tax is excluded from revenues and operating expenses in the Group’s consolidated statement of comprehensive income.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months and less, bank overdrafts or other on-demand payable liabilities. Bank overdrafts and other on-demand payable liabilities are shown on the consolidated statement of financial position within Borrowings in current liabilities.

2.15 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs. Repurchase of the Company’s own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company’s own equity instruments.

2.16 Trade payables and financial liabilities

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

The Group derecognizes financial liabilities only when the contractual liabilities of the Group are discharged, cancelled or expire. The difference between the carrying amount of a derecognized financial liability and the consideration paid is recognized in profit or loss.

2.17 Offsetting financial assets and liabilities

Intercompany financial assets and liabilities are set off in Statement of financial position and are recognized as financial asset or liability. Offsetting reflects the substance of the transaction or other event, reflects nature of transactions in the Group and more appropriately expresses the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the Groups's future cash flows.

2.18 Income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date in the countries where the subsidiaries operate and generate taxable income.

2.19 Deferred income tax

Deferred income taxation is calculated using the liability method applied to all temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor taxable profit nor loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Changes in deferred tax resulting from the changes in tax rates are recognized in the period in which the changes are enacted or substantially enacted.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited to other comprehensive income, in which case the deferred tax also affects other comprehensive income.

2.20 Contingent assets and liabilities

Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. If the expected cash flows from contingent asset is probable, then it is disclosed in separate note.

Contingent liabilities

Contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Furthermore, contingent liability is a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are disclosed in separate note.

2.21 Employee benefits

a) Pension obligations

Contributions are made to the Government's retirement benefit and unemployment schemes at the statutory rates applicable during the year and are based on gross salary payments. The Group has no further payment obligations once the contributions have been paid. The expense for the contributions is charged to profit or loss in the same period as the related salary expense.

The Group also makes contributions to defined contribution schemes operated by external pension companies. These contributions are charged to profit or loss in the year to which the contributions relate. The Group has no further payment obligations once the contributions have been paid.

b) Redundancy and termination benefits

Redundancy and termination benefits are payable when employment is terminated before the normal retirement or contract expiry date. The Group recognizes redundancy and termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal.

c) Share-based payments

PMI runs certain compensation plans for management of all PMI companies. The plans relate to the stock of PMI. These plans are equity settled share-based payment transactions. There are Performance Incentive Plans in place under which eligible employees receive deferred stock awards representing long-term equity compensation that delivers shares of PMI after a three-year service period (the vesting period).

The compensation cost for deferred stock awards is determined by using fair value of the equity instruments awarded as at the grant date. Compensation cost is recognized over the vesting period on a straight-line basis as a charge to the employee benefits expense with a corresponding entry in equity. Amounts recognized as compensation expense in 2023 and 2022 were immaterial.

2.22 Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the best estimate of the expenditure required to settle the present obligation as at the balance sheet date.

2.23 Revenue recognition

All customer contracts are initially analyzed to identify all obligations and payments to the customer. Subsequently, the transaction price is determined, which is allocated in the case of more identified performance obligations according to the relevant key. Consequently, revenue is recognized for each performance obligation at the appropriate amount either at a certain point in time, or is recognized over several periods using accruals.

Revenues from the sale of goods are recognized when control is transferred to the buyer depending on the specific terms of the contract and when the amount of the consideration is agreed or is reliably determinable and payment is probable. This generally corresponds to the moment when products are delivered to wholesalers or when they are delivered to final consumers in the case of direct sales. Revenues are measured at transactions price net of excise tax, discounts and rebates provided.

Discounts and rebates are recognized as a reduction of revenues. The Group provides different form of trade incentives e.g.cash incentive for meeting certain volume targets, product placement fees or slotting fees paid to a customer, prices given to the retailer's employees for meeting certain volume targets during a promotion.

Revenues and costs are reported as follows:

a) Sales of goods

Revenue from sales of goods is recognized when the Group has transferred control over the assets to the buyer. The revenue is recognized at the date of shipment.

b) Sales of services

Revenue from the sale of services is recognized when the service is provided and the Group has the right to payment of a consideration. These are mainly processing services where the Group does not subsequently buy finished cigarettes and does not sell them on markets in the Czech Republic and Slovakia.

c) Cost of goods sold

Costs of goods sold include variable and fixed production costs, purchase price of purchased goods and royalties paid for products sold. Prior to the sale of goods, these costs are recorded in the value of inventory.

d) Distribution expenses

Distribution expenses include personnel costs and overheads, depreciation and amortization applicable to the distribution function, as well as the costs of shipping, advertising, sales promotion, market research and customer service. These costs are not recorded in the value of inventory.

e) Administrative expenses

Administrative expenses include personnel costs and overheads as well as depreciation and amortization applicable to the administrative functions.

2.24 Interest income / Interest expense

Interest income and expense is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liabilities to that asset's or liability's net carrying amount. The Group is involved in PMI cash-pooling.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

2.26 Leases

As a lessee the Group recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses the estimated pre-tax cost of debt of the Group which reflects country-specific risk and the premium of the PMI group as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group applies judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal or termination options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

The Group has elected to apply a recognition exemption allowed by the standard not to recognise right-of-use assets and lease liabilities for short-term leases and leases for which the underlying asset is of low-value. Short-term leases are leases with a lease term of 12 months or less. Low-value leases comprise mainly IT and office equipment. Short-term leases and leases for which the underlying asset is of low-value do not have a material effect on the Group's Consolidated financial statements.

The Group has also elected to apply allowed practical expedient not to separate non-lease components from lease components, and instead to account for them as a single lease component. This expedient is not applied in case of car leases.

The Group leases mainly office space, warehouses, cars and IT and office equipment. Cars are leased mostly for a period of 4 years.

2.27 Cash flow and statement of cash flows

Statement of cash flow is prepared using indirect method in a section of operating cash flows and direct method in sections of investing cash flows and cash flows from financing. Interests paid are presented within investing cash flows. Interest received is presented within financing cash flows. All dividends paid are presented within cash flows from financing activities. All income taxes paid are presented within operating cash flow.

2.28 Related party transactions

Related party transactions are made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated. Related party transaction and resulting outstanding balance are disclosed in separate note.

2.29 Earnings per share

Earnings per share (EPS) – basic and diluted – is a ratio that is presented in the statement of comprehensive income. Basic EPS is calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period (basic EPS). For the purpose of calculating diluted earnings per share, profit or loss attributable to ordinary equity holders of the parent entity and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares.

2.30 Critical accounting judgements and key sources of estimation uncertainty

In applying the Group's accounting policies, which are described in this note , the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognized and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Management has considered climate-related matters in preparing a consolidated financial statements. In valuing the assets and liabilities of the Group, the management has considered the climate related matters and climate change, which had no impact on impairment of non-financial assets (point 2.10). In 2023 the Group also assessed and revised the potential liabilities related to climate change and as a result of this revision, there was no potential liabilities recognized in 2023. These consolidated financial statements were prepared in consistency with the non-financial information related to climate matters contained in this Annual Financial Report.

2.31 Changes in accounting policies, estimates and errors

In 2023 there were no significant changes in accounting policies, accounting estimates and errors that would impact consolidated financial statements retrospectively.

2.32 Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are presented separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in financial statements.

2.33 Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

3. Financial risk management

3.1 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. Market and liquidity risks are managed under approved policies by the central Treasury department of PMI group in Lausanne. Credit risk is managed primarily by the Group. PMI Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. Risk management is performed by the PMI Treasury department of PMI group in line with the written principles provided by the Board of Directors for overall risk management, which are based on PMI financial risk management policies.

a) Market risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future purchase and sale transactions and from assets and liabilities recognized in foreign currencies. To hedge part of this exposure, the Group occasionally uses currency option derivative instruments, transacted with PMI Treasury. No currency options were used by the Group in 2023 and 2022.

The split of financial assets by currencies is as follows (in CZK million):

Carrying amount as at 31/12/2023	CZK	EUR	USD	CHF	Other	Total
Receivables from third parties - domestic	796	476	—	—	—	**1,272**
Receivables from PMI entities	237	115	—	3	—	**355**
Cash on hand and at banks	100	114	—	—	—	**214**
On-demand deposits with related parties	7,113	199	—	—	—	**7,312**
Other long term financial assets	113	—	—	—	—	**113**
Total	**8,359**	**904**	**—**	**3**	**—**	**9,266**

Carrying amount as at 31/12/2022	CZK	EUR	USD	CHF	Other	Total
Receivables from third parties - domestic	968	468	—	—	—	**1,436**
Receivables from PMI entities	1	110	1	—	—	**112**
Cash on hand and at banks	433	110	—	—	—	**543**
On-demand deposits with related parties	7,088	—	—	—	—	**7,088**
Other long term financial assets	108	1	—	—	—	**109**
Total	**8,598**	**689**	**1**	**—**	**—**	**9,288**

The split of financial liabilities by currencies is as follows (in CZK million):

Carrying amount as at 31/12/2023	CZK	EUR	USD	CHF	Other	Total
Payables to third parties - domestic	1,392	515	—	—	—	**1,907**
Payables to third parties - foreign	47	190	4	17	2	**260**
Payables to PMI entities	116	120	8	77	10	**331**
Total	**1,555**	**825**	**12**	**94**	**12**	**2,498**

Carrying amount as at 31/12/2022	CZK	EUR	USD	CHF	Other	Total
Payables to third parties - domestic	1,139	391	—	—	—	**1,530**
Payables to third parties - foreign	48	183	4	2	3	**240**
Payables to PMI entities	532	402	15	135	17	**1,101**
Total	**1,719**	**976**	**19**	**137**	**20**	**2,871**

Sensitivity analysis

Sensitivity to exchange rates

The Group is exposed to the foreign currency risk arising from transactions performed mainly with companies in the European Union and companies within PMI group with the registered seat in Switzerland. The common currencies used by the Group are EUR, USD and CHF. The foreign currency risk is measured against the functional currency of the Company (CZK) as at the balance sheet date, when the financial assets and liabilities denominated in foreign currencies are recalculated to the CZK by applying the Czech National Bank exchange rate.

The sensitivity analysis considers financial assets and liabilities denominated in foreign currencies and it measures the impact from recalculation of these items as at the balance sheet date by using exchange rates published by the Czech National Bank as at December 31, 2023. The Group considers the movements of exchange rates against CZK in the following period +5% (appreciation of CZK) and -5% (depreciation of CZK) as possible.

The sensitivity analysis on exchange rate changes is prepared for individual currencies on the presumption that there is no movement in the exchange rates of other currencies.

The following table presents the impact on profit before tax of an appreciation +5% or depreciation -5% of the CZK to foreign currencies (in CZK million) in 2023 (2022: +5%, -5%):

2023	CZK depreciation by 5%		
Currency	EUR	USD	CHF
Increase / (decrease) in profit or loss	4	(1)	(5)
	CZK appreciation by 5%		
Currency	EUR	USD	CHF
Increase / (decrease) in profit or loss	(4)	1	5

2022	CZK depreciation by 5%		
Currency	EUR	USD	CHF
Increase / (decrease) in profit or loss	(16)	(1)	(7)
	CZK appreciation by 5%		
Currency	EUR	USD	CHF
Increase / (decrease) in profit or loss	16	1	7

Sensitivity to interest rates

The Group is exposed to interest rate risk mainly in relation to short-term borrowings and short-term on-demand deposits with PMI companies, and as well the Group is exposed to interest rate risk in relation to factoring transactions with receivables. The Group assumes the possible movements of the yield curve in the following period by +100/-25 basis points.

For short-term loans receivable and short-term on-demand deposits with PMI companies, the impact on profit or loss before tax is determined on the basis of a defined change in the interest rate, which would have arisen at the beginning of the accounting period and based on the assumption that no other changes in the interest rate occurred during the entire accounting period. Other financial assets and liabilities are not considered to be sensitive to interest rate movements.

The following table presents the possible impact on profit or loss before tax of an expected increase (+100 basis points) or decrease (-25 basis points) of interest rates (in CZK million):

2023	Interest rate increased by 100 basis points	Interest rate decreased by 25 basis points
Increase / (decrease) in profit or loss	44	(18)

2022	Interest rate increased by 100 basis points	Interest rate decreased by 25 basis points
Increase / (decrease) in profit or loss	63	(16)

b) Credit risk

The Group has policies in place to ensure that sales of products and merchandise on credit are made to customers who meet the Group's criteria for credit eligibility and have adequate credit history.

Considerable support in this area is provided by PMI Treasury specialists in Lausanne. Apart from PMI Treasury, the Group also uses the services of external rating agencies for counterparty analysis.

The financial insolvency of counterparty may result in immediate losses to the Group with an adverse impact on the Group's financial position. Therefore, the acceptance of new business is reliant on standard approval controls and procedures through the relevant departments of the Group. The Group's involvement with counterparties is managed by means of credit limits that are monitored and reevaluated on a regular basis.

Active administration and management of receivables is incorporated into the credit risk management process and standard financial market instruments such as bank guarantees, advance payments and transfers of receivables through factoring without recourse are used to reduce the risks.

Receivables security

With respect to the security strategy of trade receivables, trade receivables are separated into receivables from domestic customers and PMI entities.

Bank guarantees, in certain cases, are used to secure receivables from domestic credit customers. Penalty interest on late payments is a compulsory preventative instrument for all contractual relationships. Trade receivables from domestic credit customers are divided into two groups: receivables secured by bank guarantees and unsecured receivables from customers eligible for unsecured credit. Unsecured credit is based on an overall and financial assessment of each individual customer including usage of external rating agencies.

Trade receivables from PMI entities are considered as low-risk receivables by the Group, and are therefore unsecured.

Carrying amount as at 31/12/2023 (in CZK million)	Unimpaired financial assets not yet due	Unimpaired financial assets past due	Total
Receivables from third parties - domestic	1,270	2	**1,272**
Receivables from PMI entities	314	41	**355**
Cash on hand and at banks	214	—	**214**
On-demand deposits with related parties	7,312	—	**7,312**
Other long-term financial assets	113	—	**113**
Total	**9,223**	**43**	**9,266**

Carrying amount as at 31/12/2022 (in CZK million)	Unimpaired financial assets not yet due	Unimpaired financial assets past due	Total
Receivables from third parties - domestic	1,430	6	**1,436**
Receivables from PMI entities	87	25	**112**
Cash at banks	543	—	**543**
On-demand deposits with related parties	7,088	—	**7,088**
Other long-term financial assets	109	—	**109**
Total	**9,257**	**31**	**9,288**

Credit risk concentration of trade receivables

The Group monitors the concentration of credit risk of trade receivables by distribution regions.

Classification of trade receivables by distribution regions:

Carrying amount as at 31/12/2023 (in CZK million)	Czech Republic	Slovak Republic	Other	Total
Receivables from third parties - domestic	794	478	—	**1,272**
Receivables from PMI entities	—	—	355	**355**
Total	**794**	**478**	**355**	**1,627**

Carrying amount as at 31/12/2022 (in CZK million)	Czech Republic	Slovak Republic	Other	Total
Receivables from third parties - domestic	966	469	—	**1,435**
Receivables from PMI entities	—	—	113	**113**
Total	**966**	**469**	**113**	**1,548**

The creditworthiness of financial assets at amortized cost

The Group uses the following criteria when determining the creditworthiness:

- Rating 1 includes receivables with a probability of default of up to 0.1%.
- Rating 2 includes receivables with a probability of default of up to 2%.
- Rating 3 includes receivables with a probability of default above 2%.
- Receivables from PMI companies and short-term loans provided within the PMI Group are classified as rating 1 (according to Standard & Poor's A-2 (2022: A-2)) in 2023
- Cash in banks is ranked according to Moody's long-term deposit ratings. Banks and financial institutions used by the Group are only eligible for A-3 or higher (2022: A-3) (rating 1).

Allowance for expected credit losses (ECL)

		Stage				
Balance as at 31/12/2023 (in CZK million)	Creditworthiness	Stage 1 12-month ECL	Stage 2 lifetime ECL - without individual impairment	Stage 3 lifetime ECL - individually impaired	Lifetime ECL according to matrix of impairment	Total
Cash incl. on-demand deposits	1	-	-	-	-	**-**
Other receivables and financial assets	1	-	-	-	-	**-**
Trade receivables	1	-	-	-	-	**-**
Total		**-**	**-**	**-**	**-**	**-**

Matrix of impairment for trade receivables at amortized cost

Balance as at 31/12/2023 (in CZK million)	From the due date: Before due	Less than 1 month	1 – 3 month	More than 3 months	Total
Expected credit losses rate (in %)	0.01%	0.02%	0.05%	0.10%	
Gross book value	1,584	—	—	51	**1,635**
Allowance	—	—	—	(8)	**(8)**

Allowance for expected credit losses (ECL)

Balance as at 31/12/2022 (in CZK million)	Creditworthiness	Stage: Stage 1 12-month ECL	Stage 2 lifetime ECL - without individual impairment	Stage 3 lifetime ECL - individually impaired	Lifetime ECL according to matrix of impairment	Total
Cash incl. on-demand deposits	1	-	-	-	-	-
Other receivables and financial assets	1	-	-	-	-	-
Trade receivables	1	-	-	-	-	-
Total		**-**	**-**	**-**	**-**	**-**

Matrix of impairment for trade receivables at amortized cost

Balance as at 31/12/2022 (in CZK million)	From the due date: Before due	Less than 1 month	1 – 3 month	More than 3 months	Total
Expected credit losses rate (in %)	0.01%	0.02%	0.05%	0.10%	
Gross book value	1,518	—	1	29	**1,548**
Allowance	—	—	—	—	**—**

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash. Liquidity of the Group is managed and controlled by the central Treasury department of PMI group via domestic and international cash pool arrangements. Based on PMI policies, the Group prepares a weekly cash flow projection for the following month and monthly cash flows projections for the following 12 months.

Contractual maturity analysis of liabilities (undiscounted cash flows)

Balance as at 31/12/2023 (in CZK million)	Less than 3 months
Trade payables to third parties and PMI entities	2,310
Dividend payable	21
Other financial liabilities	167
Total	**2,498**

Balance as at 31/12/2022 (in CZK million)	Less than 3 months
Trade payables to third parties and PMI entities	2,764
Dividend payable	13
Other financial liabilities	94
Total	**2,871**

To mitigate the risk and enhance cash and liquidity management, the Group sold a portion of its trade receivables to a financial institution in 2023 and 2022. In all those transactions, the Group retained no participating interests. The financial institution has no recourse for failure of debtors to pay when due.

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Equity as presented in these consolidated financial statements of the Company and its Subsidiary is considered as capital of the Group for the capital management purposes.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices as at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group makes assumptions that are based on market conditions existing as at each balance sheet date. The carrying amounts of current financial assets and current financial liabilities are assumed to approximate their fair values.

The carrying amounts of other non-current financial assets are also assumed to approximate their fair values, which were determined as the present value of future cash flows based on market interest rates at the balance sheet date, and which qualify for Level 2 in accordance with IFRS 13.

4. 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 monitors performance of the Group with reference to the geographical areas covered by the Group's operations. The Group's management monitors performance with reference to the type of business activity in combination with the geographical area. The Group's reportable segments 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 December 31, 2023 are as follows:

(in CZK million)	Czech Republic (Distribution)	Slovak Republic (Distribution)	Manufacturing Service	Total
Total gross segment revenues	14,204	5,628	—	**19,832**
Inter-segment revenues	(2,067)	—	—	**(2,067)**
Services provided	48	—	2,757	**2,805**
External revenues	**12,185**	**5,628**	**2,757**	**20,570**
Management gross profit	5,698	3,169	2,036	**10,903**
Management profit from operations	2,088	1,538	333	**3,959**

The segment results for the period ended December 31, 2022 are as follows:

(in CZK million)	Czech Republic (Distribution)	Slovak Republic (Distribution)	Manufacturing Service	Total
Total gross segment revenues	14,778	5,749	—	**20,527**
Inter-segment revenues	(2,032)	—	—	**(2,032)**
Services provided	43	—	2,410	**2,453**
External revenues	**12,789**	**5,749**	**2,410**	**20,948**
Management gross profit	6,093	3,208	1,724	**11,025**
Management profit from operations	2,585	1,474	279	**4,338**

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

(in CZK million)	31/12/2023	31/12/2022
Management gross profit	**10,903**	**11,025**
Royalties	(528)	(601)
Fixed manufacturing expenses	(1,457)	(1,194)
Gross profit	**8,918**	**9,230**

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)	31/12/2023	31/12/2022
Management profit from operation	**3,959**	**4,338**
Other operating income / (expense), net	(89)	(95)
Interest income	410	414
Interest expense	(82)	(61)
Profit before tax	**4,198**	**4,596**

Depreciation, amortization and impairment charge included in management profit from operations allocated to individual segments in 2023 and 2022 is as follows:

(in CZK million)	Czech Republic (Distribution)	Slovak Republic (Distribution)	Manufacturing Service	Total
2023	**74**	**38**	**595**	**707**
2022	71	35	618	**724**

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

(in CZK million)	31/12/2023	31/12/2022
Sales of merchandise	17,765	18,495
Sales of services	2,805	2,453
Total	**20,570**	**20,948**

Revenue analysis by timing of revenue recognition:

(in CZK million)	31/12/2023	31/12/2022
Sales recognized at time of shipment	17,765	18,495
Revenues recognized over time	2,805	2,453
Total	**20,570**	**20,948**

Revenues from customers or groups of customers under common control exceeding 10% of the Group's revenues: revenue of CZK 5 616 million (2022: CZK 5,924 million) derived from one customer is included in segment Czech Republic (distribution) and revenue of CZK 2,757 million (2022: CZK 2 410 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 3 038 million (at December 31, 2022: CZK 2,960 million) from which CZK 2,896 million is used to support Manufacturing service related activities (at December 31, 2022: CZK 2 804 million) and CZK 142 million to support Distribution related activities (at December 31, 2022: CZK 156 million) and those located in Slovak Republic supporting only Distribution activities is CZK 121 million (at December 31, 2022: CZK 106 million).

5. Property, plant and equipment

(in CZK million) **As at 1/1/2022**	Property, Buildings & Constructions	Vehicles & Machinery Equipment	Furniture & Fixtures	Constructions in progress & Advances paid	Total
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**
Year ended 31/12/2022					
Opening net carrying amount	363	1,953	23	493	**2,832**
Additions cost	24	319	3	242	**588**
Disposal net carrying amount	—	(49)	—	—	**(49)**
Transfers*	13	437	1	(451)	**—**
Depreciation charge	(52)	(527)	(9)	—	**(588)**
Closing net carrying amount	**348**	**2,133**	**18**	**284**	**2,783**
As at 31/12/2022					
Cost	2,301	7,008	77	284	**9,670**
Accumulated depreciation	(1,953)	(4,875)	(59)	—	**(6,887)**
Net carrying amount	**348**	**2,133**	**18**	**284**	**2,783**
Year ended 31/12/2023					
Opening net carrying amount	348	2,133	18	284	**2,783**
Additions cost	42	419	18	160	**639**
Disposal net carrying amount	—	(35)	—	—	**(35)**
Transfers*	44	124	4	(172)	**—**
Depreciation charge	(50)	(506)	(11)	—	**(567)**
Closing net carrying amount	**384**	**2,135**	**29**	**272**	**2,820**
As at 31/12/2023					
Cost	2,386	7,021	96	272	**9,775**
Accumulated depreciation	(2,002)	(4,886)	(67)	—	**(6,955)**
Net carrying amount	**384**	**2,135**	**29**	**272**	**2,820**

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

Depreciation on property, plant and equipment recognised as an asset amounted to CZK 567 million (2022: CZK 588 million).

During the period the Group disposed of several assets which have been identified as no longer needed and approved for scrapping amounting net to CZK 2 million (2022: CZK 4 million). All investments in property, plant and equipment were financed by the Group's own resources.

6. Impairment of property, plant and equipment

In 2023 the Group revised the net book value of equipment. As a result of this revision, there was no impairment loss recognized in 2023. There was no impairment loss recognized in 2022.

7. Leases

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

(in CZK million)	31/12/2023	31/12/2022
Office spaces and warehouses	165	126
Cars	57	59
Stores	99	80
Employee flats	17	17
Total	**338**	**282**

The recognised lease liabilities relate to following types of liabilities:

(in CZK million)	31/12/2023	31/12/2022
Current liabilities	127	121
Non-current liabilities	207	159
Total	**334**	**280**

Interest expense on lease liabilities included in finance costs represented amount CZK 10 million (2022: CZK 5 million).

Depreciation expense of right-of-use assets represented amount CZK 137 million (2022: CZK 131 million).

Additions to right-of-use assets represented amount CZK 198 million (2022: CZK 129 million).

In 2023, the expense relating to short-term leases or low-value assets amounted to CZK 27 million (2022: CZK 8 million).

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

Maturity analysis 31/12/2023	<1 year	1-5 years	>5 years
Lease liabilities	127	201	6

Maturity analysis 31/12/2022	<1 year	1-5 years	>5 years
Lease liabilities	120	122	38

8. Inventories

(in CZK million)	31/12/2023	31/12/2022
Materials	85	77
Merchandise	1,024	1,774
Total	**1,109**	**1,851**

The costs of inventories recognized as an expense in consolidated statement of comprehensive income in 2023 and included in costs of sales amounted to CZK 9,668 million (2022: CZK 9,923 million).

9. Trade and other financial receivables and other non-financial assets

(in CZK million)	31/12/2023	31/12/2022
Trade and other financial receivables		
Third parties	1,272	1,436
Related parties	355	112
Total	**1,627**	**1,548**

Other non-financial assets		
Other assets - excise tax	2,235	2,075
Prepayments	28	36
Total	**2,263**	**2,111**

Other non-current financial assets		
Other financial assets	113	109
Total	**113**	**109**

10. Cash and cash equivalents

(in CZK million)	31/12/2023	31/12/2022
Cash on hand	1	3
Cash at banks	213	540
On-demand deposits with related parties (see Note 27)	7,312	7,088
Total	**7,526**	**7,631**

On-demand deposits with related parties are interest bearing short-term loans - see Note 27 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)	31/12/2023	31/12/2022
Cash and cash equivalents	7,526	7,631
Total	**7,526**	**7,631**

11. Equity

The Company's registered capital of 2 745 386 shares has a nominal value of CZK 1 000 per share and is fully paid. No changes in the registered capital or the number and type of shares have occurred during the last two years.

The registered capital is allocated as follows:

	Number of shares	Value in CZK
Unregistered ordinary shares certificated	831,688	831,688,000
Registered ordinary shares dematerialized	1,913,698	1,913,698,000
Total ordinary shares	**2,745,386**	**2,745,386,000**

The identification mark of the Company's shares according to the international numbering system is ISIN: CS0008418869.

The rights and obligations of the shareholders are set out in the legal regulations and in the Articles of Association of the Company, all shares bear the same rights and obligations.

The authorized owners of the shares are entitled to participate in the decision making at General Meetings. At the General Meeting the shareholders have the right to vote, to ask for explanations and to receive answers to questions about matters concerning the Company as well as matters concerning entities controlled by the Company, and to submit proposals and counterproposals.

Voting rights apply to all shares issued by the Company and may be limited or excluded only where stipulated by law. The Company is not aware of any restrictions on or exclusions of voting rights attached to the shares that it has issued other than those restrictions on and exclusions of voting rights stipulated by law.

The shareholders are further entitled to a share of the Company's profit (i.e. dividends). The shareholders may not demand a refund of their investment contribution during the existence of the Company or even in the event of its dissolution.

If the Company goes into liquidation, the shareholders are entitled to a share on the liquidation estate.

A shareholder is obliged to pay the issue price and the share premium, if any, for the shares he/she has subscribed.

The Company has not issued any securities with special rights excluding ordinary shares described above.

The Company's shares are admitted for trading on the public market organized by the Prague Stock Exchange and by the Czech shares trading system of the company RM-SYSTÉM, česká burza cenných papírů a.s. As at December 31, 2023, 2,745,386 shares were emitted, out of which 77.6% were held by the company Philip Morris Holland Holdings B.V and 22.4% is publicly held.

Share premium and Other shareholders' contributions:

(in CZK million)	31/12/2023	31/12/2022
Share premium	2,335	2,335
Other shareholders´contributions	49	48
Total	**2,384**	**2,383**

12. Trade and other financial liabilities and other non-financial liabilities

(in CZK million)

Trade and other financial liabilities	31/12/2023	31/12/2022
Third parties	977	917
Other related parties	331	1,101
Accrued expenses	1,002	746
Dividends payable	21	13
Other financial liabilities	167	94
Total	**2,498**	**2,871**

Other non-financial liabilities	31/12/2023	31/12/2022
Amounts due to employees	212	194
Social security and health insurance	85	83
Advances received	—	5
Deferred revenues	11	—
Other liabilities	2	10
Total	**310**	**292**

Trade payables to related parties are disclosed in Note 27.

13. Offsetting financial assets and financial liabilities with related parties

Carrying amount as at 31/12/2023 (in CZK million)	Trade and other financial receivables	Trade and other financial payables
Gross amounts of recognized financial assets / liabilities	2,184	3,055
Gross amounts of recognized financial liabilities / assets set off in the balance sheet	(557)	(557)
Net amount	**1,627**	**2,498**

Carrying amount as at 31/12/2022 (in CZK million)	Trade and other financial receivables	Trade and other financial payables
Gross amounts of recognized financial assets / liabilities	1,545	2,868
Gross amounts of recognized financial liabilities / assets set off in the balance sheet	3	3
Net amount	**1,548**	**2,871**

14. Other tax liabilities

(in CZK million)	31/12/2023	31/12/2022
VAT	450	665
Excise tax	3,577	3,300
Other taxes	23	20
Total	**4,050**	**3,985**

15. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The offset amounts are as follows:

(in CZK million)	31/12/2023	31/12/2022
Deferred tax assets not offset	54	50
Deferred tax assets	**54**	**50**
Deferred tax assets offset	128	100
Deferred tax liabilities	(283)	(253)
Deferred tax liability net	**(155)**	**(153)**

The gross movement in the deferred income tax is as follows:

(in CZK million)	2023	2022
January 1 - Deferred tax liability net	(103)	(112)
Charge to profit or loss	2	9
December 31 - Deferred tax liability net	**(101)**	**(103)**

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities (in CZK million)	Accelerated tax depreciation	Right of use asset	Total
As at 1/1/2022	**(224)**	**(58)**	**(282)**
Charge to profit or loss	25	4	**29**
As at 31/12/2022	**(199)**	**(54)**	**(253)**
Charge to profit or loss	(14)	(16)	**(30)**
As at 31/12/2023	**(213)**	**(70)**	**(283)**

Deferred tax assets (in CZK million)	Provisions for inventories	Share-based payments	Unrealized profit elimination	Lease liability	Other*	Total
As at 1/1/2022	**21**	**7**	**20**	**59**	**64**	**171**
Credit to profit or loss	(9)	2	(1)	(5)	(8)	**(21)**
As at 31/12/2022	**12**	**9**	**19**	**54**	**56**	**150**
Credit to profit or loss	10	1	2	15	4	**32**
As at 31/12/2023	**22**	**10**	**21**	**69**	**60**	**182**

*Includes temporary differences from other liabilities in timing between when expenses are deductible and recognized on the income statement.

Effective from January 1, 2023 the rate of 21 % is used for calculation of deferred tax in the Czech Republic.

Effective from January 1, 2017, the rate of 21 % is used for calculation of deferred tax in the Slovak Republic.

16. Expenses by nature - additional information

(in CZK million)	2023	2022
Raw materials, consumables used and merchandise sold	9,737	9,884
Services	3,667	3,604
Royalties	528	601
Employee benefits expense	1,748	1,591
Depreciation and amortization	707	724
Other	224	206
Costs of sales, distribution and administrative expenses	**16,611**	**16,610**

17. Employee benefits expense

(in CZK million)	2023	2022
Wages and salaries, including termination benefits of CZK 61 million (2022: CZK 42 million)	1,239	1,119
Social security and health insurance	154	146
Pension costs – defined contribution plans	248	234
Share-based payments	25	15
Other employee-related costs	82	77
Total	**1,748**	**1,591**

As at December 31, 2023, the Group employed 1,301 employees, out of which 165 were employed by Philip Morris Slovakia s.r.o. in the Slovak Republic (2022: 1,187, in the Slovak Republic 146).

The Group is legally required to make contributions to government health, pension and unemployment schemes. During 2023, the Group paid contributions at an average rate of 32 % of gross salaries (2022: 34 %) and is not required to make any contributions in excess of this statutory rate.

The Group has a voluntary pension plan for employees under which the Group makes contributions on behalf of the Group's employees to independent pension plan providers, under approved defined contribution schemes.

Principles of employment and remuneration are covered by the Collective Labour Agreement. Audit of the observances of labour law regulations in the Group takes place during the Collective Labour Agreement negotiations.

18. Auditor's fees

(in CZK million)	2023	2022
Statutory audit	8	7
Tax consultancy - charged by other than statutory auditor	3	2
Total fees	**11**	**9**

19. Provisions

(in CZK million)	Carrying amount as at 1/1/2023	Provisions made in the reporting period	Amounts used during the reporting period	Amounts reversed during the reporting period	Carrying amount as at 31/12/2023
Provision for employment anniversary, jubilee and retirement bonuses	11	6	(2)	—	15
Provision for employment termination	—	61	(58)	—	3
Provision for reverse logistics	5	5	(2)	(3)	5
Total	**16**	**72**	**(62)**	**(3)**	**23**

As at December 31, 2023 Management did not identify any plans related to organizational restructuring.

(in CZK million)	Carrying amount as at 1/1/2022	Provisions made in the reporting period	Amounts used during the reporting period	Amounts reversed during the reporting period	Carrying amount as at 31/12/2022
Provision for employment anniversary, jubilee and retirement bonuses	12	2	(2)	(1)	11
Provision for employment termination	6	31	(37)	—	—
Provision for reverse logistics	15	5	—	(15)	5
Total	**33**	**38**	**(39)**	**(16)**	**16**

20. Other operating income

(in CZK million)	2023	2022
Foreign exchange rate gains	104	242
Gains on sale of PP&E	6	2
Other income	2	14
Total	**112**	**258**

21. Other operating expense

(in CZK million)	2023	2022
Foreign exchange rate losses	140	328
Bank charges	15	13
Impairment loss for doubtful receivables	8	—
Other expense	38	12
Total	**201**	**353**

22. Net profits and losses from financial instruments

2023 (in CZK million)	Receivables	Cash equivalents	Payables	Total
Foreign exchange gain	42	4	58	**104**
Interest income	—	410	—	**410**
Foreign exchange losses	(25)	(15)	(100)	**(140)**
Interest expense	—	(80)	(2)	**(82)**
Net gain / (loss)	**17**	**319**	**(44)**	**292**

2022 (in CZK million)	Receivables	Cash equivalents	Payables	Total
Foreign exchange gain	35	46	161	**242**
Interest income	—	414	—	**414**
Foreign exchange losses	(113)	(109)	(106)	**(328)**
Interest expense	—	(61)	—	**(61)**
Net gain / (loss)	**(78)**	**290**	**55**	**267**

23. Income tax expense

(in CZK million)	2023	2022
Current tax expense for the current period	(887)	(939)
Current tax adjustment of prior year	31	(30)
Current tax	**(856)**	**(969)**
Deferred tax - Temporary differences (see Note 15)	2	9
Total	**(854)**	**(960)**

The statutory income tax rate in the Czech Republic for the 2023 and 2022 assessment periods was 19 %.

The statutory income tax rate in the Slovak Republic for the 2023 and 2022 assessment period was 21 %.

The tax on the Group's profit before taxes differs from the theoretical amount that would arise upon using the tax rate applicable to profits of the Group as follows:

(in CZK million)	2023	2022
Profit before tax	4,198	4,596
Applicable tax rate	19 %	19 %
Tax calculated at local tax rate applicable to profit before tax	**(798)**	**(873)**
Effect of different tax rates of subsidiaries operating in other jurisdictions including tax adjustment of prior year	(33)	(33)
Expenses not deductible for tax purposes	(67)	(49)
Income not subject to tax	19	20
Tax adjustment of prior year	32	(26)
Effect of higher rate used for deferred tax calculation (21% vs 19%)	(15)	—
Other	(8)	1
Tax charge	**(870)**	**(960)**

24. Earnings per share

Basic and diluted earnings per share are calculated by dividing the net profit attributable to shareholders of the Company by the number of ordinary shares in issue during the year.

	2023	2022
Income attributable to shareholders (in CZK million)	3,343	3,635
Number of ordinary shares in issue (in thousands)	2,745	2,745
Basic earnings per share in CZK	**1,218**	**1,324**

25. Profit distribution

The dividends approved by the Annual General Meeting in April 28, 2023 were CZK 3 597 million (CZK 1 310 per share). The dividends approved outside General Meeting ("per rollam") between April and May 2022 were CZK 3,597 million (CZK 1 310 per share), respectively.

Besides dividends paid by Philip Morris ČR a.s., Philip Morris Slovakia s.r.o. paid dividends to Non-controlling interest in the amount of CZK 1 million (2022: CZK 1 million).

Disbursement of dividends from the 2023 results will be decided at the General Meeting scheduled for April 30, 2024.

26. 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.

The tax authorities may at any time inspect the books and records within 3 years subsequent to the reported tax year in the Czech Republic and within 5 years in the Slovak Republic, and may impose additional tax assessments and penalties. The Group's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

27. 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)	2023	2022
Sales of merchandise		
Other related parties	88	39
Sales of materials		
Other related parties	4	4
Sales of PP&E		
Other related parties	41	49
Sales of services		
Other related parties	2,794	2,453
Recharges		
Other related parties	14	15
Interest Income		
Other related parties	397	385
Total	**3,338**	**2,945**

b) Purchases of merchandise and services from affiliates within PMI

(in CZK million)	2023	2022
Purchases of merchandise and materials		
Other related parties	8,108	9,127
Purchases of PP&E and intangible assets		
Other related parties	116	230
Purchases of services		
Other related parties	1,246	1,153
Royalties paid		
Other related parties	528	600
Interest expense		
Other related parties	8	—
Total	**10,006**	**11,110**

c) Dividends

In 2023 Company paid to Philip Morris Holland Holdings B.V. dividends CZK 2,790 million in total (CZK 1 310 per share). The dividends paid to Philip Morris Holland Holdings B.V. in 2022 amounted to CZK 2,790 million (CZK 1 310 per share).

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)	31/12/2023	31/12/2022
Receivables from related parties		
Other related parties	355	112
Loans and deposits		
Other related parties	**7,312**	7,088
Total	**7,667**	**7,200**
Payables to related parties		
Other related parties	**331**	1,101
Total	**331**	**1,101**

Loans and deposits with related parties include interest-bearing on-demand deposits (cash pool) of CZK 7 312 million with Philip Morris Finance S.A. (2022: CZK 7,088 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 December 31, 2023 and as at December 31, 2022.

The interest rate for on-demand deposits in Czech Republic is calculated based on CZBRREPO with variable margin. The interest rate for on-demand deposits in the Slovak Republic is calculated based on ESTR with variable margin.

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 in 2023 was 6.8% p.a. (2022: 5.7% p.a.) in the Czech Republic and 3.5 % p.a. (2022: 0.3% p.a.) in the Slovak Republic.

e) Key management compensation

Key management compensation includes the remuneration of members of the Board of Directors and Supervisory Board for the performance of the office according to the agreements on performance of the office of a member of the Board of Directors or, Supervisory Board, respectively.

The compensation of the members of management who are employees of the Group or an entity within the PMI Group comprises the remuneration for the performance of the office of a member of the Board of Directors or Supervisory Board, respectively, as mentioned above, an annual base salary, bonuses based on individual performance, share-based payments and other income in-kind such as cars for use, lunch allowances, pension contributions, life and accident insurance and termination benefits as described below. In addition to this, the members of the Board of Directors and Supervisory Board, respectively, who are employees of Philip Morris Services S.A. or other PMI entities also have other income in-kind such as the payment of rent and school fees.

Termination benefits of the members of management who are employees of the Group, whose employment agreement was terminated by notice on the basis of the reason pursuant to §52, letters a) to e) of the Labour Code or by an agreement on the same grounds, include an increased severance pay in accordance with the Employment Redundancy Program specified in the Collective Labour Agreement. Termination benefits of the members of management who are employees of an entity within the PMI Group are paid according to the employment agreement with their respective employer and the provisions of the PMI International Assignment principles and practices.

(in CZK million)	2023	2022
Short-term employee benefits	68	71
Other long-term benefits	2	3
Share-based payment expense	17	16
Total	**87**	**90**

There was no termination benefit for Board of Directors and Supervisory Board members recognized in 2023 and 2022.

The term of office for Board of Directors and Supervisory Board members is three years.

f) Contractual and other commitments to related parties

Contractual and other commitments to related parties that are not recorded in the consolidated financial statements are considered as obligations to exchange resources in the future under binding agreements.

As at December 31, 2023, 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 478 million (commitment value as at December 31, 2022: CZK 459 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 2023, the Group incurred under these agreements royalties expense of CZK 528 million (2022: CZK 601 million). These agreements shall continue indefinitely until terminated by either party. Management expects the royalty expense in 2024 to be at approximately similar level as in 2023.

28. Macroeconomic situation

According to the data from the Czech Statistical Office, the gross domestic product in 2023 decreased by 0.4pp versus prior year.[35] Inflation continued improving in the second half of 2023, decreased by 9.0pp year-on-year, ended-up at 6.9% in December 2023[36], however still above the long-term CNB goal of 2%. Compared to last year, real wages of households declined by 1.2% due to inflation[37], however after a very deep decline in Q1 recorded positive trend quarter-by-quarter during the year. Despite the positive macroeconomic development in 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, limits non-essential purchases, seeks 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 the Government interventions in the form of established price caps and compensation of the price differences to energy suppliers[38]. The total utilities cost increase in 2023 represents 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.

[35] *Key macroeconomic indicators | CZSO*

[36] *Inflation - Types, Definition, Tables | CZSO*

[37] *Key macroeconomic indicators | CZSO*

[38] *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.*

29. Subsequent events

No subsequent events have occurred after the balance sheet date that would have a material impact on these consolidated financial statements at December 31, 2023.

Pursuant to Article 14 par. 4 of the Articles of Association, Eugenia Panato was appointed as a member of the Board of Directors of Philip Morris ČR a.s. by the other members of the Board of Directors effective as of January 1, 2024 until the next General Meeting.

Authorization of the financial statements

The consolidated financial statements were authorized for issue by the Board of Directors and have been signed below on its behalf. The consolidated financial statements are subject to approval by shareholders of the Company at the General Meeting of shareholders. Until this approval is given, the consolidated financial statements could be amended.

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.

09

Separate Financial Statements

Separate Statement of Financial Position

at December 31, 2023 (in CZK million)

ASSETS	Note	31/12/2023	31/12/2022
Property, plant and equipment ("PP&E")	4	2,796	2,760
Right-of-use assets	6	241	199
Intangible assets		1	1
Investments in subsidiary and associates	1	20	19
Other financial assets	8	109	109
Non-current assets		**3,167**	**3,088**
Inventories	7	638	1,252
Trade and other financial receivables	8	1,669	1,273
Other non-financial assets	8	2,078	1,956
Current income tax receivable		49	—
Cash and cash equivalents	9	7,214	7,560
Current assets		**11,648**	**12,041**
Total assets		**14,815**	**15,129**

EQUITY & LIABILITIES	Note	31/12/2023	31/12/2022
Registered capital	10	2,745	2,745
Share premium and other shareholders' contributions	10	2,380	2,379
Retained earnings		3,377	3,631
Equity		**8,502**	**8,755**
Deferred tax liability	14	154	153
Lease liabilities	6	141	108
Non-current liabilities		**295**	**261**
Trade and other financial liabilities	11	1,841	2,013
Other non-financial liabilities	11	254	241
Current income tax liabilities		—	38
Other tax liabilities	13	3,806	3,719
Provisions	18	18	13
Lease liabilities	6	99	89
Current liabilities		**6,018**	**6,113**
Total liabilities		**6,313**	**6,374**
Total equity & liabilities		**14,815**	**15,129**

The accompanying notes form an integral part of the financial statements

Separate Statement of Comprehensive Income

for the year ended December 31, 2023 (in CZK million)

	Note	2023	2022
Revenues	19	17,028	17,251
Cost of sales	15	(9,697)	(9,672)
Gross profit		**7,331**	**7,579**
Distribution expenses	15	(2,149)	(2,040)
Administrative expenses	15	(1,386)	(1,376)
Other income	27	98	106
Other operating income	20	109	255
Other operating expense	21	(192)	(341)
Profit from operations		**3,811**	**4,183**
Financial income	22	408	414
Financial expense	22	(71)	(60)
Profit before income tax		**4,148**	**4,537**
Income tax expense	23	(809)	(914)
Net profit for the year		**3,339**	**3,623**
Other comprehensive income		—	—
Total comprehensive income for the year		**3,339**	**3,623**
Earnings per share basic and diluted (CZK/share)	24	**1,216**	**1,320**

The accompanying notes form an integral part of the financial statements

Separate Statement of Changes in Equity

for the year ended December 31, 2023 (in CZK million)

		Attributable to equity holders of the Company			
	Note	Registered capital	Share premium and other shareholders' contributions	Retained earnings	Total equity
Balance as at 1/1/2022		**2,745**	**2,367**	**3,603**	**8,715**
Net profit for the year (Total comprehensive income)	24	—	—	3,623	**3,623**
Transactions with owners					
Profit distribution	25	—	—	(3,597)	**(3,597)**
Share based payments		—	12	—	**12**
Forfeited dividends		—	—	2	**2**
Balance as at 31/12/2022		**2,745**	**2,379**	**3,631**	**8,755**
Net profit for the year (Total comprehensive income)	24	—	—	3,339	**3,339**
Transactions with owners					**—**
Profit distribution	25	—	—	(3,597)	**(3,597)**
Share based payments		—	1	—	**1**
Forfeited dividends		—	—	4	**4**
Balance as at 31/12/2023		**2,745**	**2,380**	**3,377**	**8,502**

The accompanying notes form an integral part of the financial statements

Separate Statement of Cash Flow

for the year ended December 31, 2023 (in CZK million)

	Note	2023	2022
Cash flow from operating activities			
Profit before tax		**4,148**	**4,537**
Depreciation and amortisation expense	15	633	640
Impairment loss and loss on disposal of PP&E	4,15	35	49
Net interest (income) / expense		(337)	(354)
Dividend income	27	(98)	(106)
Gain on disposal of PP&E		(6)	(2)
Change in provisions		6	(14)
Other non-cash transactions, net		(7)	(5)
Operating cash flows before working capital changes		**4,374**	**4,745**
Changes in:			
Trade and other financial receivables and other non-financial assets		(519)	(153)
Trade and other financial liabilities and other non-financial liabilities		(77)	(1,484)
Inventories		614	499
Cash generated from operations		**4,392**	**3,607**
Interest paid	22	(71)	(60)
Income tax paid		(913)	(879)
Net cash generated from operating activities		**3,408**	**2,668**
Cash flow from investing activities			
Purchase of PP&E	4	(598)	(559)
Proceeds from sale of PP&E		39	49
Interest received	22	408	414
Dividends received	27	98	106
Net cash used by investing activities		**(53)**	**10**
Cash flow from financing activities			
Dividends paid	25	(3,597)	(3,597)
Repayments of principle portion of lease liability		(104)	(111)
Net cash used by financing activities		**(3,701)**	**(3,708)**
Net increase in cash and cash equivalents		**(346)**	**(1,030)**
Cash and cash equivalents as at the beginning of the year		**7,560**	**8,590**
Cash and cash equivalents as at the end of the year	9	**7,214**	**7,560**

The accompanying notes form an integral part of the financial statements

Notes to the Separate Financial Statements

for the year ended December 31, 2023

1. General information

1.1 Company description

Philip Morris ČR a.s. (the "Company") is a joint-stock company registered in the Czech Republic and its main business is the production, sale, distribution and marketing of tobacco products. 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 December 31, 2023, Philip Morris International Inc. is the ultimate controlling party of the Company.

As at December 31, 2023, the only entity holding more than 20% of the registered capital of the Company was Philip Morris Holland Holdings B.V. (the "Parent company"), which held 77.6% of the registered capital.

Members of the Board of Directors and the Supervisory Board as at December 31, 2023 were:

Board of Directors

Andrea Gontkovičová – Chairperson	Tamás Szabados as of June 1, 2023
Petr Šebek	Anton Kirilov Stankov until December 31, 2023
Manuel Joao Almeida Do Vale Goncalves Marques	Petr Šedivec until May 31, 2023
Cemal Berk Temuroglu	

Supervisory Board

Stefan Bauer– Chairperson until September 26, 2023	Alena Zemplinerová
Sergio Colarusso until March 27, 2023	Stanislava Juríková
Tamara Milovanovic - Chairperson as of September 26, 2023	Tomáš Hilgard as of March 17, 2023
Seamus Minihan as of April 28, 2023	Jan Kodaj as of March 17, 2023

Members of the Board of Directors and the Supervisory Board as at December 31, 2022 were:

Board of Directors

Andrea Gontkovičová – Chairperson	Anton Kirilov Stankov
Petr Šebek	Petr Šedivec
Piotr Andrzej Cerek until June 15, 2022	Peter Piroch until July 31, 2022
Manuel Joao Almeida Do Vale Goncalves Marques as of June 15, 2022	Cemal Berk Temuroglu as of August 8, 2022

Supervisory Board

Stefan Bauer– Chairperson	Alena Zemplinerová
Sergio Colarusso	Stanislava Juríková
Roman Grametbauer until December 10, 2022	Tomáš Hilgard until February 15, 2022

The Company has a 99% interest in Philip Morris Slovakia s.r.o., Galvaniho 19045/19, Bratislava, Slovakia. Registered share capital of Philip Morris Slovakia s.r.o. as at December 31, 2023 and as at December 31, 2022 was EUR 763 thousands (equivalent of CZK 19 million at historical cost).

In 2023, the profit after tax* of Philip Morris Slovakia s.r.o. was EUR 4.7 million, equivalent of CZK 112 million (2022: EUR 4.6 million, equivalent of CZK 114 million). Total equity* of Philip Morris Slovakia s.r.o. was EUR 4.5 million as at December 31, 2023, equivalent of CZK 112 million (2022: EUR 4.1 million, equivalent of CZK 99 million).

The Company did not conclude a controlling agreement or agreement on profit transfer with Philip Morris Slovakia s.r.o.

The Company has a 24% interest in Nevajgluj, a.s., Na strži 1702/65, Nusle, 140 00 Praha 4. Registered share capital of Nevajgluj, a.s. as at December 31, 2023 was CZK 4 million.

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

The Company's separate financial statements were authorized for issue by the Board of Directors on March 26, 2024.

*The values presented for Philip Morris Slovakia s.r.o. are converted from Slovak GAAP to IFRS.

1.2 Translation note

The separate financial statements have been prepared in Czech and in English. In all matters of interpretation of information, views or opinions, the Czech version of these separate financial statements takes precedence over the English version.

2. Summary of significant accounting policies

2.1 Basis of preparation of separate financial statements

These financial statements of Philip Morris ČR a.s. as at December 31, 2023 and for the year then ended are the separate financial statements of the Company. They relate to the consolidated financial statements of Philip Morris ČR a.s. and its subsidiary Philip Morris Slovakia s.r.o. (together the "Group") for the year ended December 31, 2023. These separate financial statements should be read in conjunction with the consolidated financial statements to obtain a complete understanding of the Group's results and financial position.

These separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

The separate financial statements have been prepared under the historical cost convention except for financial instruments, which are initially recognised at fair value and subsequently measured in accordance with IFRS 9 as disclosed in the accounting policies below.

The preparation of separate financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The Company makes assumptions and estimates related to the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The separate financial statements have been prepared based on the recognition and measurement requirements of IFRS standards and IFRIC interpretations issued and effective, to the extent that they have been endorsed by the European Commission by the time of preparing this report. The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.2 The assumption of continuity of the entity

The separate financial statements are prepared on the basis that the Company is able to continue as a going concern as the Board of Directors believes that the Company has the necessary resources to continue in business for the foreseeable future.

2.3 Changes in accounting policies and procedures

a) New and amended IFRS accounting standards adopted by the Company

Following new standards and amendments to IFRS are effective from 1 January 2023 but they do not have a material effect on the consolidated financial statements in comparison with consolidated financial statements prepared for the previous year 2022:

a) IFRS 17, 'Insurance Contracts' provides complex accounting policies (recognition, measurement, presentation and disclosure) regarding insurance contracts. Since the business of the Company is different than insurance company and it does not present any insurance contract, the standard is not relevant to be used when preparing consolidated financial statements.

b) Amendments to IAS 1, 'Presentation of Financial Statements' called "Disclosure of Accounting Policies require entities to disclose its material accounting policy information instead of its significant accounting policies. Amendments also explain how an entity can identify material accounting policy information and to give examples of when information is likely to be material. The amendment does not affect the presentation of the Company's financial situation and performance, and compared to the previous year, the structure and content of the notes in the section describing the accounting policies was revised and some insignificant information was omitted.

c) Amendments to IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' called "Definition of Accounting Estimates" that replace a definition of a change in accounting estimates with a definition of accounting estimates and clarify how to distinguish accounting estimate and accounting policy. The Company's accounting policies are set in accordance with amendments and therefore, amendments did not have any impact on these consolidated financial statements.

d) Amendments to IAS 12, ‘Income Taxes‘ called “Deferred Tax related to Assets and Liabilities arising from a Single Transaction” that adjust an exemption from the initial recognition exemption provided in existing IAS 12. Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition such as initial recognition of right of use of asset and lease liability. The company has adopted the amendments to IAS 12 for the first time in the current year. The aforementioned change relating to these amendments was applied to the presented deferred tax assets and liabilities. The disclosed deferred tax in the separate financial statements was adjusted retrospectively in line with the IAS 12 requirements.

e) Amendments to IFRS 17, ‘Insurance Contracts‘ and IFRS 9, ‘Financial Instruments‘ called 'Initial Application of IFRS 17 and IFRS 9 — Comparative Information (Amendment to IFRS 17)' that improve the usefulness of the comparative information presented on initial application of IFRS 17 and IFRS 9. Since the business of the Company is different than insurance company and it does not present any insurance contract, the standard the standard is not relevant to be used when preparing separate financial statements.

b) Standards, amendments and interpretations to existing IFRS accounting standards that are not yet effective and have not been early adopted by the Company

The following standards and amendments to existing standards have been published and are not mandatory for the Company’s accounting periods beginning on 1 January 2023 and therefore, they were not considered in preparation of these separate financial statements for the year ended 31 December 2023:

a) In January 2020, amendments to IAS 1, ‘Presentation of Financial Statements‘ called “Classification of Liabilities as Current and Non-current‘ (effective for annual reports beginning on or after 1 January 2022 later deferred on or after 1 January 2024) were issued that provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. The amendments affect only the presentation of liabilities in the statement of financial position – not the amount or timing of their recognition or the information that entities disclose about them. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and is not affected by expectations about whether an entity will exercise its right to defer settlement. The Company will assess new approach but does not expect any significant changes in separate financial statements.

b) In September 2022, amendments to IFRS 16, ‘Lease Liabilities in a Sale and Lease-back‘ (effective for annual reports beginning on or after 1 January 2024) were issued to clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments are effective retrospectively. However, the Company does not expect any significant changes in separate financial statements.

c) In October 2022, amendments to IAS 1, ‘Non-current Liabilities with Covenants‘ (effective for annual reports beginning on or after 1 January 2024) were issued to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments are effective retrospectively. However, the Company does not expect any significant changes in separate financial statements.

d) In May 2023, amendments to IAS 7 and IFRS 7, ‘Supplier Finance Arrangements (effective for annual reports beginning on or after 1 January 2024) were issued to add disclosure requirements, and ‘signposts’ within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements. The Company does not expect any significant changes in separate financial statements.

e) In May 2023, amendments to IAS 12, ‘International Tax Reform – Pillar Two Model Rules (exception can be apply immediately upon issuance of the amendments; the remaining disclosure requirements are required for annual reporting periods beginning on or after 1 January 2023) were issued and introduce an exception to the requirements in the standard that an entity does not recognize and does not disclose information about deferred tax assets and liabilities related to the OECD pillar two income taxes. The Company will become the taxpayer of OECD pillar two income tax in 2024. The Company expects no additional tax expense related to this tax in 2024. .

f) In August 2023, an amendment to IAS 21, ‘ Effects of Changes in Foreign Currency Exchange Rates: Lack of Exchangeability‘ (effective for annual reports beginning on or after January 1, 2025) was issued, which clarifies the definition of exchangeable currency and at the same time provides rules on how to determine the exchange rate in a situation where the currency is not exchangeable (e.g. at the balance sheet date). The amendments add additional disclosure for situations where the exchange rate is not exchangeable. The amendments will extend the regulation with an application guide and an illustrative example. The Company does not expect a major impact of these amendments on the separate financial statements at present, as foreign currency transactions are carried out in currencies that are generally exchangeable.

c) New and amended IFRS accounting standards issued by IASB but not yet endorsed by European Commission (EC):

At the approval date of these consolidated financial statement, the following standards and amendments to existing standards have been published by IASB but are not yet endorsed by EC to be used by European entities:

(I) IFRS 14, 'Regulatory Deferral Accounts' (issued in January 2014) – the EC has decided not to launch the endorsement process of this interim standard and to wait for the final IFRS Standard

(II) Amendments to IAS 7 and IFRS 7, 'Supplier Finance Arrangements (issued in May 2023 and effective since 1. 1. 2024)

(III) Amendments to IAS 21, 'The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability (issued in August 2023 and effective since 1. 1. 2025)

2.4 Foreign currency transactions

a) Functional and presentation currency

Items included in the separate financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The separate financial statements are presented in Czech Crowns, which is the Company's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing as at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

2.5 Property, plant and equipment

All property, plant and equipment is initially recorded at cost and, except for freehold land, is subsequently carried at cost less any accumulated depreciation and impairment losses. Freehold land is subsequently stated at cost less any impairment charges. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. Such borrowing costs are capitalized as part of the cost of the asset when it is probable that they will result in future economic benefits to the Company and the costs can be measured reliably.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset when it is probable that they will result in future economic benefits to the Company and the costs can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Property, plant and equipment, excluding freehold land, are depreciated from the time they are available for use, using the straight-line method.

Estimated useful lives (in years) adopted in these separate financial statements are as follows:

Buildings and constructions	15 – 40
Machinery and equipment	8 – 15
IT equipment	3 – 5
Vehicles	3 – 8
Furniture and fixtures	5 – 10

Land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, as at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.8).

Property, plant and equipment that is retired, or otherwise disposed of, is eliminated from the separate statement of financial position, along with the corresponding accumulated depreciation. Any gain or loss arising from retirement or disposal is included in net operating income.

2.6 Intangible assets

Intangible assets include computer software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software to use. These costs are amortized over their estimated useful life (three to five years).

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs for more than one year, are recognized as intangible assets. Direct costs include the costs of employees involved in software development and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized over their estimated useful lives (three to five years).

2.7 Investment in subsidiary and associate

Investment in subsidiary is recorded at historical cost.

Associates are those entities in which the Company has significant influence that is the power to participate in the financial and operating policy decisions of the investee without the power to control or jointly control those policies.

Financial investments held in associates are initially measured at cost including purchase price and all directly attributable transaction costs. Subsequently, investments are measured using equity method. The carrying amount of investments is adjusted by share of the Company on a change in equity of associates that is recognized in profit or loss for the period.

The investment is reviewed for impairment. Impairment test is based on calculation of present value of net future cash flows generated from equity share in associate. Whether the recoverable amount of investment is estimated as lower than carrying amount of investment, impairment loss is recognized in profit or loss for the year.

2.8 Impairment of non-current assets

Property, plant and equipment, investments in subsidiary and other non-financial assets, including intangible assets and right of use assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level, for which there are separately identifiable cash inflows (cash-generating units).

2.9 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories include the purchase price and related costs of acquisition (transport, customs duties, etc.). The carrying amount of merchandise is determined on the basis of FIFO. The carrying amount of materials, mainly represented by spare parts, is determined on the basis of weighted average costs.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Financial assets

2.10.1. Classification and measurement

The Company classifies its financial assets at the time of acquisition and upon initial recognition of the financial asset. The Company classifies its financial assets within debt financial instruments.

A debt instrument is to mean any contract that gives rise to a financial asset of one party and a financial liability to the other party. Financial assets under debt instruments are classified according to the Company's business model and the nature of the contractual cash flows of the financial asset. In the context of the business model test, the Company verifies whether the objective of holding a financial asset is to collect all cash flows arising from it ("hold to maturity" model) or whether it is the objective to hold a financial asset and sell it (the "hold and sell" model). Further, the Company examines and determines whether the contractual terms and conditions associated with the cash flow rights relate only to the principal and interest, i.e. whether the debt instrument has only "basic debt characteristics". Interest is considered to be the compensation of the time value of money and the credit risk associated with lending the principal over a given period.

Under debt instruments, the Company classifies its financial assets into the following categories:

a) Financial assets subsequently measured at amortized cost determined by using the effective interest rate method (financial assets at amortized cost)
b) Financial assets subsequently measured at fair value included in profit or loss (financial assets at fair value through profit or loss)

Financial assets at amortized cost (portfolio AC)

In this category, the Company recognizes debt instruments that are held within the business model that is intended to collect all contractual cash flows and which also have contractual cash flows representing only principal and interest payments on the principal outstanding. They are then measured at amortized cost using the effective interest rate method (hereafter referred to as the amortized cost). During the financial years 2023 and 2022, the Company had only trade receivables held to maturity and loans and deposits within the PMI group. Loans and deposits are included in other financial assets.

Financial assets at fair value through profit or loss (FVPL portfolio)

Within this category, the Company classifies all other debt instruments that cannot be classified into the above category. These financial assets are held for trading or their contractual cash flows do not represent exclusively the payment of principal and interest on the principal outstanding. Consequently, they are measured at fair value through profit or loss. Under debt instruments, the Company had only trade receivables intended to be sold to factoring during the financial years 2023 and 2022 in this category.

Derivatives are classified in the FVPL category provided they do not qualify for hedge accounting. During the financial years 2023 and 2022, the Company did not have any assets in this category.

2.10.2. Impairment of financial assets

The Company applies impairment model under which an allowance is recognized before the credit loss arises. This is a IFRS 9 impairment model reflecting expected credit losses (ECL). With the exception of trade receivables, the Company applies the so-called general approach to impairment for the relevant financial assets (debt instruments reported at amortized cost - in the AC portfolio and debt instruments in the FVOCI portfolio). For trade receivables, the Company has taken advantage of the possibility of applying a simplified approach using an impairment matrix.

General approach to impairment

Under the general approach, an entity recognizes an allowance for expected credit losses (ECL) over the life of the financial instrument if there is a significant increase in the credit risk (measured by the probability of default over the life of the asset) from the initial recognition of the financial asset. If, at the reporting date, the credit risk associated with a financial instrument has not significantly increased since initial recognition, the entity shall recognize an allowance for the 12-month expected credit loss. The expected credit loss over the lifetime indicates the expected credit losses that arise as a result of all potential failures during the expected duration of the financial instrument. The 12-month expected credit loss is part of the expected credit losses over the life of a financial instrument that may occur within 12 months from the reporting date.

The Company uses the three-step ECL model. Upon initial recognition of a financial asset, unless there is an evidence of a failure, the Company classifies the financial asset to Stage 1 and recognizes allowances corresponding to expected losses over the following 12 months. If the credit risk associated with the financial instrument has not significantly increased since the initial recognition date, the financial asset remains in Stage 1 and the allowance is measured at the date of the financial statement at the 12-month expected credit loss. If a significant increase in credit risk has occurred since the initial recognition date, the Company classifies the financial asset to Stage 2 and recognizes adjustments against the expected loss over the life of the financial asset at the reporting date. If the financial asset meets the definition of a default, the Company transfers it to Stage 3 and recognizes allowance corresponding to the expected loss over the life of the financial asset.

As a potential failure the Company considers a situation where it will not be able to collect any amounts owed under the terms initially agreed. As default indicators the Company considers significant financial difficulties of the borrower, the likelihood that the borrower will enter into bankruptcy or financial restructuring, delay in payments or non-compliance with maturity of the instrument.

For selected future scenarios of potential development, the Company calculates the expected credit loss and probability-weighted results using the following formula:

Expected credit losses (ECL) = probability of default (PD) x loss given default (LGD) x exposure at default (EAD)

Simplified approach to impairment

Simplified approach enables the Company to report expected credit losses over a period of time without the need to identify a significant increase in credit risk. For trade receivables and contract assets that do not have a significant element of financing, the Company recognizes an allowance for expected credit losses over its life (i.e. an entity must always apply a so-called simplified approach). For other trade receivables, other contractual assets, operating lease receivables and finance lease receivables, an accounting policy that can be applied separately to individual asset types (but which applies to all assets of the type) can be selected. An important element of financing exists when the timing of reimbursements agreed by the parties (explicitly or implicitly) results in a significant benefit for the customer or entity to finance the transfer of goods or services to the customer.

Application of simplified approach using impairment matrix

For trade receivables without a significant element of financing, the Company determines the amount of allowances using the impairment matrix. The impairment matrix is based on applying the appropriate rate of loss to unpaid balances of trade receivables (i.e. age analysis of receivables).

When determining the amount of allowances through simplified approach, the Company proceeds in the following steps. The Company first divides its individual trade receivables into certain groups of receivables with similar credit risk characteristics. The Company concurrently identifies the most important factors affecting the credit risk of each group. In the second step, the Company sets a historical loss rate for each group with similar credit risk characteristics. This rate is set for 3 consecutive accounting periods. In the next step, the Company determines the expected loss rate for each group of receivables, which is further subdivided into sub-categories by the number of days past due (e.g. loss rates for non-past due receivables, loss rates for receivables 1-30 days overdue, losses for receivables 31-60 days overdue, etc.). In determining the expected loss rate, the Company takes into account whether historical loss rates have been incurred under economic conditions that are consistent with the expected conditions during the exposure period of that portfolio of receivables at the reporting date. In the last step, the Company measures the amount of the allowance based on the current gross amount of receivables multiplied by the expected loss rate.

If the trade receivable is evaluated as irrecoverable, an allowance of 100% is created. Write-offs are recognized in profit or loss under Other operating expenses. In cases where receivables can no longer be recovered from the court (for example, the receivable was time-barred, based on the results of the resolutions due to lack of assets of the bankrupt, the debtor ceased without a legal successor, etc.), receivables are written off against the allowance.

2.10.3. Derecognition

Financial assets are derecognized if the right to receive cash flows from financial assets has expired or has been transferred and the Company has transferred substantially all the risks and rewards of ownership.

2.11 Excise tax

Excise tax on purchased fiscal stamps is initially recognized in the category “Other non-financial assets” and a corresponding liability is recognized in the category "Other tax liabilities". The asset is derecognized and reclassified to trade receivables upon sale of merchandise subject to excise tax. Correspondingly, inventories and cost of goods sold do not include excise tax.

Excise tax in the Czech Republic has certain characteristics of sales tax while certain aspects of the taxation system are more of a production tax nature. Management has analyzed all the features of the excise tax system in the Czech Republic and came to the conclusion that the characteristics of the sale tax prevail. As a result the excise tax is excluded from revenues and operating expenses in the Company’s separate statement of comprehensive income.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months and less, bank overdrafts or other on-demand payable liabilities. Bank overdrafts and other on-demand payable liabilities are shown on the separate statement of financial position within Borrowings in current liabilities.

2.13 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs. Repurchase of the Company’s own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company’s own equity instruments.

2.14 Trade payables and financial liabilities

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

The Company derecognizes financial liabilities only when the contractual liabilities of the Company are discharged, cancelled or expire. The difference between the carrying amount of a derecognized financial liability and the consideration paid is recognized in profit or loss.

2.15 Offsetting financial assets and liabilities

Intercompany financial assets and liabilities are set off in Statement of financial position and are recognized as financial asset or liability. Offsetting reflects the substance of the transaction or other event, reflects nature of transactions in the Company and more appropriately expresses the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the Company’s future cash flows.

2.16 Income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date in the countries where the subsidiaries operate and generate taxable income.

2.17 Deferred income tax

Deferred income taxation is calculated using the liability method applied to all temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the separate financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor taxable profit nor loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Changes in deferred tax resulting from the change in tax rates are recognized in the period in which the changes are enacted or substantially enacted.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited to other comprehensive income, in which case the deferred tax also affects other comprehensive income.

2.18 Contingent assets and liabilities

Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. If the expected cash flows from contingent asset is probable, then it is disclosed in separate note.

Contingent liabilities

Contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Furthermore, contingent liability is a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are disclosed in separate note.

2.19 Employee benefits

a) Pension obligations

Contributions are made to the Government's retirement benefit and unemployment schemes at the statutory rates applicable during the year and are based on gross salary payments. The Company has no further payment obligations once the contributions have been paid. The expense for the contributions is charged to profit or loss in the same period as the related salary expense.

The Company also makes contributions to defined contribution schemes operated by external pension companies. These contributions are charged to profit or loss in the year to which the contributions relate. The Company has no further payment obligations once the contributions have been paid.

b) Redundancy and termination benefits

Redundancy and termination benefits are payable when employment is terminated before the normal retirement or contract expiry date. The Company recognizes redundancy and termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal.

c) Share-based payments

PMI runs certain compensation plans for management of all PMI companies. The plans relate to the stock of PMI. These plans are equity settled share-based payment transactions. There are Performance Incentive Plans in place under which eligible employees receive deferred stock awards representing long-term equity compensation that delivers shares of PMI after a three-year service period (the vesting period). The compensation cost for deferred stock awards is determined by using fair value of the equity instruments awarded as at the grant date. Compensation cost is recognized over the vesting period on a straight-line basis as a charge to the employee benefits expense with a corresponding entry in equity. Amounts recognized as compensation expense in 2023 and 2022 were immaterial.

2.20 Provisions

Provisions are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the best estimate of the expenditure required to settle the present obligation as at the balance sheet date.

2.21 Revenue recognition

All customer contracts are initially analyzed to identify all obligations and payments to the customer. Subsequently, the transaction price is determined, which is allocated in the case of more identified performance obligations according to the relevant key. Consequently, revenue is recognized for each performance obligation at the appropriate amount either at a certain point in time, or is recognized over several periods using accruals.

Revenues from the sale of goods are recognized when control is transferred to the buyer depending on the specific terms of the contract and when the amount of the consideration is agreed or is reliably determinable and payment is probable. This generally corresponds to the moment when products are delivered to wholesalers or when they are delivered to final consumers in the case of direct sales. Revenues are measured at transactions price net of excise tax, discounts and rebates provided.

Discounts and rebates are recognized as a reduction of revenues. The Company provides different form of trade incentives e.g.cash incentive for meeting certain volume targets, product placement fees or slotting fees paid to a customer, prices given to the retailer's employees for meeting certain volume targets during a promotion.

Revenues and costs are reported as follows:

a) Sale of goods

Revenue from sales of goods is recognized when the Company has transferred control over the assets to the buyer. The revenue is recognized at the date of shipment, both in the case of domestic sales and export of products.

b) Sales of services

Revenue from the sale of services is recognized when the service is provided and the Company has the right to payment of a consideration. These are mainly processing services where the Company does not subsequently buy finished cigarettes and does not sell them on markets in the Czech Republic and Slovakia.

c) Cost of goods sold

Costs of goods sold include variable and fixed production costs, purchase price of purchased goods and royalties paid for products sold. Prior to the sale of goods, these costs are recorded in the value of inventory.

d) Distribution expenses

Distribution expenses include personnel costs and overheads, depreciation and amortization applicable to the distribution function, as well as the costs of shipping, advertising, sales promotion, market research and customer service. These costs are not recorded in the value of inventory.

e) Administrative expenses

Administrative expenses include personnel costs and overheads as well as depreciation and amortization applicable to the administrative functions.

2.22 Dividend income

Dividend income is recognized when the shareholder's right to receive payment is established.

2.23 Interest income / expense

Interest income and expense is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liabilities to that asset's or liability's net carrying amount. The Company is involved in PMI cash pooling.

2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's separate financial statements in the period in which the dividends are approved by the Company's shareholders.

2.25 Leases

As a lessee the Company recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses the estimated pre-tax cost of debt of the Company which reflects country-specific risk and the premium of the PMI group as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company applies judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal or termination options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

The Company has elected to apply a recognition exemption allowed by the standard not to recognise right-of-use assets and lease liabilities for short-term leases and leases for which the underlying asset is of low-value. Short-term leases are leases with a lease term of 12 months or less. Low-value leases comprise mainly IT and office equipment. 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.

The Company has also elected to apply allowed practical expedient not to separate non-lease components from lease components, and instead to account for them as a single lease component. This expedient is not applied in case of car leases.

The Company leases mainly office space, warehouses, cars and IT and office equipment. Cars are leased mostly for a period of 4 years.

2.26 Cash flow and statement of cash flows

Statement of cash flow is prepared using indirect method in a section of operating cash flows and direct method in sections of investing cash flows and cash flows from financing. Interests paid are presented within investing cash flows. Interest received is presented within financing cash flows. All dividends paid are presented within cash flows from financing activities. All income taxes paid are presented within operating cash flows.

2.27 Related party transactions

Related party transactions are made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated. Related party transaction and resulting outstanding balance are disclosed in separate note.

2.28 Earnings per share

Earnings per share (EPS) – basic and diluted – is a ratio that is presented in the statement of comprehensive income. Basic EPS is calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period (basic EPS). For the purpose of calculating diluted earnings per share, profit or loss attributable to ordinary equity holders of the parent entity and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares.

2.29 Critical accounting judgements and key sources of estimation uncertainty

In applying the Company's accounting policies, which are described in this note, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognized and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Management has considered climate-related matters in preparing a company's financial statements. In valuing the assets and liabilities of the Company and meeting its going concern basis, the management has considered the climate related matters and climate change, which has no impact on impairment of non-financial assets (point 2.8). In 2023 the Company also assessed and revised the potential liabilities related to climate change and as a result of this revision, there was no potential liabilities recognized in 2023. These separate financial statements were prepared in consistency with the non-financial information related to climate matters contained in this Annual Financial Report.

2.30 Changes in accounting policies, estimates and errors

There were no significant changes in accounting policies, accounting estimates or errors in 2023 that had a retrospective impact on the financial statements.

2.31 Critical judgements in applying the Company's accounting policies

The following are the critical judgements, apart from those involving estimations (which are presented separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in financial statements.

2.32 Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

3. Financial risk management

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk including foreign exchange and interest rate risk, credit risk and liquidity risk. Market and liquidity risks are managed under approved policies by the central Treasury department of PMI group in Lausanne. Credit risk is managed primarily by the Company. PMI Treasury identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. Risk management is performed by PMI Treasury department of PMI group in line with the written principles provided by the Board of Directors for overall risk management, which are based on PMI financial risk management policies.

a) Market risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future purchase and sale transactions and from assets and liabilities recognized in foreign currencies. To hedge part of this exposure, the Company occasionally uses currency option derivative instruments, transacted with PMI Treasury. No currency options were used by the Company in 2023 and 2022.

The split of financial assets by currencies is as follows (in CZK million):

Carrying amount as at 31/12/2023	CZK	EUR	USD	CHF	Other	Total
Receivables from third parties - domestic	794	—	—	—	—	**794**
Receivables from PMI entities	237	638	—	—	—	**875**
Cash on hand and at banks	100	—	—	—	—	**100**
Short-term deposits with related parties	7,114	—	—	—	—	**7,114**
Other long-term financial assets	108	1	—	—	—	**109**
Total	**8,353**	**639**	**—**	**—**	**—**	**8,992**

Carrying amount as at 31/12/2022	CZK	EUR	USD	CHF	Other	Total
Receivables from third parties - domestic	967	—	—	—	—	**967**
Receivables from PMI entities	2	303	1	—	—	**306**
Cash at banks	433	—	—	—	—	**433**
Short-term deposits with related parties	7,120	7	—	—	—	**7,127**
Other long-term financial assets	108	1	—	—	—	**109**
Total	**8,630**	**311**	**1**	**—**	**—**	**8,942**

The split of financial liabilities by currencies is as follows (in CZK million):

Carrying amount as at 31/12/2023	CZK	EUR	USD	CHF	Other	Total
Payables to third parties - domestic	1,393	71	—	—	—	**1,464**
Payables to third parties - foreign	3	140	4	17	1	**165**
Payables to PMI entities	116	22	8	60	6	**212**
Total	**1,512**	**233**	**12**	**77**	**7**	**1,841**

Carrying amount as at 31/12/2022	CZK	EUR	USD	CHF	Other	Total
Payables to third parties - domestic	1,139	37	—	—	—	**1,176**
Payables to third parties - foreign	3	105	4	1	2	**115**
Payables to PMI entities	532	64	14	100	12	**722**
Total	**1,674**	**206**	**18**	**101**	**14**	**2,013**

Sensitivity analysis

Sensitivity to exchange rates

The Company is exposed to the foreign currency risk arising from transactions performed mainly with companies in the European Union, including its Slovak subsidiary, and companies within PMI group with the registered seat in Switzerland. The common currencies used by the Company are EUR, USD and CHF. The foreign currency risk is measured against the functional currency (CZK) as at the balance sheet date, when the financial assets and liabilities denominated in foreign currencies are recalculated to the CZK by applying the Czech National Bank exchange rate.

The sensitivity analysis considers financial assets and liabilities denominated in foreign currencies and it measures the impact from recalculation of these items as at the balance sheet date by using exchange rates published by the Czech National Bank as at December 31, 2023. The Company considers the movements of exchange rates against CZK in the following period +5% (appreciation of CZK) and -5% (depreciation of CZK) as possible.

The sensitivity analysis on exchange rate changes is prepared for individual currencies on the presumption that there is no movement in the exchange rates of other currencies.

The following table presents the impact on profit before tax of an appreciation +5% or depreciation -5% of the CZK to foreign currencies (in CZK million) in 2023 (2022: +5%, -5%):

2023	CZK depreciation by 5%		
Currency	EUR	USD	CHF
Increase / (decrease) in profit or loss	20	(1)	(4)
	CZK appreciation by 5%		
Currency	EUR	USD	CHF
Increase / (decrease) in profit or loss	(20)	1	4

2022	CZK depreciation by 5%		
Currency	EUR	USD	CHF
Increase / (decrease) in profit or loss	5	(1)	(5)
	CZK appreciation by 5%		
Currency	EUR	USD	CHF
Increase / (decrease) in profit or loss	(5)	1	5

Sensitivity to interest rates

The Company is exposed to interest rate risk mainly in relation to short-term borrowings and short-term on-demand deposits with PMI companies, and as well the Company is exposed to interest rate risk in relation to factoring transactions with receivables. The Company assumes the possible movements of the yield curve in the following period by +100/-25 basis points.

For short-term loans receivable and short-term on-demand deposits with PMI companies, the impact on the profit or loss before tax is determined on the basis of a defined change in the interest rate, which would have arisen at the beginning of the accounting period and based on the assumption that no other changes in the interest rate occurred during the entire accounting period. Other financial assets and liabilities are not considered to be sensitive to interest rate movements.

The following table presents the possible impact on profit or loss before tax of an expected increase (+100 basis points) or decrease (-25 basis points) of interest rates (in CZK million):

2023	Interest rate increased by 100 basis points	Interest rate decreased by 25 basis points
Increase / (decrease) in profit or loss	46	(18)

2022	Interest rate increased by 100 basis points	Interest rate decreased by 25 basis points
Increase / (decrease) in profit or loss	51	(23)

b) Credit risk

The Company has policies in place to ensure that sales of merchandise on credit are made to customers who meet the Company's criteria for credit eligibility and have adequate credit history.

Considerable support in this area is provided by PMI Treasury specialists in Lausanne. Apart from PMI Treasury, the Company also uses the services of external rating agencies for counterparty analysis.

The financial insolvency of counterparty may result in immediate losses to the Company with an adverse impact on the Company's financial position. Therefore, the acceptance of new business is reliant on standard approval controls and procedures through the relevant departments of the Company. The Company's involvement with counterparties is managed by means of credit limits that are monitored and re-evaluated on a regular basis.

Active administration and management of receivables is incorporated into the credit risk management process and standard financial market instruments such as bank guarantees, advance payments and transfers of receivables through factoring without recourse are used to reduce the risks.

Receivables security

With respect to the security strategy of trade receivables, trade receivables are separated into receivables from domestic customers and PMI entities.

Bank guarantees, in certain cases, are used to secure receivables from domestic credit customers. Penalty interest on late payments is a compulsory preventative instrument for all contractual relationships. Trade receivables from domestic credit customers are divided into two groups: receivables secured by bank guarantees and unsecured receivables from customers eligible for unsecured credit. Unsecured credit is based on an overall and financial assessment of each individual customer, including usage of external rating agencies.

Trade receivables from PMI entities are considered as low-risk receivables by the Company, and are therefore unsecured.

Carrying amount as at 31/12/2023 (in CZK million)	Unimpaired financial assets not yet due	Unimpaired financial assets past due	Total
Receivables from third parties – domestic	793	1	**794**
Receivables from PMI entities	834	41	**875**
Cash on hand and at banks	100	—	**100**
Short-term loans and deposits with related parties	7,114	—	**7,114**
Other long-term financial assets	109	—	**109**
Total	**8,950**	**42**	**8,992**

Carrying amount as at 31/12/2022 (in CZK million)	Unimpaired financial assets not yet due	Unimpaired financial assets past due	Total
Receivables from third parties – domestic	962	5	**967**
Receivables from PMI entities	282	24	**306**
Cash at banks	433	—	**433**
Short-term loans and deposits with related parties	7,127	—	**7,127**
Other long-term financial assets	109	—	**109**
Total	**8,913**	**29**	**8,942**

Credit risk concentration of trade receivables

The Company monitors the concentration of credit risk of trade receivables by distribution regions.

Classification of trade receivables by distribution regions:

Carrying amount as at 31/12/2023 (in CZK million)	Czech Republic	Slovak Republic	Other	Total
Receivables from third parties – domestic	794	—	—	**794**
Receivables from PMI entities	—	557	318	**875**
Total	**794**	**557**	**318**	**1,669**

Carrying amount as at 31/12/2022 (in CZK million)	Czech Republic	Slovak Republic	Other	Total
Receivables from third parties – domestic	967	—	—	**967**
Receivables from PMI entities	—	273	33	**306**
Total	**967**	**273**	**33**	**1,273**

The creditworthiness of financial assets at amortized cost

The Group uses the following criteria when determining the creditworthiness:

- Rating 1 includes receivables with a probability of default of up to 0.1%.
- Rating 2 includes receivables with a probability of default of up to 2%.
- Rating 3 includes receivables with a probability of default above 2%.
- Receivables from PMI companies and short-term loans provided within the PMI group are classified as rating 1 (according to Standard & Poor's A-2 (2022: A-2)) in 2023.
- Cash in banks is ranked according to Moody's long-term deposit ratings. Banks and financial institutions used by the Group are only eligible for A-3 or higher (2022: A-3) (rating 1).

Allowance for expected credit losses (ECL)

		Stage				
Balance as at 31/12/2023 (in CZK million)	Creditworthiness	Stage 1 12-month ECL	Stage 2 lifetime ECL - without individual impairment	Stage 3 lifetime ECL - individually impaired	Lifetime ECL according to matrix of impairment	Total
Cash incl. on-demand deposits	**1**	-	-	-	-	-
Other receivables and financial assets	**1**	-	-	-	-	-
Trade receivables	**1**	-	-	-	-	-
Total		-	-	-	-	-

Matrix of impairment for trade receivables at amortized cost

Balance as at 31/12/2023 (in CZK million)	From the due date: Before due	Less than 1 month	1 – 3 month	More than 3 months	Total
Expected credit losses rate (in %)	0.01%	0.02%	0.05%	0.10%	
Gross book value	1,627	—	—	50	**1,677**
Allowances	—	—	—	(8)	**(8)**

Allowance for expected credit losses (ECL)

Balance as at 31/12/2022 (in CZK million)	Creditworthiness	Stage: Stage 1 12-month ECL	Stage 2 lifetime ECL - without individual impairment	Stage 3 lifetime ECL - individually impaired	Lifetime ECL according to matrix of impairment	Total
Cash incl. on-demand deposits	**1**	-	-	-	-	-
Other receivables and financial assets	**1**	-	-	-	-	-
Trade receivables	**1**	-	-	-	-	-
Total		-	-	-	-	-

Matrix of impairment for trade receivables at amortized cost

Balance as at 31/12/2022 (in CZK million)	From the due date: Before due	Less than 1 month	1 – 3 month	More than 3 months	Total
Expected credit losses rate (in %)	0.01%	0.02%	0.05%	0.10%	
Gross book value	1,245	—	1	27	**1,273**
Allowances	—	—	—	—	**—**

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash. Liquidity of the Company is managed and controlled by the central Treasury department of PMI group via domestic and international cash pool arrangements. Based on PMI policies, the Company prepares a weekly cash flow projection for the following month and monthly cash flow projections for the following 12 months.

Contractual maturity analysis of liabilities (undiscounted cash flows)

Balance as at 31/12/2023 (in CZK million)	Less than 3 months
Trade payables to third parties and PMI entities	1,653
Dividend payable	21
Other financial liabilities	167
Total	**1,841**

Balance as at 31/12/2022 (in CZK million)	Less than 3 months
Trade payables to third parties and PMI entities	1,906
Dividend payable	13
Other financial liabilities	94
Total	**2,013**

To mitigate the risk and enhance cash and liquidity management, the Company sold a portion of its trade receivables to a financial institution in 2023 and 2022. In all those transactions, the Company retained no participating interests. The financial institution has no recourse for failure of debtors to pay when due.

3.2 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Equity as presented in these separate financial statements is considered as capital of the Company for the capital management purposes.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices as at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company makes assumptions that are based on market conditions existing as at each balance sheet date. The carrying amounts of current financial assets and current financial liabilities are assumed to approximate their fair values.

The carrying amounts of other non-current financial liabilities are also assumed to approximate their fair values, which were determined as the present value of future cash flows based on market interest rates at the balance sheet date, and which qualify for Level 2 in accordance with IFRS 13.

4. Property, plant and equipment

(in CZK million)	Property, Buildings & Constructions	Vehicles & Machinery Equipment	Furniture & Fixtures	Constructions in progress & Advances paid	Total
As at 1/1/2022					
Cost	2,247	6,469	60	493	**9,269**
Accumulated depreciation	(1,893)	(4,519)	(44)	—	**(6,456)**
Net carrying amount	**354**	**1,950**	**16**	**493**	**2,813**
Year ended 31/12/2022					
Opening net carrying amount	354	1,950	16	493	**2,813**
Additions cost	14	319	2	241	**576**
Disposal net carrying amount	—	(49)	—	—	**(49)**
Transfers*	13	437	1	(451)	**—**
Depreciation charge	(49)	(526)	(5)	—	**(580)**
Closing net carrying amount	**332**	**2,131**	**14**	**283**	**2,760**
As at 31/12/2022					
Cost	2,274	6,998	63	283	**9,618**
Accumulated depreciation	(1,942)	(4,867)	(49)	—	**(6,858)**
Net carrying amount	**332**	**2,131**	**14**	**283**	**2,760**
Year ended 31/12/2023					
Opening net carrying amount	332	2,131	14	283	**2,760**
Additions cost	38	419	13	160	**630**
Disposal net carrying amount	—	(35)	—	—	**(35)**
Transfers*	44	124	3	(171)	**—**
Depreciation charge	(47)	(505)	(7)	—	**(559)**
Closing net carrying amount	**367**	**2,134**	**23**	**272**	**2,796**
As at 31/12/2023					
Cost	2,354	7,014	76	272	**9,716**
Accumulated depreciation	(1,987)	(4,880)	(53)	—	**(6,920)**
Net carrying amount	**367**	**2,134**	**23**	**272**	**2,796**

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

During the period the Company disposed of several assets which have been identified as no longer needed and approved for scrapping amounting net to CZK 2 million (2022: CZK 3 million).

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

5. Impairment of property, plant and equipment

In 2023 Company revised the net book value of equipment. As a result of this revision, there was no impairment loss recognized in 2023. There was no impairment loss recognized in 2022.

6. Leases

The recognised right-of-use assets relate to the following types of assets:

(in CZK million)	31/12/2023	31/12/2022
Office space and warehouse	145	103
Cars	37	34
Store	47	47
Employee flats	12	15
Total	**241**	**199**

The recognised lease liabilities relate to the following types of liabilities:

(in CZK million)	31/12/2023	31/12/2022
Current liabilities	99	89
Non-current liabilities	141	108
Total	**240**	**197**

Interest expense on lease liabilities included in finance costs represented amount CZK 8 million (2022: CZK 4 million).

Depreciation expense of right-of-use assets represented amount CZK 105 million (2022: CZK 104 million).

Additions to right-of-use assets represented amount CZK 152 million (2022: CZK 81 million).

In 2023, the expense relating to short-term leases or low-value assets amounted to CZK 21 million (2022: CZK 7 million).

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

Maturity analysis 31/12/2023	<1 year	1-5 years	>5 years
Lease liabilities	99	138	3

Maturity analysis 31/12/2022	<1 year	1-5 years	>5 years
Lease liabilities	89	74	34

7. Inventories

(in CZK million)	31/12/2023	31/12/2022
Materials	84	77
Merchandise	554	1,175
Total	**638**	**1,252**

The costs of inventories recognized as an expense in separate statement of comprehensive income in 2023 and included in costs of sales amounted to CZK 7,718 million (2022: CZK 7 882 million).

8. Trade and other financial receivables and other non-financial assets

(in CZK million)	31/12/2023	31/12/2022
Trade and other financial receivables		
Third parties	794	968
Subsidiary	558	273
Other related parties	317	32
Total	**1,669**	**1,273**
Other non-financial assets		
Other assets - excise tax	2,066	1,935
Prepayments	12	21
Total	**2,078**	**1,956**
Other non-current financial assets		
Other financial assets	109	109
Total	**109**	**109**

9. Cash and cash equivalents

(in CZK million)	31/12/2023	31/12/2022
Cash on hand	1	3
Cash at banks	99	430
On-demand deposits with related parties (see Note 27)	7,114	7,127
Total	**7,214**	**7,560**

On-demand deposits with related parties are interest-bearing short-term loans - see Note 27 for the analysis of short-term receivables from related parties.

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

(in CZK million)	31/12/2023	31/12/2022
Cash and cash equivalents	7,214	7,560
Total	**7,214**	**7,560**

10. Equity

The Company's registered capital of 2 745 386 shares has a nominal value of CZK 1 000 per share and is fully paid. No changes in the registered capital or the number and type of shares have occurred during the last two years.

The registered capital is allocated as follows:

	Number of shares	Value in CZK
Unregistered ordinary shares certificated	831,688	831,688,000
Registered ordinary shares dematerialized	1,913,698	1,913,698,000
Total ordinary shares	**2,745,386**	**2,745,386,000**

The identification mark of the Company's shares according to the international numbering system ISIN is CS0008418869.

The rights and obligations of the shareholders are set out in the legal regulations and in the Articles of Association of the Company, all shares bear the same rights and obligations.

The authorized owners of the shares are entitled to participate in decision making at General Meetings. At the General Meeting the shareholders have the right to vote, to ask for explanations and to receive answers to questions about matters concerning the Company as well as matters concerning entities controlled by the Company, and to submit proposals and counterproposals.

Voting rights apply to all shares issued by the Company and may be limited or excluded only where stipulated by law. The Company is not aware of any restrictions on or exclusions of voting rights attached to the shares that it has issued other than those restrictions on and exclusions of voting rights stipulated by law.

The shareholders are further entitled to a share of the Company's profit (i.e. dividends). The shareholders may not demand a refund of their investment contribution during the existence of the Company or even in the event of its dissolution.

If the Company goes into liquidation, the shareholders are entitled to a share on the liquidation estate.

A shareholder is obliged to pay the issue price and the share premium, if any, for the shares he/she has subscribed.

The Company has not issued any securities with special rights excluding ordinary shares described above.

The Company's shares are admitted for trading on the public market organized by the Prague Stock Exchange and by the Czech shares trading system of the company RM-SYSTÉM, česká burza cenných papírů a.s. As at December 31, 2023 out of 2 745 386 shares 77.6% were held by the company Philip Morris Holland Holdings B.V and 22.4% is publicly held.

Share premium and Other shareholders' contributions:

(in CZK million)	31/12/2023	31/12/2022
Share premium	2,335	2,335
Other shareholders´contributions	45	44
Total	**2,380**	**2,379**

11. Trade and other financial liabilities and other non-financial liabilities

(in CZK million)	31/12/2023	31/12/2022
Trade and other financial liabilities		
Third parties	743	690
Other related parties	212	722
Accrued expenses	698	493
Dividends payable	21	13
Other financial liabilities	167	95
Total	**1,841**	**2,013**

Other non-financial liabilities		
Amounts due to employees	180	165
Social security and health insurance	73	71
Other liabilities	1	5
Total	**254**	**241**

Trade payables to related parties are disclosed in Note 27.

12. Offsetting financial assets and financial liabilities with related parties

Carrying amount as at 31/12/2023 (in CZK million)	Trade and other financial receivables	Trade and other financial payables
Gross amounts of recognized financial assets / liabilities	2,226	2,398
Gross amounts of recognized financial liabilities / assets set off in the balance sheet	(557)	(557)
Net amount	**1,669**	**1,841**

Carrying amount as at 31/12/2022 (in CZK million)	Trade and other financial receivables	Trade and other financial payables
Gross amounts of recognized financial assets / liabilities	1,542	2,282
Gross amounts of recognized financial liabilities / assets set off in the balance sheet	(269)	(269)
Net amount	**1,273**	**2,013**

13. Other tax liabilities

(in CZK million)	31/12/2023	31/12/2022
VAT	294	505
Excise tax	3,491	3,196
Other taxes	21	18
Total	**3,806**	**3,719**

14. Deferred income tax

Deferred tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The offset amounts are as follows:

(in CZK million)	31/12/2023	31/12/2022
Deferred tax assets	109	83
Deferred tax liabilities	(263)	(236)
Deferred tax liability net	**(154)**	**(153)**

The gross movement in the deferred income tax is as follows:

(in CZK million)	2023	2022
January 1 - Deferred tax liability net	(153)	(171)
Charge to profit or loss	(1)	18
December 31 - Deferred tax liability net	**(154)**	**(153)**

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances, is as follows:

Deferred tax liabilities (in CZK million)	Accelerated tax depreciation	Right of use asset	Total
As at 1/1/2022	**(224)**	**(44)**	**(268)**
Charge to profit or loss	25	7	**32**
As at 31/12/2022	**(199)**	**(37)**	**(236)**
Charge to profit or loss	(14)	(13)	**(27)**
As at 31/12/2023	**(213)**	**(50)**	**(263)**

Deferred tax assets (in CZK million)	Provisions for inventories	Share based payments	Lease liability	Other*	Total
As at 1/1/2022	**20**	**5**	**44**	**28**	**97**
Credit / (charge) to profit or loss	(10)	2	(7)	1	**(14)**
As at 31/12/2022	**10**	**7**	**37**	**29**	**83**
Credit / (charge) to profit or loss	10	1	13	2	**26**
As at 31/12/2023	**20**	**8**	**50**	**31**	**109**

*Includes temporary differences from other liabilities in timing between when expenses are deductible and recognized on the income statement.

Effective from January 1, 2023, the rate of 21% for calculation of deferred tax is used.

15. Expenses by nature - additional information

(in CZK million)	2023	2022
Raw materials, consumables used and merchandise sold	7,677	7,649
Services	2,629	2,588
Royalties	531	601
Employee benefits expense	1,523	1,367
Depreciation and amortization	668	689
Other	204	194
Costs of sales, distribution and administrative expenses	**13,232**	**13,088**

16. Employee benefits expense

(in CZK million)	2023	2022
Wages and salaries, including termination benefits of CZK 59 million (2022: CZK 32 million)	1,084	968
Social security and health insurance	128	120
Pension costs – defined contribution plans	215	202
Share-based payments	25	14
Other employee related costs	71	63
Total	**1,523**	**1,367**

As at December 31, 2023, the number of employees was 1 136 (2022: 1 041).

The Company is legally required to make contributions to government health, pension and unemployment schemes. During 2023, the Company paid contributions at an average rate of 32 % of gross salaries (2022: 33 %) and is not required to make any contributions in excess of this statutory rate.

The Company has a voluntary pension plan for employees under which the Company makes contributions on behalf of the Company's employees to independent pension plan providers, under approved defined contribution schemes.

Principles of employment and remuneration are covered by the Collective Labour Agreement. Audit of the observances of labour law regulations in the Company takes place during the Collective Labour Agreement negotiations.

17. Auditor's fees

(in CZK million)	2023	2022
Statutory audit (mandatory)	7	6
Tax consultancy - charged by other than statutory auditor	3	2
Total	**10**	**8**

18. Provisions

(in CZK million)	Carrying amount as at 1/1/2023	Provisions made in the reporting period	Amounts used during the reporting period	Amounts reversed during the reporting period	Carrying amount as at 31/12/2023
Provision for employment anniversary, jubilee and retirement bonuses	11	6	(2)	—	15
Provision for employment termination	—	59	(59)	—	—
Provision for reverse logistics	2	3	(2)	—	3
Total	**13**	**68**	**(63)**	**—**	**18**

As at December 31, 2023 the Company management did not identify any plans related to organizational restructuring.

(in CZK million)	Carrying amount as at 1/1/2022	Provisions made in the reporting period	Amounts used during the reporting period	Amounts reversed during the reporting period	Carrying amount as at 31/12/2022
Provision for employment anniversary, jubilee and retirement bonuses	12	2	(2)	(1)	11
Provision for employment termination	3	31	(34)	—	—
Provision for reverse logistics	12	2	—	(12)	2
Total	**27**	**35**	**(36)**	**(13)**	**13**

19. Revenues

(in CZK million)	2023	2022
Sales of merchandise	14,204	14,777
Sales of services	2,824	2,474
Total	**17,028**	**17,251**

Revenue analysis by timing of revenue recognition:

(in CZK million)	2023	2022
Sales reported at time of shipment	14,204	14,777
Revenues reported over time	2,824	2,474
Total	**17,028**	**17,251**

20. Other operating income

(in CZK million)	2023	2022
Foreign exchange rate gains	100	239
Gains on sale of PP&E	6	2
Other income	3	14
Total	**109**	**255**

21. Other operating expense

(in CZK million)	2023	2022
Foreign exchange rate losses	133	320
Bank charges	13	10
Allowance for doubtful receivables	8	—
Other expense	38	11
Total	**192**	**341**

22. Net profits and losses from financial instruments

2023 (in CZK million)	Receivables	Cash equivalents	Payables	Total
Foreign exchange gain	42	4	54	**100**
Interest income	—	408	—	**408**
Foreign exchange losses	(25)	(15)	(93)	**(133)**
Interest expense	—	(71)	—	**(71)**
Net gain / (loss)	**17**	**326**	**(39)**	**304**

2022 (in CZK million)	Receivables	Cash equivalents	Payables	Total
Foreign exchange gain	34	46	158	238
Interest income	—	414	—	414
Foreign exchange losses	(113)	(109)	(98)	**(320)**
Interest expense	—	(60)	—	(60)
Net gain / (loss)	**(79)**	**291**	**60**	**272**

23. Income tax expense

(in CZK million)	2023	2022
Current tax expense for the current period	(839)	(906)
Current tax adjustment of prior year	31	(26)
Current tax	**(808)**	**(932)**
Deferred tax - Temporary differences (see Note 14)	(1)	18
Total	**(809)**	**(914)**

The statutory income tax rate for the 2023 and 2022 assessment periods was stipulated by the law in 19 %.

The tax on the Company's profit before taxes differs from the theoretical amount that would arise upon using the tax rate applicable to profits of the Company:

(in CZK million)	2023	2022
Profit before tax	4,148	4,537
Applicable tax rate	19 %	19 %
Tax calculated at local tax rate applicable to profit before tax	**(788)**	**(862)**
Expenses not deductible for tax purposes	(67)	(49)
Income not subject to tax	19	20
Tax adjustment of prior year	32	(26)
Effect of higher rate used for deferred tax calculation (21% vs 19%)	(15)	—
Other	10	3
Tax charge	**(809)**	**(914)**

24. Earnings per share

Basic and diluted earnings per share are calculated by dividing the net profit attributable to shareholders of the Company by the number of ordinary shares in issue during the year.

	2023	2022
Income attributable to shareholders (in CZK million)	3,339	3,623
Number of ordinary shares in issue (in thousands)	2,745	2,745
Basic earnings per share in CZK	**1,216**	**1,320**

25. Profit distribution

The dividends approved by the Annual General Meeting in April 28, 2023 were CZK 3,597 million (CZK 1 310 per share). The dividends approved outside General Meeting ("per rollam") between April and May 2022 were CZK 3,597 million (CZK 1 310 per share), respectively.

Disbursement of dividends from the 2023 results will be decided at the General Meeting scheduled for April 30, 2024.

26. Contingent liabilities

The Company does not have any pending legal, administrative or arbitration proceedings that had or might have a substantial effect on the financial situation of the Company. The tax authorities may at any time inspect the books and records within 3 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

27. Related party transactions

The Company considers Parent company, Subsidiary 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 merchandise and services to affiliates within PMI

(in CZK million)	2023	2022
Sales of merchandise		
Subsidiary	2,067	2,032
Other related parties	28	18
Sales of PP&E		
Other related parties	41	49
Sales of materials		
Other related parties	4	4
Sales of services		
Subsidiary	18	21
Other related parties	2,794	2,453
Recharges		
Other related parties	11	5
Interest received		
Other related parties	395	385
Total	**5,358**	**4,967**

b) Purchases of merchandise and services from affiliates within PMI

(in CZK million)	2023	2022
Purchases of merchandise and materials		
Subsidiary	8	27
Other related parties	6,304	6,610
Purchases of PP&E and intangible assets		
Other related parties	116	230
Purchases of services		
Subsidiary	10	9
Other related parties	976	919
Royalties paid		
Other related parties	531	601
Total	**7,945**	**8,396**

c) Dividends

Dividends received from Philip Morris Slovakia s.r.o. in 2023 amounted to CZK 98 million (2022: CZK 106 million).

In 2023 Company paid to Philip Morris Holland Holdings B.V. dividends CZK 2,790 million in total (2022: CZK 2,790 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)	31/12/2023	31/12/2022
Receivables from related parties		
Subsidiary	558	273
Other related parties	317	32
Loans and deposits		
Other related parties	7,114	7,127
Total	**7,989**	**7,432**
Payables to related parties		
Other related parties	212	722
Total	**212**	**722**

Loans and deposits with related parties include interest-bearing on-demand deposits (cash pool) of CZK 7,114 million with Philip Morris Finance S.A. (2022: CZK 7,127 million). All short-term loans and deposits are classified as cash and cash equivalents in the Company's Separate statement of financial position as at December 31, 2023 and as at December 31, 2022.

The interest rate for on-demand deposits is calculated based on CZBRREPO with variable margin.

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 in 2023 was 6.8 % p.a. (2022: 5.7 % p.a.).

e) Key management compensation

Key management compensation includes the remuneration of members of the Board of Directors and Supervisory Board for the performance of the office according to the agreements on performance of the office of a member of the Board of Directors or, Supervisory Board, respectively.

The compensation of the members of management who are employees of the Group or an entity within the PMI Group comprises the remuneration for the performance of the office of a member of the Board of Directors or Supervisory Board, respectively, as mentioned above, an annual base salary, bonuses based on individual performance, share-based payments and other income in-kind such as cars for use, lunch allowances, pension contributions, life and accident insurance and termination benefits as described below. In addition to this, the members of the Board of Directors and Supervisory Board, respectively, who are employees of Philip Morris Services S.A. or other PMI entities also have other income in-kind such as the payment of rent and school fees.

Termination benefits of the members of management who are employees of the Group, whose employment agreement was terminated by notice on the basis of the reason pursuant to §52, letters a) to e) of the Labour Code or by an agreement on the same grounds, include an increased severance pay in accordance with the Employment Redundancy Program specified in the Collective Labour Agreement. Termination benefits of the members of management who are employees of an entity within the PMI Group are paid according to the employment agreement with their respective employer and the provisions of the PMI International Assignment principles and practices.

(in CZK million)	2023	2022
Short-term employee benefits	68	71
Other long-term benefits	2	3
Share-based payment expense	17	16
Total	**87**	**90**

There was no termination benefit for Board of Directors and Supervisory Board members recognized in 2023 and 2022.

The term of office for Board of Directors and Supervisory Board members is three years.

f) Contractual and other commitments to related parties

Contractual and other commitments to related parties that are not recorded in the separate financial statements are considered as obligations to exchange resources in the future under binding agreements.

As at December 31, 2023, the Company had no material commitments in respect of related parties except for the future obligation to services purchase in the total estimated value of CZK 365 million (commitment value as at December 31, 2022: CZK 369 million).

The Company 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 Company has to pay royalties in respect of tobacco products sold in the Czech and Slovak Republic. During the 2023, the Company incurred under these agreements royalties expense of CZK 531 million (2022: CZK 601 million). These agreements shall continue indefinitely until terminated by either party. Management expects the royalty expense in 2024 to be at approximately similar level as in 2023.

28. Subsequent events

No subsequent events have occurred after the balance sheet date that would have a material impact on these separate financial statements at December 31, 2023.

Pursuant to Article 14 par. 4 of the Articles of Association, Eugenia Panato was appointed as a member of the Board of Directors of Philip Morris ČR a.s. by the other members of the Board of Directors effective as of January 1, 2024 until the next General Meeting.

Authorization of the financial statements

The separate financial statements were authorized for issue by the Board of Directors and have been signed below on its behalf. The separate financial statements are subject to approval by shareholders of the Company at the General Meeting of shareholders. Until this approval is given, the separate financial statements could be amended.

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.

10

Report on Relations between Controlling Entity and Controlled Entity, and between Controlled Entity and Entities Controlled by the same Controlling Entity (the "Report on Relations")

for the 2023 calendar year accounting period

The following additional disclosures relating to the 2023 accounting period are provided in accordance with Section 82 of Act No. 90/2012 Coll., on Corporations and Cooperatives (the "Corporations Act").

a) Structure of relations

Controlled entity: Philip Morris ČR a.s.

Controlling entity: Philip Morris Holland Holdings B.V.

Entities controlled by the same controlling entity (the "jointly controlled entities"): the companies controlled directly or indirectly by Philip Morris Holland Holdings B.V. as well as by Philip Morris International Inc., which is the ultimate controlling entity of this group (the "PMI group").

Philip Morris ČR a.s. (the "Company") is controlled by Philip Morris Holland Holdings B.V. (holding 77.6% shares), which is controlled by Philip Morris Brands Sàrl (holding 100% shares), which is controlled by Philip Morris International Holdings B.V. (holding 100% shares), which is controlled by Philip Morris Global Brands Inc. (holding 100% shares), which is controlled by Philip Morris International Inc. (holding 100% shares).

b) Role of the controlled entity in the structure of relations pursuant to section a. above (PMI group)

Philip Morris ČR a.s. is the leading manufacturer and seller of tobacco products and is also a distributor of the heated-tobacco solutions, *IQOS ILUMA* with *TEREA* and *LEVIA* consumables and KT&G-licensed *lil SOLID* with *Fiit* consumables, electronic cigarettes *VEEV ONE* and *VEEV NOW* , as well as *HEETS* consumables for original *IQOS* devices and variety of related accessories in the Czech Republic, and is also active in the Slovak Republic by means of its 99% share in Philip Morris Slovakia s.r.o. As part of the cooperation among the individual members of the PMI group, Philip Morris ČR a.s. is also involved in the distribution, marketing and sale of tobacco products of Czech and other brands from the portfolio of the PMI group, which are sold to third parties in the Czech Republic, Slovak Republic or other companies within the PMI group.

c) Form and means of control

Philip Morris Holland Holdings B.V. participates in the management of Philip Morris ČR a.s. through its shareholding rights, especially by exercising its voting rights at General Meetings. As a member of the group ultimately controlled (managed) by Philip Morris International Inc., Philip Morris ČR a.s. carries out its activities in line with the globally developed and focused business, financial, investment, and other plans of the PMI group. Decisions on the day-to-day activities and business of Philip Morris ČR a.s. (e.g. budgets, marketing, HR policy, etc.) fall within the autonomous powers of Philip Morris ČR a.s., naturally while taking into account the PMI group's global policy. No holding agreement, joint-venture agreement, agreement on the exercise of voting rights, nor any other similar agreement concerning Philip Morris ČR a.s. was entered into.

d) Overview of actions taken during the 2023 calendar year accounting period at the initiative, or in the interest, of the controlling entity or entities controlled by that controlling entity where such actions related to assets in excess of 10% of the controlled entity's equity as reported in the 2022 financial statements

During the relevant period, Philip Morris ČR a.s. made the following legal acts and other measures at the initiative of the controlling entity or other entities controlled by the controlling entity, which would involve assets exceeding in value 10% of the equity of Philip Morris ČR a.s., i.e. representing the amount of CZK 875.6 million as reported in the latest financial statements as at 31 December 2022:

– Provision of production services to Philip Morris International Management S.A. in the amount of CZK 2,757 million;
– Purchase of goods for resale from Philip Morris International Management S.A. in the amount of CZK 6,300 million;
– Sale of goods to Philip Morris Slovakia s.r.o. in the amount of CZK 2,071 million;
– Dividend payment to Philip Morris Holland Holdings B.V. in the total amount of CZK 2,790 million.

Except for the above mentioned transactions, no other measures were adopted during the accounting period in the interest, or at the initiative, of the controlling entity or the entities controlled by the same controlling entity, which would have related to assets in excess of 10% of the equity of Philip Morris ČR a.s. as reported in the financial statements for the accounting period immediately preceding the accounting period for which the Report on Relations is being produced.

The Company (i.e. the Board of Directors as well as other responsible persons of the Company) assessed the conclusion of the transactions also with regard to the legal requirements of Section 121s et seq. of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended (the "Capital Market Undertakings Act"). The transactions were concluded within the ordinary course of business and under the standard market conditions, thus in accordance with the provisions of the Capital Market Undertakings Act relating to the assessment of significant transactions with related parties, in particular with Section 121v (1) thereof.

e) Overview of mutual agreements and amendments to existing agreements entered into between the controlled entity and the controlling entity or jointly controlled entities during the year 2023

Purchase of goods and services

Company	Contract	Date
Philip Morris Products S.A.	**Amendment No. 5 to the Distribution Agreement**	**8/2023**

Other performances and counter-performances as specified in the notes to separate financial statements (Note 27) were fulfilled based on contracts concluded in prior accounting periods and based on mutual agreements and purchase orders without written contracts having been concluded.

In 2023, the controlled entity carried out transactions with the controlling entity and the following jointly controlled entities:

AO PHILIP MORRIS IZHORA	PHILIP MORRIS POLSKA DISTRIBUTION
CTPM INTERNATIONAL SA	Philip Morris Polska S.A.
f6 Cigarettenfabrik GmbH and Co. KG	PMIM SA
Intertaba S.p.A	PHILIP MORRIS PRODUCTS SA
MASSALIN PARTICULARES S.R.L.	Philip Morris Products S.A. Manufacturing
Papastratos Cigarette Manufacturing Company S.A.	PMP SA
PHILIP MORRIS AB	Philip Morris Romania S.R.L.
PHILIP MORRIS BENELUX B.V.	Philip Morris Services S.A.
PHILIP MORRIS FINANCE SA	Philip Morris Slovakia s.r.o.
PHILIP MORRIS GLOBAL BRANDS INC.	PHILIP MORRIS SOUTH AFRICA PTY LTD
PHILIP MORRIS GMBH	PHILIP MORRIS TUTUNSKI KOMBINAT
Philip Morris Hungary Ltd.	PHILSA Philip Morris SABANCI
PHILIP MORRIS INDONESIA PT	PM INVESTMENTS B V
PHILIP MORRIS INTERNATIONAL	PMFTC INC
PHILIP MORRIS INTERNATIONAL INC	PMI ENGINEERING SA
PHILIP MORRIS INTERNATIONAL IT	PMI GLOBAL STUDIO LTD
PHILIP MORRIS INVESTMENTS B.V.	PMI SERVICE CENTER EUROPE SP.Z.O.O.
PHILIP MORRIS KAZAKHSTAN LLP	PrJSC Philip Morris Ukraine
PHILIP MORRIS KOREA INC.	PT HANJAYA MANDALA SAMPOERNA TBK.
PHILIP MORRIS LIMITED UK	ROTHMANS, BENSON AND HEDGES INC.
PHILIP MORRIS MANUFACTURING	TABAQUEIRA - EMPRESA INDUSTRIAL
PHILIP MORRIS MANUFACTURING GMBH	TABAQUEIRA II, S.A
Philip Morris Mexico Productos y	TRIAGA INC
Philip Morris Operations a.d. NIS	UAB Philip Morris Lietuva
PHILIP MORRIS PAKISTAN LIMITED	

All the above-mentioned companies are ultimately controlled by Philip Morris International Inc.

f) Assessment of advantages and disadvantages arising from relations between the controlled entity, controlling entity and jointly controlled entities

Various advantages arise to Philip Morris ČR a.s. from its membership in the PMI group.

The PMI group is the leading global producer and distributor with a wide portfolio of established brands of cigarettes having a strong financial background, which is beneficial for Philip Morris ČR a.s., particularly when making transactions with its business partners and negotiating with banks and other credit facility providers.

No disadvantages arise to Philip Morris ČR a.s. from its membership in the PMI group.

No risks arise to Philip Morris ČR a.s. from the relations within the PMI group.

Philip Morris ČR a.s. incurred no damage from the provided performances, contracts, other acts, other measures, or from any other performances received or provided (including those which were made in the interest or at the initiative of the other members of the PMI group) and contained in this Report on Relations. Transactions between the controlling entity and the jointly controlled entities are detailed in the notes to separate financial statements (Note 27).

g) Description of the measures taken against abuse of control

Philip Morris ČR a.s. did not take any special measures against abuse of control by the majority shareholder – Philip Morris Holland Holdings B.V. Philip Morris ČR a.s. uses statutory instruments against abuse of control and decisive influence of the controlling entity, in particular:

- the obligation to draw up a report on relations between the controlling entity and the controlled entity and between the controlled entity and the entities controlled by the same controlling entity;
- equal treatment of all shareholders by Philip Morris ČR a.s.;
- the prohibition of abuse of a majority of votes in Philip Morris ČR a.s.;
- the obligation of the controlling entity to compensate for harm caused to Philip Morris ČR a.s; and
- the liability of members of the governing body of the controlling entity and Philip Morris ČR a.s.

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.

11

Independent Auditor's Report to the Shareholders of Company Phillip Morris ČR a.s.

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INDEPENDENT AUDITOR'S REPORT

on the consolidated and separate financial statements as at 31 December 2023 of Philip Morris ČR a.s.

Identification data:

Company name:	Philip Morris ČR a.s.
Registration number:	148 03 534
Company address:	Vítězná 1 284 03 Kutná Hora
Balance sheet date:	31 December 2023
Audited period:	from 1 January 2023 to 31 December 2023
Financial reporting framework:	International Financial Reporting Standards as endorsed by the European Union
Date of issue auditor's report:	26 March 2024
Auditor:	Jan Kellner Licence No. 2225 Mazars Audit s.r.o. Licence No. 158

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Independent Auditor's Report for the shareholders of
Philip Morris ČR a.s.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Philip Morris ČR a.s. and its subsidiary (hereinafter also the "Group") prepared in accordance with International Financial Reporting Standards as endorsed by the European Union, which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated income statement and the statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information. For details of the Group, see Note 1 to the consolidated financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Philip Morris ČR a.s. as at 31 December 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company and the Group in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Audit approach
Third party revenue recognition	
For management's disclosure of the revenue recognition related to accounting policies, judgment and estimates see note 2.23 of the consolidated financial statements. We focused on revenue recognition from sales to third parties, because the Group operates a number of incentive schemes for its customers (wholesale and retail organisations). There is an implicit risk that these arrangements might not be appropriately reflected in the consolidated financial statements and revenue is overstated or understated. It also involves a general risk that revenue may be overstated due to possible incorrect recognition of discounts and incentives due to the pressure local management may feel to achieve performance targets.	Our procedures included considering the appropriateness of the Group's revenue recognition accounting policies, including those relating to discounts, incentives and returns. As a response to the general risk of inaccuracy or bias, we performed a walkthrough of the end-to-end process to obtain an understanding of revenue recognition process and tested, on a sample basis, related internal controls around the completeness, accuracy and cut-off of the revenues from the sales to third parties. We also agreed the amounts recorded during the current period to invoices, payments and terms of respective contracts on a sample basis. We tested that revenues, discounts, incentives and returns were recorded in the appropriate period and in the appropriate amount, assessing the performance obligations fulfilment to selected customers during a period shortly before and after the year-end. Based on the procedures described above, we did not identify any material misstatements in revenue recognition, related discounts and incentives.

Other Information in the Annual Financial Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Financial Report other than the financial statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company and the Group obtained in the audit, on whether the other information contains any material misstatement of fact. Based

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on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Company's Board of Directors, Supervisory Board and Audit Committee for the Consolidated Financial Statements

The Board of Directors of Philip Morris ČR a.s. is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors of Philip Morris ČR a.s. is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's financial reporting process in cooperation with the Audit Committee of Philip Morris ČR a.s.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above mentioned laws and regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors of Philip Morris ČR a.s.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain a sufficient and appropriate audit evidence about the financial information of the entities included in the Group and its business activities in order to express an opinion on the consolidated financial statements. We are responsible for overseeing and supervising the Group's audit. The auditor's opinion on the consolidated financial statements is our sole responsibility.

We communicate with the Board of Directors, the Supervisory Board and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement showing that we have complied with the relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's opinion unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweight the public interest benefits of such communication.

REPORT ON THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying separate financial statements of Philip Morris ČR a.s. (hereinafter also the "Company") prepared in accordance with International Financial Reporting Standards as endorsed by the European Union, which comprise the statement of financial position as at 31 December 2023, the income statement and the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the separate financial statements, including material accounting policy information. For details of the Company, see Note 1 to the separate financial statements.

In our opinion, the separate financial statements give a true and fair view of the financial position of Philip Morris ČR a.s. as at 31 December 2023 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council,4 and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Audit approach
Third party revenue recognition	
For management's disclosure of the revenue recognition related to accounting policies, judgment and estimates see note 2.21 of the separate financial statements.	Our procedures included considering the appropriateness of the Group's revenue recognition accounting policies, including those relating to discounts, incentives and returns.
We focused on revenue recognition from sales to third parties, because the Group operates a number of incentive schemes for its customers (wholesale and retail organisations).	As a response to the general risk of inaccuracy or bias, we performed a walkthrough of the end-to-end process to obtain an understanding of revenue recognition process and tested, on a sample basis, related internal controls around the completeness, accuracy and cut-off of the revenues from the sales to third parties.
There is an implicit risk that these arrangements might not be appropriately reflected in the separate financial statements and revenue is overstated or understated. It also involves a general risk that revenue may be overstated due to possible incorrect recognition of discounts and incentives due to the pressure local management may feel to achieve performance targets.	We also agreed the amounts recorded during the current period to invoices, payments and terms of respective contracts on a sample basis. We tested that revenues, discounts, incentives and returns were recorded in the appropriate period and in the appropriate amount, assessing the performance obligations fulfilment to selected customers during a period shortly before and after the year-end.
	Based on the procedures described above, we did not identify any material misstatements in revenue recognition, related discounts and incentives.

Responsibilities of the Company's Board of Directors, Supervisory Board and Audit Committee for the Separate Financial Statements

The Board of Directors of Philip Morris ČR a.s. is responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the Board of Directors of Philip Morris ČR a.s. is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's financial reporting process in cooperation with the Audit Committee of Philip Morris ČR a.s.

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Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above mentioned laws and regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors of Philip Morris ČR a.s.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors, the Supervisory Board and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement showing that we have complied with the relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's opinion unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweight the public interest benefits of such communication.

mazars

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENT

Information required by the Regulation (EU) No. 537/2014 of the European Parliament and of the Council

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Group and the Company by the General Meeting of Shareholders on 28 April 2023 and our uninterrupted engagement has lasted for 3 years.

Consistency with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated and separate financial statements expressed herein is consistent with the additional report to the Audit Committee of Philip Morris ČR a.s., which we issued on 26 March 2024 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

Provision of Non-audit Services

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided.

Report on the compliance with the requirements of the ESEF

We have undertaken a reasonable assurance engagement on the compliance of all financial statements included in the Annual Financial Report with the provisions of Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format ("the ESEF Regulation"), related to the financial statements.

Responsibilities of the Board of Directors

The Company's Board of Directors is responsible for the preparation of consolidated financial statements that comply with the ESEF Regulation. This responsibility includes:

- the design, implementation and maintenance of internal control relevant to the application of the ESEF Regulation;
- the preparation of all financial statements included in the Annual Financial Report in the applicable XHTML format; and
- the selection and application of XBRL mark-ups as required by the ESEF Regulation.

Auditor's Responsibilities

Our responsibility is to express an opinion on whether the financial statements included in the consolidated Annual Financial Report comply, in all material respects, with the ESEF Regulation based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information (hereinafter "ISAE 3000").

The nature, timing and extent of procedures selected depend on the auditor's judgment. Reasonable assurance is a high level of assurance, but is not a guarantee that an assurance engagement conducted in accordance with the above standard will always detect any existing material non-compliance with the ESEF Regulation.

Our selected procedures included:

- obtaining an understanding of the requirements of the ESEF Regulation;
- obtaining an understanding of the Company's internal control relevant to the application of the ESEF Regulation;
- identifying and assessing the risks of material non-compliance with the ESEF Regulation, whether due to fraud or error; and
- based on the above, designing and performing procedures to respond to the assessed risks and to obtain reasonable assurance for the purpose of expressing our conclusion.

The objective of our procedures was to evaluate whether:

- the financial statements included in the Annual Financial Report were prepared in the applicable XHTML format;
- the disclosures in the consolidated financial statements as specified in the ESEF Regulation were marked up, with all mark-ups meeting the following requirements:
    - the XBRL mark-up language was used;
    - the elements of the core taxonomy specified in the ESEF Regulation with the closest accounting meaning were used, unless an extension taxonomy element was created in compliance with the ESEF Regulation; and
    - the mark-ups complied with the common rules on mark-ups specified in the ESEF Regulation.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

In our opinion, the Company's financial statements for the year ended 31 December 2023 included in the Annual Financial Report are, in all material respects, in compliance with the ESEF Regulation.

Prague, 26 March 2024

UNSIGNED VERSION

Mazars Audit s.r.o.
Licence No. 158
Pobřežní 620/3
186 00 Praha 8

Represented by Jan Kellner

UNSIGNED VERSION

Jan Kellner
Statutory auditor, Licence No. 2225

The report above represents the auditor's report that relates solely and exclusively to the official annual report prepared in the XHTML format. This document is a copy of the independent auditor's report issued on 26 March 2024 on the statutory annual report of Philip Morris ČR a.s. as prepared in accordance with the provision of the ESEF Regulation. The attached copy of the annual report is not prepared in accordance with the ESEF Regulation and therefore does not constitute a statutory annual report and like this copy of the auditor's report, is not a statutory binding document.

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Other Information for Shareholders

for the 2023 Calendar Year Accounting Period

1. General information on remuneration

The figures and information on all cash and non-cash income received for the 2023 accounting period by persons with management authority from Philip Morris ČR a.s. (the “Company”) and from persons/entities controlled by the Company, as well as the information on the number of shares or similar securities representing participations in the Company which are held by persons with management authority, as well as numerical information on options and other comparable investment instruments whose value relates to shares or similar securities representing participations in the issuer and whose parties are the said persons, or which are concluded for the benefit of the said persons, are listed in the Remuneration Report prepared in accordance with Section 121o of the Capital Market Undertakings Act). The principles of providing remuneration to the issuer’s persons with management authority are set out in the Remuneration Policy of the Company, which is available on the website www.philipmorris.cz, in the section “For Shareholders”. In addition to the agreement on performance of the office by members of the Board of Directors, Supervisory Board and Audit Committee of the Company, the Remuneration Policy forms another basis for remuneration of those persons.

In 2023, no facts that would lead to a conflict of interest were identified in relation to any member of the Board of Directors or any member of the Supervisory Board.

2. Investments

In 2023, the Company mainly invested in the production equipment to extend its production portfolio and to increase the efficiency of its production. All Company investments in 2023 were implemented in the Czech Republic.

Investments (at cost)

(in CZK million)	31/12/2023	31/12/2022
Investments in equipment for leaf processing	11	0
Investments in equipment to increase capacity	484	529
Other projects	154	74
Investments in software	12	0
Total investments	**661**	**603**

All intangible and tangible fixed assets were financed from the Company’s own sources.

In 2024, the Company plans aggregate investments of CZK 381 million and already committed itself to the purchases amounting to CZK 110 million as at 31 December 2023. The Company’s investment plans are subject to periodic reviews, but the actual costs may differ from the planned estimates.

In longer time perspective, the additional investment around CZK 1 billion is planned to build new manufacturing capacity for smoke-free product portfolio in the plant of Kutná Hora, in line with the announcement made in June 2023.

3. Land plots, buildings and equipment – additional information

As at December 31, 2023, the Company owned land plots, buildings and structures in the net carrying amount of CZK 367 million (2022: CZK 332 million), of which buildings and land plots represented CZK 149 million (2022: CZK 161 million).

Buildings and lands

(in CZK million)	Location	Utilization	31/12/2023	31/12/2022
Buildings (net carrying amounts)	Kutná Hora	Factory	63	66
	Kutná Hora	Warehousing premises	30	34
	Kutná Hora, Strážnice	Other premises	45	50
Total buildings			**138**	**150**
Land (acquisition value)	Kutná Hora	Factory and warehousing premises	11	11
Total land			**11**	**11**
Total buildings and land			**149**	**161**

As at December 31, 2023, the Company owned vehicles, machinery and equipment in the net carrying amount of CZK 2,134 million (2022: CZK 2,131 million), of which the leaf processing machinery and equipment represented CZK 627 million (2022: CZK 650 million) and the production machinery and equipment represented CZK 1,232 million (2022: CZK 1,295 million).

The assumed useful life of the leaf processing and cigarette production and packaging machinery and equipment is as follows:

Machinery and equipment

(in CZK million)	Useful lives in years	31/12/2023	31/12/2022
Machinery equipment for the leaf processing (net carrying amounts)	5	98	68
	8	261	296
	15	268	286
Total leaf processing equipment		**627**	**650**
Machinery equipment for the production of cigarettes (net carrying amounts)	5	19	51
	8	225	318
	15	988	926
Total equipment for the production of cigarettes		**1,232**	**1,295**

As at December 31, 2023, the Company owned other equipment, including equipment for data processing, in the net carrying amount of CZK 274 million (2022: CZK 186 million).

4. Branch or other part of a business enterprise abroad

The Company has no branch or other part of a business enterprise abroad.

5. Miscellaneous

In the 2023 accounting period, no business interruptions of the Company's activities occurred that had or might have had a significant impact on the financial situation of the Company.

The Company did not use any state aid from government-announced subsidy programs, as the Company's business was not affected to such an extent that the Company considered it appropriate to apply for such aid.

The Company does not carry out any research and development activities.

The Company is not a party to any pending legal, administrative or arbitration proceedings that have or might have a substantial effect on the financial situation of the Company.

6. Dividend Policy of the Company

The Company does not have an established dividend policy; the General Meeting decides on the distribution of the Company's profit (or other Company's own sources, if applicable) according to the economic results of the Company, based on a proposal of the Board of Directors and after a review of the proposal by the Supervisory Board. In general, the shares in profit are usually paid to the Company's shareholders, provided that all the statutory criteria are met, from the Company's profit for the respective accounting period remaining after the payment of tax and other similar liabilities and, if approved by the General Meeting of the Company, also from a part of the Company's retained earnings from prior years. In accordance with Articles 6 (7) and 23 (5) of the Company's Articles of Association that were in force and effect in 2023, as well as in accordance with Act No. 90/2012 Coll., on Companies and Cooperatives (the Corporations Act), as amended, the amount of the share in profit to be paid to each shareholder is determined based on the proportion of the nominal value of shares held by a particular shareholder to the registered capital of the Company.

The shares in the Company's profit (in other Company's own sources) are paid to the Company's shareholders as follows: in the case of book-entered shares, to those listed in the extract from the Issue Register of the Company, i.e. in the register of book-entered securities maintained in accordance with a special legal regulation as at the date decisive for exercising the right to a share in profit and other Company's own sources and, in the case of certificated shares, to those listed in the list of the Company's shareholders as at the date decisive for exercising the right to a share in profit and other Company's own sources (unless it is proven that the relevant entry in the list of the Company's shareholders as at that date fails to reflect the actual state of affairs).

7. Members of the administrative, management or supervisory bodies of Philip Morris ČR a.s. and other persons described in item 12.1. of Annex 1 to Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004 (the "Members of the Company's Bodies")

The Members of the Company's Bodies are not at present, and were not in the previous five years, members of any administrative, management or supervisory bodies of or shareholders (partners) of other companies, except for the information referred to in the section of the Annual (Financial) Report titled "Members of the Board of Directors, Supervisory Board and Audit Committee of Philip Morris ČR a.s.".

The information set out in this Article 7 relates to members of the bodies of the Company who are or were in the office during the period from January 1, 2023 to the date of signature set out below.

The Members of the Company's Bodies are not at present, and were not in the previous five years, members of any administrative, management or supervisory bodies of or shareholders (partners) of other companies, except for the information referred to in the section of the Annual (Financial) Report titled "Members of the Board of Directors, Supervisory Board and Audit Committee of Philip Morris ČR a.s.".

None of the Members of the Company's Bodies was convicted in relation to any fraudulent offenses in the previous five years.

None of the Members of the Company's Bodies was connected with any bankruptcies, receiverships, liquidations or companies in receivership in the previous five years.

None of the Members of the Company's Bodies was judicially deprived of his/her capability to perform office as a member of administrative, management or supervisory bodies of any issuer or to hold a managing position in or perform activities of any issuer in the previous five years.

The Members of the Company's Bodies have no family relationships between themselves.

No official public accusations were made against any Member of the Company's Bodies and no sanctions were imposed by any statutory or regulatory authorities (including the relevant professional bodies) on any Member of the Company's Bodies in the previous five years).

8. Members of the Board of Directors

No bankruptcy was declared in respect of assets of any member of the Board of Directors, no member of the Board of Directors was restricted in dealing with his/her assets by a preliminary injunction issued in the course of insolvency proceedings, and no insolvency petition was filed against any member of the Board of Directors that would have been subsequently rejected on the grounds that the assets of that member of the Board of Directors were insufficient to cover the costs of the insolvency proceedings.

All members of the Board of Directors meet conditions set out by legal regulations for the performance of the office of a member of the Board of Directors, and are persons of good repute (jsou bezúhonní) within the meaning of Act No. 455/1991 Coll., on Trade Licensing, as amended (the "Trade Licensing Act"), i.e. they have not been finally and conclusively sentenced for any criminal offense committed willfully in connection with the business activities or scope of business of the Company, and there is no obstacle preventing any of the members of the Board of Directors from carrying on a trade, and, in particular, no court or administrative authority restrained any of the members of the Board of Directors from any activities relating to the carrying on a trade.

9. Description of the measures taken against abuse of control

The Company did not adopt any special measures against abuse of control by the majority shareholder – Philip Morris Holland Holdings B.V. The Company uses statutory instruments against abuse of control and decisive influence of the controlling entity.

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.

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Report on Corporate Governance of Philip Morris ČR a.s. and Summary Explanatory Report of the Board of Directors of Philip Morris ČR a.s.

A. Report on Corporate Governance of Philip Morris ČR a.s.

This report on corporate governance of Philip Morris ČR a.s. (the "Company") is part of the Company's Annual Report within the meaning of Act No. 563/1991 Coll., on Accounting, as amended (the "Act on Accounting"), for the 2023 calendar year accounting period, pursuant to Section 118 (4) of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended (the "Capital Market Undertakings Act").

I. Information on the Company's corporate governance codes:

The Company voluntarily complies with and meets the main criteria, principles and recommendations of the Corporate Governance Code based on the OECD Principles, which was adopted in 2004 by the Securities Commission (the "Code"). The Code is available for view at the registered office of the Company or in a manner allowing for remote access at the following website: www.philipmorris.cz

The Company currently reviews the 2018 Corporate Governance Code of the Czech Republic and evaluates if and to what extent it will be necessary to adjust its internal processes and procedures so that the Company could commit to the said Code in the future.

For the sake of completeness, the Company adds that, at the level of PMI (as defined below), the PMI Code of Conduct has been issued, which the Company complies with as an internal code of ethics. The PMI Code of Conduct is available for view in a manner allowing for remote access at the following website: www.pmi.com.

II. Information on the Company's corporate governance practices used beyond the requirements of the Capital Market Undertakings Act and a detailed description thereof, if the Company uses such practices:

As mentioned above, the Company respects and complies with the principles set out by the Code and the PMI Code of Conduct that correspond to the interests of the Company's shareholders and methods of the Company's business and implements these principles in its internal procedures. The Company does not use any corporate governance practices used beyond the requirements of the Capital Market Undertakings Act that would require providing the information and a detailed description within the meaning of Section 118 (4) (b) of the Capital Market Undertakings Act.

III. Description of the main parameters of the internal control and risk management systems in relation to the financial reporting process:

In its operations, the Company faces a number of external and internal risks in the report of the Board of Directors and in the notes to the financial statements and the consolidated financial statements. The Company has therefore set up procedures and processes that aim to identify, quantify and mitigate these risks in order to prevent and manage them effectively.

The internal controls department represents an important component of the Company’s corporate governance and provides the Company’s bodies with objective assessments of the adequacy and effectiveness of the Company’s internal control system. In 2023, the internal controls department carried out a number of audits, as per the risk-based annual audit plan and requirements of the bodies of the Company.

In particular, the Company’s internal controls department assesses the control mechanisms, procedures and systems in place to ensure reliability and integrity of financial and operational information, safeguarding of the Company’s assets, compliance with the Company’s internal policies and the cost effective and efficient use of resources.

In order to prevent or promptly detect any possible errors and frauds related to the financial reporting process, the Company has implemented controls in the form of internal policies covering the risk areas of the business (e.g. income and revenue recognition, capital assets and leases, inventory valuation, costs and expenses, etc.), whose adequacy and effectiveness are continuously assessed by the internal controls department.

The internal controls department reports its findings to the Board of Directors, the Supervisory Board and the Audit Committee of the Company, provides them with objective assessments of the Company’s control system and formulates measures to remedy deficiencies, if any deficiencies are identified. The results of the control system assessments are also discussed with the Company’s external auditor.

The Company takes appropriate remedial measures to correct deficiencies identified during audits. The internal controls department then monitors the implementation of such measures and reports to the management of the Company and its bodies.

The work of the internal controls department is also overseen by the Audit Committee. In 2023, the Audit Committee did not ascertain any deficiencies that could materially affect the financial reporting process.

IV. Description of the rights attached to the relevant type of share or similar security representing participation in the issuer, at least by reference to the Corporations Act and the issuer’s Articles of Association if it is a type of share, or to comparable foreign legislation and the issuer’s document equivalent to Articles of Association if it is a type of similar security representing participation in the issuer:

The rights and obligations of shareholders are set out by legal regulations, in particular Act No. 90/2012 Coll., on Companies and Cooperatives, as amended (the Corporations Act) (the “Corporations Act”), Act No. 89/2012 Coll., the Civil Code, as amended, and the Company’s Articles of Association.

Authorised shareholders have the right to participate in the management of the Company. This right is principally exercised by shareholders at the General Meeting, which they have the right to attend. At the General Meeting, the shareholders have the right to vote, the right to demand and receive explanations of matters relating to the Company or its controlled persons, if such explanations are needed for the assessment of the content of matters included in the agenda of the General Meeting or for the exercise of the shareholder’s shareholder rights at the General Meeting, and to raise proposals and counterproposals on matters included in the agenda of the General Meeting.

Shareholders are also entitled to receive shares in the profit and other own resources of the Company. During the life of the Company, even in the event of its dissolution, shareholders are not entitled to claim the return of their contributions.

Upon the dissolution of the Company with liquidation, each shareholder has the right to receive a share in the liquidation balance.

V. Description of the composition and decision-making procedures of the issuer’s main body and its committees, if established:

The Board of Directors of the Company is the governing body of the Company within the meaning of Section 2 (3) (p) of the Capital Market Undertakings Act that manages the Company's activities, acts for the Company and on its behalf in the manner defined in the Company’s Articles of Association, and consists of six members who are elected and recalled by the General Meeting. Members of the Board of Directors elect from amongst themselves one member as the Chairperson of the Board of Directors, and also recall the Chairperson. The Board of Directors decides by way of resolutions which are generally adopted at meetings of the Board of Directors. The Board of Directors is quorate if a simple majority of all its members are present. Resolutions are adopted if they are approved by a simple majority of the members of the Board of Directors present. Each member of the Board of Directors has one vote. In the event of a tie, the Chairperson's vote is decisive.

If so proposed by the Chairperson or, if the Board of Directors does not have a Chairperson, by any other member of the Board of Directors, the Board of Directors may adopt resolutions outside of a meeting. The Board of Directors is quorate for outside-of-meeting voting if a simple majority of all members of the Board of Directors participate in such voting. Resolutions are adopted if they are approved by a simple majority of the members of the Board of Directors participating in the outside-of-meeting voting. In the event of a tie, the Chairperson's vote is decisive.

In the 2023 calendar year accounting period, the Board of Directors consisted of the following members:

- Ms. Andrea Gontkovičová (Chairperson of the Board of Directors) (for the whole accounting period), who has an agreement on the performance of the office concluded with the Company and an employment contract dated May 1, 1997 with Philip Morris International Inc. ("PMI");
- Mr. Petr Šebek (for the whole accounting period), who has an agreement on the performance of the office and an employment contract dated April 1, 2011 concluded with the Company;
- Mr. Petr Šedivec (until May 31, 2023), who had an agreement on the performance of the office and an employment contract dated October 1, 2010 concluded with the Company;
- Mr. Anton Kirilov Stankov (for the whole accounting period), who had an agreement on the performance of the office concluded with the Company and has an employment contract dated October 5, 1998 with PMI;
- Mr. Manuel Joao Almeida do Vale Goncalves Marques (for the whole accounting period), who has an agreement on the performance of the office concluded with the Company and an employment contract dated July 7, 2008 with PMI;
- Mr. Cemal Berk Temuroglu (for the whole accounting period), who has an agreement on the performance of the office concluded with the Company and an employment contract dated February 1, 2022 with PMI.
- Mr. Tamás Szabados (from June 1, 2023, when he was appointed as a substitute member of the Board of Directors in accordance with Article 14 (4) of the Company's Articles of Association), who has an employment contract dated June 1, 1992 concluded with PMI.

The Supervisory Board of the Company is the controlling (supervisory) body of the Company within the meaning of the relevant provisions of the Articles of Association and Section 2 (3) (q) of the Capital Market Undertakings Act. The Supervisory Board of the Company consists of six members, who may be natural persons or legal entities and must comply with the requirements stipulated by law. Two members of the Supervisory Board are elected and recalled by the Company's employees in accordance with the Corporations Act and the remaining four members are elected and recalled by the General Meeting. The members of the Supervisory Board elect from amongst themselves one member as the Chairperson of the Supervisory Board, and also recall the Chairperson. The Supervisory Board is quorate if a simple majority of all its members are present. Each member of the Supervisory Board has one vote. Resolutions are adopted if they are approved by a simple majority of all members of the Supervisory Board. The rules for adopting resolutions outside the meetings of the Board of Directors apply analogously to adopting resolutions outside the meetings of the Supervisory Board; approval by the majority of votes of all members of the Supervisory Board is required for any such resolution to be adopted. In the event of a tie, the Chairperson's vote is decisive.

In the 2023 calendar year accounting period, the Supervisory Board consisted of the following members:

- Mr. Stefan Bauer (Chairperson of the Supervisory Board) (until September 26, 2023), who had an agreement on the performance of the office concluded with the Company and an employment contract dated November 17, 1997 with PMI;
- Ms. Prof. Ing. Alena Zemplinerová (for the whole accounting period), who has an agreement on the performance of the office concluded with the Company;
- Mr. Tomáš Hilgard (from March 17, 2023), who was elected as an employee representative to the Supervisory Board and who had an agreement on the performance of the office and an employment contract dated January 1, 1993 concluded with the Company;
- Mr. Jan Kodaj (from March 17, 2023), who was elected as an employee representative to the Supervisory Board and who has an agreement on the performance of the office and an employment contract dated January 1, 1996 concluded with the Company;
- Ms. Stanislava Juríková (for the whole accounting period), who has an agreement on the performance of the office concluded with the Company;
- Mr. Sergio Colarusso (until March 27, 2023), who had an agreement on the performance of the office concluded with the Company and has an employment contract dated December 1, 2002 with PMI;
- Ms. Tamara Milovanovic (Chairperson of the Supervisory Board) (from September 26, 2023, when she was appointed as a substitute member of the Supervisory Board in accordance with Article 17 (2) of the Company's Articles of Association and elected as the Chairperson of the Supervisory Board in accordance with Article 17 (3) of the Company's Articles of Association), who has an employment contract dated October 1, 2010 concluded with PMI; and
- Mr. Seamus Minihan (from April 28, 2023), who has an agreement on the performance of the office concluded with the Company and an employment contract dated October 1, 2016 with PMI.

Employment contracts of members of the Board of Directors and the Supervisory Board are usually concluded for an indefinite period of time. Upon termination of employment of those members of the Board of Directors and the Supervisory Board who are employed by the Company, such members are entitled to severance payment under certain conditions (e.g. in the case of termination of employment due to organisational changes of the employer, loss of the employee's medical capacity, etc.) in the amount subject to the duration of their employment, pursuant to the applicable legal regulations and the respective Company's collective labour agreement. Upon termination of the employment of members of the Board of Directors and the Supervisory Board who are employed by PMI or companies controlled by PMI other than the Company (the "PMI Group"), such members are entitled to emoluments related to the termination of employment pursuant to the applicable legal regulations of the respective country or pursuant to the collective labour agreement or the relevant internal regulation of the PMI group company that employed the particular member of the Board of Directors or the Supervisory Board.

Within the meaning of the relevant provisions of the Articles of Association, the Audit Committee consists of three members, who may be individuals or legal entities meeting the requirements of the relevant legal regulations with respect to the performance of this office and the performance of the office as a member of the Supervisory Board. The members are appointed and recalled by the General Meeting. The members of the Audit Committee elect and recall from amongst themselves one member as the Chairperson. The Audit Committee is quorate if a simple majority of all its members are present at its meeting. Each member of the Audit Committee has one vote. Resolutions of the Audit Committee are adopted if they are approved by a simple majority of all members of the Audit Committee, unless the Articles of Association or legal regulations require a higher number of votes necessary for the adoption of resolutions. The rules for adopting resolutions outside the Board of Directors meetings apply analogously to adopting resolutions outside the Audit Committee meetings; approval by the majority of votes of all members of the Audit Committee is required for such a resolution to be adopted. In the event of a tie, the Chairperson's vote is decisive.

In the 2023 calendar year accounting period, the Company's Audit Committee consisted of the following members:

- Mr. Stefan Bauer (Chairperson of the Audit Committee) (until September 26, 2023);
- Mr. Petr Šobotník (for the whole accounting period);
- Ms. Stanislava Juríková (for the whole accounting period) and
- Ms Tamara Milovanovic (Chairperson of the Audit Committee) (from September 26, 2023).

VI. Description of the decision-making procedures and the basic scope of powers of the issuer's General Meeting or a similar meeting of holders of securities representing participations in the issuer:

The General Meeting is the supreme body of the Company. It makes decisions on all matters of the Company that fall within its powers pursuant to the Company's Articles of Association or a generally binding legal regulation.

The powers of the General Meeting particularly include the decision-making on amendments of the Articles of Association; on changes to the amount of the registered capital or on the authorisation of the Board of Directors to increase the registered capital; on approval of the ordinary, extraordinary or consolidated financial statements and, where stipulated by law, also interim financial statements; on the issue of convertible or priority bonds; on the dissolution of the Company with liquidation; and on any transformation of the Company, unless the law governing transformations of companies and cooperatives stipulates otherwise.

Furthermore, it is within the powers of the General Meeting to decide on the possibility of setting off a receivable from the Company against a receivable of the Company regarding payment of the issue price; to elect and recall members of the Company's Board of Directors, the Supervisory Board and the Audit Committee, unless the law stipulates otherwise; to decide on the distribution of profit or other Company's own sources or on the settlement of a loss; to decide on filing of any application for the acceptance of participating securities of the Company for trading on a European regulated market or for withdrawal of these securities from trading on a European regulated market; to appoint and recall a liquidator; to approve the agreement on performance of the liquidator's office; to approve the final report on the course of the liquidation and a proposal for use of the liquidation balance; to approve any transfer or pledge of an enterprise or such a part of the assets and liabilities that would mean a material change to the actual scope of business or activities of the Company; to decide on the assumption of the effect of acts performed on behalf of the Company before its establishment; to approve any agreement on silent partnership (company) and any other agreement establishing a right to a share in the Company's profit or other Company's own sources; to decide on the approval of the agreements on performance of the office as a member of the Board of Directors, the Supervisory Board and the Audit Committee, and on their remuneration or the provision of any other benefits to which they are not entitled on the basis of a legal regulation or the agreement on the performance of the office approved by the General Meeting or on the basis of an internal regulation approved by the General Meeting; to decide on changes to the rights attached to a certain class of shares; on changes to the class and type of shares; on share splitting or merger of a number of shares into a single share; on the restriction of share transferability or any change thereto; on the acquisition by the Company of its own shares in accordance with the applicable legal regulations; on the appointment of an auditor of the Company; on the approval of the compensation (remuneration) policy; on the approval of the compensation (remuneration) report; on the approval of any significant transaction under the conditions stipulated in Section 121s of the Capital Market Undertakings Act; and on any other matters which the law or these Articles of Association place under the authority of the General Meeting.

Each share with a nominal value of CZK 1,000 represents one vote. The General Meeting is quorate if attended by shareholders holding shares whose nominal value or number exceeds 30% of the Company's registered capital. The General Meeting adopts its resolutions by a simple majority of votes of the shareholders present, unless required otherwise by the Corporations Act or by the Articles of Association of the Company. A shareholder may not exercise its voting rights in the cases stipulated by law. At the General Meeting, voting is performed by ballot, in which case shareholders receive the ballots upon their registration in the attendance list, or in any other suitable manner allowing for electronic voting. The General Meeting decides whether the voting will be performed by ballot or electronically. The General Meeting votes first on the proposals submitted by the Board of Directors or the Supervisory Board. If no such proposals are submitted or adopted, shareholders' (counter-)proposals are voted on.

VII. Description of the diversity policy applied to the issuer's main body, taking into account gender and other criteria, for example, criteria of age, disabilities, or education and the expertise and experience, including information on the objectives of the policy, on how the diversity policy is being implemented and what results its implementation has brought in the relevant accounting period. If the issuer does not apply a diversity policy, it shall state in place of its description the reasons why it does not apply such policy.

The Company does not apply any specific diversity policy to its main body (the Board of Directors). This is mainly due to the way in which this body of the Company is elected. Members of the Board of Directors are elected by the General Meeting of the Company. Another reason is the observance of the principles of non-discrimination and equal treatment towards all persons in filling managerial positions and positions in the Company's bodies; these principles are present in all activities that the Company performs. The Company complies with these principles as well as with the rules set out in the relevant legal regulations, and is concerned to prevent any non-equality, unfavorable treatment or any other forms of discrimination, whether direct or indirect. These principles are always respected in the election of members of the Company's bodies. With regard to the high-quality requirements applicable to members of the Company's bodies, to the specific sector in which the Company conducts its business and to the respect for the free election of shareholders, the members of the Board of Directors are always elected on a non-discriminatory basis, mainly on the basis of their professional experience, professional knowledge and qualifications for the good performance of their offices, irrespective of the candidates' origin or characteristics.

B. Summary Explanatory Report of the Board of Directors of the Company

For the 2023 calendar year accounting period pursuant to Section 118 (6) of the Capital Market Undertakings Act, relating to matters pursuant to Section 118 (5) of the Capital Market Undertakings Act

I. Information about the structure of the issuer's equity, including securities which have not been admitted for trading on a European regulated market and, if applicable, specification of the various classes of shares or similar securities representing participation in the issuer and specification of the share in the registered capital of each class of shares or similar securities representing participation in the issuer, together with an indication of the rights and obligations attaching to such securities and the percentage of the total share capital represented:

The Company's equity consists of three basic components: the registered capital, share premium and other shareholder contributions, and accumulated retained earnings.

(in CZK million)	31/12/2023	31/12/2022
Registered capital	2,745	2,745
Share premium and other shareholders' contributions	2,380	2,379
Accumulated retained earnings	3,396	3,631
Total Equity	**8,521**	**8,755**

The Company's registered capital comprises 2,745,386 registered shares of the same type, with a nominal value of CZK 1,000 each. The Company's shares have been traded on the Prague Stock Exchange (Burza cenných papírů Praha, a.s.) since July 13, 1993. 1,913,698 book-entry registered shares have been admitted for trading on the main market of the Prague Stock Exchange, representing 69.7% of the total share capital. These shares are book-entry shares within the meaning of the Corporations Act. The remaining 831,688 registered shares (these shares are certificated shares within the meaning of the Corporations Act), representing 30.3% of the total share capital, have not been admitted for trading on any European regulated market. The Company's registered capital is fully paid up.

II. Information about limitations on the transferability of securities:

For the transfer of the Company's shares, it is necessary to meet only the requirements set out by the legal regulations. The Company's Articles of Association do not set any limitations on the transfer of the Company's shares, and there are no other restrictions from the Company relating to the transferability of the Company's shares.

III. Information about significant direct and indirect participation in the issuer's voting rights:

Information on significant participations in the issuer's voting rights as at December 31, 2023 is specified in the notes to the financial statements, point 1.1. Description of the Company, as well as in the report on relations between the controlling entity and the controlled entity and between the controlled entity and entities controlled by the same controlling entity (the "Report on Relations"), including information about the corresponding shares in the Company's registered capital.

The composition (structure) of significant direct participation in the Company's voting rights as at December 31, 2023 is only known to the Company in the case of the controlling entity, Philip Morris Holland Holdings B.V. This entity has the same voting rights as the other shareholders.

The Company does not have information about the other shareholders of the Company whose participation in the Company's registered capital (and thus in the Company's voting rights) amounts to at least 1%.

Apart from Philip Morris Holland Holdings B.V., the Company is not aware of (i) any other significant direct or indirect participations in the Company's voting rights; or (ii) any Company's shareholders whose participations in the Company's voting rights amount to at least 3%.

IV. Information about holders of securities with special rights, including the description of such rights:

The Company did not issue any securities with special rights; it only issued the shares specified in section I. above.

V. Information about limitations on voting rights:

Voting rights apply to all shares issued by the Company and may only be limited or excluded where stipulated by law. The Company is not aware of any limitations on or exclusions of voting rights attached to the shares that it has issued other than those limitations on and exclusions of voting rights stipulated by law.

VI. Information about agreements between shareholders or similar holders of securities representing participation in the issuer that may reduce the transferability of shares or similar securities representing participations in the issuer or transferability of voting rights, if known to the issuer:

The Company is not aware of any agreements between shareholders representing participation in the Company that may reduce the transferability of shares or similar securities representing participation in the Company or transferability of voting rights.

VII. Information about special rules regulating the election and recalling of members of the issuer's governing body and amendments of the Articles of Association or any other similar document(s) of the issuer:

The governing body of the Company is its Board of Directors. The members of the Company's Board of Directors are elected and recalled by the General Meeting of the Company. The conditions relating to the election of members of the Board of Directors are stipulated by law and the Company's Articles of Association. The Company has no special rules regulating the election and recalling of members of the Company's Board of Directors. The Company also does not have any special rules regulating amendments and changes to the Articles of Association of the Company.

VIII. Information about special powers of the issuer's governing body:

Neither the Board of Directors of the Company nor its members have any special powers.

IX. Information about significant agreements to which the issuer is a party and which will become effective, be amended or cease to exist in the event of a change of control of the issuer pursuant to the Corporations Act as a result of a take-over bid, and about the effects arising from such agreements, with the exception of agreements whose disclosure would cause serious harm to the issuer; this does not limit any other obligation to disclose such information pursuant to the Capital Market Undertakings Act or any other legal regulations in force:

The Company did not enter into any agreements that would become effective, be amended or cease to exist in the event of a change of control of the Company as a result of a take-over bid.

X. Information about agreements between the issuer and the members of its governing body or employees that bind the issuer to take on any commitments in the event of termination of their offices or employment in connection with a take-over bid:

No contracts were entered into between the Company and any of the members of its Board of Directors or its employees which would obligate the Company to take on any commitments in the event of termination of their offices or employment in connection with a take-over bid.

XI. Information about a program control scheme based on which members of the governing body or employees of the issuer acquire participating securities of the Company, options over such securities or other rights over such securities, unless they exercise such rights themselves:

No programs were established for employees or members of the Board of Directors of the Company to acquire participating securities of the Company, options over such securities or other rights over such securities.

XII. Non-financial information:

Under the Act on Accounting, the Company is obliged to disclose non-financial information. As expressly allowed by the Act on Accounting (Section 32g(7), in the wording effective until 31 December 2023), the Company is using the exemption not to disclose the required non-financial information in its Annual report or in a separate report of the Company, as the required non-financial information concerning the Company will be included in a separate report published by the parent company Philip Morris International Inc. (the "Integrated Report") which publishes such information on Company's behalf. The Integrated Report will be published on March 28th, 2024 and will be freely accessible at www.pmi.com. In addition to the above, the Company is also in scope of Regulation (EU) 2020/852 of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment („EU Taxonomy Regulation"). The related Taxonomy Disclosure containing the relevant non-financial information required under the EU Taxonomy Regulation is presented on pages 34 to 40 of this Annual report. Both disclosures of non-financial information pursuant to the Act on Accounting and EU Taxonomy Regulation are further complemented by additional local specific non-financial information that can be found on pages 28 to 33 of this Annual report.

14

Members of Board of Directors, Supervisory Board and Audit Committee of Philip Morris ČR a.s.

during the accounting period of the calendar year 2023 and as of the publication date of this annual report

Pursuant to Articles 14, 17 and 20 of the Articles of Association, the terms of office of a member of the Board of Directors, the Supervisory Board and the Audit Committee is three years. A member of any of these corporate bodies may be re-elected.

Board of Directors

Andrea Gontkovičová, Chairperson of the Board of Directors

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mrs. Gontkovičová was appointed to the position of the General Manager responsible for the Czech Republic, the Slovak Republic and Hungary, and elected the Chairperson of the Board of Directors Philip Morris ČR a.s. with effect from October 1, 2019.

Mrs. Gontkovičová started working for Philip Morris Slovakia s.r.o. in 1997 and held various positions within the company, including Corporate Affairs department. In 2004 she was relocated to Philip Morris International Inc. in Switzerland and she gained new experiences in the regional Strategic Planning department. Upon her return in December 2005 she was appointed as the Head of the Corporate Affairs department in Philip Morris Slovakia s.r.o. In September 2009 she started a new role as a Director Corporate Affairs and Member of the Board of Directors of Philip Morris ČR a.s. In 2012 she was appointed Director Corporate Affairs for EU Region of Philip Morris International Inc. in Switzerland and in 2016 she became Director RRP Commercialization. Upon her return to Philip Morris ČR a.s. in 2016 she was appointed to the position of Director RRP CZ, SK & HU. In September 2018 she was appointed to the position of Director Commercial Development CZ, SK, HU at Philip Morris ČR a.s. in September 2018. Since April 26, 2019 Mrs. Andrea Gontkovičová has been a member of the Board of Directors.

Mrs. Gontkovičová holds a master’s degree in Philosophy.

Mrs. Gontkovičová was elected as a member of the Board of Directors of Philip Morris ČR a.s. by the Annual General Meeting of Shareholders on April 26, 2019 for a period of three years. Mrs. Gontkovičová was elected as a Chairperson of the Board of Directors by the other members of the Board of Directors with effect from October 1, 2019. On May 24, 2022, Mrs Gontkovičová was re-elected as a member of the Board of Directors of Philip Morris ČR a.s. by the General Meeting of Shareholders performed outside the meeting (per rollam) for a period of three years.

In the previous five years Mrs. Gontkovičová was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Chairperson of the Board	Philip Morris ČR a.s.	Czech Republic	1.10.2019	
Member of the Board	Philip Morris ČR a.s.	Czech Republic	26.4.2019	

Anton Kirilov Stankov, member of the Board of Directors (until December 31, 2023)

Contact address: Philip Morris ČR a.s., Vítězná 1, 284 03 Kutná Hora

Mr. Stankov joined Philip Morris in 1998 in Switzerland, having previously worked with Arthur Andersen &Co. He was appointed Director Finance with responsibility for Czech Republic, Slovakia, and Hungary on May 1, 2021. Throughout his career with Philip Morris, Mr. Stankov has held numerous roles in Corporate Audit and Finance in Switzerland, moving on to Controller Mexico, CFO Pakistan, Finance Director Philippines and overseeing the finance and business planning functions in those affiliates.

Mr. Stankov holds a Business Administration degree from the American University in Bulgaria, a diploma in International Business and Trade from American University in Washington, D.C., and is a Fellow Certified Chartered Accountant with the ACCA in the United Kingdom.

Pursuant to Article 14 par. 4 of the Articles of Association, Mr. Stankov was appointed as a member of the Board of Directors of Philip Morris ČR a.s. by the other members of the Board of Directors on September 29, 2021 until the next General Meeting. On May 24, 2022 Mr. Stankov was elected as a member of the Board of Directors of Philip Morris ČR a.s. by the General Meeting of Shareholders performed outside the meeting (per rollam) for a period of three years. The term of the office of Mr. Stankov terminated on December 31, 2023 after his resignation from the office of a member of the Board of Directors was discussed by the Board of Directors of Philip Morris ČR a.s.

In the previous five years until the date of termination of his term of office of a member of the Board of Directors Mr. Stankov was a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Member of the Board	Philip Morris ČR a.s.	Czech Republic	29.9.2021	31.12.2023
Director	Philip Morris Philippines Manufacturing Inc.	Philippines	1.3.2019	1.6.2021
Director	PMFTC Inc.	Philippines	1.3.2019	7.5.2021
Executive Director	Philip Morris (Pakistan) Limited	Pakistan	2.3.2016	11.2.2019

Eugenia Panato, member of the Board of Directors (as of January 1, 2024)

Contact address: Philip Morris ČR a.s., Vítězná 1, 284 03 Kutná Hora

Mrs. Panato was appointed to the position of Director Finance of Philip Morris ČR a.s. with responsibility for the Czech Republic, Slovakia and Hungary in January 2024. Mrs. Panato began her career with Philip Morris in 2011 in business planning in Italy. After an assignment to Philip Morris Operation Center in Lausanne in the controlling team for EU Region, in 2020 she relocated to Philip Morris Italy as Controller and then Head of business planning. Prior to joining Philip Morris, she worked in audit for Ernst & Young and in real estate business development for the Italian Ministry of Economy and Finance.

Mrs. Panato holds a degree in business administration from LUISS University in Italy.

Pursuant to Article 14 par. 4 of the Articles of Association, Mrs. Panato was appointed as a member of the Board of Directors of Philip Morris ČR a.s. by the other members of the Board of Directors effective as of January 1, 2024 until the next General Meeting.

In the previous five years Mrs. Panato was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Member of the Board	Philip Morris ČR a.s.	Czech Republic	1.1.2024	

Petr Šedivec, member of the Board of Directors (until May 31, 2023)

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mr. Šedivec performed as General Manager of Philip Morris Slovakia s.r.o. since April 2021. He began his career with Philip Morris ČR a.s. in 2010 as Manager Business Development and Planning, followed by the positions of Manager Commercial Intelligence and Manager Business Development and Planning and Director Finance and IS with responsibility for the Czech Republic, Slovakia and Hungary.. Prior to joining Philip Morris ČR a.s. he worked for thirteen years for Procter & Gamble where he held number of positions in Commercial and Customer Finance, Brand, Accounting, Corporate Audit, Strategic planning for multiple markets across EU and Eastern Europe.

Mr. Šedivec graduated in Accounting from South-Bohemian University in České Budějovice.

On April 27, 2018 Mr. Šedivec was elected as a member of the Board of Directors of Philip Morris ČR a.s. by the Annual General Meeting of Shareholders for a period of three years. On May 22, 2021 Mr. Šedivec was re-elected as a member of the Board of Directors of Philip Morris ČR a.s. by the General Meeting of Shareholders performed outside the meeting (per rollam) for a period of three years. The term of the office of Mr. Šedivec terminated on May 31, 2023 after his resignation from the office of a member of the Board of Directors was discussed by the Board of Directors of Philip Morris ČR a.s.

In the previous five years until the date of termination of his term of office of a member of the Board of Directors Mr. Šedivec was a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Member of the Board	Philip Morris ČR a.s.	Czech Republic	27.4.2018	31.5.2023
Executive Director	Philip Morris Slovakia s.r.o.	Slovakia	30.3.2021	28.4.2023

Petr Šebek, member of the Board of Directors

Contact address: Philip Morris ČR a.s., Vítězná 1, 284 03 Kutná Hora

Mr. Šebek was appointed to the position of Director External Affairs in January 2020. He began his career with Philip Morris ČR a.s. in 2011 as a Manager Regulatory and Fiscal Affairs, followed by the positions of Manager Corporate Affairs for Slovakia and Director Communications for the Czech Republic, Slovakia and Hungary. Prior to joining Philip Morris ČR a.s., he held several positions in public sector at the Region of South Bohemia and the European Parliament. Before 2000, he worked for regional TV and radio stations.

Mr. Šebek graduated from South-Bohemian University in České Budějovice in 1997.

Pursuant to Article 14 par. 4 of the Articles of Association, Mr. Šebek was appointed as a member of the Board of Directors of Philip Morris ČR a.s. by the other members of the Board of Directors on January 20, 2020 until the next General Meeting. On July 1, 2020 Mr. Šebek was elected as a member of the Board of Directors of Philip Morris ČR a.s. by the General Meeting of Shareholders performed outside the meeting (per rollam) for a period of three years. Mr. Šebek was re-elected as a member of the Board of Directors of Philip Morris ČR a.s. by the Annual General Meeting of Shareholders on April 28, 2023 for a period of three years.

In the previous five years Mr Šebek was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Member of the Board	Philip Morris ČR a.s.	Czech Republic	20.1.2020	
Executive Director	Philip Morris Slovakia s.r.o.	Slovakia	30.4.2015	26.4.2019
Member of the Supervisory Board	NEVAJGLUJ a.s.	Czech Republic	23.3.2023	

Manuel Joao Almeida Do Vale Goncalves Marques, member of the Board of Directors

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mr. Marques became Director Manufacturing CZ in May 2022. He joined Philip Morris in 2008 in PMI's factory in Portugal, leading the Project Engineering department. He held several leadership positions in the Manufacturing and Engineering departments before being appointed in 2017 as Head of PMI manufacturing equipment Centre of Expertise, firstly in Switzerland and later in Italy. In 2021, Mr. Marques was appointed Director Manufacturing USA where he led the manufacturing stream of the project to build the first *IQOS* factory in the United States.

Mr. Marques holds a postgraduate degree in industrial engineering and management.

Pursuant to Article 14 par. 4 of the Articles of Association, Mr. Marques was appointed as a member of the Board of Directors of Philip Morris ČR a.s. by the other members of the Board of Directors on June 15, 2022, until the next General Meeting. Mr. Marques was elected as a member of the Board of Directors of Philip Morris ČR a.s. by the Annual General Meeting of Shareholders on April 28, 2023 for a period of three years.

In the previous five years, Mr. Marques was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Member of the Board	Philip Morris ČR a.s.	Czech Republic	15.6.2022	

Cemal Berk Temuroglu, member of the Board of Directors

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mr. Temuroglu joined Philip Morris ČR a.s. in February 2022. Prior to joining Philip Morris ČR a.s., Mr. Temuroglu held several positions in sales and marketing in Sisecam/Pasabahce, Adidas or Tchibo with responsibility for market development in Turkey, Romania, Czech Republic, Slovakia, Poland, and Hungary. Mr. Temuroglu has extensive experience in the field of retail industry, key account management, e-commerce, and customer relationship management.

Mr. Temuroglu holds a bachelor's degree in international relations from Lehigh University in Pennsylvania/USA and a master's degree in international management from University of Bolton in the UK.

Pursuant to Article 14 par. 4 of the Articles of Association, Mr. Temuroglu was appointed as a member of the Board of Directors of Philip Morris ČR a.s. by the other members of the Board of Directors on August 8, 2022, until the next General Meeting. Mr. Temuroglu was elected as a member of the Board of Directors of Philip Morris ČR a.s. by the Annual General Meeting of Shareholders on April 28, 2023 for a period of three years.

In the previous five years Mr. Temuroglu was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Member of the Board	Philip Morris ČR a.s.	Czech Republic	8.8.2022	
Partner	DEPO Syndicate III. s.r.o.	Czech Republic	6.8.2021	
Partner	DEPO Syndicate IV. s.r.o.	Czech Republic	13.8.2021	
Partner	TAC ANGELS I. s.r.o.	Czech Republic	18.12.2021	

Tamás Szabados, member of the Board of Directors (as of June 1, 2023)

Contact address: Philip Morris ČR a.s., Vítězná 1, 284 03 Kutná Hora

Mr. Szabados joined Philip Morris in 1992 in Hungary. He was appointed General Manager of Philip Morris Magyarország Cigaretta Kereskedelmi Kft. on July 1, 2016. He started his career in sales department and held numerous positions before joining the CEMA (Central Europe, Middle East & Africa) Region in year 2000 in Lausanne, Switzerland as management trainee. Following this assignment, he moved back to Hungary and further progressed in the sales & distribution area. He was appointed Director Sales for Hungary in 2008. Then Mr. Szabados moved to Belgium as Director Sales for the Benelux affiliate in 2010, and in 2014 he became General Manager in Canary Islands. Mr. Szabados holds a degree in HR management from Szt. Istvan University in Hungary.

Pursuant to Article 14 par. 4 of the Articles of Association, Mr. Szabados was appointed as a member of the Board of Directors of Philip Morris ČR a.s. by the other members of the Board of Directors on June 1, 2023 until the next General Meeting.

In the previous five years Mr. Szabados was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Member of the Board	Philip Morris ČR a.s.	Czech Republic	1.6.2023	
Member of the Board	Philip Morris Slovakia s.r.o.	Slovakia	30.6.2023	
Managing Director	Philip Morris Magyarország Cigaretta Kereskedelmi Kft.	Hungary	1.7.2016	

Supervisory Board

Stefan Bauer, Chairperson of the Supervisory Board (until September 26, 2023)

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mr. Bauer joined Philip Morris in 1997 in Germany. Subsequently he worked for Philip Morris as Manager Finance in the United Kingdom, as Director Finance in the Italian and Japanese affiliates, and as Vice president Finance and Business Planning for the EEMA and later the MEA & PMI Duty Free Regions. He held the position of Vice President EU Finance in Philip Morris Products S.A., with responsibility for Finance in the European Union.

Mr. Bauer holds a master's degree in Business Administration from Augsburg University in Germany.

Pursuant to Article 17 par. 2 of the Articles of Association, Mr. Bauer was appointed as a member and elected as a Chairperson of the Supervisory Board of Philip Morris ČR a.s. by the other members of the Supervisory Board on September 23, 2019 until the next General Meeting. On July 1, 2020 Mr. Bauer was elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the General Meeting of Shareholders performed outside the meeting (per rollam) for a period of three years. Mr. Bauer was re-elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the Annual General Meeting of Shareholders on April 28, 2023 for a period of three years. The term of the office of Mr. Bauer terminated on September 26, 2023 after his resignation from the office of a member of the Supervisory Board was discussed by the Supervisory Board of Philip Morris ČR a.s.

In the previous five years until the date of termination of his term of office of a member of the Supervisory Board Mr. Bauer was a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Chairperson of Supervisory Board and Audit Committee	Philip Morris ČR a.s.	Czech Republic	23.9.2019	26.9.2023
Member of the Board	Philip Morris Aktiebolag	Sweden	10.9.2021	30.6.2023
Supervisory Board Member	Philip Morris Polska Społka Akcyjna	Poland	27.2.2020	24.7.2023
Member of the Board	Philip Morris Finland Oy	Finland	5.12.2019	30.6.2023
Director	Philip Morris ApS	Denmark	2.12.2019	30.6.2023
Director	Philip Morris Italia S.r.l.	Italy	3.10.2019	1.8.2023
Director	Acrin (Tobaccos) Limited	United Kingdom	1.10.2019	
Director	George Dobie & Son Limited	United Kingdom	1.10.2019	
Director	Godfrey Phillips Limited	United Kingdom	1.10.2019	
Director	Orecla Investments Limited	United Kingdom	1.10.2019	
Director	Park (U.K.) Limited	United Kingdom	1.10.2019	
Director	Park Tobacco Limited	United Kingdom	1.10.2019	
Director	Philip Morris & Company (UK) Limited	United Kingdom	1.10.2019	
Director	Philip Morris Limited	United Kingdom	1.10.2019	
Director	United Kingdom Tobacco Company Limited (The)	United Kingdom	1.10.2019	

Director	Nicocigs Limited	United Kingdom	1.10.2019	
Member	Papastratos Cigarettes Manufacturing Company S.A.	Greece	16.9.2019	
Director	Philip Morris Benelux B.V.	Belgium	15.9.2019	1.9.2023
Member of the Board	Philip Morris Norway AS	Norway	15.9.2019	30.6.2023
Director	Swedish Match Sales Norway AS	Norway	15.9.2019	30.6.2023
Member of the Board	Philip Morris Switzerland Sarl	Switzerland	15.9.2019	23.3.2023
President	Philip Morris Switzerland Sarl	Switzerland	30.9.2019	23.3.2023
Director	PM Tobakk Norge AS	Norway	15.9.2019	
Liquidator	Pan Africa Entrepreneurs Sarl	Switzerland	12.7.2019	15.9.2019
Liquidator	Pan Africa Invest Company Sarl	Switzerland	28.5.2019	17.10.2019
Director	Pan Africa Entrepreneurs Limited	United Kingdom	14.12.2017	9.9.2019
Member of the Board	Philip Morris Services S.A.	Switzerland	5.12.2016	15.9.2019
Director	Foreign Investors (FZC)	United Arab Emirates	30.6.2016	30.5.2020
Management Board Member	Pan Africa Entrepreneurs Sarl	Switzerland	30.3.2015	12.7.2019
Director	Philip Morris Misr Limited Liability Company	Egypt	11.5.2014	12.12.2019
Director	Emirati Investors - TA (FZC)	United Arab Emirates	8.12.2013	27.3.2020
Member of the Board	Philip Morris Pazarlama ve Satis A.S.	Turkey	22.10.2013	15.9.2019
Member of the Board	Philip Morris Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkey	22.10.2013	15.9.2019
Director	Philip Morris South Africa (Proprietary) Limited	South Africa	1.7.2013	19.9.2019
Director	Philip Morris South Africa Holdings (Proprietary) Limited	South Africa	1.7.2013	19.9.2019
Director	Leonard Dingler (Proprietary) Limited	South Africa	1.7.2013	19.9.2019
Gerant President	Philip Morris Exports Sàrl	Switzerland	1.7.2013	15.9.2019
Member of the Board	Philip Morris International Service Center, S.L. Sociedad Unipersonal	Spain	4.3.2020	
Vice Chairperson	Philip Morris International Service Center, S.L. Sociedad Unipersonal	Spain	4.3.2020	
Vice Chairperson	Philip Morris Spain, S.L.	Spain	4.3.2020	
Member of the Board	Philip Morris Spain, S.L.	Spain	4.3.2020	
Manager	Philip Morris Luxembourg S.a.r.l.	Luxembourg	18.3.2020	1.9.2023

Tamara Milovanovic, Chairperson of the Supervisory Board (as of September 26, 2023)

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mrs. Milovanovic joined Philip Morris in 2010 in Belgrade, Serbia as Business Development and Planning Manager for Serbia and Montenegro markets. She subsequently worked as Business Development and Planning Director and Finance Director for South East Europe cluster markets, followed by Vice President Finance, Eastern Europe. She currently holds the position of Vice President Finance, Europe Region, with responsibility for Finance in the European Union. Prior to joining Philip Morris, Mrs. Milovanovic worked in investment banking and consulting roles at Lazard Freres & Co and Booz Allen Hamilton.

Mrs. Milovanovic holds a BA in International Relations from The University of British Columbia and and MBA from INSEAD.

Pursuant to Article 17 par. 2 of the Articles of Association, Mrs. Milovanovic was appointed as a member and elected as a Chairperson of the Supervisory Board of Philip Morris ČR a.s. by the other members of the Supervisory Board on September 26, 2023 until the next General Meeting.

In the previous five years Mrs. Milovanovic was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Chairperson of Supervisory Board and Audit Committee	Philip Morris CR a.s.	Czech Republic	26.9.2023	
Supervisory Board Member	Philip Morris Polska Społka Akcyjna	Poland	24.7.2023	
Board Member	Philip Morris ApS	Denmark	30.6.2023	
Board Member	Philip Morris Finland Oy	Finland	30.6.2023	
Board Member	Philip Morris Norway AS	Norway	30.6.2023	
Board Member	Swedish Match Sales Norway AS	Norway	30.6.2023	
Director	Philip Morris Aktiebolag	Sweden	30.6.2023	
Director	Philip Morris Benelux B.V.	Belgium	1.9.2023	
Director	Philip Morris Italia S.r.l.	Italy	1.8.2023	
Director	Philip Morris Operations a.d. Nis	Serbia	28.3.2018	11.3.2020
Manager	Philip Morris Luxembourg S.a.r.l.	Luxembourg	1.9.2023	
President Director	Philip Morris Operations a.d. Nis	Serbia	12.3.2020	8.11.2021
Supervisory Board Member	Megapolis Distribution B.V.	Netherlands	2.11.2021	

Sergio Colarusso, member of the Supervisory Board (until March 27, 2023)

Mr. Colarusso joined Philip Morris International in 2002 in Switzerland. Subsequently he worked in the Middle East (UAE), first as Business Development Manager for the area, and then as Finance Director since 2008. Subsequently, he was appointed Finance Director for the BeNeLux business in 2012 and for the French business in 2015. Mr. Colarusso held the position of EU Controller with the responsibility for the European Union Region.

Mr. Colarusso holds a master's degree in Banking and Finance from HEC Lausanne in Switzerland.

Pursuant to Article 17 par. 2 of the Articles of Association, Mr. Colarusso was appointed as a member of the Supervisory Board of Philip Morris ČR a.s. by the other members of the Supervisory Board on September 24, 2018 until the next General Meeting. On April 26, 2019 Mr. Colarusso was elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the Annual General Meeting of Shareholders for a period of three years. On May 24, 2022, Mr. Colarusso was re-elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the General Meeting of Shareholders performed outside the meeting (per rollam) for a period of three years. The term of the office of Mr. Colarusso terminated on March 27, 2023 after his resignation from the office of a member of the Supervisory Board was discussed by the Supervisory Board of Philip Morris ČR a.s.

In the previous five years until the date of termination of his term of office of a member of the Supervisory Board Mr. Colarusso was a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Supervisory Board Member	Philip Morris ČR a.s.	Czech Republic	24.9.2018	27.3.2023
Director	PT Hanjaya Mandala Sampoerna tbk.	Indonesia	14.4.2023	
Director	Sampoerna International Pte. Ltd.	Singapore	14.12.2023	

Stanislava Juríková, member of the Supervisory Board

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mrs. Stanislava Juríková held the position of Director Finance & IS for the Czech Republic, Slovakia and Hungary in Philip Morris ČR a.s. since September 2016 till March 2018, as her latest position in the executive team of the company. Mrs. Stanislava Juríková began her career with Philip Morris Slovakia s.r.o. in 1996 and has held various positions overseeing finance activities related to accounting, internal controls, reporting, capital expenditure, budgeting and planning. In 2006 she was relocated to Philip Morris ČR a.s. as Manager Planning & Business Development, responsible for Czech market, followed by an assignment in Philip Morris International Inc. in Switzerland in the global Financial Planning, Management Reporting & Systems department. Since November 2008 she managed the Finance & Administration department in Philip Morris Slovakia s.r.o. and she performed the function until her appointment to the position of Director Finance & IS for the Czech Republic and Slovakia in December 2011. Since October 2016, she became responsible also for Hungarian market.

Mrs. Juríková holds a bachelor's degree in Management from the Comenius University in Bratislava and a Professional Diploma in Management from the Open University Business School, Milton Keynes, UK.

On April 27, 2018 Mrs. Juríková was elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the Annual General Meeting of Shareholders for a period of three years. On May 22, 2021 Mrs. Juríková was re-elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the General Meeting of Shareholders performed outside the meeting (per rollam) for a period of three years.

In the previous five years Ms. Juríková was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Member of Supervisory Board and Audit Committee	Philip Morris ČR a.s.	Czech Republic	27.4.2018	
Member of the Board	Philip Morris ČR a.s.	Czech Republic	27.4.2012	27.4.2018
Member of Supervisory Board	Mendel Therapeutics SE	Czech Republic	17.1.2022	
Member of Supervisory Board	sapientis biotech SE	Czech Republic	5.9.2022	

Seamus Minihan. member of the Supervisory Board (as of April 28, 2023)

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mr. Minihan joined Philip Morris International in 2016 in Switzerland, working in various roles as a Finance Director. He was initially appointed as the Director of Accounting Policy and Research and subsequently, in 2019, as Director of Finance in Accounting Consolidation. In March 2020 he was appointed as Finance Director and Regional Controller for Middle East, Africa and Duty Free. Mr. Minihan currently holds the position of Europe Controller in Philip Morris Products S.A. in Switzerland, with the responsibility for the Europe Region.

Mr. Minihan holds a bachelors degree in Business Studies from the University of Limerick in Ireland, and is a member of the Irish Institute of Chartered Accountants and a Certified Public Accountant in the United States of America.

On April 28, 2023 Mr. Minihan was elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the Annual General Meeting of Shareholders for a period of three years.

In the previous five years Mr. Minihan was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Supervisory Board member	Philip Morris ČR a.s.	Czech Republic	28.4.2023	

Prof. Ing. Alena Zemplinerová, CSc., member of the Supervisory Board

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Prof. Zemplinerová studied at Princeton University and worked for Solomon Brothers, Inc., Research Department, Emerging Market Group during 1991-1992. Since 1993 she was working as a senior researcher at CERGE-EI. Since 1999 she was lecturing at the University of Economics in Prague (VŠE) where she was since 2012 member of the Scientific Board of the Faculty of Economics. During 2010-2013 she was a head of the Department of Economics and Management at CEVRO Institute and since 2014 she has been full time professor at Anglo-American University Prague. She was managing and coordinating numerous projects within the OECD, EU, The World Bank, EBRD focusing on restructuring and foreign direct investments and European integration. During 2004-2006 she served as a member of the Economic Advisory Group for Competition Policy at DG-Competition, European Commission, DG Competition.

On April 26, 2013 Prof. Zemplinerová was elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the Annual General Meeting of Shareholders. On April 30, 2015 she was re-elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the Annual General Meeting. On April 27, 2018 Prof. Zemplinerová was re-elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the Annual General Meeting of Shareholders for a period of three years. On May 22, 2021 Prof. Zemplinerová was re-elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the General Meeting of Shareholders performed outside the meeting (per rollam) for a period of three years.

In the previous five years Prof. Zemplinerová was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Supervisory Board Member	Philip Morris ČR a.s.	Czech Republic	26.4.2013	

Tomáš Hilgard, member of the Supervisory Board (as of March 17, 2023)

Contact address: Philip Morris ČR a.s., Vítězná 1, 284 01 Kutná Hora

Mr. Hilgard joined Philip Morris ČR a.s. in January 1993 Subsequently he worked for the company in the position of Sales Representative, Supervisor of Sales Team in Prague, Supervisor of Training Group, Business Communication Manager, Corporate Affairs Manager, Regional Sales Manager, and 3rd Party Manager in Sales and Distribution He currently holds the position of COD Manager in the area of reduced risk products.

Mr. Hilgard graduated from the High school and the Electro-technical School in Prague, currently he attends University of Economics and Management, specialization Marketing and PR.

Mr. Hilgard was elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the employees of Philip Morris ČR a.s. on March 17, 2023, as their representative for a period of three years.

In the previous five years Mr. Hilgard was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Supervisory Board Member	Philip Morris ČR a.s.	Czech Republic	17.3.2023	
Supervisory Board Member	Philip Morris ČR a.s.	Czech Republic	15.2.2019	15.2.2022

Jan Kodaj, member of the Supervisory Board (as of March 17, 2023)

Contact address: Philip Morris ČR a.s., Vítězná 1, 284 01 Kutná Hora

Mr. Kodaj has been working for Philip Morris ČR a.s. since 1996. He started as a Mechanic in General Engineering Services department and then worked in engineering, manufacturing, maintenance, open+ in several positions. In 2017 and 2018 was Mr. Kodaj on a work placement in Philip Morris Poland in Krakow. Currently, Mr. Kodaj holds the position of Supervisor Technical Support in the Technical services department, where he leads a team of preventive mechanics and provides technical support for production in Kutná Hora.

Mr. Kodaj is a graduate of the Bachelor's degree in Social and Political Sciences at the Academia Rerum Civilium in Kutná Hora.

Mr. Kodaj was elected as a member of the Supervisory Board of Philip Morris ČR a.s. by the employees of Philip Morris ČR a.s. on March 17, 2023, as their representative for a period of three years.

In the previous five years Mr. Kodaj was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Supervisory Board Member	Philip Morris ČR a.s.	Czech Republic	17.3.2023	

Audit Committee

Stefan Bauer, Chairperson of the Audit Committee (until September 26, 2023)

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mr. Bauer joined Philip Morris in 1997 in Germany. Subsequently he worked for Philip Morris as Manager Finance in the United Kingdom, as Director Finance in the Italian and Japanese affiliates, and as Vice president Finance and Business Planning for the EEMA and later the MEA & PMI Duty Free Regions. He held the position of Vice President EU Finance in Philip Morris Products S.A., with responsibility for Finance in the European Union.

Mr. Bauer holds a master's degree in Business Administration from Augsburg University in Germany.

Pursuant to Article 20 par. 4 of the Articles of Association, Mr. Bauer was appointed as a member and elected as a Chairperson of the Audit Committee of Philip Morris ČR a.s. by the other members of the Audit Committee on September 23, 2019 until the next General Meeting. On July 1, 2020 Mr. Bauer was elected as a member of the Audit Committee of Philip Morris ČR a.s. by the General Meeting of Shareholders performed outside the meeting (per rollam) for a period of three years. Mr. Bauer was re-elected as a member of the Audit Committee of Philip Morris ČR a.s. by the Annual General Meeting of Shareholders on April 28, 2023 for a period of three years. The term of the office of Mr. Bauer terminated on September 26, 2023 after his resignation from the office of a member of the Audit Committee was discussed by the Audit Committee of Philip Morris ČR a.s.

In the previous five years until the date of termination of his term of office of a member of the Audit Committee Mr. Bauer was a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Chairperson of Supervisory Board and Audit Committee	Philip Morris ČR a.s.	Czech Republic	23.9.2019	26.9.2023
Member of the Board	Philip Morris Aktiebolag	Sweden	10.9.2021	30.6.2023
Supervisory Board Member	Philip Morris Polska Społka Akcyjna	Poland	27.2.2020	24.7.2023
Member of the Board	Philip Morris Finland Oy	Finland	5.12.2019	30.6.2023
Director	Philip Morris ApS	Denmark	2.12.2019	30.6.2023
Director	Philip Morris Italia S.r.l.	Italy	3.10.2019	1.8.2023
Director	Acrin (Tobaccos) Limited	United Kingdom	1.10.2019	
Director	George Dobie & Son Limited	United Kingdom	1.10.2019	
Director	Godfrey Phillips Limited	United Kingdom	1.10.2019	
Director	Orecla Investments Limited	United Kingdom	1.10.2019	

Director	Park (U.K.) Limited	United Kingdom	1.10.2019	
Director	Park Tobacco Limited	United Kingdom	1.10.2019	
Director	Philip Morris & Company (UK) Limited	United Kingdom	1.10.2019	
Director	Philip Morris Limited	United Kingdom	1.10.2019	
Director	United Kingdom Tobacco Company Limited (The)	United Kingdom	1.10.2019	
Director	Nicocigs Limited	United Kingdom	1.10.2019	
Member	Papastratos Cigarettes Manufacturing Company S.A.	Greece	16.9.2019	
Director	Philip Morris Benelux B.V.	Belgium	15.9.2019	1.9.2023
Member of the Board	Philip Morris Norway AS	Norway	15.9.2019	30.6.2023
Director	Swedish Match Sales Norway AS	Norway	15.9.2019	30.6.2023
Member of the Board	Philip Morris Switzerland Sarl	Switzerland	15.9.2019	23.3.2023
President	Philip Morris Switzerland Sarl	Switzerland	30.9.2019	23.3.2023
Director	PM Tobakk Norge AS	Norway	15.9.2019	
Liquidator	Pan Africa Entrepreneurs Sarl	Switzerland	12.7.2019	15.9.2019
Liquidator	Pan Africa Invest Company Sarl	Switzerland	28.5.2019	17.10.2019
Director	Pan Africa Entrepreneurs Limited	United Kingdom	14.12.2017	9.9.2019
Member of the Board	Philip Morris Services S.A.	Switzerland	5.12.2016	15.9.2019
Director	Foreign Investors (FZC)	United Arab Emirates	30.6.2016	30.5.2020
Management Board Member	Pan Africa Entrepreneurs Sarl	Switzerland	30.3.2015	12.7.2019
Director	Philip Morris Misr Limited Liability Company	Egypt	11.5.2014	12.12.2019
Director	Emirati Investors - TA (FZC)	United Arab Emirates	8.12.2013	27.3.2020
Member of the Board	Philip Morris Pazarlama ve Satis A.S.	Turkey	22.10.2013	15.9.2019
Member of the Board	Philip Morris Tutun Mamulleri Sanayi ve Ticaret A.S.	Turkey	22.10.2013	15.9.2019
Director	Philip Morris South Africa (Proprietary) Limited	South Africa	1.7.2013	19.9.2019
Director	Philip Morris South Africa Holdings (Proprietary) Limited	South Africa	1.7.2013	19.9.2019
Director	Leonard Dingler (Proprietary) Limited	South Africa	1.7.2013	19.9.2019
Gerant President	Philip Morris Exports Sàrl	Switzerland	1.7.2013	15.9.2019
Member of the Board	Philip Morris International Service Center, S.L. Sociedad Unipersonal	Spain	4.3.2020	
Vice Chairperson	Philip Morris International Service Center, S.L. Sociedad Unipersonal	Spain	4.3.2020	
Vice Chairperson	Philip Morris Spain, S.L.	Spain	4.3.2020	

Member of the Board	Philip Morris Spain, S.L.	Spain	4.3.2020	
Manager	Philip Morris Luxembourg S.a.r.l.	Luxembourg	18.3.2020	1.9.2023

Tamara Milovanovic, Chairperson of the Audit Committee (as of September 26, 2023)

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mrs. Milovanovic joined Philip Morris in 2010 in Belgrade, Serbia as Business Development and Planning Manager for Serbia and Montenegro markets. She subsequently worked as Business Development and Planning Director and Finance Director for South East Europe cluster markets, followed by Vice President Finance, Eastern Europe. She currently holds the position of Vice President Finance, Europe Region, with responsibility for Finance in the European Union. Prior to joining Philip Morris, Mrs. Milovanovic worked in investment banking and consulting roles at Lazard Freres & Co and Booz Allen Hamilton.

Mrs. Milovanovic holds a BA in International Relations from The University of British Columbia and an MBA from INSEAD.

Pursuant to Article 20 par. 4 of the Articles of Association, Ms. Milovanovic was appointed as a member and elected as a Chairperson of the Audit Committee of Philip Morris ČR a.s. by the other members of the Audit Committee on September 26, 2023 until the next General Meeting.

In the previous five years Ms. Milovanovic was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Chairperson of Supervisory Board and Audit Committee	Philip Morris CR a.s.	Czech Republic	26.9.2023	
Supervisory Board Member	Philip Morris Polska Społka Akcyjna	Poland	24.7.2023	
Board Member	Philip Morris ApS	Denmark	30.6.2023	
Board Member	Philip Morris Finland Oy	Finland	30.6.2023	
Board Member	Philip Morris Norway AS	Norway	30.6.2023	
Board Member	Swedish Match Sales Norway AS	Norway	30.6.2023	
Director	Philip Morris Aktiebolag	Sweden	30.6.2023	
Director	Philip Morris Benelux B.V.	Belgium	1.9.2023	
Director	Philip Morris Italia S.r.l.	Italy	1.8.2023	
Director	Philip Morris Operations a.d. Nis	Serbia	28.3.2018	11.3.2020
Manager	Philip Morris Luxembourg S.a.r.l.	Luxembourg	1.9.2023	
President Director	Philip Morris Operations a.d. Nis	Serbia	12.3.2020	8.11.2021
Supervisory Board Member	Megapolis Distribution B.V.	Netherlands	2.11.2021	

Stanislava Juríková, member of the Audit Committee

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mrs. Stanislava Juríková held the position of Director Finance & IS for the Czech Republic, Slovakia, and Hungary in Philip Morris ČR a.s. since September 2016 till March 2018, as her latest position in the executive team of the company. Mrs. Stanislava Juríková began her career with Philip Morris Slovakia s.r.o. in 1996 and has held various positions overseeing finance activities related to accounting, internal controls, reporting, capital expenditure, budgeting, and planning. In 2006 she was relocated to Philip Morris ČR a.s. as Manager Planning & Business Development, responsible for Czech market, followed by an assignment in Philip Morris International Inc. in Switzerland in the global Financial Planning, Management Reporting & Systems department. Since November 2008 she managed the Finance & Administration department in Philip Morris Slovakia s.r.o. and she performed the function until her appointment to the position of Director Finance & IS for the Czech Republic and Slovakia in December 2011. Since October 2016, she became responsible also for Hungarian market.

Mrs. Juríková holds a bachelor's degree in Management from the Comenius University in Bratislava and a Professional Diploma in Management from the Open University Business School, Milton Keynes, UK.

On April 27, 2018 Mrs. Juríková was elected as a member of the Audit Committee of Philip Morris ČR a.s. by the Annual General Meeting of Shareholders for a period of three years. On May 22, 2021 Mrs. Juríková was re-elected as a member of the Audit Committee of Philip Morris ČR a.s. by the General Meeting of Shareholders performed outside the meeting (per rollam) for a period of three years.

In the previous five years Mrs. Juríková was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Supervisory Board and Audit Committee Member	Philip Morris ČR a.s.	Czech Republic	27.4.2018	
Member of the Board	Philip Morris ČR a.s.	Czech Republic	27.4.2012	27.4.2018
Member of Supervisory Board	Mendel Therapeutics SE	Czech Republic	17.1.2022	
Member of Supervisory Board	sapientis biotech SE	Czech Republic	5.9.2022	

Petr Šobotník, member of the Audit Committee

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mr. Šobotník graduated from the University of Economics and Business in Prague. In the years 1983-1991 Mr. Šobotník led the accounting sections in the telecommunications and post departments at the corporate and departmental level. From 1991 to 2010 he worked for the audit firm Coopers & Lybrand/PricewaterhouseCoopers, from 1995 as a Partner in senior positions in the audit department. He became a certified auditor in 1991 and worked 27 years as a statutory auditor and a member of the Chamber of Auditors of the Czech Republic. From 2007 to 2014 he was re-elected President of the Chamber of Auditors of the Czech Republic in two terms. Currently Mr. Šobotník primarily performs function of independent member of the audit committees.

Pursuant to Article 20 par. 4 of the Articles of Association, Mr. Šobotník was appointed as a member of the Audit Committee of Philip Morris ČR a.s. by the other members of the Audit Committee on July 1, 2021, until the next General Meeting. On May 24, 2022, Mr. Šobotník was elected as a member of the Audit Committee of Philip Morris ČR a.s. by the General Meeting of Shareholders performed outside the meeting (per rollam) for a period of three years.

In the previous five years Mr. Šobotník was and still is a member of the administrative, management or supervisory bodies or a partner of the following companies:

Function	Company Name	Jurisdiction of Incorporation	Date Appointed	Date Resigned
Member of the Audit committee	Philip Morris ČR a.s.	Czech Republic	1.7.2021	
Chairperson of the Audit Committee	Letiště Praha, a.s.	Czech Republic	23.1.2014	31.10.2023
Vice Chairperson of the Audit Committee	Letiště Praha, a.s.	Czech Republic	1.11.2023	
Member of the Supervisory Board	Letiště Praha, a.s.	Czech Republic	7.3.2017	3.11.2022
Member of the Supervisory Board	Letiště Praha, a.s.	Czech Republic	1.11.2023	
Vice Chairperson of the Supervisory Board	Letiště Praha, a.s.	Czech Republic	4.11.2022	31.3.2023
Chairperson of the Audit Committee	ČEPRO, a.s.	Czech Republic	1.1.2016	
Chairperson of the Audit Committee	Kofola Československo a.s.	Czech Republic	21.6.2017	31.10.2023
Vice Chairperson of the Audit Committee	Kofola Československo a.s.	Czech Republic	1.11.2023	
Member of the Supervisory Board	Československá obchodní banka, a.s.	Czech Republic	1.2.2011	31.12.2018
Chairperson of the Audit Committee	Československá obchodní banka, a.s.	Czech Republic	7.4.2016	31.12.2022
Chairperson of the Audit Committee	ČSOB Stavební spořitelna, a.s.	Czech Republic	4.2.2019	31.12.2022
Member of the Audit Committee	ČSOB Penzijní společnost, a.s.	Czech Republic	3.2.2016	2.1.2020
Chairperson of the Audit Committee	ČSOB Penzijní společnost, a.s.	Czech Republic	2.1.2020	31.12.2022
Vice Chairperson of the Audit Committee	MERO, a.s.	Czech Republic	6.1.2021	
Chairperson of the Audit Committee	Severomoravské vodovody a kanalizace, a.s.	Czech Republic	25.5.2017	21.5.2021
Vice Chairperson of the Audit Committee	Severomoravské vodovody a kanalizace, a.s.	Czech Republic	21.5.2021	
Member of the Audit Committee	ČEZ, a.s.	Czech Republic	29.6.2022	