VÝROČNÍ FINANČNÍ ZPRÁVA

ANNUAL FINANCIAL REPORT

2022

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INTRODUCTORY WORD

Dear Shareholders,

This Annual Report is a look back at our work in 2022, a watershed year in many ways. In the end, unfortunately, for very different reasons than we expected on the threshold of the new year. However much we envisioned a reboot in economic performance and public social events after two years of the COVID-19 pandemic, this optimism only lasted until the end of February, when we all watched the Russian invasion of Ukraine with concern. Like everyone else, I wondered what impact the war would have on our business and lives. However, this incident also showed the character of the people living in the Czech Republic, Slovakia and other neighbouring countries. There was a great wave of solidarity, and I am incredibly proud that our company and its employees actively supported those Ukrainians seeking shelter and, as in previous "COVID" years, helped wherever it was needed, regardless of their own comfort.

At the same time, it is symbolic that in 2022, Phillip Morris commemorated its 30th anniversary in the Czech Republic. Although licensed production in Kutná Hora dates back to 1987, its real entry came with the privatization of the state-owned company Tabák, a.s. in 1992. After thirty years of successful operation, we can proudly say it is one of the most successful transformation projects of the post-revolution period. The total value of the transaction of USD 420 million became the second-highest foreign investment in Czechoslovakia. At the same time, it was the most significant investment by an American company in Central Europe. Philip Morris quickly established itself as one of the most vital foreign concerns operating on the Czech market and brought a strong know-how and corporate management culture to the emerging economy, as well as stable employment according to the standards of advanced economies and trade openness on the Prague Stock Exchange, including stable returns paid to shareholders without exception since 1997. In addition, the company has been a net taxpayer throughout its history, with current annual corporate income tax payments of around CZK 1 billion.

The past thirty years illustrate our culture and social responsibility very well. We successfully continue to offer equal opportunities to all our employees without distinction. I am overwhelmed that here in the Czech Republic, we have retained both the EQUAL SALARY Certificate and the Top Employer certification. At the same time, we were granted the “Top Responsible Business Award”, which honours companies that emphasize responsibility and sustainability. The Kutná Hora plant has been carbon neutral since 2021 while we continue to invest significant resources in the modernization of the plant and, in particular, reducing its energy consumption. In 2022, the Kutná Hora plant was recertified as carbon neutral. It became just the second production facility in the Czech Republic that has met the requirements of the Alliance for Water Stewardship audit - i.e., responsible water management. This path has proven to be the right one just in 2022. Thanks to these steps, we were able to face a record-high increase in energy costs, among the highest in the Czech Republic compared to other countries. I do not doubt that our approach will help us cope with the crisis that has been affecting the European economy since last year, also thanks to the unconditional efficiency and quality of production at the Kutná Hora plant, which, among other things, managed to take over production for the closed and later destroyed plant in Kharkiv in Ukraine.

Our vision of sustainability is not just about the production itself but permeates all our activities, including the product portfolio. We are building our future on smoke-free products that are a better choice than cigarette smoking and innovations that reduce the health impacts of smoking.

To make our smoke-free vision a reality, we took several necessary steps in 2022. The most important of these was the launch of the revolutionary new heated tobacco device *IQOS ILUMA* that offers adult smokers lower-risk alternatives instead of continuing to smoke. Thanks to the pioneering technology using the Smartcore Induction System of tobacco heating, it delivers the expected enjoyment to users while eliminating some of the weaknesses of previous *IQOS* generations that our adult users were not satisfied with. In short, the *IQOS ILUMA* device range comes with all the advanced features and, above all, the latest breakthrough *IQOS* technology. PMI's efforts to continue on the path to a smoke-free future were also underlined by the acquisition of Swedish Match, a Swedish smokeless tobacco manufacturer, which will significantly contribute to the further expansion of our smoke-free product portfolio. Swedish Match also focused on developing its portfolio of inhaled medicine and health and lifestyle products and devices in 2022.

For Philip Morris ČR a.s., 2022 was also very successful in several aspects. The production volume in Kutná Hora reached a historical record, making it one of the top 5 conventional factories that PMI operates. It is one of the safest, most sustainable production facilities in the Czech Republic. This is proven by the prestigious environmental certifications mentioned above and the recertification for health and safety, as we managed the past year without a safety or quality accident. It is not for nothing that Philip Morris ČR a.s. is among the top three PMI branches in terms of employee satisfaction.

Thanks to the all-new *IQOS ILUMA*, we have also reached respectable numbers in smoke-free alternatives. Since its launch in 2017, the *IQOS* device has been used by 860 thousand adult users in the Czech Republic and Slovakia, and 590 thousand of them have stopped smoking conventional cigarettes and switched to better alternatives. This reason commits us to continue our efforts to build PMI's future on smoke-free products and seize this unique opportunity for further growth and to solve public health problems. You, our shareholders, are an integral part of this story, and I am deeply grateful for your trust and continued support; thank you very much.

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

Company Profile

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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 adult smokers who would otherwise continue to smoke or use nicotine with innovative smoke-free alternatives that reduce or have the potential to reduce risk compared to smoking tobacco. Philip Morris ČR a.s. is listed on the Prague Stock Exchange (Burza cenných papírů Praha) and has a 99% interest in Philip Morris Slovakia s.r.o., registered in the Slovak Republic.

Since 2017, we have been offering our adult customers a wide portfolio of innovative smoke-free products, which we have significantly expanded in the past year. In the Czech Republic and Slovakia, we distribute the heated-tobacco solution, *IQOS* and *lil SOLID* devices with *HEETS, TEREA* and *Fiit* consumables, electronic cigarette *IQOS VEEV* and provide a variety of related accessories and services to adult nicotine users. We are also the largest manufacturer and distributor of smoking tobacco products.

Last year, Phillip Morris commemorated its 30th anniversary by entering Czechoslovakia through the privatization of the state-owned company Tabák, a.s. in 1992. This year, we are celebrating the thirtieth anniversary in Slovakia. However, our history goes deep into the past. "Tabačka", the production plant in Kutná Hora, boasts a tradition of more than two hundred years of tobacco and tobacco products production. 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, Philip Morris 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 top-notch work environment. We aim to offer the best possible conditions, so that every employee can fully meet their potential.

Being awarded the Top Employer Award and the EQUAL-SALARY certification as the first company in both countries is proof that Philip Morris provides such an environment.

At the same time, we are very aware of our commitment to our surroundings and to society as a whole. This is why we have been contributing significantly to charitable projects across a wide range of organizations and specializations, including social programs aimed at improving living conditions in local communities.

Consolidated highlights

Consolidated highlights

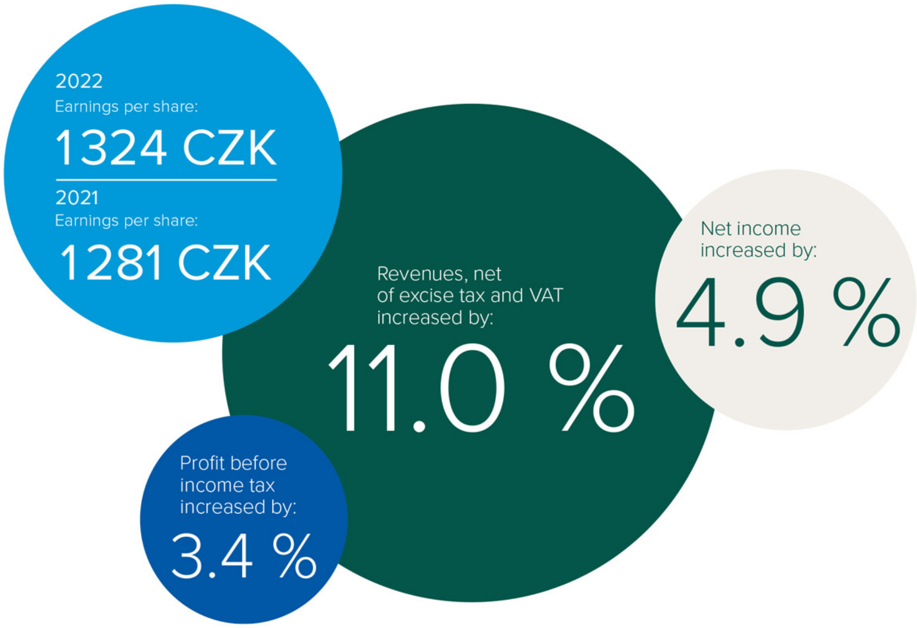
(in CZK million)

Period ended December 31	2022	2021	Change in %
Revenues, net of excise tax and VAT	20 948	18 867	11.0
Profit from operations	4 243	4 367	(2.8)
Profit before income tax	4 596	4 383	4.9
Net income for the year	3 636	3 517	3.4
Earnings per share (CZK)	1 324	1 281	3.4

Shipments per Segment

(in billion units equivalent)[1]

Period ended December 31	2022	2021	Change in %
Czech Republic	7.1	7.4	(4.4)
Slovakia	4.1	4.1	0.6
Total	11.2	11.5	(2.7)



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

[1] Shipments in Czech Republic include cigarettes and other tobacco products such as cigarillos, tobacco for make-your-own cigarettes (0.73 g is equivalent to 1 cigarette) and volume tobacco for make-your-own cigarettes (0.60 g is equivalent to 1 cigarette), as well as heated tobacco units. Shipments in Slovakia include cigarettes and heated tobacco units. Heated tobacco units is the term we use to refer to heated tobacco consumables, which include *HEETS, TEREA*, as well as the KT&G' licensed brands, *Fiit*.

Overview of selected events in 2022

January

- **For the eighth year in a row, the Philip Morris ČR a.s. company was awarded the prestigious international certificate Top Employer Czech Republic.** The certification is granted by the Top Employers Institute, which audits companies, evaluates the quality of their HR processes, and assesses firms 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.

- Philip Morris ČR a.s. opened specialized "Káva s sebou" (Coffee-To-Go) shop in Bořislavka shopping center, the first in Prague. This unique concept combines a cutting-edge design of the *IQOS* store, premium coffee, and the option of purchasing our smokeless alternatives, including a wide assortment. It is also one of the first places in the Czech Republic to discover our ***IQOS* device Take Back program** – the concept which is an integral part of our sustainable approach. At 2022 year-end, there were sixteen shops "Káva s sebou" in operation.

February

- For safety reasons, PMI announced the temporary suspension of its operations at its factory in Kharkiv. **The Czech plant in Kutná Hora subsequently took over part of the production capacity of the Kharkiv factory.** Philip Morris has been also actively helping the employees of the Ukrainian plant and their families, as well as supporting the integration of Ukrainian refugees in the Czech Republic (more information you can find in the Board of Directors' Report).

- New tobacco stick flavors for *lil SOLID* were put on the market – ***Fiit Roxo*** and ***Fiit Regular Deep*.** Both flavors are among the most popular in the Czech Republic and Slovakia.

- In February 2022, **four new flavors of *VEEV*** refills with lower nicotine levels were introduced in the Czech Republic.

March

- Philip Morris ČR a.s. **reported the results for the year 2021**. Revenues, the net of excise tax and VAT, grew by 7.6% to CZK 11.2 billion in the Czech Republic and the revenues of Philip Morris Slovakia s.r.o. and the net of excise tax and VAT increased by 7.1% (vs. the previous year) to EUR 208.4 million.

April

- The Philip Morris ČR a.s. Manufacturing Plant in Kutná Hora takes yet another step towards more sustainable production. **By obtaining two prestigious certificates,** Philip Morris ČR a.s. confirms its interest in **responsible water management and reducing CO_2 production.** The Kutná Hora plant is just the second production facility in the Czech Republic that has met the requirements of the Alliance for Water Standards (AWS) audit. Some of the areas that were evaluated include a proper system of water management, a sustainable hydrological score, good water quality, protection of important fields related to water, etc. Another success in the field of sustainability for the Philip Morris ČR a.s. plant in Kutná Hora was gaining the so-called carbon neutrality certification. The primary purpose of this audit was to prove that the plant continues to reduce its energy consumption (as well as the production of CO_2), improve its technologies, and manage sustainable operations projects that are more friendly to the environment.

- The new ***IQOS 3 DUO* Limited Edition** was introduced to adult customers in April 2022. We had a very positive response among our adult users in the Czech Republic and Slovakia.

May

- The General Meeting performed outside the meeting (per rollam) between 13 April and 23 May 2022 announced **a gross profit share of CZK 1,310 associated with each share of the company.**

- Philip Morris ČR a.s. received the prestigious EQUAL-SALARY certification for equal pay conditions. This award is given as independent confirmation of equal pay for men and women working in the same position by the Swiss EQUAL-SALARY Foundation in cooperation with Geneva University and PwC professional services network.

- **The portfolio of *IQOS VEEV* refill pods was expanded by two more flavors** – *VEEV Velvet Valley* and *VEEV Island Cascade*.

June

- **A new-generation electronic cigarette for vaping, *IQOS VEEV*,** with a broad portfolio of *VEEV* pod refills **was launched on the Slovak market.**

- Philip Morris ČR a.s. has been repeatedly awarded by the Ministry of Finance and the General Financial Directorate for ranking among the twenty **largest corporate income taxpayers.** In 2021, Philip Morris ČR a.s. paid more than CZK 1 billion.

- Together with other tobacco companies operating in the Czech and Slovak markets, we launched the pilot anti-littering campaign "Cigaretovník". It aims to inform and motivate adult smokers to manage post-consumer waste.

July-August

- The new interactive laboratory, **"A smoke-free world"** by the virtual scientist Professor Dohořel, was installed during the Karlovy Vary International Film Festival (KVIFF), the Slovak Pohoda Festival and the traditional fair "Země živitelka". These state-of-the-art technologies of the 21st century bring adult users closer to the science and research behind modern smoke-free nicotine alternatives that help improve the quality of life by eliminating cigarette smoke. In next months, there were also other opportunities to meet the Professor, for example, at the fair "Flora Olomouc" or Czech Design Week in Prague.

September

- Philip Morris ČR a.s. **reported half-year consolidated sales of CZK 9.8 billion with year-on-year growth in net profit to CZK 1.8 billion.** Domestic sales of heated tobacco products increased by 0.2 billion to a total of 1.6 billion units in the Czech Republic and Slovakia.

- The *IQOS* adult user base increased to approximately 830 thousand in the Czech Republic and Slovakia by mid-2022, about 530 thousand in the Czech Republic and 300 thousand adult users in Slovakia. **According to PMI, 570 thousand *IQOS* users had stopped smoking and switched to *IQOS* completely.**

November

- First in the Czech Republic and a week later in Slovakia, **the revolutionary new *IQOS ILUMA* heated tobacco device** was launched for all adult smokers who would otherwise continue to smoke. The all-new *IQOS ILUMA* is the brand's first tobacco-heating system to introduce induction-heating technology, which requires no blade and no cleaning. The new *TEREA* tobacco sticks are designed to be used only with *IQOS ILUMA*.

- A long-prepared **digital twin project** was launched at the Philip Morris ČR a.s. Manufacturing Plant in Kutná Hora as part of the entire warehouse management operations. The digital twin was implemented in the warehouse of finished products and the direct material warehouse. The implementation will contribute to the overall efficiency of production and logistics.

December

- By the end of 2022, **the Kutná Hora plant produced the largest number of cigarettes ever, 32.5 billion units.** This number placed us among the world's five largest conventional plants of PMI. Moreover, this has been achieved while effectively reducing the environmental burden without safety, health or quality accidents.

Development of products with reduced risk

03

DEVELOPMENT OF PRODUCTS WITH REDUCED RISK

The World Health Organization (WHO) estimates that there will be more than 1 billion smokers[2] worldwide by 2025, which roughly corresponds to present day figures. Since smoking prevalence remains largely unchanged in a 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 had publicly declared that our goal is to convince all current adult smokers that would otherwise continue to smoke, to switch to smoke-free products. Our objective is to get at least 40 million adult smokers worldwide to do so by 2025.

Harm Reduction of Smoking

The harm reduction is an internationally highly regarded concept in addiction treatment, premised on the minimization of smoking related risk and harm. 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)[3] 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 has to 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 why PMI is developing a range of smoke-free products. 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. invested over USD 10.5 billion 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 more than 930 world-class engineers and experts that drive forward our research, including laboratory and clinical trials.

A robust and transparent science 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 behavior studies conducted to verify whether consumers correctly understood the product communication and determine how will they use our products in a real life.

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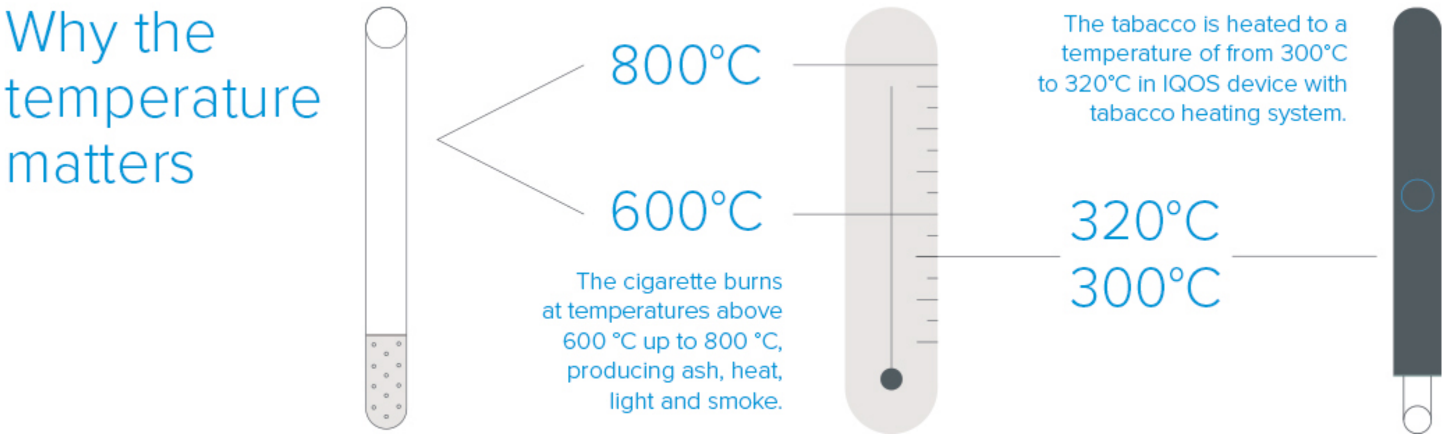
[2]Bilano V, Gilmour S, Moffiet T, d'Espaignet ET, Stevens GA, Commar A, Tuyl F, Hudson I, Shibuya K. (2015)) Global trends and projections for tobacco use, 1990–2025: an analysis of smoking indicators from the WHO Comprehensive Information Systems for Tobacco Control Lancet 385:966-76

[3] Harmful and Potentially Harmful Constituents

Difference Between Combustion and Heating

The tobacco combustion process creates large quantities of chemical constituents. Lighting a cigarette triggers a tobacco combustion process, creating smoke, containing thousands of chemical constituents. 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[4,5] many of which are harmful or potentially harmful. These harmful and potentially harmful constituents are derived from 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 are considered to be the probable causes of smoking related diseases such as lung cancer, cardiovascular diseases or chronic obstructive pulmonary disease.



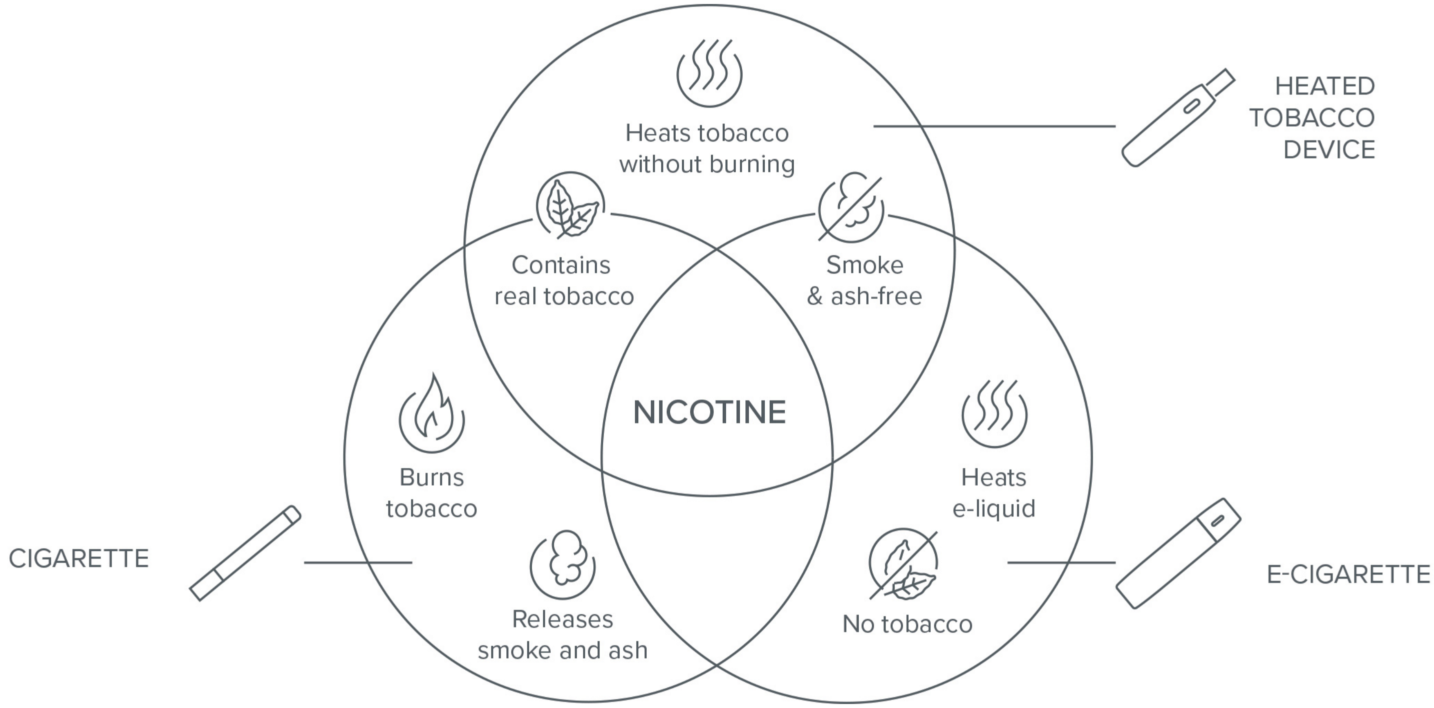
Through years of research and development, we've developed a new class of breakthrough products that do not rely on the principle of burning, and therefore do not produce smoke. Instead, we have found several ways to produce a flavourful nicotine-containing vapor that a consumer can inhale, but that has significantly lower levels of harmful chemicals than cigarettes.[6]

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 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.

[4] How Tobacco Smoke Causes Disease: The Biology and Behavioral Basis for Smoking-Attributable Disease: A Report of the Surgeon General. https://www.pmiscience.com/cs/ our-products/ combustion#be439e85-2f88-696a-9e88-ff000043f5e9.

[5] The Chemical Components of Tobacco and Tobacco Smoke, Second Edition. https://www.pmiscience.com/cs/our-products/combustion#d07d9f85-2f88-696a-9e88- ff000043f5e9.

[6] Smoke-free products are better alternative but smoking causes serious disease, and the best way to avoid the harms of smoking is never to start, or to quit. 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.



Nicotine

Nicotine containing products are addictive and therefore not risk-free. However, a long-term expert consensus prevails that nicotine is not the main cause smoking related diseases. The majority of harmful effects of smoking is caused by chemical constituents formed as part of the tobacco Combustion process. Tobacco and/or nicotine containing products are not risk-free. Youth, pregnant women or nursing mothers and those with health problems such as cardiovascular diseases, high blood pressure or diabetes, should refrain from using these products. It is in particular important to ensure that tobacco and/or nicotine containing products are not accessible to youth.

Heated Tobacco Products *IQOS*

Electronically heated tobacco product *IQOS* is the most advanced of PMI's reduced risk products, where tobacco inserted into the device is heated to the temperature around 300 – 320 degrees. Unlike in case of cigarettes which burn at 600 to 800 degrees, no combustion process takes place in the heated tobacco product. Compared to cigarette smoke, heating tobacco leads to a significant reduction of harmful chemical constituents being inhaled[7,8].

It is due to the fact that the tobacco is heated to a temperature when a mildly aromatic nicotine containing aerosol is released instead of a cigarette smoke. *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[9].

E-vapor products, also known as e-cigarettes, are another category of smoke-free products. Nicotine derived from tobacco is added to the e-liquid used in the product. 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.

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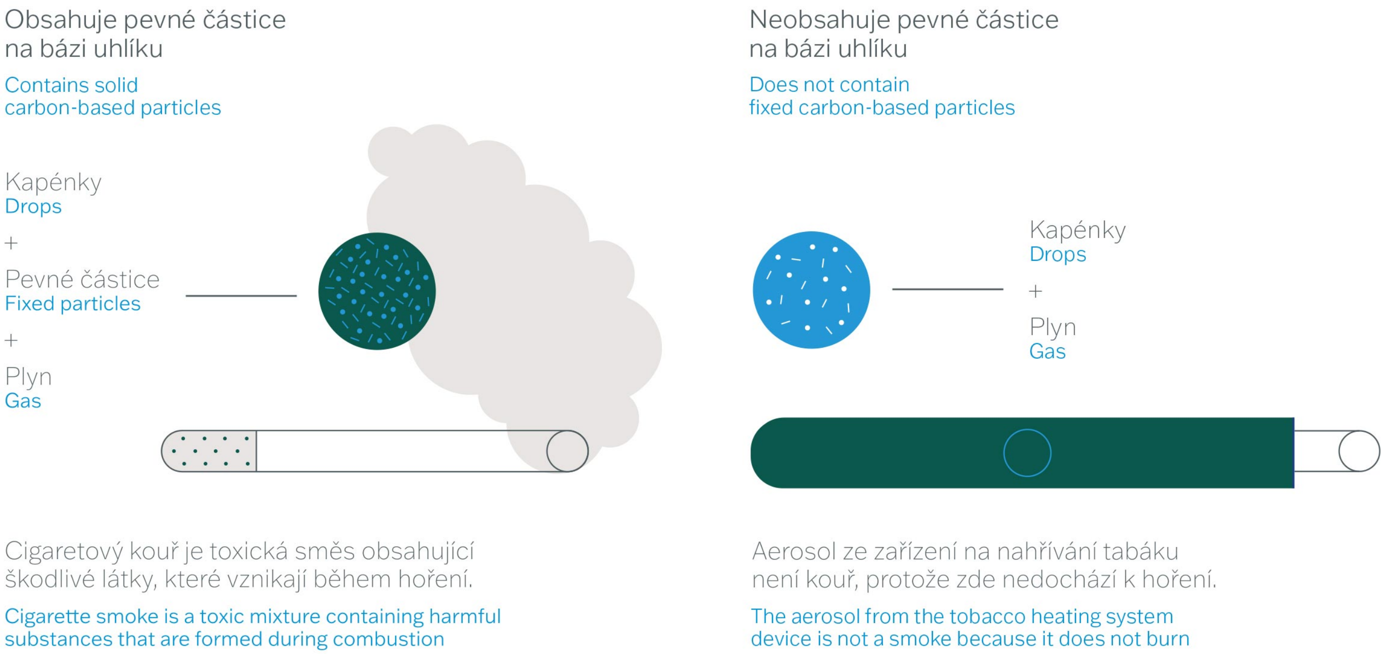
[7] How Tobacco Smoke Causes Disease: The Biology and Behavioral Basis for Smoking-Attributable Disease: A Report of the Surgeon General. https://www.pmiscience.com/cs/smoke-free/nicotine#be439e85-2f88-696a-9e88-ff000043f5e9.

[8] The Chemical Components of Tobacco and Tobacco Smoke, Second Edition. https://www.pmiscience.com/cs/our-products/combustion#d07d9f85-2f88-696a-9e88- ff000043f5e9.

[9]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.

Rozdíl mezi kouřem a aerosolem

Difference between smoke and aerosol



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 moths 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* users and those who continued to smoke cigarettes. PMI already received results for the second six-month period of this ERS, which are now being analyzed and prepared for publication.

You can find more information about *IQOS* and PMI's scientific research at www.pmi.com and www.pmiscience.com.

The decision of the U.S. Food and Drug Administration (FDA) authorizing *IQOS* as Modified Risk Tobacco Product

On 7 July 2020 the U.S. Food and Drug Administration (FDA) authorized the Modified Risk Tobacco Product (MRTP) status with the "exposure modification order" for *IQOS* and *HeatSticks*[10] variants. The granting of the status is a result of an assessment of a wide range of detailed scientific evidence submitted to the FDA by PMI in December 2016[11]. 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

[10] Marlboro HeatSticks, Marlboro Smooth Menthol HeatSticks and Marlboro Fresh Menthol HeatSticks.
[11] https://www.fda.gov/tobacco-products/advertising-and-promotion/modified-risk-orders

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 substances 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 substances. 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.

Our Products

04

Our Products

In 2022, our key focus was on expanding our smoke-free portfolio of *IQOS*[12] and related services to our adult consumers. A major innovation was the launch of the *IQOS ILUMA* device with its revolutionary heating system and *TEREA* tobacco sticks on the Czech and Slovak markets. Our classical cigarettes portfolio also underwent several changes in the past year.

IQOS ILUMA I TEREA

IQOS ILUMA is the latest and most innovative addition to the growing portfolio of smoke-free products *IQOS*. The innovative heating technology in these devices is the SMARTCORE INDUCTION SYSTEM™.

This system uses an innovative metal heating element placed inside the stick and coated with stainless steel for seamless heating of tobacco. This means your tobacco is heated from the core and provides real tobacco taste and satisfaction, with no blade breakages compared to previous *IQOS* generations. The new device requires no cleaning.

The family of revolutionary new *IQOS ILUMA* devices are available in 3 models - *IQOS ILUMA PRIME, IQOS ILUMA* and I*QOS ILUMA ONE*. Innovative technology enhances and elevates your tobacco experience, while advanced features and customization allow you to personalize your device to your tastes and needs. *IQOS ILUMA* is designed to be used only with *TEREA* tobacco sticks with the same wide range of expertly crafted flavours.

Its breakthrough induction-heating technology heats tobacco from within, without burning, so there's no smoke, no ash and, like previous *IQOS* devices, it emits, on average, 95% lower levels of harmful chemicals compared with cigarettes[13]. The new *IQOS ILUMA* device is designed to give adult users a more consistent tobacco experience and make it easier for adult smokers who would otherwise continue to smoke to switch to a better alternative.

[12] Important information: *IQOS* is not risk-free and provides nicotine, which is addictive. Only for use by adults, who would otherwise continue to smoke cigarettes.

[13] "95% less" represents the average reductions in levels of a range of harmful chemicals (excluding nicotine) compared to the smoke of a reference cigarette (3R4F).


TEREA
for IQOS ILUMA
Tento tabákový výrobek škodí Vašemu zdraví a je návykový.

IQOS 3 DUO I HEETS

In April 2022, we launched the new edition *IQOS 3 DUO WE* device as part of the existing *IQOS 3 DUO* portfolio with an exclusive collection of four door covers. The *IQOS 3 DUO WE* consisted of a device in a distinctive turquoise colour with doors with unique designs inspired by a palette of colors that represent diversity, individuality and authenticity.

The end of June was dedicated to a new range of accessories such as side and door covers and silicone cases in new colours for the *IQOS 3 DUO*.

We also continued to expand our portfolio of *HEETS* and launched a new variant of *HEETS Ruby Fuse* in August in the Czech Republic and a month later in Slovakia. In September 2021 we introduced a new variant of *HEETS Amelia Pearl* in both markets. These two new flavours expanded the range of flavours with fruity notes, bringing the *HEETS* flavour portfolio to twelve variants.

After the launch of *IQOS ILUMA*, a family of tobacco heating devices with new generation technology, we decided to discontinue the *IQOS 3 DUO*. The portfolio of *HEETS* tobacco sticks flavour remains available for the *IQOS 3 DUO* and previous blade devices generation users.

lil SOLID I Fiit

In addition to distributing its own portfolio of *IQOS* products, PMI has entered long-term collaboration with KT&G of South Korea to offer a tobacco heating device called *lil SOLID* in selected markets, including the Czech Republic.

The *lil SOLID* uses pin-heating technology that heats the tobacco from the inside, allowing users to experience the same pleasure of heated tobacco without ash and burning. The device produces less smell than cigarettes. The technology used in the *lil SOLID* is the result of rigorous scientific research, allowing the adult user to enjoy a smoke-free tobacco experience with significantly less harmful emissions than cigarettes. *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.

The year 2022 has brought an expansion of the range of different flavours. In February, we introduced two new flavours - *Fiit ROXO* and *Fiit REGULAR DEEP* to our existing portfolio of *Fiit* tobacco sticks, *Fiit REGULAR* and *Fiit MARINE*.

In August, the portfolio was expanded with two more new flavours - *Fiit ISLAND* and *Fiit SPRING*, balanced tobacco blend with a mint flavour enriched with an aroma of fruits. This brings the *Fiit* flavour range to four new flavours in 2022 to a total of six flavours, ranging from tobacco to menthol to fresh fruit-toned flavours that are very popular among adult consumers.

PMI released new accessories - side and door covers for the *lil SOLID* device. This allows adult users to customize their *lil SOLID* device to suit their individual style. Before the arrival of the *lil SOLID* accessories, it was only possible with *IQOS* devices.


IQOS
HEETS
SIENNA SELECTION
for IQOS
Tento tabákový výrobek škodí Vašemu zdraví a je návykový.
REGULAR
Fiit ISLAND
MARINE
Fiit REGULAR DEEP
ROXO
Fiit SPRING

IQOS VEEV I VEEV

IQOS VEEV is an electronic cigarette device which works on the principle of evaporating nicotine contained in the e-liquid using an intelligent MESH heating technology. The device, designed in Switzerland, is the result of many years of scientific research and development, and on average produces over 95 percent less chemical substances than cigarettes[14]. Thanks to high quality materials and innovative technology, the *IQOS VEEV* is a bestseller in its segment, with benefits including ease of use and fast charging.

Since the launch of *IQOS VEEV* on the Czech market in 2020, we significantly expanded the availability of *IQOS VEEV*. At the same time, we brought its adult users a wide range of flavors divided not only by taste, but also by nicotine level. All new variants became one of the most popular ones among our adult users immediately after their introduction and strengthened the position of *IQOS VEEV* in a vaping segment.

In February, four new variants of *VEEV* e-liquid pods with lower nicotine level were introduced in the Czech Republic. In May, *IQOS VEEV* vaping presented two new flavors - *VEEV Velvet Valley* and *VEEV Island Cascade*.

IQOS VEEV devices with a wide range of popular flavors were also launched on the Slovak market last June.

[14] "95% less" represents the average reductions in levels of a range of harmful chemicals (excluding nicotine) compared to the smoke of a reference cigarette (3R4F)


VEEV
RED MIX
2 VEEV NÁPLNE
1.6%
18 mg/ml
nto výrobek obsahuje
kotin, který je vysoce
návykovou látkou.
Jeho užití nekuřáky
se nedoporučuje.

Cigarettes

In 2022, we resumed activities to support our cigarette portfolio. During the first half of the year, *Chesterfield Special* line-up in the cheapest price segment was supported through waves of POS communication, commercial support & mass consumer promotion. However, we also paid special attention to our other brands. During the summer, all four variants of the *L&M First Cut* received a new, improved tobacco blend. Also, some of our so-called SLIM format products, *L&M Loft Aqua* and *Chesterfield Tuned Bright* in particular, were tuned using premium tobacco mixtures enriched with fine tones of fresh aroma.

The end of the year then belonged to our flagship brand *Marlboro*. All *Marlboro* variants' pack designs were improved during November. In addition, *Marlboro Touch* variants introduced innovation in the form of Ash Control Filter, which allows adult smoker after finishing his cigarette to push the ash into the filter instead of dispersal of the ash to the surroundings. In December and January, we focused on highlighting the fact that *Marlboro* has been the best-selling cigarette brand in the world for 50 years, since 1972.

Report of the Board of Directors

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Report of the Board of Directors for the year ended December 31, 2022

Philip Morris ČR a.s., an affiliate of Philip Morris International Inc. ("PMI"), is the largest manufacturer and marketer of tobacco products in the Czech Republic, providing adult smokers with popular international and local brands such as *Marlboro, L&M, Chesterfield, Petra Klasik*, and *Sparta*. It is also a distributor of PMI's smoke-free tobacco products, *HEETS* with *IQOS* device, tobacco heating system, *TEREA* with *IQOS ILUMA* device, tobacco heating system, *IQOS VEEV* with *VEEV* pods, an e-vapor product, as well as the KT&G-licensed brands, *Fiit* with *lil SOLID* device, in the Czech Republic.

Philip Morris ČR a.s. holds a 99% interest in Philip Morris Slovakia s.r.o., registered in Slovakia, the largest distributor of cigarettes in Slovakia. Philip Morris Slovakia s.r.o. is also distributor of PMI's smoke-free tobacco products, *HEETS* with *IQOS* device, tobacco heating system, *TEREA* with *IQOS ILUMA* device, *IQOS VEEV* with *VEEV* pods, an e-vapor product, as well as the KT&G-licensed brands, *Fiit* with *lil SOLID* device, in Slovakia.

The report of the Board of Directors is based on the consolidated financial statements of Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o., prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Consolidated Financial Results

While our performance in 2022 was impacted from a challenging operating environment, including the war in Ukraine and supply-chain and global inflationary pressures, the high interest rate environment also allowed us to benefit from extraordinary cash pool remuneration to overall deliver a net income increase vis a vis 2021.

We enjoyed a continued growth of sales of reduced-risk products[15] thanks to the growing *IQOS* adult user base[16]. Our total *IQOS* adult users[17] in both countries combined, reached approximately 860 thousand, of which approximately 590 thousand adult users have switched to *IQOS* and stopped smoking.[18]

Consolidated revenues, net of excise tax and VAT, grew by 11.0 % or CZK 2.1 billion (vs. prior year) to CZK 20.9 billion. The growth was primarily driven by higher sales of heated tobacco units[19], *IQOS* and *lil SOLID* devices, and favorable pricing on our combustible portfolio[20] (CZK 3.3 billion), partially offset by lower combustible portfolio volume (CZK 0.9 billion) and currency impact (CZK 0.3 billion). Excluding the impact of currency, consolidated revenues, net of excise tax and VAT, increased by 12.4 %.

Profit from operations of CZK 4.2 billion decreased by 2.8 % (vs. prior year) due to higher business investments also impacted by inflation. Excluding the impact of currency, profit from operations decreased by 1.4 %.

Finance income increased significantly by CZK 0.4 billion (vs. prior year) due to higher-cash pool remuneration given the current high interest rate environment.

Net income of CZK 3.6 billion increased by 3.4 % (vs. prior year), reflecting the items noted above.

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

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

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

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

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

[19] Heated tobacco units is the term we use to refer to heated tobacco consumables, which include *HEETS*, *TEREA*, as well as the KT&G' licensed brands, *Fiit*.

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

Business in the Czech Republic

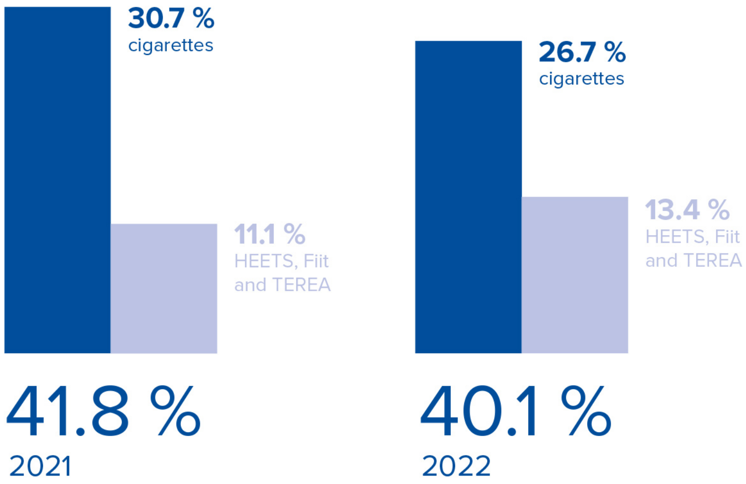
Philip Morris ČR a.s. revenues, net of excise tax and VAT, grew by 13.4 % to CZK 12.7 billion (vs. prior year). The growth was primarily driven by higher sales of heated tobacco units, *IQOS* and *lil SOLID* devices, and favorable pricing on our combustible portfolio (CZK 2.2 billion), partially offset by lower combustible portfolio volume (CZK 0.7 billion).

The *IQOS* adult user base[21] increased to around 570 thousand adult users.

The total combined market of cigarettes and heated tobacco units remained stable at 17.3 billion units (vs. prior year), reflecting the higher border sales compared to the same period in 2021 caused by COVID-19 anti-pandemic lockdowns measures in 2021 fully offset by decline in the domestic market. The total cigarette market has decreased by an estimated 4.9 % to 14.5 billion units primarily driven by switching to smoke-free alternatives and underlying decline in combustible consumption.

The estimated combined market share of Philip Morris ČR a.s. decreased by 1.7 share points (vs. prior year) to 40.1 %. On cigarettes the decrease of 4.0 share points is mainly driven by the switching to smoke-free alternatives, however also impacted by production constraints arising from the war in Ukraine, and the discontinuation of the *Philip Morris* brand and its merger into *Chesterfield*. On heated tobacco units, the growth of 2.3 share points reflects the consumer driven market dynamics to look for smoke-free alternatives.

Market share in the Czech Republic (%)



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

Combustible portfolio shipments (cigarettes and fine-cut tobacco, combined) of Philip Morris ČR a.s. decreased by 0.7 billion units (vs. prior year) to 4.8 billion units, reflecting lower market share, while our heated tobacco consumables shipments increased by 0.4 billion units and reached 2.3 billion units in the same period.

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

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

Business in Slovakia

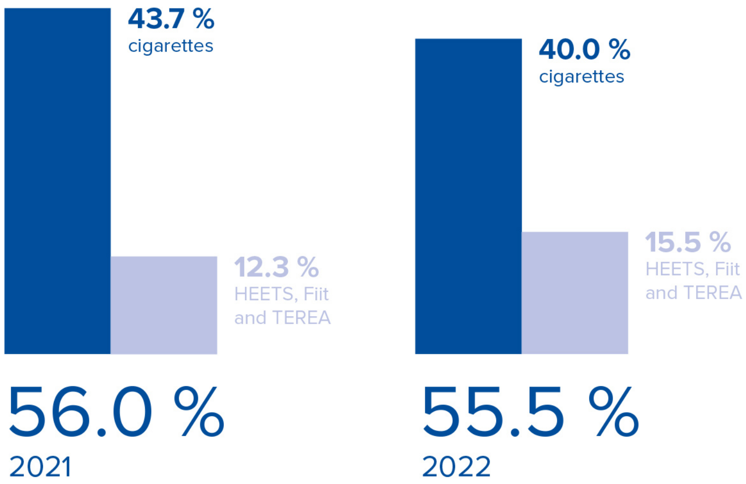
Philip Morris Slovakia s.r.o. revenues, net of excise tax and VAT, increased by 7.2 % (vs. prior year) to EUR 233 million. The growth was primarily driven by higher sales of heated tobacco units, *IQOS* and *lil SOLID* devices, and favorable pricing on our combustible portfolio (EUR 44 million), partially offset by lower combustible portfolio volume (EUR 6.8 million) and unfavorable pricing on heated tobacco units (EUR 4.5 million).

The *IQOS* adult user base[22] increased to an estimated 290 thousand adult users.

The total combined market of cigarettes and heated tobacco units has increased by an estimated 1.3% (vs. prior year) to 7.4 billion units. The total cigarette market has decreased by an estimated 3.2 % to 6.2 billion units primarily driven by switching to smoke-free alternatives and underlying decline in combustible consumption.

The combined market share of Philip Morris Slovakia s.r.o. decreased by 0.5 share points (vs. prior year) to 55.5 %, On cigarettes the decrease of 3.7 share points is mainly driven by the switching to smoke-free alternatives, and similarly to Philip Morris ČR a.s. also impacted by production constraints arising from the war in Ukraine. On heated tobacco units the growth of 3.2 share points reflects the consumer driven market dynamics to look for smoke-free alternatives.

Market share in Slovakia (%)



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

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

Domestic combustible portfolio shipments of Philip Morris Slovakia s.r.o. slightly decreased by 0.2 billion units (vs. prior year) to 3.0 billion units, whereas heated tobacco consumables shipments increased by 0.2 billion units (vs. prior year) to 1.1 billion units.

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

Manufacturing Services

Revenues from manufacturing services increased by 8.4 % (vs. prior year) to CZK 2.4 billion mainly due to higher export production volume impacted by suspended PMI operation in Kharkiv.

Impact of Russia's invasion of Ukraine

The war in Ukraine impacted Philip Morris ČR a.s. primarily in the first half of the year, but indirect effects continue to affect our operations.

The direct consequences include measures related to the suspension of production at one of PMI's plants in Kharkiv, Ukraine while the Kutná Hora plant took over part of its capacity. The increase in production volumes compensated for short-term production shortfalls caused by material supply problems and, thanks to a high degree of flexibility, we were able to achieve a record high full-year production overall.

In connection with conflict in Ukraine, our company provided material and financial humanitarian aid to the refugee assistance center in Kutná Hora. The funds, totaling CZK 6.7 million, were used to support the education and integration of Ukrainian refugees in the Czech Republic and were used to purchase burn treatment equipment for a hospital in Kharkiv.

However, in the context of the war in Ukraine, like other industrial companies, we are facing a sharp rise in energy and other inputs prices. Natural gas is Kutná Hora's main source of thermal energy and although energy prices were fixed for 2022, we expect them to increase significantly in 2023. Thus, we have invested over CZK 10 million in other energy sources. This should enable us to maintain continuity of production and will allow us to continually reduce the energy burden on our operations.

The war in Ukraine has affected the supply of products to the market. The aforementioned production disruptions, which affected not only our factory in Kutná Hora but also PMI's other production facilities, resulted in short-term unavailability of certain products on the market during Q1-Q3, totaling approximately 5 % of our cigarette shipments and 3 % of our heated tobacco shipments (some of which was also caused by the disruption of global trade chains due to measures related to the COVID-19 pandemic). Situation stabilized during Q4, and we are not observing further negative effects coming from Ukraine war in terms of supply.

While rapidly rising energy and other commodity prices have had and continue to have a significant impact on household purchasing power, we did not experience a significant impact on demand for our products during 2022, nor did our company face any significant employment issues as a result of the war in Ukraine. Similarly, there were no significant cyber security events or threat increases related to the Russia-Ukraine conflict.

Excise Tax

In the Czech Republic, Act no. 609/2020 Coll. amending certain tax acts and certain other acts amended also Act no. 353/2003 Coll on excise taxes. This amendment came into force on February 1, 2021. This amendment introduced a three-year calendar of tobacco excise tax increases for years 2021 to 2023. In 2022, the specific component of the cigarette excise tax rate increased by CZK 90 to CZK 1,880 per 1,000 cigarettes and in 2023, it increased again by CZK 90 to CZK 1,970 per 1,000 cigarettes. The minimum tax rate increased by CZK 160 to CZK 3,360 per 1,000 cigarettes in 2022 and it increased by CZK 160 to CZK 3,520 per 1,000 cigarettes in 2023. The ad valorem component of the cigarette excise tax remains unchanged (at 30 %). The excise tax rate on fine-cut tobacco increased by CZK 140 to CZK 2,860 per 1 kg of tobacco in 2022 and it increased by CZK 140 to CZK 3,000 per kg of tobacco in 2023. The excise tax rate on heated tobacco products increased by CZK 139 to CZK 2,860 per kg of tobacco in 2022, and it increased by CZK 140 to CZK 3,000 per kg of tobacco in 2023. The above-mentioned excise tax increases are accompanied by a three-month retail sell-by-date anti-forestalling regulation applicable to cigarettes and a six-month retail sell-by-date anti-forestalling regulation applicable to heated tobacco products.

In Slovakia, Amendment to Act no. 106/2004 Coll. on Excise Duty on Tobacco Products was adopted and published as Act no. 390/2020 Coll. introducing a three-year fiscal roadmap from 2021 to 2023. As of February 1, 2022, the specific component for cigarettes increased from EUR 74.60 per 1,000 cigarettes to EUR 79.60 per 1,000 cigarettes, the minimum excise tax rate for cigarettes increased from EUR 116.50 to EUR 124.30 per 1,000 cigarettes. The ad valorem tax rate for cigarettes remained unchanged at 23 %. The fine-cut tobacco excise tax rate increased from EUR 89.30 per 1 kg to EUR 95.30 per 1kg and the excise tax rate for smokeless tobacco products increased from EUR 132,20 per 1 kg of tobacco to EUR 160 per 1 kg of tobacco. There was another tax increase as of February 1, 2023. The specific excise tax rate for cigarettes increased to EUR 84.60 per 1,000 cigarettes, the minimum excise tax rate for cigarettes therefore, increased to EUR 132.10 per 1,000 cigarettes, the fine-cut tobacco excise tax rate increased to EUR 101.30 per 1kg and the excise tax rate for smokeless tobacco products increased to EUR 187,80 per 1 kg of tobacco. The excise tax increases are accompanied by a two-month retail sell-by-date regulation for cigarettes, six months for fine cut tobacco and three months for smokeless tobacco products.

Strong and Effective Regulation

Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o. support comprehensive regulation of tobacco and nicotine containing products based on the principle of harm reduction.

Technological and scientific developments of recent years make it possible to shift the tobacco and nicotine market towards a future in which cigarettes will be replaced by less harmful, smoke-free alternatives offered to those adult smokers who would otherwise continue to smoke. In this context, sensible, risk-based regulation of smoke-free tobacco products, combined with effective restrictions on combustible products, such as cigarettes, can help address the harm caused by smoking more effectively – and faster – in combination with traditional regulatory measures.

Regulations should continue to dissuade people from starting to smoke combustible products or use nicotine products and encourage cessation. But it is equally clear that millions of men and women will continue to smoke, and they should have access to better alternatives than cigarettes and information on them.

Tobacco Products Directive

Across the EU, the Tobacco Products Directive (2014/40/EU) entered into force on May 19, 2014 and became applicable in the EU Member States as of May 20, 2016. In the Czech Republic, Act no. 180/2016 Coll. amending Act no. 110/1997 Coll. on foodstuffs and tobacco products and other related laws together with Decree no. 261/2016 Coll., which transpose the EU Tobacco Products Directive, came into force on September 7, 2016.

The legislation introduced new rules on – among others – the manufacturing, presentation and sale of tobacco and related products, including certain rules for the commercialization of e-cigarettes and novel tobacco products, such as a pre-launch notification requirement. In addition, the new legislation includes other measures such as enlarged, combined health warnings covering 65 % of the main surfaces of cigarette packs and roll-your-own tobacco, as well as dedicated health warnings for other types of tobacco and related products, enhanced reporting obligations, a ban on tobacco products with characterizing flavors (currently applicable to cigarettes and roll-your-own tobacco), and a new set of requirements related to the tracking and tracing of tobacco products in order to enhance the effectiveness of illicit trade prevention. Cigarettes with a menthol characterizing flavor, including menthol capsules, were allowed to be marketed in the Czech Republic until May 20, 2020. Tracking and tracing requirements came into force on May 20, 2019 for cigarettes and roll-your-own tobacco, and will come into force on May 20, 2024 for other tobacco products.

Furthermore, the Tobacco Products Directive regulates e-cigarettes as consumer goods rather than as medicinal products. If e-cigarettes qualify as medicinal products, other EU rules will apply.

On November 23, 2022, 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.

Directive 2022/2100 extends the prohibition on placing on the market of tobacco products flavorings 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, which already exists for cigarettes and roll-your-own tobacco, to heated tobacco products.

The new provisions must be transposed into Act No. 110/1997 Coll., on food and tobacco products, and into Decree No. 261/2016 Coll. by July 23, 2023, with the entry into force on October 23, 2023.

In Slovakia, the Tobacco Products Directive was transposed to the Slovak national legislation by Act no. 89/2016 Coll.[23] on the manufacture, labelling and sale of tobacco products and related products and on the amendment and supplement to selected laws, effective as of May 20, 2016.

[23] Act no. 89/2016 Coll. of November 25, 2015 on the manufacture, labelling and sale of tobacco products and related products and on the amendment and supplement to selected laws.

The new provisions of the Directive 2014/40/EU of the European Parliament and of the Council in regards of the withdrawal of certain exemptions in respect of heated tobacco products must be transposed into 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, with the entry into force on October 23, 2023.
Cigarettes with a menthol characterizing flavor, including menthol capsules, were allowed to be marketed in Slovakia until May 20, 2020.

Tracking and tracing requirements entered into force on May 20, 2019 for cigarettes and roll-your-own tobacco. Other tobacco products will be subject to tracking and tracing as of May 20, 2024.

Single-Use Plastics Directive

EU Directive 2019/904 ("Single-Use Plastics Directive" or "the Directive") on the reduction of the impact of certain plastic products on the environment came into force on July 2, 2019, throughout the EU Member States. EU Member States, including the Czech Republic and Slovakia, were obliged to transpose its provisions into national legislation by July 3, 2021. In the Slovak Republic the Directive was transposed into national law effective December 1, 2021. In the Czech Republic, the draft law was approved by both chambers of the Parliament of the Czech Republic and subsequently signed by the President of the Republic in August 2022, effective October 1, 2022.

The objectives of the Single-Use Plastics Directive are to prevent and reduce the impact of certain plastic products on the environment, in particular the aquatic environment, and on human health, as well as to promote the transition to a circular economy, with innovative and sustainable business models, products and materials, thus also contributing to the efficient functioning of the internal market.[24]

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[25], and implement Extended Producer Responsibility Schemes, 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.

Extended Producer Responsibility ("EPR") Scheme for tobacco products with filters and filters marketed for use in combination with tobacco products was necessary to implement 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 set to January 1st, 2023. In Slovakia the effective date for EPR for producers of tobacco products with filters was set to December 1, 2024. In order to ensure the collective fulfillment 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, the company Philip Morris ČR a.s., in accordance with the requirements of Act No. 243/2022 Coll., became one of the founders of joint-stock company NEVAJGLUJ a.s. (hereinafter referred to as "NEVAJGLUJ") with a stake of 24%. Appropriate steps were initiated to register the company NEVAJGLUJ in the commercial register. Subsequently, NEVAJGLUJ will apply to the Ministry of the Environment of the Czech Republic for authorization to operate a collective system (EPR scheme), which will also include 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. However, the Decree on the Implementation of certain provisions of the Act on the reduction of the impact of certain plastic products on the environment, which should contain the Form for applying for the issuance of authorization to operate a collective system, through which the application is submitted, has not yet been published. We anticipate that the authorization could be granted to NEVAJGLUJ by the end of the first half of 2023 at the latest. Therefore, the information on the scope of specific costs which Philip Morris ČR a.s. will have to bear in relation to this measure is not known until the publication of the 2022 Annual Financial Report. Further information will be provided in the 2023 Mid-Year Financial Report.

Expected economic and financial situation

Over the last years, the COVID-19 pandemic and the containment measures the governments implemented have been the key factor impacting the economic situation in both the Czech Republic and in the Slovak Republic. Such measures resulted in a substantial slowdown in economic activity as well

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

[25] Despite the then absence of a local transposition law, as of the second half of 2021, based on Commission Implementing Regulation (EU) 2020/2151, which has a direct effect in local legal systems, a product packaging with the printed inscription "Plast ve filtru" / "Filter obsahuje plasty" has been gradually introduced to the Czech and Slovak markets.

as changes in consumption patterns that continue to impact our business, most notably our tourist channel in 2022, which is yet to recover to the pre-pandemic levels.

According to the data from the Czech Statistical Office, the gross domestic product in year 2022 increased by 0.4%[26] versus prior year. This represented only a modest growth and it has also been observed on the overall strength of the nicotine market demand.

The conflict in Ukraine impacted not only the already fragile supply chains following the COVID-19 pandemic, but it also contributed to inflation growth. These factors impacted some of our suppliers as well as put additional inflationary pressure on our costs. Its impacts have been observed mostly in the second half of the year, putting additional pressure on consumer spending due to rising cost of energy and housing and therefore we expect annualization in 2023.

Sales of *IQOS* devices and *HEETS* have grown strongly. In 2022, we introduced *IQOS ILUMA* technology, that brings unparalleled experience and convenience as well as addresses some of the most vocal requests of our consumers. We continued further expansion of the *IQOS VEEV* e-cigarette portfolio, and we have continued to expand *HEETS* and *Fiit* smoke-free tobacco products to attract and further grow our adult consumer base. Our business will remain exposed to consumer down-trading to cheaper cigarettes and other nicotine-delivery alternatives, further exacerbated by the worsening economic outlook and its impact on consumer spending and potentially on increases of illicit trade.

After significant excise tax rates increases in 2020 and 2021, in 2022 a relatively modest increase in tobacco excise tax rates has been implemented, resulting in modest price increase in most of the tobacco product categories with minimal adverse impacts on the demand. Given the current economic situation significant increases in excise tax rates (as seen in 2020 and 2021) could lead to additional decline of domestic demand for cigarettes, an increase of cross-border purchases of Czech consumers in countries with cheaper cigarettes, a decline of purchases of foreign tourists in the Czech Republic, or to an increase in demand for illicit products.

Regarding the current policy rate from the Czech National Bank, we expect that the tightening cycle is approaching its end, but CNB should keep current policy rate at least by the third quarter of 2023 depending on the overall macro-outlook.

We also remain committed to continuing to implement our planned productivity initiatives to manage our cost base and maximize the return on our investments.

Risks Related to Our Business and Industry

The following risk factors should be read carefully in connection with evaluating our business and the forward-looking statements contained in this 2022 Annual Financial Report. Any of the following risks could materially adversely affect our business, our operating results, our financial condition, and the actual outcome of matters as to which forward-looking statements are made in this 2022 Annual Financial Report.

- Natural disasters, pandemics including COVID-19, economic, political, regulatory, acts of war including the impact and consequences of Russia's invasion of Ukraine or threats of war, or other developments could disrupt our supply chain, manufacturing capabilities or distribution capabilities. 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.

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

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

[26] Source : https://www.czso.cz/csu/czso/gdp_national_accounts_ekon

- Consumption of combustible tobacco products continues to decline. This decline is due to multiple factors, including increased taxes and tax-driven pricing, governmental actions, the diminishing social acceptance of smoking, and the continuing prevalence of illicit products.

- Significant increases in cigarette-related taxes may disproportionately affect our profitability and make us less competitive versus certain of our competitors. Increases in cigarette taxes are expected to continue to have an adverse impact on our sales of cigarettes, due to resulting lower consumption levels, a shift in sales from manufactured cigarettes to other (cheaper) combustible products', or to illicit products such as contraband, counterfeit, and "illicit whites".

- We face intense competition, and our failure to compete effectively could have a material adverse effect on our profitability and results of operations. We compete primarily 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.

- We may be unable to anticipate changes in adult consumer preferences or to respond to consumer behavior influenced by potential economic downturns. Our tobacco business is subject to changes in consumer preferences, which may be influenced by local economic conditions. To be successful, we must:

    - promote brand equity successfully;
    - anticipate and respond to new consumer trends;
    - ensure that our products meet our quality standards;
    - develop new products or acquire distribution rights to these in order to broaden brand portfolios;
    - improve productivity;
    - educate and convince adult smokers to convert to our smoke-free nicotine products;
    - ensure effective adult consumer engagement, including communication about product characteristics and usage of smoke-free nicotine products;
    - provide excellent customer care;
    - ensure adequate production capacity to meet demand for our products; and
    - be able to protect or enhance margins through price increases.

- In periods of economic uncertainty, adult consumers may tend to purchase lower-priced brands, and the volume of our premium-price and mid-price brands and our profitability could be materially adversely impacted as a result.

- We may be unable to successfully commercialize reduced-risk products, we may be unable to successfully introduce new products, promote brand equity or we may be unable to develop strategic business relationships. Future results are also subject to the lower predictability of our reduced-risk product category's performance.

- Our profitability, and consequently, the amount of our dividend payout reflects our dual role of being a full risk entrepreneur of combustible portfolio products and a limited risk distributor for reduced-risk products. Our remuneration for commercialization of reduced-risk products is based on a set margin on revenues from sales. As a limited risk distributor, we do not own intellectual property rights for reduced-risk products and therefore do not absorb all the costs or bear the risks associated with such ownership. As our return is proportionate to our risk for commercializing reduced-risk products, the impact of the sales volume variances of such products on our profitability is limited. Consequently, if the current consumer preference trend towards reduced-risk products continues and volume declines of combustible portfolio products accelerate, we do not expect that over time the additional profit generated from increased sales of reduced-risk products will offset the decreasing profits generated from the sales of combustible portfolio products.

- We lose revenues as a result of counterfeiting, contraband and cross-border purchases. Large quantities of counterfeit cigarettes are sold in the international market. We believe that *Marlboro* is the most heavily counterfeited international cigarette brand, although we cannot quantify the revenues we lose as a result of this activity. In addition, our revenues are reduced by contraband and legal cross-border purchases.

- Our ability to grow profitability may be limited by our inability to introduce new products or improve our margins through higher pricing and improvements in our brand mix. Our profit growth may suffer if we are unable to introduce new products successfully, to raise prices or to improve the proportion of our sales of higher margin products.

- Our ability to implement our strategy of attracting and retaining the best talent may be impaired by the decreasing social acceptance of cigarette smoking. To be successful, we must continue transforming our culture and ways of working, align our talent and organizational design with our increasingly complex business needs, and innovate and transform to a consumer-centric business.

We, as well as our business partners, use information systems to help manage business processes, collect, and interpret data and communicate internally and externally with employees, suppliers, consumers, customers and others. Some of these information systems are managed by third-party service providers. We are continuously evolving our approach to business continuity planning and backups to provide appropriate business resilience, particularly 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.

Sustainability and Social Responsibility

Sustainability is core to the transformation of PMI, Philip Morris ČR a.s. and Philip Morris Slovakia.s.r.o.

The PMI Group's approach to sustainability is focused on developing strategies that can successfully address environmental, social and governance issues. As part of the global assessment of the importance of topics related to sustainability (Sustainability Materiality Assessment), certain topics were identified as priority. 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 - Product impact) and the impact generated by our business operations (how we produce it - Operational impact). Our ambition is to be a true leader in sustainable business practices. It also represents an opportunity for growth and our strongest competitive advantage.

The biggest and most pressing negative externality that PMI's strategy tries to address is the health effects of cigarette smoking. This is the most important contribution we can make to public health and is a cornerstone of the PMI group's purpose and business strategy, as our long-term and overarching goal is a smoke-free future. Through ground-breaking research, PMI has developed a range of smoke-free products that are enjoyable for adult smokers and have the potential to significantly reduce health risks when compared to smoking cigarettes. We are working to achieve a smoke-free future and replace cigarettes with these less harmful alternatives completely. Even though our product, and transformation of our business as such, is at the center of our sustainability efforts, we cannot omit other pillars – driving operational excellence, managing our social impact, and reducing our environmental impact.

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 local strategy to local circumstances and needs. For us, sustainability means creating long-term value while minimizing the negative externalities associated with our products, operations and value chain and maximizing the positive impact we have on the world around us. We will disclose more information concerning the local validation and finetuning the local sustainability strategy in local sustainability brochure which is expected to be published in the second half of 2023.

We understand that maximizing shareholder value is no longer acceptable as a company’s sole purpose. We recognize the importance of creating value for a diverse group of stakeholders, including employees, customers, suppliers, and communities.

Product impact

Purposefully phasing-out cigarettes and maximizing the benefits of smoke-free products

Smoke-free products adult user base data and progress on smoke-free shipment are available in the Business in the Czech Republic and Business in Slovakia sections of the Board of Directors Report on page 28-29.

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.

Furthermore, we support the strict enforcement of laws that set a minimum age to purchase tobacco products and work closely with retailers and other partners to implement youth smoking prevention programs. In 2022, Philip Morris Slovakia s.r.o. continued to support Youth Access Prevention (YAP) program “Age Matters”, launched in 1998. The objective of this program is to prevent the access of minors to tobacco products by encouraging retailers to comply with minimum age legislation for purchasing tobacco products. In 2022, Philip Morris ČR a.s. continued to implement Youth Access Prevention (YAP) program at retail points-of-sales (POS) of tobacco / nicotine-containing products in the Czech Republic. The YAP Project is focused on cooperation with our trade partners and their staff. The YAP Project consists of several phases - e.g., amendments to the contracts with trade partners, POS staff training, or distinct labelling of retail location with sticker indicating the prohibition of sales of tobacco and nicotine-containing products to minors. The aim of the Project is also to provide the POS staff some tips how to refuse to sell tobacco and nicotine-containing products to minors; and inform minors by a sticker at the entrance of the retail location that the above-mentioned products will not be sold to minors in the shop. At PMI, we are convinced that youth should not use tobacco or nicotine-containing products, and we adhere to this conviction in our activities. Therefore, we intend to continue the YAP program. The importance we attach to the protection of minors from tobacco and nicotine was also evidenced by a letter from the company's chairperson and the CEO, Andrea Gontkovičová, to tobacco and nicotine products’ retailers. It confirmed repeatedly the company's commitment to protecting minors and emphasizes the role of retailers in preventing young people's access to tobacco and nicotine products.

Post-consumer waste reduction

As part of the product sustainability strategy, in 2022 we continued the Device Take Back program (*IQOS* electrical equipment) within our Direct Retail *IQOS* stores in the Czech Republic and Slovakia. Customers can bring in any of the smoke-free electronic devices by *IQOS*, that they no longer want or can no longer use. We will take care of the device and hand it over for recycling within the framework of the PMI CIRCLE project.

In the first half of 2022, we have recently launched a Consumables Take Back pilot project intended for the collection of used tobacco sticks in selected Direct Retail *IQOS* stores in the Czech Republic and Slovakia. The goal of the pilot project was to secure enough material to investigate the material utilization of used tobacco sticks containing a bio-plastic filter made of cellulose acetate and/or polylactic acid (PLA). The company began to cooperate with two Czech universities on the analysis of material recyclability. After an unprecedentedly successful acceptance by customers, the pilot project was expanded to a nationwide format in the fall of 2022. Collection bags are available to customers free of charge in most Direct Retail *IQOS* stores. Customer may pick the collection bag up, put the used tobacco sticks in it and, after filling the bag, return it to a special collection box at any of our Direct Retail *IQOS* stores.

Operational Impact

Inclusion & Diversity

We are a Top Employer and have been certified both a Top Employer Czech Republic and Top Employer Slovakia for the eighth consecutive year. We are also an EQUAL-SALARY Certificate holder. This prestigious certification is awarded by the Swiss EQUAL-SALARY Foundation in collaboration with the Geneva University and the consulting firm of PwC as an independent means of certifying the equal compensation of women and men for the same work positions. Since 2019, Philip Morris ČR a.s. is also a signatory of the Czech Diversity Charter. Philip Morris Slovakia s.r.o. is a Slovak Diversity Charter signatory since 2017. Together with other businesses involved, we are committed to developing a tolerant working environment, irrespective of age, religion, gender, sexual orientation, or health status. In October 2022, we were awarded Top responsible large company 2022, by the organization Byznys pro společnost (Business for Society).

Manufacturing – Environmental impact

Philip Morris ČR a.s. has been continuously striving to reduce the environmental impact of its activities over the long term. For example, it is taking steps to reduce its energy and water consumption when it is economically and technologically feasible. For the Kutná Hora factory, the source of innovations in this area are also projects of other plants within the PMI Group, shared by the Knowledge Transfer Package.

In the field of climate protection, our factory in Kutná Hora has achieved significant success. In August 2022, it successfully passed an external audit and received repeatedly a certificate confirming carbon neutrality within the framework of emissions, under the direct operational control of Philip Morris ČR a.s. Kutná Hora manufacturing plant.

We are also aware that water is a renewable yet limited local resource, which we all share and that is critical to life on the planet. Water stewardship for us is about reducing water use, promoting water recycling, protecting watersheds, and promoting sustainable water management in collaboration with stakeholders. We aim to optimize water consumption in our operations, reduce the water footprint of our products, and adequately treat the wastewater produced in our factories.

Already in 2021, the Kutná Hora manufacturing plant successfully passed a rigorous external audit focused on water management. The audit confirmed that we have been reducing the consumption of water in the long term and treating it sustainably at our production plant. Kutná Hora factory was therefore awarded AWS standard certificate (Alliance for Water Stewardship). It thus became historically the second factory in the Czech Republic to be awarded the AWS standard certificate[27]. During the autumn of 2022, manufacturing plant successfully passed the surveillance audit which verified that we still comply with the commitments to AWS standard.

The Kutná Hora manufacturing plant was re-certified by external entities as per ISO 14001 (Environment), and ISO 45001 (Health and Safety). In terms of safety, the factory achieved four consecutive years without safety incidents resulting in LTIs (Lost Time due to Injuries).

Social contributions (Philanthropy)

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

Our traditional long-term partners, implementing their projects with our financial support, include, among others, the Slunce pro všechny Endowment Fund and the Livia and Václav Klaus Endowment Fund, in the field of projects focused on education.

A remarkable program is the support of innovations in the development and use of alternative communication, implemented by the Regional Charity Červený Kostelec, organization with the only inpatient facility in the Czech Republic, caring for people diagnosed with multiple sclerosis in the Home of St. Joseph in Žireč City.

Another important long-term partner is the Charter 77 Foundation, not only in supporting the elderly or the seriously ill people, but also in helping to prevent the spread of coronavirus and mitigate the effects of the COVID-19 pandemic that afflicts the world for several years already. I The Charter 77 Foundation has also become our partner in an effort to help refugees from Ukraine who find refuge in the Czech Republic. Our support was directed towards the education of Ukrainian children, financial assistance to schools and school facilities program to adapt to new conditions and facilitating the integration of newcomers from Ukraine into our society. We allocated CZK 5.6 million for this program.

In the field of the environment, we have been cooperating with the POD HORAMI association for several years, which is focused on education of children in the field of environmental care, theoretically and in practice. We also financially supported the organization BENEDIKTUS z.s. in order to build a rainwater retention system in their gardens and orchards. In 2022, we financially supported the establishment of an educational trail near the village of Suchdol (Kutná Hora district), connected with the planting of a fruit alley. Our employees personally helped to plant this avenue. We also support the spread of education about the protection of birds and nature in general in Moravia, with the association RADIBUDKY.cz. And last but not least, we contributed CZK 1 million in 2022 to the restoration of the municipal forest in Hodonín City, which was destroyed by a tornado in June 2021. The restoration of the municipal forest was completed in early 2023.

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.

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

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

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

Further non-financial information will be included in the separate Integrated Report 2022 of Philip Morris International Inc., which is going to be published in May 2023 and is accessible at www.pmi.com/sustainability.

Forward-Looking and Cautionary Statements

This report and related communications contain, and Philip Morris ČR a.s. may from time to time make, written or oral forward-looking statements, including statements contained in filings with the Czech National Bank or other authorities, in reports to shareholders and in press releases and investor webcasts. You can identify these forward-looking statements by use of words such as “strategy,” “expects,” “continues,” “plans,” “anticipates,” “believes,” “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.

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 gives a true and fair view of the assets, liabilities, financial position, and financial results of Philip Morris ČR a.s., and its consolidated group and the annual report and consolidated annual report within the meaning of the Act on Accounting, contains a true summary of the development and results of Philip Morris ČR a.s. and the position of Philip Morris ČR a.s. and its consolidated group, together with a description of the principal risks and uncertainties faced.

In Kutná Hora on March 27, 2023

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

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

Report of the Supervisory Board

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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 2022 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 2022, 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 2022 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 2022 calendar year accounting period, the report of the Board of Directors on the Company's Business Activities for the accounting period of 2022 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 2022 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 2022 calendar year accounting period

The Company's Supervisory Board reviewed the Report on Relations for the 2022 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 2022 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 2022 ordinary financial statements, the Company's 2022 ordinary consolidated financial statements and the proposal by the Board of Directors to approve the 2022 ordinary financial statements and the 2022 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 2022 calendar year accounting period and the Company's ordinary consolidated financial statements for the 2022 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 for the 2022 calendar year accounting period, 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 27, 2023

Stefan Bauer

Chairperson of the Supervisory Board

Consolidated Financial Statements

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Consolidated Statement of Financial Position

at December 31, 2022 (in CZK million)

ASSETS	Note	31/12/2022	31/12/2021
Property, plant and equipment ("PP&E")	5	2 783	2 831
Right-of-use assets	7	282	298
Intangible assets		2	4
Deferred tax assets	15	50	59
Other financial assets	9	109	107
Non-current assets		**3 226**	**3 299**
Inventories	8	1 851	1 940
Trade and other financial receivables	9	1 548	980
Other non-financial assets	9	2 111	2 206
Current income tax receivable		34	29
Cash and cash equivalents	10	7 631	9 290
Current assets		**13 175**	**14 445**
Total assets		**16 401**	**17 744**

EQUITY & LIABILITIES	Note	31/12/2022	31/12/2021
Registered capital	11	2 745	2 745
Share premium and other shareholders' contributions	11	2 383	2 371
Retained earnings		3 635	3 598
Other reserves		2	2
Equity attributable to the shareholders of the Company		**8 765**	**8 716**
Non-controlling interest		**1**	**1**
Total equity		**8 766**	**8 717**
Deferred tax liability	15	153	171
Lease liabilities	7	159	178
Non-current liabilities		**312**	**349**
Trade and other financial liabilities	12	2 871	3 603
Other non-financial liabilities	12	292	264
Current income tax liabilities		38	—
Other tax liabilities	14	3 985	4 652
Provisions	19	16	33
Lease liabilities	7	121	126
Current liabilities		**7 323**	**8 678**
Total liabilities		**7 635**	**9 027**
Total equity & liabilities		**16 401**	**17 744**

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

Consolidated Statement of Comprehensive Income

for the year ended December 31, 2022 (in CZK million)

	Note	2022	2021
Revenues	4	20 948	18 867
Cost of sales	16	(11 718)	(10 586)
Gross profit		**9 230**	**8 281**
Distribution expenses	16	(3 085)	(2 576)
Administrative expenses	16	(1 807)	(1 400)
Other operating income	20	258	239
Other operating expense	21	(353)	(177)
Profit from operations		**4 243**	**4 367**
Financial expense	4,22	(61)	(26)
Financial income	4,22	414	42
Profit before income tax		**4 596**	**4 383**
Income tax expense	23	(960)	(866)
Net profit for the year		**3 636**	**3 517**
Attributable to:			
Owners of the parent		3 635	3 516
Non-controlling interest		1	1
Other comprehensive income			
Total comprehensive income for the year		**3 636**	**3 517**
Attributable to:			
Owners of the parent		3 635	3 516
Non-controlling interest		1	1
Earnings per share basic and diluted (CZK/share)	**24**	**1 324**	**1 281**

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

Consolidated Statement of Changes in Equity

for the year ended December 31, 2022 (in CZK million)

		Attributable to equity holders of the Company					
	Note	Registered capital	Share premium and other shareholders' contributions	Statutory reserve fund	Retained earnings	Non-controlling interest	Total equity
Balance as at 1/1/2021		**2 745**	**2 368**	**2**	**3 544**	**1**	**8 660**
Net profit for the year	24	—	—	—	3 516	1	3 517
Total comprehensive income for the year		**—**	**—**	**—**	**3 516**	**1**	**3 517**
Transactions with owners							—
Profit distribution	25	—	—	—	(3 459)	(1)	(3 460)
Share based payments		—	3	—	—	—	3
Forfeited dividends		—	—	—	2	—	2
Other		—	—	—	(5)	—	(5)
Balance as at 31/12/2021		**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**

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

Consolidated Cash Flow Statement

for the year ended December 31, 2022 (in CZK million)

	Note	2022	2021
Cash flow from operating activities			
Profit before tax		**4 596**	**4 383**
Depreciation and amortization expense	16	675	738
Impairment loss and loss on disposal of PP&E	16	49	87
Net interest (income) / expense		(353)	(15)
Gain on disposal of PP&E		(1)	(16)
Change in provisions		(17)	(2)
Other non-cash transactions, net		(6)	(6)
Operating cash flows before working capital changes		**4 943**	**5 169**
Changes in:			
Trade and other financial receivables and other non-financial assets		(466)	328
Trade and other financial liabilities and other non-financial liabilities		(1 375)	1 770
Inventories		89	(1 049)
Cash generated from operations		**3 191**	**6 218**
Interest paid	4,22	(61)	(26)
Income tax paid		(934)	(1 138)
Net cash generated from operating activities		**2 196**	**5 054**
Cash flow from investing activities			
Purchase of PP&E	5	(571)	(472)
Proceeds from sale of PP&E		49	86
Purchase of intangible assets		—	(3)
Interest received	4,22	414	42
Net cash used by investing activities		**(108)**	**(347)**
Cash flow from financing activities			
Dividends paid to owners of the parent	25	(3 597)	(3 459)
Dividends paid to non-controlling interest		(1)	(1)
Repayments of principle portion of lease liability		(139)	(127)
Net cash used by financing activities		**(3 737)**	**(3 587)**
Net increase in cash and cash equivalents		**(1 649)**	**1 120**
Cash and cash equivalents as at the beginning of the year		**9 290**	**8 209**
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(10)	(39)
Cash and cash equivalents as at the end of the year	**10**	**7 631**	**9 290**

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

Notes to the Consolidated Financial Statements

for the year ended December 31, 2022

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, 2022, Philip Morris International Inc. is the ultimate controlling party of the Group.

As at December 31, 2022, the only entity directly holding more than 20% of the registered capital of the Group was Philip Morris Holland Holdings B.V. (the "Parent company"), which held 77.6% of the registered capital.

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

Members of the Board of Directors and the Supervisory Board as at December 31, 2021 were:

Board of Directors

Andrea Gontkovičová – Chairperson	Peter Piroch
Piotr Andrzej Cerek	Petr Šedivec
Petr Šebek	Anton Kirilov Stankov as of September 29, 2021

Supervisory Board

Stefan Bauer – Chairperson	Alena Zemplinerová
Sergio Colarusso	Stanislava Juríková
Roman Grametbauer Replaced Richard Vašíček as of July 1, 2021	Tomáš Hilgard

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 27, 2023.

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 Impact of Climate Change on Reported Data

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 2022 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 2022. These consolidated financial statements were prepared in consistency with the non-financial information related to climate matters contained in this Annual Financial Report.

2.3 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.

2.4 Changes in accounting policies and procedures

a) New and amended standards adopted by the Group

Following new standards and amendments to IFRS are effective from January 1, 2022 but they do not have a material effect on the consolidated financial statements in comparison with consolidated financial statements prepared for the previous year 2021:

- Amendments to IAS 16, 'Property, Plant and Equipment – Proceeds before Intended Use' that prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. Adoption of these amendments did not affect any figures presented in these consolidated financial statements.
- Amendments to IAS 37, 'Provisions, Contingent Liabilities and contingent assets – Onerous Contracts – Cost of Fulfilling a Contract' that specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). Adoption of these amendments did not affect any figures presented in these consolidated financial statements.
- The 'Annual Improvements to IFRS cycle 2018 – 2020' that includes amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41. The amendment to IFRS 1 provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. The Group is not first-time adopter and therefore, these amendments are not relevant for these consolidated financial statements. The amendment to IFRS 9 clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. Adoption of these amendments did not affect any figures presented in these consolidated financial statements. The amendment to IFRS 16 removes the illustration of the reimbursement of leasehold improvements. The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41

with the requirements of IFRS 13 Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pretax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

- Amendments to IFRS 3, 'Business Combinations' that only update references to the new Conceptual Framework.
- Amendments to IFRS 16, 'Leases' called "COVID-19-Related Rent Concessions beyond June 30, 2021" that permit a lessee to apply the practical expedient regarding COVID-19-related rent concessions to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022. The Group did not use this expedient and therefore, these amendments did not affect these consolidated financial statements.

b) Standards, amendments and interpretations to existing 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 January 1, 2022 and therefore, they were not considered in preparation of these consolidated financial statements for the year ended December 31, 2022:

- In May 2017, IFRS 17, 'Insurance Contracts' (effective for annual reports beginning on or after January 1, 2021 later deferred on or after January 1, 2023) was issued and it will supersede currently effective IFRS 4. The standard 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 will not affect the consolidated financial statements.
- 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 January 1, 2022 later deferred on or after January 1, 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.
- In February 2021, amendments to IAS 1, 'Presentation of Financial Statements' called "Disclosure of Accounting Policies" (effective for annual reports beginning on or after January 1, 2023) were issued and these amendments requires 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 Group will assess changes but does not expect any significant changes in consolidated financial statements.
- In February 2021, amendments to IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' called "Definition of Accounting Estimates" (effective for annual reports beginning on or after January 1, 2023) were issued. The definition of a change in accounting estimates is replaced with a definition of accounting estimates and amendments also clarify how to distinguish accounting estimate and accounting policy. The Group will assess changes but does not expect any significant changes in consolidated financial statements.
- In May 2021, amendments to IAS 12, 'Income Taxes' called "Deferred Tax related to Assets and Liabilities arising from a Single Transaction" (effective for annual reports beginning on or after January 1, 2023) were issued. The main change is an exemption from the initial recognition exemption provided in current 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 will assess changes but does not expect any significant changes in consolidated financial statements. Nevertheless, the deferred tax from lease agreements will be recognized and presented in future consolidated financial statements.
- In December 2021, 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)' were issued to 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 will not affect the consolidated financial statements.
- In September 2022, amendments to IFRS 16, 'Lease Liabilities in a Sale and Lease-back' (effective for annual reports beginning on or after January 1, 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.
- In October 2022, amendments to IAS 1, 'Non-current Liabilities with Covenants' (effective for annual reports beginning on or after January 1, 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.

c) New and amended 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:

- 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
- Amendments to IAS 1 'Classification of Liabilities as Current and Non-current' (issued in January 2020, amended in July 2020 and effective since January 1, 2024)
- Amendments to IAS 1 'Non-current Liabilities with Covenants' (issued in October 2022 and effective since January 1, 2024)
- Amendments toIFRS 16 'Lease Liabilities in a Sale and Lease-back' (issued in September 2022 and effective since January 1, 2024)

2.5 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.

2.6 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.

2.7 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.

2.8 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.

2.9 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).

2.10 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 2022 and 2021, 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 2022 and 2021, 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 2022 and 2021 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.

2.31 Changes in accounting policies, estimates and errors

In 2022, 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 2022 and 2021.

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

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**

Carrying amount as at 31/12/2021	CZK	EUR	USD	CHF	Other	Total
Receivables from third parties - domestic	605	204	—	—	—	**809**
Receivables from PMI entities	3	99	68	—	1	**171**
Cash at banks	1 415	78	—	—	—	**1 493**
On-demand deposits with related parties	7 175	622	—	—	—	**7 797**
Other long term financial assets	106	1				**107**
Total	**9 304**	**1 004**	**68**	**—**	**1**	**10 377**

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

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**

Carrying amount as at 31/12/2021	CZK	EUR	USD	CHF	Other	Total
Payables to third parties - domestic	1 194	368	1	—	—	**1 563**
Payables to third parties - foreign	74	135	3	6	10	**228**
Payables to PMI entities	477	1 273	4	51	7	**1 812**
Total	**1 745**	**1 776**	**8**	**57**	**17**	**3 603**

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, 2022. 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 2022 (2021: +5%, -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

2021	CZK depreciation by 5%		
Currency	EUR	USD	CHF
Increase / (decrease) in profit or loss	(36)	3	(3)
	CZK appreciation by 5%		
Currency	EUR	USD	CHF
Increase / (decrease) in profit or loss	36	(3)	3

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):

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

2021	Interest rate increased by 100 basis points	Interest rate decreased by 25 basis points
Increase / (decrease) in profit or loss	61	(15)

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 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 Group, and are therefore unsecured.

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 on hand and 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**

Carrying amount as at 31/12/2021 (in CZK million)	Unimpaired financial assets not yet due	Unimpaired financial assets past due	Total
Receivables from third parties - domestic	802	7	**809**
Receivables from PMI entities	103	68	**171**
Cash at banks	1 492	—	**1 492**
On-demand deposits with related parties	7 798	—	**7 798**
Other long-term financial assets	107	—	**107**
Total	**10 302**	**75**	**10 377**

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

Carrying amount as at 31/12/2021 (in CZK million)	Czech Republic	Slovak Republic	Other	Total
Receivables from third parties - domestic	606	204	—	**810**
Receivables from third parties - foreign	—	—	—	**—**
Receivables from PMI entities	—	—	170	**170**
Total	**606**	**204**	**170**	**980**

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 (2021: A-2)) in 2022
- 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 (2021: A-3) (rating 1).

Allowance for expected credit losses (ECL)

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

Allowance for expected credit losses (ECL)

Balance as at 31/12/2021 (in CZK million)	Creditworthiness	Stage				Total
		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	
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 31/12/2021 (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	814	—	77	89	**980**
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 31/12/2022 (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**

Balance as at 31/12/2021 (in CZK million)	Less than 3 months
Trade payables to third parties and PMI entities	3 499
Dividend payable	9
Other financial liabilities	95
Total	**3 603**

To mitigate the risk and enhance cash and liquidity management, the Group sold a portion of its trade receivables to a financial institution in 2022 and 2021. 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, 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**

The segment results for the period ended December 31, 2021 are as follows:

(in CZK million)	Czech Republic (Distribution)	Slovak Republic (Distribution)	Manufacturing Service	Total
Total gross segment revenues	13 516	5 350	—	**18 866**
Inter-segment revenues	(2 267)	—	—	**(2 267)**
Services provided	45	—	2 223	**2 268**
External revenues	**11 294**	**5 350**	**2 223**	**18 867**
Management gross profit	5 437	3 098	1 649	**10 184**
Management profit from operations	2 416	1 591	298	**4 305**

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

(in CZK million)	31/12/2022	31/12/2021
Management gross profit	**11 025**	**10 184**
Royalties	(601)	(613)
Fixed manufacturing expenses	(1 194)	(1 290)
Gross profit	**9 230**	**8 281**

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)	31/12/2022	31/12/2021
Management profit from operation	**4 338**	**4 305**
Other operating income / (expense), net	(95)	62
Interest income	414	42
Interest expense	(61)	(26)
Profit before tax	**4 596**	**4 383**

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

(in CZK million)	Czech Republic (Distribution)	Slovak Republic (Distribution)	Manufacturing Service	Total
2022	**71**	**35**	**618**	**724**
2021	69	32	724	**825**

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

(in CZK million)	31/12/2022	31/12/2021
Sales of merchandise	18 495	16 599
Sales of services	2 453	2 268
Total	**20 948**	**18 867**

Revenue analysis by timing of revenue recognition:

(in CZK million)	31/12/2022	31/12/2021
Sales recognized at time of shipment	18 495	16 599
Revenues recognized over time	2 453	2 268
Total	**20 948**	**18 867**

Revenues from customers or groups of customers under common control exceeding 10% of the Group's revenues: revenue of CZK 5 924 million (2021: CZK 5 408 million) derived from one customer is included in segment Czech Republic (distribution) and revenue of CZK 2 410 million (2021: CZK 2 223 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 2 960 million (at December 31, 2021: CZK 3 045 milion) from which CZK 2 804 million is used to support Manufacturing service related activities (at December 31, 2021: CZK 2 881 million) and CZK 156 million to support Distribution related activities (at December 31, 2021: CZK 164 million) and those located in Slovak Republic supporting only Distribution activities is CZK 106 million (at December 31, 2021: CZK 88 million).

5. PROPERTY, PLANT AND EQUIPMENT

(in CZK million)	Property, Buildings & Constructions	Vehicles & Machinery Equipment	Furniture & Fixtures	Constructions in progress & Advances paid	Total
As at 1/1/2021					
Cost	2 258	6 983	75	230	**9 546**
Accumulated depreciation	(1 839)	(4 558)	(45)	—	**(6 442)**
Net carrying amount	**419**	**2 425**	**30**	**230**	**3 104**
Year ended 31/12/2021					
Opening net carrying amount	419	2 425	30	230	**3 104**
Additions cost	21	58	3	420	**502**
Disposal net carrying amount	—	(84)	(3)	—	**(87)**
Transfers*	7	146	4	(157)	**—**
Depreciation charge	(84)	(592)	(11)	—	**(687)**
Closing net carrying amount	**363**	**1 953**	**23**	**493**	**2 832**
As at 31/12/2021					
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**

* 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 588 million (2021: CZK 687 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 4 million (2021: CZK 14 million). All investments in property, plant and equipment were financed by the Group's own resources.

6. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

In 2022 the Group revised the net book value of equipment. As a result of this revision, there was no impairment loss recognized in 2022. There was no impairment loss recognized in 2021.

7. LEASES

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

(in CZK million)	31/12/2022	31/12/2021
Office space and warehouse	126	174
Cars	59	43
Store	80	67
Employee flats	17	14
Total	**282**	**298**

The recognised lease liabilities relate to following types of liabilities:

(in CZK million)	31/12/2022	31/12/2021
Current liabilities	121	126
Non-current liabilities	159	178
Total	**280**	**304**

Interest expense on lease liabilities included in finance costs represented amount CZK 5 million (2021: CZK 8 million).

Depreciation expense of right-of-use assets represented amount CZK 131 million (2021: CZK 122 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	<1 year	1-5 years	>5 years
Lease liabilities	120	122	38

8. INVENTORIES

(in CZK million)	31/12/2022	31/12/2021
Materials	77	52
Merchandise	1 774	1 888
Total	**1 851**	**1 940**

The costs of inventories recognized as an expense in consolidated statement of comprehensive income in 2022 and included in costs of sales amounted to CZK 9 923 million (2021: CZK 8 683 million).

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

(in CZK million)	31/12/2022	31/12/2021
Trade and other financial receivables		
Third parties	1 436	809
Related parties	112	171
Total	**1 548**	**980**
Other non-financial assets		
Other assets - excise tax	2 075	2 162
Prepayments	36	44
Total	**2 111**	**2 206**
Other non-current financial assets		
Other financial assets	109	107
Total	**109**	**107**

10. CASH AND CASH EQUIVALENTS

(in CZK million)	31/12/2022	31/12/2021
Cash on hand	3	—
Cash at banks	540	1 492
On-demand deposits with related parties (see Note 27)	7 088	7 798
Total	**7 631**	**9 290**

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)	31/12/2022	31/12/2021
Cash and cash equivalents	7 631	9 290
Total	**7 631**	**9 290**

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, 2022, 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)	31/12/2022	31/12/2021
Share premium	2 335	2 335
Other shareholders´contributions	48	36
Total	**2 383**	**2 371**

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

(in CZK million)	31/12/2022	31/12/2021
Trade and other financial liabilities		
Third parties	917	787
Other related parties	1 101	1 812
Accrued expenses	746	900
Dividends payable	13	9
Other financial liabilities	94	95
Total	**2 871**	**3 603**
Other non-financial liabilities		
Amounts due to employees	194	180
Social security and health insurance	83	75
Advances received	5	—
Deferred revenues	—	9
Other liabilities	10	—
Total	**292**	**264**

Trade payables to related parties are disclosed in Note 27.

13. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES WITH RELATED PARTIES

Carrying amount as at 31/12/2022 (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**

Carrying amount as at 31/12/2021 (in CZK million)	Trade and other financial receivables	Trade and other financial payables
Gross amounts of recognized financial assets / liabilities	779	3 402
Gross amounts of recognized financial liabilities / assets set off in the balance sheet	201	201
Net amount	**980**	**3 603**

14. OTHER TAX LIABILITIES

(in CZK million)	31/12/2022	31/12/2021
VAT	665	406
Excise tax	3 300	4 230
Other taxes	20	16
Total	**3 985**	**4 652**

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)		31/12/2022	31/12/2021
Deferred tax assets not offset		50	59
Deferred tax assets		**50**	**59**
Deferred tax assets offset		46	53
Deferred tax liabilities		(199)	(224)
Deferred tax liability net		**(153)**	**(171)**
Deferred tax assets			
–	Deferred tax assets to be recovered within 12 months	94	110
–	Deferred tax asset to be recovered after more than 12 months	2	2
Total deferred tax assets		**96**	**112**
Deferred tax liabilities			
–	Deferred tax liabilities to be recovered after more than 12 months	(199)	(224)
Total deferred tax liabilities		**(199)**	**(224)**

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

(in CZK million)	2022	2021
January 1 - Deferred tax liability net	(112)	(161)
Charge to profit or loss	9	49
December 31 - Deferred tax liability net	**(103)**	**(112)**

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
As at 1/1/2021	**(264)**
Charge to profit or loss	40
As at 31/12/2021	**(224)**
Charge to profit or loss	25
As at 31/12/2022	**(199)**

Deferred tax assets (in CZK million)	Provisions for inventories	Share-based payments	Unrealized profit elimination	Other*	Total
As at 1/1/2021	**28**	**6**	**8**	**61**	**103**
Credit to profit or loss	(7)	1	12	3	9
As at 31/12/2021	**21**	**7**	**20**	**64**	**112**
Credit to profit or loss	(9)	2	(1)	(8)	(16)
As at 31/12/2022	**12**	**9**	**19**	**56**	**96**

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

Effective from January 1, 2010 the rate of 19% is used for calculation of corporate income tax and deferred tax in the Czech Republic.

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

16. EXPENSES BY NATURE - ADDITIONAL INFORMATIOIN

(in CZK million)	2022	2021
Raw materials, consumables used and merchandise sold	9 884	8 569
Services	3 604	2 924
Royalties	601	613
Employee benefits expense	1 591	1 471
Depreciation and amortization	724	825
Other	206	160
Costs of sales, distribution and administrative expenses	**16 610**	**14 562**

17. EMPLOYEE BENEFITS EXPENSE

(in CZK million)	2022	2021
Wages and salaries, including termination benefits of CZK 42 million (2021: CZK 74 million)	1 119	1 051
Social security and health insurance	146	125
Pension costs – defined contribution plans	234	212
Share-based payments	15	8
Other employee-related costs	77	75
Total	**1 591**	**1 471**

As at December 31, 2022, the Group employed 1 187 employees, out of which 146 were employed by Philip Morris Slovakia s.r.o. in the Slovak Republic (2021: 1 247, in the Slovak Republic 144).

The Group is legally required to make contributions to government health, pension and unemployment schemes. During 2022, the Group paid contributions at an average rate of 34 % of gross salaries (2021: 32 %) 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)	2022	2021
Statutory audit	7	7
Tax consultancy - charged by other than statutory auditor	2	2
Total fees	**9**	**9**

19. PROVISIONS

(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**

As at December 31, 2022 Management did not identify any plans related to organizational restructuring.

20. OTHER OPERATING INCOME

(in CZK million)	2022	2021
Foreign exchange rate gains	242	172
Gains on sale of PP&E	2	16
Other income	14	51
Total	**258**	**239**

21. OTHER OPERATING EXPENSE

(in CZK million)	2022	2021
Foreign exchange rate losses	328	154
Bank charges	13	9
Other expense	12	14
Total	**353**	**177**

22. NET PROFITS AND LOSSES FROM FINANCIAL INSTRUMENTS

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**

2021 (in CZK million)	Receivables	Cash equivalents	Payables	Total
Foreign exchange gain	17	55	100	**172**
Interest income	—	42	—	**42**
Foreign exchange losses	(47)	(27)	(80)	**(154)**
Interest expense	—	(26)	—	**(26)**
Net gain / (loss)	**(30)**	**44**	**20**	**34**

23. INCOME TAX EXPENSE

(in CZK million)	2022	2021
Current tax expense for the current period	(939)	(911)
Current tax adjustment of prior year	(30)	(8)
Current tax	**(969)**	**(919)**
Deferred tax - Temporary differences (see Note 15)	9	53
Total	**(960)**	**(866)**

The statutory income tax rate in the Czech Republic for the 2022 and 2021 assessment periods was 19 %.

The statutory income tax rate in the Slovak Republic for the 2022 and 2021 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)	2022	2021
Profit before tax	4 596	4 383
Applicable tax rate	19 %	19 %
Tax calculated at local tax rate applicable to profit before tax	**(873)**	**(833)**
Effect of different tax rates of subsidiaries operating in other jurisdictions including tax adjustment of prior year	(33)	(30)
Expenses not deductible for tax purposes	(49)	(28)
Income not subject to tax	20	29
Tax adjustment of prior year	(26)	(12)
Other	1	8
Tax charge	**(960)**	**(866)**

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.

	2022	2021
Income attributable to shareholders (in CZK million)	3 635	3 516
Number of ordinary shares in issue (in thousands)	2 745	2 745
Basic earnings per share in CZK	**1 324**	**1 281**

25. PROFIT DISTRIBUTION

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

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 (2021: CZK 1 million).

Disbursement of dividends from the 2022 results will be decided at the General Meeting scheduled for April 28, 2023.

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)	2022	2021
Sales of merchandise		
Other related parties	39	28
Sales of materials		
Other related parties	4	4
Sales of PP&E		
Other related parties	49	71
Sales of services		
Other related parties	2 453	2 427
Recharges		
Other related parties	15	4
Interest Income		
Other related parties	385	29
Total	**2 945**	**2 563**

b) Purchases of merchandise and services from affiliates within PMI

(in CZK million)	2022	2021
Purchases of merchandise and materials		
Other related parties	9 127	9 107
Purchases of PP&E and intangible assets		
Other related parties	230	281
Purchases of services		
Other related parties	1 153	889
Royalties paid		
Other related parties	600	613
Total	**11 110**	**10 890**

c) Dividends

In 2022 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 2021 amounted to CZK 2 684 million (CZK 1 260 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)	31/12/2022	31/12/2021
Receivables from related parties		
Other related parties	112	171
Total	**112**	**171**
Payables to related parties		
Other related parties	1 101	1 782
Loans and deposits		
Other related parties	7 088	7 798
Total	**8 189**	**9 580**

Loans and deposits with related parties include interest-bearing on-demand deposits (cash pool) of CZK 7 088 million with Philip Morris Finance S.A. (2021: CZK 7 798 million). All short-term loans and deposits are classified as cash and cash equivalents in the Group's consolidated statement of financial position as at December 31, 2022 and as at December 31, 2021.

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 2022 was 5.7% p.a. (2021: 0.4% p.a.) in the Czech Republic and 0.3 % p.a. (2021: 0.01% 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)	31/12/2022	31/12/2021
Short-term employee benefits	71	65
Other long-term benefits	3	3
Share-based payment expense	16	10
Total	**90**	**78**

There was no termination benefit for Board of Directors and Supervisory Board members recognized in 2022 and 2021.

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, 2022, the Group had no material commitments in respect of related parties except for the future obligation to services purchase in the total estimated value of CZK 459 million (commitment value as at December 31, 2021: CZK 326 million).

The Group entered in the past into a number of binding service agreements, under which some performance obligations are yet to be delivered. Those agreements mostly have two or six month termination notice. The total estimated value of services to be purchased under these agreements during their respective termination terms is disclosed above.

According to the agreements with trademark owners, Philip Morris Global Brands Inc., Philip Morris Products S.A. and CTPM International S.A., the Group has to pay royalties in respect of tobacco products sold in the Czech and Slovak Republic. During the 2022, the Group incurred under these agreements royalties expense of CZK 601 million (2021: CZK 613 million). These agreements shall continue indefinitely until terminated by either party. Management expects the royalty expense in 2023 to be at approximately similar level as in 2022.

28. INFORMATION ON THE IMPACT OF THE RUSSIAN INVASION OF UKRAINE AND MACROECONOMIC IMPLICATIONS

The war in Ukraine had the following impacts on our operations and results in 2022:

Our production plant in Kutná Hora currently uses natural gas as its main source of thermal energy. Although energy prices for 2022 were fixed, we expect them to increase significantly in 2023. Thus, in 2022, we invested over CZK 10 million in alternative energy sources, such as the light heating oil. This should enable us to maintain continuity of production in case of shortage of gas.

In 2022, we also experienced short-term supply issues, where, due to disruptions in the supply chains, deliveries of tobacco and non-tobacco materials were delayed, causing short-term production outages and higher costs due to lower efficiency and the need to adjust the production schedule. This was mainly related to the supply of materials sourced from Ukraine and Russia. However, these increased costs were largely absorbed by PMI and did not have a material impact on our company. In addition, the supply situation was improved in last quarter of the year.

The war in Ukraine also brought an increase in production in Kutná Hora. The PMI's production plant located in Kharkiv suspended its operations at the start of the war in February 2022 due to security reasons. The production of the Kharkiv plant was allocated to other PMI production sites, including Kutná Hora. This shift in production will more than compensate for the short-term disruptions mentioned above. For this reason, in 2022, we produced the biggest annual volume of cigarettes ever. This increase in production volume also brought in recruitment of additional workforce.

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

The war in Ukraine has been also having an impact on the supply of finished products to the market. The above-mentioned production disruptions, which affected not only Kutná Hora, but also other PMI production plants, resulted in short-term unavailability of some products on the market during Q1-Q3, temporarily affecting around 5% of our cigarette shipments and 3% of our heated tobacco shipments (some of which was also caused by the disruption of global trade chains due to measures related to the COVID-19 pandemic). The situation stabilized during Q4 and we are not observing further negative effects coming from the war in terms of supply. Rapidly rising energy and other commodity prices are having a major impact on household purchasing power, with December 2022 headline inflation of 15.8%[28] in the Czech Republic and 15,4%[29] in Slovakia. However, so far we have not observed an impact on demand for our products. Tobacco prices increased in 2022 due to the excise tax increase, but their overall price increase was less than the inflation rate in both the Czech Republic and Slovakia.

[28]https://www.czso.cz/csu/czso/ari/consumer-price-indices-inflation-december-2022
[29]Inflation in 2022 (statistics.sk)

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, 2022.

On March 17, 2023 the employees of Philip Morris ČR a.s. elected Tomáš Hilgard and Jan Kodaj as their representatives as new members of the Supervisory Board for a period of three years.

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 27, 2023

Andrea Gontkovičová

Chairperson of the Board of Directors

Philip Morris ČR a.s.

Anton Stankov

Member of the Board of Directors

Philip Morris ČR a.s.

Consolidated Financial Statements

07

Separate Statement of Financial Position

at December 31, 2022 (in CZK million)

ASSETS	Note	31/12/2022	31/12/2021
Property, plant and equipment ("PP&E")	4	2 760	2 813
Right-of-use assets	6	199	229
Intangible assets		1	3
Investments in subsidiary	1	19	19
Other financial assets	8	109	107
Non-current assets		**3 088**	**3 171**
Inventories	7	1 252	1 752
Trade and other financial receivables	8	1 273	918
Other non-financial assets	8	1 956	2 159
Current income tax receivable		—	9
Cash and cash equivalents	9	7 560	8 590
Current assets		**12 041**	**13 428**
Total assets		**15 129**	**16 599**

EQUITY & LIABILITIES	Note	31/12/2022	31/12/2021
Registered capital	10	2 745	2 745
Share premium and other shareholders' contributions	10	2 379	2 367
Retained earnings		3 631	3 603
Equity		**8 755**	**8 715**
Deferred tax liability	14	153	171
Lease liabilities	6	108	138
Non-current liabilities		**261**	**309**
Trade and other financial liabilities	11	2 013	2 775
Other non-financial liabilities	11	241	213
Current income tax liabilities		38	—
Other tax liabilities	13	3 719	4 465
Provisions	18	13	27
Lease liabilities	6	89	95
Current liabilities		**6 113**	**7 575**
Total liabilities		**6 374**	**7 884**
Total equity & liabilities		**15 129**	**16 599**

The accompanying notes form an integral part of the financial statements

Separate Statement of Comprehensive Income

for the year ended December 31, 2022 (in CZK million)

	Note	2022	2021
Revenues	19	17 251	15 808
Cost of sales	15	(9 672)	(8 828)
Gross profit		**7 579**	**6 980**
Distribution expenses	15	(2 040)	(1 704)
Administrative expenses	15	(1 376)	(1 066)
Other income	27	106	152
Other operating income	20	255	230
Other operating expense	21	(341)	(163)
Profit from operations		**4 183**	**4 429**
Financial income	22	414	42
Financial expense	22	(60)	(25)
Profit before income tax		**4 537**	**4 446**
Income tax expense	23	(914)	(849)
Net profit for the year		**3 623**	**3 597**
Other comprehensive income		—	—
Total comprehensive income for the year		**3 623**	**3 597**
Earnings per share basic and diluted (CZK/share)	**24**	**1 320**	**1 310**

The accompanying notes form an integral part of the financial statements

Separate Statement of Changes in Equity

for the year ended December 31, 2022 (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 1/1/2021		**2 745**	**2 362**	**3 463**	**8 570**
Net profit for the year (Total comprehensive income)	24	—	—	3 597	**3 597**
Transactions with owners					
Profit distribution	25	—	—	(3 459)	**(3 459)**
Share based payments		—	5	—	**5**
Forfeited dividends		—	—	2	**2**
Balance as at 31/12/2021		**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**

The accompanying notes form an integral part of the financial statements

Separate Statement of Cash Flow

for the year ended December 31, 2022 (in CZK million)

	Note	2022	2021
Cash flow from operating activities			
Profit before tax		**4 537**	**4 446**
Depreciation and amortisation expense	15	640	706
Impairment loss and loss on disposal of PP&E	4,15	49	87
Net interest (income) / expense		(354)	(17)
Dividend income	27	(106)	(152)
Gain on disposal of PP&E		(2)	(15)
Change in provisions		(14)	7
Other non-cash transactions, net		(5)	(20)
Operating cash flows before working capital changes		**4 745**	**5 042**
Changes in:			
Trade and other financial receivables and other non-financial assets		(153)	352
Trade and other financial liabilities and other non-financial liabilities		(1 484)	1 415
Inventories		499	(1 038)
Cash generated from operations		**3 607**	**5 771**
Interest paid	22	(60)	(25)
Income tax paid		(879)	(1 070)
Net cash generated from operating activities		**2 668**	**4 676**
Cash flow from investing activities			
Purchase of PP&E	4	(559)	(464)
Proceeds from sale of PP&E		49	85
Purchase of intangible assets		—	(2)
Interest received	22	414	42
Dividends received	27	106	152
Net cash used by investing activities		**10**	**(187)**
Cash flow from financing activities			
Dividends paid	25	(3 597)	(3 459)
Repayments of principle portion of lease liability		(111)	(98)
Net cash used by financing activities		**(3 708)**	**(3 557)**
Net increase in cash and cash equivalents		**(1 030)**	**932**
Cash and cash equivalents as at the beginning of the year		**8 590**	**7 658**
Cash and cash equivalents as at the end of the year	**9**	**7 560**	**8 590**

The accompanying notes form an integral part of the financial statements

Notes to the Separate Financial Statements

for the year ended December 31, 2022

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, 2022, Philip Morris International Inc. is the ultimate controlling party of the Company.

As at December 31, 2022, 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, 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

Members of the Board of Directors and the Supervisory Board as at December 31, 2021 were:

Board of Directors

Andrea Gontkovičová – Chairperson	Peter Piroch
Piotr Andrzej Cerek	Petr Šedivec
Petr Šebek	Anton Kirilov Stankov as of September 29, 2021

Supervisory Board

Stefan Bauer – Chairperson	Alena Zemplinerová
Sergio Colarusso	Stanislava Juríková
Roman Grametbauer Replaced Richard Vašíček as of July 1, 2021	Tomáš Hilgard

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, 2022 and as at December 31, 2021 was EUR 763 thousands (equivalent of CZK 19 million at historical cost).

In 2022, the profit after tax* of Philip Morris Slovakia s.r.o. was EUR 4.6 million, equivalent of CZK 114 million (2021: EUR 4.5 million, equivalent of CZK 116 million). Total equity* of Philip Morris Slovakia s.r.o. was EUR 4.1 million as at December 31, 2022, equivalent of CZK 99 million (2021: EUR 3.9 million, equivalent of CZK 96 million).

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

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 27, 2023.

*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, 2022 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, 2022. 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 Impact of Climate Change on Reported Data

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 2.9). In 2022 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 2022. These separate financial statements were prepared in consistency with the non-financial information related to climate matters contained in this Annual Financial Report.

2.3 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.

2.4 Changes in accounting policies and procedures

a) New and amended standards adopted by the Company

Following new standards and amendments to IFRS are effective from January 1, 2022 but they do not have a material effect on the financial statements in comparison with financial statements prepared for the previous year 2021:

- Amendments to IAS 16, 'Property, Plant and Equipment – Proceeds before Intended Use' that prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. Adoption of these amendments did not affect any figures presented in these financial statements.
- Amendments to IAS 37, 'Provisions, Contingent Liabilities and contingent assets – Onerous Contracts – Cost of Fulfilling a Contract' that specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). Adoption of these amendments did not affect any figures presented in these financial statements.
- The 'Annual Improvements to IFRS cycle 2018 – 2020' that includes amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41. The amendment to IFRS 1 provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. The Group is not first-time adopter and therefore, these amendments are not relevant for these financial statements. The amendment to IFRS 9 clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the

other's behalf. Adoption of these amendments did not affect any figures presented in these financial statements. The amendment to IFRS 16 removes the illustration of the reimbursement of leasehold improvements. The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pretax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

- Amendments to IFRS 3, 'Business Combinations' that only update references to the new Conceptual Framework.
- Amendments to IFRS 16, 'Leases' called "COVID-19-Related Rent Concessions beyond June 30, 2021" that permit a lessee to apply the practical expedient regarding COVID-19-related rent concessions to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022. The Group did not use this expedient and therefore, these amendments did not affect these financial statements.

b) Standards, amendments and interpretations to existing 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 Group's accounting periods beginning on January 1, 2022 and therefore, they were not considered in preparation of these financial statements for the year ended December 31, 2022:

- In May 2017, IFRS 17, 'Insurance Contracts' (effective for annual reports beginning on or after January 1, 2021 later deferred on or after January 1, 2023) was issued and it will supersede currently effective IFRS 4. The standard 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 will not affect the financial statements.
- 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 January 1, 2022 later deferred on or after January 1, 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 financial statements.
- In February 2021, amendments to IAS 1, 'Presentation of Financial Statements' called "Disclosure of Accounting Policies" (effective for annual reports beginning on or after January 1, 2023) were issued and these amendments requires 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 Company will assess changes but does not expect any significant changes in financial statements.
- In February 2021, amendments to IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' called "Definition of Accounting Estimates" (effective for annual reports beginning on or after January 1, 2023) were issued. The definition of a change in accounting estimates is replaced with a definition of accounting estimates and amendments also clarify how to distinguish accounting estimate and accounting policy. The Company will assess changes but does not expect any significant changes in financial statements.
- In May 2021, amendments to IAS 12, 'Income Taxes' called "Deferred Tax related to Assets and Liabilities arising from a Single Transaction" (effective for annual reports beginning on or after January 1, 2023) were issued. The main change is an exemption from the initial recognition exemption provided in current 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 will assess changes but does not expect any significant changes in consolidated financial statements. Nevertheless, the deferred tax from lease agreements will be recognized and presented in future financial statements.
- In December 2021, 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)' were issued to 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 will not affect the financial statements.
- In September 2022, amendments to IFRS 16, 'Lease Liabilities in a Sale and Lease-back' (effective for annual reports beginning on or after January 1, 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 financial statements.

- In October 2022, amendments to IAS 1, 'Non-current Liabilities with Covenants' (effective for annual reports beginning on or after January 1, 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 financial statements.

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

At the approval date of these 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:

- 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
- Amendments to IAS 1 'Classification of Liabilities as Current and Non-current' (issued in January 2020, amended in July 2020 and effective since January 1, 2024)
- Amendments to IAS 1 'Non-current Liabilities with Covenants' (issued in October 2022 and effective since January 1, 2024)
- Amendments to IFRS 16 'Lease Liabilities in a Sale and Lease-back' (issued in September 2022 and effective since January 1,2024)

2.5 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.

2.6 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 2.9).

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.

2.7 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).

2.8 Investment in subsidiary

Investment in Philip Morris Slovakia s.r.o. is recorded at historical cost.

2.9 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).

2.10 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.

2.11 Financial assets

2.11.1. 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 2022 and 2021, 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 2022 and 2021 in this category.

Derivatives are classified in the FVPL category provided they do not qualify for hedge accounting. During the financial years 2022 and 2021, the Company did not have any assets in this category.

2.11.2. 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.

2.11.3. 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.

2.12 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.

2.13 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.

2.14 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.

2.15 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.

2.16 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.

2.17 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.

2.18 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.

2.19 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.

2.20 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 2022 and 2021 were immaterial.

2.21 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.

2.22 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.

2.23 Dividend income

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

2.24 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.

2.25 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.

2.26 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.

2.27 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 flows.

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 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.

2.31 Changes in accounting policies, estimates and errors

There were no significant changes in accounting policies, accounting estimates or errors in 2022 that had a retrospective impact on the financial statements.

2.32 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.

2.33 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 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 2022 and 2021.

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

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 on hand and 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**

Carrying amount as at 31/12/2021	CZK	EUR	USD	CHF	Other	Total
Receivables from third parties - domestic	605	—	—	—	—	**605**
Receivables from PMI entities	3	242	68	—	—	**313**
Cash at banks	1 415	—	—	—	—	**1 415**
Short-term deposits with related parties	7 175	—	—	—	—	**7 175**
Other long-term financial assets	106	1	—	—	—	**107**
Total	**9 304**	**243**	**68**	**—**	**—**	**9 615**

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

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**

Carrying amount as at 31/12/2021	CZK	EUR	USD	CHF	Other	Total
Payables to third parties - domestic	1 193	36	1	—	—	**1 230**
Payables to third parties - foreign	14	79	2	6	7	**108**
Payables to PMI entities	447	942	3	40	5	**1 437**
Total	**1 654**	**1 057**	**6**	**46**	**12**	**2 775**

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, 2022. 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 2022 (2021: +5%, -5%):

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

2021	CZK depreciation by 5%		
Currency	EUR	USD	CHF
Increase / (decrease) in profit or loss	(36)	3	(2)
	CZK appreciation by 5%		
Currency	EUR	USD	CHF
Increase / (decrease) in profit or loss	36	(3)	2

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):

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

2021	Interest rate increased by 100 basis points	Interest rate decreased by 25 basis points
Increase / (decrease) in profit or loss	56	(14)

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 31/12/2022 (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 on hand and 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**

Carrying amount as at 31/12/2021 (in CZK million)	Unimpaired financial assets not yet due	Unimpaired financial assets past due	Total
Receivables from third parties – domestic	602	3	**605**
Receivables from PMI entities	244	69	**313**
Cash at banks	1 415	–	**1 415**
Short-term loans and deposits with related parties	7 175	–	**7 175**
Other long-term financial assets	107	–	**107**
Total	**9 543**	**72**	**9 615**

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

Carrying amount as at 31/12/2021 (in CZK million)	Czech Republic	Slovak Republic	Other	Total
Receivables from third parties – domestic	605	—	—	605
Receivables from third parties – foreign	—	—	—	—
Receivables from PMI entities	—	231	82	313
Total	**605**	**231**	**82**	**918**

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 (2021: A-2)) in 2022.
- 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 (2021: A-3) (rating 1).

Allowance for expected credit losses (ECL)

Balance as at 31/12/2022 (in CZK million)	Creditworthiness	Stage				Total
		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	
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	—	—	—	—	—

Allowance for expected credit losses (ECL)

Balance as at 31/12/2021 (in CZK million)	Creditworthiness	Stage				Total
		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	
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 31/12/2021 (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	755	—	78	85	**918**
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 31/12/2022 (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**

Balance as at 31/12/2021 (in CZK million)	Less than 3 months
Trade payables to third parties and PMI entities	2 671
Dividend payable	9
Other financial liabilities	95
Total	**2 775**

To mitigate the risk and enhance cash and liquidity management, the Company sold a portion of its trade receivables to a financial institution in 2022 and 2021. 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 1/1/2021					
Cost	2 243	6 966	61	230	**9 500**
Accumulated depreciation	(1 832)	(4 542)	(38)	—	**(6 412)**
Net carrying amount	**411**	**2 424**	**23**	**230**	**3 088**
Year ended 31/12/2021					
Opening net carrying amount	411	2 424	23	230	**3 088**
Additions cost	17	55	1	420	**493**
Disposal net carrying amount	—	(84)	(3)	—	**(87)**
Transfers*	7	146	4	(157)	**—**
Depreciation charge	(81)	(591)	(9)	—	**(681)**
Closing net carrying amount	**354**	**1 950**	**16**	**493**	**2 813**
As at 31/12/2021					
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**

* 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 3 million (2021: CZK 14 million).

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

5. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

In 2022 Company revised the net book value of equipment. As a result of this revision, there was no impairment loss recognized in 2022. There was no impairment loss recognized in 2021.

6. LEASES

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

(in CZK million)	31/12/2022	31/12/2021
Office space and warehouse	103	169
Cars	34	21
Store	47	27
Employee flats	15	12
Total	**199**	**229**

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

(in CZK million)	31/12/2022	31/12/2021
Current liabilities	89	95
Non-current liabilities	108	138
Total	**197**	**233**

Interest expense on lease liabilities included in finance costs represented amount CZK 4 million (2021: CZK 6 million).

Depreciation expense of right-of-use assets represented amount CZK 104 million (2021: CZK 97 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	<1 year	1-5 years	>5 years
Lease liabilities	89	74	34

7. INVENTORIES

(in CZK million)	31/12/2022	31/12/2021
Materials	77	52
Merchandise	1 175	1 700
Total	**1 252**	**1 752**

The costs of inventories recognized as an expense in separate statement of comprehensive income in 2022 and included in costs of sales amounted to CZK 7 882 million (2021: CZK 6 931 million).

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

(in CZK million)	31/12/2022	31/12/2021
Trade and other financial receivables		
Third parties	968	605
Subsidiary	273	231
Other related parties	32	82
Total	**1 273**	**918**
Other non-financial assets		
Other assets - excise tax	1 935	2 127
Prepayments	21	32
Total	**1 956**	**2 159**
Other non-current financial assets		
Other financial assets	109	107
Total	**109**	**107**

9. CASH AND CASH EQUIVALENTS

(in CZK million)	31/12/2022	31/12/2021
Cash on hand	3	—
Cash at banks	430	1 414
On-demand deposits with related parties (see Note 27)	7 127	7 176
Total	**7 560**	**8 590**

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)	31/12/2022	31/12/2021
Cash and cash equivalents	7 560	8 590
Total	**7 560**	**8 590**

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, 2022 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)	31/12/2022	31/12/2021
Share premium	2 335	2 335
Other shareholders´contributions	44	32
Total	**2 379**	**2 367**

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

(in CZK million)	31/12/2022	31/12/2021
Trade and other financial liabilities		
Third parties	690	576
Other related parties	722	1 436
Accrued expenses	493	659
Dividends payable	13	9
Other financial liabilities	95	95
Total	**2 013**	**2 775**
Other non-financial liabilities		
Amounts due to employees	165	151
Social security and health insurance	71	62
Other liabilities	5	—
Total	**241**	**213**

Trade payables to related parties are disclosed in Note 27.

12. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES WITH RELATED PARTIES

Carrying amount as at 31/12/2022 (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**

Carrying amount as at 31/12/2021 (in CZK million)	Trade and other financial receivables	Trade and other financial payables
Gross amounts of recognized financial assets / liabilities	1 119	2 976
Gross amounts of recognized financial liabilities / assets set off in the balance sheet	(201)	(201)
Net amount	**918**	**2 775**

13. OTHER TAX LIABILITIES

(in CZK million)	31/12/2022	31/12/2021
VAT	505	311
Excise tax	3 196	4 140
Other taxes	18	14
Total	**3 719**	**4 465**

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)	31/12/2022	31/12/2021
Deferred tax assets	46	53
Deferred tax liabilities	(199)	(224)
Deferred tax liability net	**(153)**	**(171)**
Deferred tax assets		
– Deferred tax assets to be recovered within 12 months	44	51
– Deferred tax assets to be recovered after more than 12 months	2	2
Total deferred tax assets	**46**	**53**
Deferred tax liabilities		
– Deferred tax liabilities to be recovered after more than 12 months	(199)	(224)
Total deferred tax liabilities	**(199)**	**(224)**

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

(in CZK million)	2022	2021
January 1 - Deferred tax liability net	(171)	(206)
Charge to profit or loss	18	35
December 31 - Deferred tax liability net	**(153)**	**(171)**

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
As at 1/1/2021	**(264)**
Charge to profit or loss	40
As at 31/12/2021	**(224)**
Charge to profit or loss	25
As at 31/12/2022	**(199)**

Deferred tax assets (in CZK million)	Provisions for inventories	Share based payments	Other*	Total
As at 1/1/2021	**27**	**4**	**27**	**58**
Credit / (charge) to profit or loss	(7)	1	1	**(5)**
As at 31/12/2021	**20**	**5**	**28**	**53**
Credit / (charge) to profit or loss	(10)	2	1	**(7)**
As at 31/12/2022	**10**	**7**	**29**	**46**

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

Effective from January 1, 2010, the rate of 19% is used for calculation of corporate income tax and deferred tax.

15. EXPENSES BY NATURE - ADDITIONAL INFORMATION

(in CZK million)	2022	2021
Raw materials, consumables used and merchandise sold	7 649	6 721
Services	2 588	2 081
Royalties	601	614
Employee benefits expense	1 367	1 250
Depreciation and amortization	689	793
Other	194	139
Costs of sales, distribution and administrative expenses	**13 088**	**11 598**

16. EMPLOYEE BENEFITS EXPENSE

(in CZK million)	2022	2021
Wages and salaries, including termination benefits of CZK 32 million (2021: CZK 55 million)	968	896
Social security and health insurance	120	101
Pension costs – defined contribution plans	202	183
Share-based payments	14	7
Other employee related costs	63	64
Total	**1 367**	**1 250**

As at December 31, 2022, the number of employees was 1 041 (2021: 1 103).

The Company is legally required to make contributions to government health, pension and unemployment schemes. During 2022, the Company paid contributions at an average rate of 33 % of gross salaries (2021: 32 %) 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)	2022	2021
Statutory audit (mandatory)	6	6
Tax consultancy - charged by other than statutory auditor	2	2
Total	**8**	**8**

18. PROVISIONS

(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**

As at December 31, 2022 the Company management did not identify any plans related to organizational restructuring.

19. REVENUES

(in CZK million)	2022	2021
Sales of merchandise	14 777	13 516
Sales of services	2 474	2 292
Total	**17 251**	**15 808**

Revenue analysis by timing of revenue recognition:

(in CZK million)	2022	2021
Sales reported at time of shipment	14 777	13 516
Revenues reported over time	2 474	2 292
Total	**17 251**	**15 808**

20. OTHER OPERATING INCOME

(in CZK million)	2022	2021
Foreign exchange rate gains	239	169
Gains on sale of PP&E	2	15
Other income	14	46
Total	**255**	**230**

21. OTHER OPERATING EXPENSE

(in CZK million)	2022	2021
Foreign exchange rate losses	320	145
Bank charges	10	6
Other expense	11	12
Total	**341**	**163**

22. NET PROFITS AND LOSSES FROM FINANCIAL INSTRUMENTS

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**

2021 (in CZK million)	Receivables	Cash equivalents	Payables	Total
Foreign exchange gain	16	55	98	169
Interest income	—	42	—	42
Foreign exchange losses	**(47)**	**(27)**	**(72)**	**(146)**
Interest expense	—	(25)	—	(25)
Net gain / (loss)	**(31)**	**45**	**26**	**40**

23. INCOME TAX EXPENSE

(in CZK million)	2022	2021
Current tax expense for the current period	(906)	(873)
Current tax adjustment of prior year	(26)	(12)
Current tax	**(932)**	**(885)**
Deferred tax - Temporary differences (see Note 14)	18	36
Total	**(914)**	**(849)**

The statutory income tax rate for the 2022 and 2021 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)	2022	2021
Profit before tax	4 537	4 446
Applicable tax rate	19 %	19 %
Tax calculated at local tax rate applicable to profit before tax	**(862)**	**(845)**
Expenses not deductible for tax purposes	(49)	(28)
Income not subject to tax	20	29
Tax adjustment of prior year	(26)	(12)
Other	3	7
Tax charge	**(914)**	**(849)**

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.

	2022	2021
Income attributable to shareholders (in CZK million)	3 623	3 597
Number of ordinary shares in issue (in thousands)	2 745	2 745
Basic earnings per share in CZK	**1 320**	**1 310**

25. PROFIT DISTRIBUTION

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

Disbursement of dividends from the 2022 results will be decided at the General Meeting scheduled for April 28, 2023.

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)	2022	2021
Sales of merchandise		
Subsidiary	2 032	2 267
Other related parties	18	21
Sales of PP&E		
Other related parties	49	71
Sales of materials		
Other related parties	4	4
Sales of services		
Subsidiary	21	25
Other related parties	2 453	2 267
Recharges		
Other related parties	5	4
Interest received		
Other related parties	385	29
Total	**4 967**	**4 688**

b) Purchases of merchandise and services from affiliates within PMI

(in CZK million)	2022	2021
Purchases of merchandise and materials		
Subsidiary	27	7
Other related parties	6 610	7 350
Purchases of PP&E and intangible assets		
Other related parties	230	281
Purchases of services		
Subsidiary	9	8
Other related parties	919	722
Royalties paid		
Other related parties	601	614
Total	**8 396**	**8 982**

c) Dividends

Dividends received from Philip Morris Slovakia s.r.o. in 2022 amounted to CZK 106 million (2021: CZK 152 million).

In 2022 Company paid to Philip Morris Holland Holdings B.V. dividends CZK 2 790 million in total (2021: CZK 2 684 million).

Except for dividends there were no other transactions with the Parent company during the last two years.

d) Balances with affiliates within PMI

(in CZK million)	31/12/2022	31/12/2021
Receivables from related parties		
Subsidiary	273	231
Other related parties	32	82
Total	305	**313**
Payables to related parties		
Other related parties	722	1 437
Loans and deposits		
Other related parties	7 127	7 176
Total	**7 849**	**8 613**

Loans and deposits with related parties include interest-bearing on-demand deposits (cash pool) of CZK 7 127 million with Philip Morris Finance S.A. (2021: CZK 7 176 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, 2022 and as at December 31, 2021.

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 2022 was 5.7 % p.a. (2021: 0.4 % 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)	31/12/2022	31/12/2021
Short-term employee benefits	71	65
Other long-term benefits	3	3
Share-based payment expense	16	10
Total	**90**	**78**

There was no termination benefit for Board of Directors and Supervisory Board members recognized in 2022 and 2021.

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, 2022, 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 369 million (commitment value as at December 31, 2021: CZK 262 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 2022, the Company incurred under these agreements royalties expense of CZK 601 million (2021: CZK 614 million). These agreements shall continue indefinitely until terminated by either party. Management expects the royalty expense in 2023 to be at approximately similar level as in 2022.

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, 2022.

On March 17, 2023 the employees of Philip Morris ČR a.s. elected Tomáš Hilgard and Jan Kodaj as their representatives as new members of the Supervisory Board for a period of three years.

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 27, 2023

Andrea Gontkovičová
Chairperson of the Board of Directors

Anton Stankov
Member of the Board of Directors

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

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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 2022 Calendar Year Accounting Period

The following additional disclosures relating to the 2022 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"): 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 ("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 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 *HEETS* and *TEREA* smoke-free tobacco products, *IQOS* a *IQOS ILUMA* devices, *IQOS VEEV* electronic cigarette and *VEEV* pods, smoke-free devices of KT&G, *lil SOLID* devices and pods, and 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 2022 calendar year accounting period at the initiative, or in the interest, of the controlling entity or entities controlled by such controlling entity where such actions related to assets in excess of 10% of the controlled entity's equity as reported in the 2021 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 871.5 million as reported in the latest financial statements as at 31 December 2021:

- Provision of production services to Philip Morris International Management S.A. in the amount of CZK 2,410 million;
- Purchase of goods for resale from Philip Morris International Management S.A. in the amount of CZK 6,602 million;
- Sale of goods to Philip Morris Slovakia s.r.o. in the amount of CZK 2,032 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 entities controlled by the same controlling entity, which would relate to assets in excess of 10% of Philip Morris ČR a.s. equity 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. 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 and seq. of Act No. 256/2004 Coll., on Business Activities on the Capital Market, as amended (the "Act on Business Activities on the Capital Market"). The transactions were concluded within the ordinary course of business and under the standard market conditions, thus in accordance with the provisions of the Act on Business Activities on the Capital Market 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 2022

Company Purchase of goods and services	Contract	Date
Philip Morris Products S.A.	**Amendment No. 4 to the Distribution Agreement**	**12/2022**
Philip Morris Finance SA	**Amendment No. 2 to the Citibank Cash Pool Agreement**	**1/2022**
Philip Morris Finance SA	**Amendment No. 3 to the Citibank Cash Pool Agreement**	**12/2022**
PT Philip Morris Indonesia	**Supply Agreement**	**3/2022**

Company Sale of goods and services	Contract	Date
Philip Morris Manufacturing Senegal S.A.R.L	**Sales Agreement**	**2/2022**

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 on mutual agreements and purchase orders without written contracts having been concluded.

The controlled entity carried out transactions with the controlling entity and the following jointly controlled entities in 2022:

Philip Morris Products S.A. Manufacturing
PHILIP MORRIS MANUFACTURING AND TECHNOLOGY BOLOGNA SPA
PM INVESTMENTS B V
PHILIP MORRIS AB
Philip Morris Services S.A.
Philip Morris Polska S.A.
Philip Morris Operations a.d. NIS
Papastratos Cigarette Manufacturing Company S.A.
PHILIP MORRIS SOUTH AFRICA PTY LTD
PHILSA PHILIP MORRIS SABANCI SIGARA VE TUTUNCULUK SANAYI VE TICARET A.S
Philip Morris Hungary Ltd.
PMIM SA
PHILIP MORRIS PRODUCTS SA
PrJSC Philip Morris Ukraine
Philip Morris Slovakia s.r.o.
TABAQUEIRA - EMPRESA INDUSTRIAL
PHILIP MORRIS MANUFACTURING GMBH
PHILIP MORRIS MANUFACTURING SENEGAL S.A.R.L.
TABAQUEIRA II, S.A.
PMP SA
Philip Morris Romania S.R.L.
f6 Cigarettenfabrik GmbH and Co. KG

PMFTC INC

PHILIP MORRIS INTERNATIONAL INC

PHILIP MORRIS GLOBAL BRANDS INC.

TRIAGA INC

PHILIP MORRIS KOREA INC.

PHILIP MORRIS INDONESIA PT

PHILIP MORRIS PAKISTAN LIMITED

CTPM INTERNATIONAL SA

PMI SERVICE CENTER EUROPE SP.Z.O.O.

MASSALIN PARTICULARES S.R.L.

ROTHMANS, BENSON AND HEDGES INC.

PHILIP MORRIS INTERNATIONAL IT

PHILIP MORRIS INTERNATIONAL

PHILIP MORRIS INVESTMENTS B.V. JORDAN LTD CO

UAB Philip Morris Lietuva

PHILIP MORRIS POLSKA DISTRIBUTION

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 controlled entity and between the controlled entity and entities controlled by the same controlling entity;
- equal treatment of all shareholders of 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 27, 2023

Andrea Gontkovičová	Anton Stankov
Chairperson of the Board of Directors	Member of the Board of Directors

Independent auditor's report to the shareholders of company Philip Morris ČR a.s.

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INDEPENDENT AUDITOR'S REPORT

on the consolidated and separate financial statements as at 31 December 2022 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 2022
Audited period:	from 1 January 2022 to 31 December 2022
Financial reporting framework:	International Financial Reporting Standards as endorsed by the European Union
Date of issue auditor's report:	27 March 2023
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. (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 2022, 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 a summary of significant accounting policies and other explanatory 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 2022 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.

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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 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 2022, 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 a summary of significant accounting policies and other explanatory 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 2022 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 2.22 of the separate 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 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.	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.

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.

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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 27 May 2022 and our uninterrupted engagement has lasted for 2 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 27 March 2023 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").

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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 2022 included in the Annual Financial Report are, in all material respects, in compliance with the ESEF Regulation.

Prague, 27 March 2023

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

Represented by Jan Kellner

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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 28 March 2022 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.

Other Information for Shareholders

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Other Information for Shareholders

For the 2022 calendar year accounting period

1. General information on remuneration

The figures and information on all cash and non-cash income received for the 2022 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 Act on Business Activities on the Capital Market. The principles of providing remuneration to the issuer's persons with management authority are set out in the remuneration policy of the Company, which was approved by a resolution of the General Meeting adopted outside the meeting (per rollam) on 30 June 2020 and is available on the website www.philipmorris.cz, in the section "For Shareholders". In addition to the agreement on performance of 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 2022, no facts that would lead to a conflict of interest were identified in relation to any member of the Board or any member of the Supervisory Board.

2. Investments

In 2022, 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 2022 were implemented in the Czech Republic.

Investments (at cost)

(in CZK million)	31/12/2022	31/12/2021
Investments in equipment for leaf processing	0	18
Investments in equipment to increase capacity	529	459
Other projects	74	43
Investments in software	0	2
Total investments	**603**	**522**

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

In 2023, the Company plans aggregate investments of CZK 528 million and already committed itself to the purchases amounting to CZK 360 million as at 31 December 2022. The Company's investment plans are subject to periodic reviews, but the actual costs may differ from the planned estimates.

3. Land plots, buildings and equipment – additional information

As at December 31, 2022, the Company owned land plots, buildings and structures in the net carrying amount of CZK 332 million (2021: CZK 354 million), of which buildings and land plots represented CZK 161 million (2021: CZK 173 million).

Buildings and land

(in CZK million)	Location	Utilization	31/12/2022	31/12/2021
Buildings (net carrying amounts)	Kutná Hora	Factory	66	71
	Kutná Hora	Warehousing premises	34	40
	Kutná Hora, Strážnice	Other premises	50	51
Total buildings			**150**	**162**
Land (acquisition value)	Kutná Hora	Factory and warehousing premises	11	11
Total land			**11**	**11**
Total buildings and land			**161**	**173**

As at December 31, 2022, the Company owned vehicles, machinery and equipment in the amount of CZK 2,131 million (2021: CZK 1,950 million), of which the leaf processing equipment represented CZK 650 million (2021: CZK 160 million) and the production machines represented CZK 1,295 million (2021: CZK 1,532 million).

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

Machinery equipment

(in CZK million)	Useful lives in years	31/12/2022	31/12/2021
Machinery equipment for the leaf processing	5	68	4
(net carrying amounts)	8	296	18
	15	286	138
Total leaf processing equipment		**650**	**160**
Machinery equipment for the production of cigarettes (net carrying amounts)	5	51	95
	8	318	443
	15	926	994
Total equipment for the production of cigarettes		**1295**	**1532**

As at December 31, 2022, the Company owned other equipment in the net carrying amount of CZK 179 million (2021: CZK 236 million), vehicles in the net carrying amount of CZK 0 million (2021: CZK 0 million) and equipment for data processing in the net carrying amount of CZK 7 million (2021: CZK 21 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 2022 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 absolute priority of the Company in 2022 was the protection of health and safety of all employees of the Company, including agency workers and employees of third parties working on the Company's premises. Already in March 2020, the Company's management took a number of extraordinary epidemiological measures to achieve maximum health protection and prevent the spread of COVID-19.

The rules were significantly tightened and the minimum requirements for entry into all areas of the Company and the production plant were adjusted, including the introduction of mandatory body temperature measurement in an automated manner. The Company regularly updated those rules and communicated with all employees accordingly.

The individual work teams were separated in the building of the Kutná Hora production plant and the organisation of work was adjusted so that mutual contact between employees was eliminated at most. All employees were provided with appropriate protective equipment and their use was always enforced beyond the relevant government regulations.

The Company created the conditions and promoted safe work from home for all positions that allowed it, including the introduction of psychological support programs for employees and a number of online seminars focused on mental health, physical health and the specifics of working from home.

The operation of the Company's headquarters offices was significantly reduced at the beginning of 2022. Every employee's presence on the premises required approval and registration in the system and adherence to strict hygiene standards.

All employees were regularly and transparently informed about the development and impacts of the COVID-19 infection on the Company's operations. All new countermeasures were always consulted with trade union representatives before their introduction, and new financial and non-financial remuneration programmes for employees related to compliance with the set extraordinary anti-pandemic measures at work were implemented.

During the year, strict security measures at the Company's headquarters and the Kutná Hora production facility were gradually relaxed in line with the favourable development of the COVID-19 epidemic and the relaxation of government regulations.

In the light of the government regulations adopted in response to the spread of COVID-19, the Company partially modified its business model to continue to offer adult smokers alternatives that posed a lower health risk than continuing to smoke conventional cigarettes. These changes consisted primarily in prioritising business channels so as to minimise the impact on the Company's business results.

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.

Thanks to proactive cooperation with the Company's suppliers, all risks were minimised, and thus the Company's supply chain was not significantly affected by the situation.

Regarding the Company's employment relations activities in 2022, the Company increased the salaries of its employees by an average of 8.48% on a one-off basis as part of the annual salary review and decided to pay a one-off inflationary bonus of CZK 9,700 in September 2022. In order to promote well-being activities for employees, the Company almost doubled the financial support for flexible benefits (Cafeteria) and expanded the flexibility of taking "Sick Days" (including taking them for the purpose of caring for family members and taking more days in total) and provided the possibility to use the assistance program – help line in case of psychological discomfort of employees. In order to assist the employees of the Philip Morris affiliate in Ukraine, some employees were transferred and integrated into the Company. In 2022, the Company provided assistance to 25 family members of employees of the Philip Morris affiliate in Ukraine and employed 5 employees from this affiliate. As a result of the war in Ukraine, there was an increase in production volumes, which required the recruitment of additional new labour.

The Company is one of the best employers; it was awarded the Top Employer Czech Republic certification. Philip Morris Slovakia s.r.o. was awarded the Top Employer Slovak Republic certification. The Company is also a holder 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 in the same jobs.

Transparently reporting on governance, strategy, targets and aspirations, programs, and metrics, in line with PMI Group's ESG priorities helps the Company communicate progress in a structured way, even beside the PMI Integrated Report.
With its 2021 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 its upcoming Integrated Report 2022, PMI will also update the PMI's ESG KPI Protocol, detailing the definition, scope, and methodology of each KPI included in the index.
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).

Moreover, we are streamlining the above-mentioned sustainability efforts in terms of strategy, performance and risk assessment reporting carried out at consolidated level, towards the requirements of the EU Regulation 2020/852 ("Taxonomy Regulation"), for which the Company is in scope.

In relation to this, specifically, the Company is committed to:

- further identify within its economic activities those that are taxonomy-eligible, fully representing the Company's contribution towards the six environmental objectives defined by Article 9 of the Taxonomy Regulation,
- further carry out the necessary alignment assessments (of substantial contribution to climate change mitigation and climate change adaptation, of "do not significant harm" (DNSH), and of minimum safeguards), aligning these analyses with already existing processes at consolidated level, and to
- disclose taxonomy-aligned investments, revenues and operating expenditures, in order to demonstrate the Company's yearly progress and ensure compliance with the highest transparency, accuracy, and accountability requirements.

The Company welcomes more rigorous and regulated sustainability reporting requirements, and is strengthening its ability to produce consistent, comparable and reliable sustainability-related disclosures, for its shareholders and stakeholders to be better able to assess how the Company is contributing to long-term value creation.

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. For example, it is taking steps for reduction of the energy and water consumption, if this is economically and technologically feasible. Projects of other plants within the PMI group shared through the Knowledge Transfer Package are a source of innovation in this area for the Kutná Hora production plant as well.

Climate protection is a clear priority. The Company supports the Paris Agreement and is adapting its objectives to the recommendations of the Intergovernmental Panel on Climate Change (IPCC).

The company 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 (certified for the first time in 2021). At manufacturing, 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 third year already, no production waste is landfilled. The Kutná Hora manufacturing plant has been successfully re-certified by external entities as per ISO 14001 (Environment).

The PMI Group has set a global goal of becoming a carbon-neutral company in its direct operations by 2025 (Scope 1+2). In 2022, PMI was awarded a Triple A score by the CDP for the third consecutive year in recognition of its efforts to combat climate change, protect forests, and promote water security.

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. PMI is committed to conducting its business according to the UN Guiding Principles on Business and Human Rights (UNGPs) and thus identifying, analyzing, 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. PMI also foresees the possibility for affiliates to voluntarily implement so-called HRIA self-assessment.

The supply chain may be exposed to potentially significant environmental, social and governance risks. The PMI Group is fully committed to continuously identifying and addressing these risks, while increasing the sustainability of its supply chain.

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

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 has been successfully re-certified by external entities as per ISO 45001 (Health and Safety) as well as the factory achieved the next year without safety incidents resulting in LTIs (Lost Time due to Injuries)

Additional non-financial information will be included in the separate Integrated Report 2022 of Philip Morris International Inc., which will be published no later than on 30 June 2023 and will be freely accessible at www.pmi.com.

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 2022, 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.".

None of the Members of the Company's Bodies was convicted in relation to any fraudulent offences 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 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 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 offence committed wilfully 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 27, 2023

Andrea Gontkovičová
Chairperson of the Board of Directors

Anton Stankov
Member of the Board of Directors

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.

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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, for the 2022 calendar year accounting period, pursuant to Section 118 (4) of Act No. 256/2004 Coll., on Business Activities on the Capital Market, as amended (the "**Act on Business Activities on the Capital Market**")

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.

II. Information on the Company's corporate governance practices used beyond the requirements of the Act on Business Activities on the Capital Market and a detailed description thereof:

The Company respects and complies with the principles set out by the Code 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. In 2022, there were no material changes in the Company that would have an adverse effect on the Company's corporate governance standards. The Company is dedicated to maintain and develop an efficient framework for the control and management of the Company's business. The Company properly ensures the compliance with all rights of shareholders, in particular the right to equal treatment of all shareholders in compliance with the applicable legal regulations. The Company strongly prides itself on its transparency, not only in relation to the convocation of the General Meetings, but also in relation to providing information about matters within the Company and disclosing its financial results, business plans and relationships with related entities. Members of the Company's bodies act with due managerial care, diligently and with the necessary knowledge, and comply with the applicable legal regulations while performing any of their acts.

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 as presented 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 2022, 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 2022, 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 Act on Business Activities on the Capital Market 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 Board of Directors meetings. 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 2022 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 office concluded with the Company and an employment contract dated 1 May 1997 with Philip Morris International Inc. ("**PMI**");
- Mr. Petr Šebek (for the whole accounting period), who has an agreement on the performance of office and an employment contract dated April 1, 2011 concluded with the Company;
- Mr. Petr Šedivec (for the whole accounting period), who has an agreement on the performance of office and an employment contract dated October 1, 2010 concluded with the Company;
- Mr. Peter Piroch (until July 31, 2022), who had an agreement on the performance of office concluded with the Company and an employment contract dated April 1, 1993 with Philip Morris Slovakia s.r.o.;
- Mr. Piotr Andrzej Cerek (until June 15, 2022), who had an agreement on the performance of office concluded with the Company and an employment contract dated August 8, 1994 with Philip Morris Polska S.A.;
- Mr. Anton Kirilov Stankov (for the whole accounting period), who has an agreement on the performance of office concluded with the Company and an employment contract dated October 5, 1998 with PMI;
- Mr. Manuel Joao Almeida do Vale Goncalves Marques (from June 15, 2022, 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 agreement on the performance of office concluded with the Company and an employment contract dated July 7, 2008 with PMI;
- Mr. Cemal Berk Temuroglu (from August 8, 2022, 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 agreement on the performance of office concluded with the Company and an employment contract dated February 1, 2022 with PMI.

The Supervisory Board of the Company is the controlling (supervisory) body of the Company within the meaning of Section 2 (3) (q) of the Act on Business Activities on the Capital Market and 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 Board of Directors meetings apply analogously to adopting resolutions outside the Supervisory Board meetings; approval by the majority of votes of all members of the Supervisory Board is required for such a resolution to be adopted. In the event of a tie, the Chairperson's vote is decisive.

In the 2022 calendar year accounting period, the Supervisory Board consisted of the following members:

- Mr. Stefan Bauer (Chairperson of the Supervisory Board) (for the whole accounting period), who has an agreement on the performance of 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 office concluded with the Company;
- Mr. Tomáš Hilgard (until February 15, 2022), who was elected as an employee representative to the Supervisory Board and who had an agreement on the performance of office and employment contract dated 1 January 1993 concluded with the Company;
- Mr. Roman Grametbauer (until December 10, 2022), who was elected as an employee representative to the Supervisory Board and who had an agreement on the performance of office and employment contract dated June 1, 2017 concluded with the Company;
- Ms. Stanislava Juríková (for the whole accounting period), who has an agreement on the performance of office concluded with the Company and
- Mr. Sergio Colarusso (for the whole accounting period), who has an agreement on the performance of office concluded with the Company and an employment contract dated December 1, 2002 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, termination 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 a PMI group company that employed the particular member of the Board of Directors or the Supervisory Board.

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 of 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 2022 calendar year accounting period, the Company's Audit Committee consisted of the following members:

- Mr. Stefan Bauer (Chairperson of the Audit Committee) (for the whole accounting period);
- Mr. Petr Šobotník (for the whole accounting period) and
- Ms. Stanislava Juríková (for the whole accounting period).

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 participation 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 office of 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 performance of 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 report; on the approval of any significant transaction under the conditions stipulated in Section 121s of the Act on Business Activities on the Capital Market; 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, for example, criteria such as age, gender 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 financial year. 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 2022 calendar year accounting period pursuant to Section 118 (6) of the Act on Business Activities on the Capital Market, relating to matters pursuant to Section 118 (5) of the Act on Business Activities on the Capital Market

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)	31/12/2022	31/12/2021
Registered capital	2 745	2 745
Share premium and other shareholders' contributions	2 379	2 367
Accumulated retained earnings	3 631	3 603
Total Equity	**8 755**	**8 715**

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 direct participations in the issuer's voting rights as at December 31, 2022 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, 2022 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% in accordance with Section 122 of the Act on Business Activities on the Capital Market.

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 participation 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 Act on Business Activities on the Capital Market 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 programme 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 programmes 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 non-financial information will be included in a separate report of PMI, the Company used the exemption not to disclose the non-financial information in the annual report or in the consolidated annual report within the meaning of the Act on Accounting, or in a separate report of the Company. This procedure is expressly allowed by the Act on Accounting (Section 32g (7)). Non-financial information will be included in the separate Sustainability Report of PMI, which will be published no later than on June 30, 2023 and will be freely accessible at http://www.pmi.com.

Members of Board of Directors, Supervisory Board and Audit Committee of Philip Morris ČR a.s.

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Members of Board of Directors, Supervisory Board and Audit Committee of Philip Morris ČR a.s.

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.
She 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

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.

In the previous five years Mr. Stankov 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	29.9.2021	
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

Petr Šedivec, member of the Board of Directors

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

Mr. Šedivec was appointed to the position of General Manager of Philip Morris Slovakia s.r.o. in 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.

In the previous five years Mr. Šedivec 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	27.4.2018	
Executive Director	Philip Morris Slovakia s.r.o.	Slovakia	30.3.2021	

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. Sebek 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.

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

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.

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.

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	

Supervisory Board

Stefan Bauer, Chairperson of the Supervisory Board

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 currently holds 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.

In the previous five years Mr. Bauer 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	Philip Morris ČR a.s.	Czech Republic	23.9.2019	
Member of the Board	Philip Morris Aktiebolag	Sweden	10.9.2021	
Supervisory Board Member	Philip Morris Polska Społka Akcyjna	Poland	27.2.2020	
Member of the Board	Philip Morris Finland Oy	Finland	5.12.2019	
Director	Philip Morris ApS	Denmark	2.12.2019	
Director	Philip Morris Italia S.r.l.	Italy	3.10.2019	
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	

Member of the Board	Philip Morris Norway AS	Norway	15.9.2019	
Member of the Board	Philip Morris Switzerland Sarl	Switzerland	15.9.2019	
President	Philip Morris Switzerland Sarl	Switzerland	30.9.2019	
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
Gerant	Pan Africa Invest Company Sarl	Switzerland	6.3.2015	28.11.2018
Director	Philip Morris Misr Limited Liability Company	Egypt	11.5.2014	12.12.2019
Supervisory Board Member	Megapolis Distribution B.V.	Netherlands	12.12.2013	31.7.2018
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
Director	Philip Morris Management Services B.V.	Netherlands	1.7.2013	21.5.2018
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	

Sergio Colarusso, member of the Supervisory Board (until March 27, 2023)

Contact address: Philip Morris ČR a.s., Karlovo nám. 10, 120 00 Prague

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 currently holds the position of EU Controller in Philip Morris Products S.A. in Switzerland 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. On March 27, 2023, the Supervisory Board discussed Mr. Colarusso's resignation from the membership in the Supervisory Board of Philip Morris ČR a.s. and his term of office of a member of the Supervisory Board of Philip Morris ČR a.s. terminated.

In the previous five years Mr. Colarusso 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	24.9.2018	27.3.2023

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 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 Member 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	

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

Contact address: Philip Morris ČR a.s., Vítězná 1, 284 01 Kutná Hora

Mr. Hilgard joined Philip Morris CR 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

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 Maintenance 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

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 currently holds 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.

In the previous five years Mr. Bauer 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	Philip Morris ČR a.s.	Czech Republic	23.9.2019	
Member of the Board	Philip Morris Aktiebolag	Sweden	10.9.2021	
Supervisory Board Member	Philip Morris Polska Społka Akcyjna	Poland	27.2.2020	
Member of the Board	Philip Morris Finland Oy	Finland	5.12.2019	
Director	Philip Morris ApS	Denmark	2.12.2019	

Director	Philip Morris Italia S.r.l.	Italy	3.10.2019	
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	
Member of the Board	Philip Morris Norway AS	Norway	15.9.2019	
Member of the Board	Philip Morris Switzerland Sarl	Switzerland	15.9.2019	
President	Philip Morris Switzerland Sarl	Switzerland	30.9.2019	
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
Gerant	Pan Africa Invest Company Sarl	Switzerland	6.3.2015	28.11.2018
Director	Philip Morris Misr Limited Liability Company	Egypt	11.5.2014	12.12.2019
Supervisory Board Member	Megapolis Distribution B.V.	Netherlands	12.12.2013	31. 7. 2018
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
Director	Philip Morris Management Services B.V.	Netherlands	1.7.2013	21.5.2018
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	

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 Member 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	
Member of the Supervisory Board	Letiště Praha, a.s.	Czech Republic	7.3.2017	
Vice Chairperson of the Supervisory Board	Letiště Praha, a.s.	Czech Republic	4.11.2022	
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	
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
Member of the Audit Committee	MERO, a.s.	Czech Republic	6.1.2021	14.9.2021
Vice Chairperson of the Audit Committee	MERO, a.s.	Czech Republic	16.1.2021	
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	

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