

Annual General Meeting of Shareholders of Philip Morris ČR a.s.

Kutná Hora
April 26, 2019

Árpád Könye

Chairman of the Board of Directors



PHILIP MORRIS ČR

Agenda

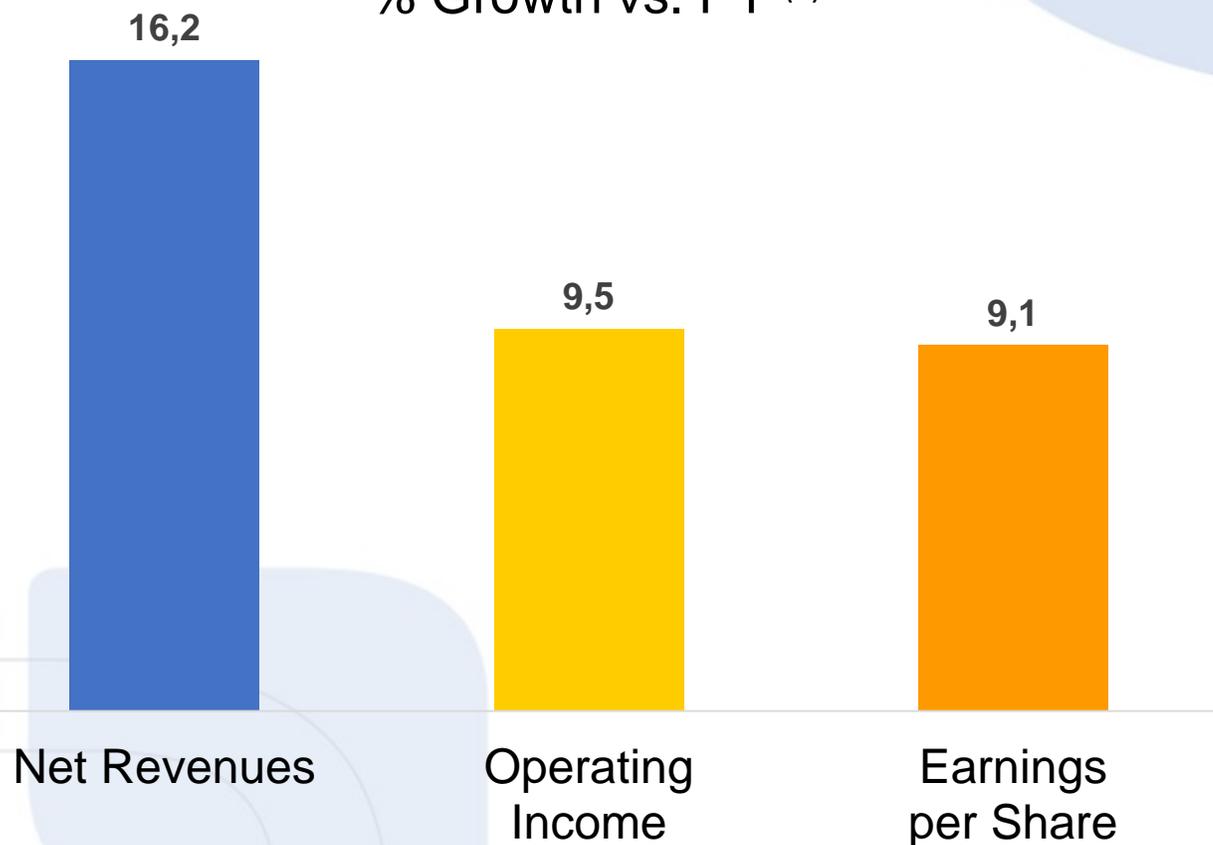
Business Performance Update

RRPs in Czech Republic and Slovak Republic

Consolidated Financial Results

2018: Continued Robust Performance

% Growth vs. PY (a)



Net revenues

- Favorable pricing on combustible portfolio
- Growing sales of *HEETS* and *IQOS*

Operating income

- Favorable pricing on combustible portfolio

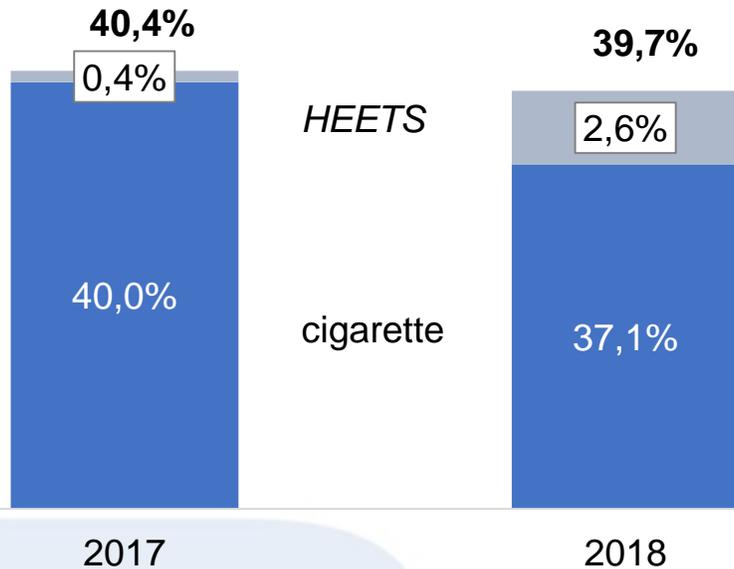
(a) Excluding currency

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Business Performance Update Czech Republic

Share of Market - Czech Republic

Market share in the Czech Republic (%)



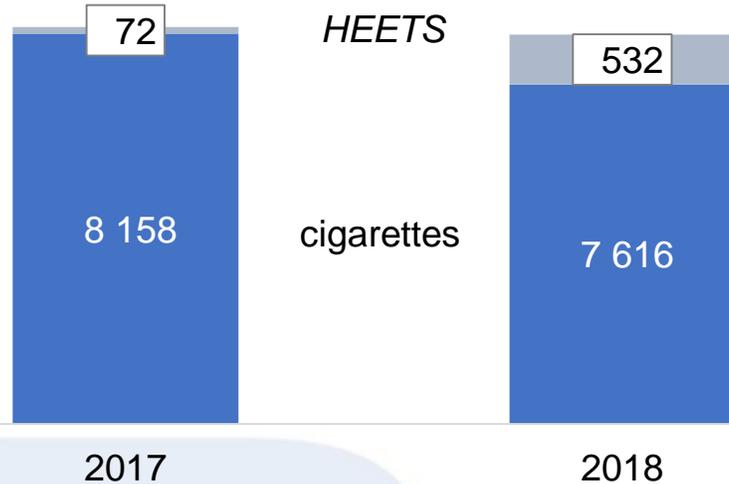
The combined market share down by 0.7% due predominantly to:

- decrease of cigarette market share,
- partially offset by the market share of *HEETS*.

* Participating in this tabulation are all the major companies selling tobacco products in the Czech Republic, who submit to PwC their data on cigarette sales to their direct trade partners. PwC provides back to the survey participants the anonymized aggregated total figure. Philip Morris ČR a.s. internal estimate for smoke-free products are then added to the data, which combined represents the total market as a base for market share calculation. We believe the market share reported using this methodology is more representative of the true performance of Philip Morris ČR a.s., as Nielsen Company (Europe) Sálr research retail audit data (which we have used as a proxy for our reporting previously) is based on an extrapolated sample of retail stores' data.

Shipments - Czech Republic

Shipments (th. units)



Domestic cigarettes shipments down by 0.5 billion units due predominantly to:

- a lower cigarette market share,
- conversion of legal age smokers to our smoke-free products.

Domestic *HEETS* shipments up by 460 million units.

2016 – 2018 Pricing (CZK/20s pack) - Czech Republic

		Dec '16	Dec '17	Dec '18	
Combustible portfolio	Premium 	100	102	106	
	Medium 	89	91	95	
	Low 	84	86	90	
	SuperLow 	82	84	88	
RRP portfolio*	HEETS 	-	100	100	pack
			900	900	bundle

Excise tax increases

- January 1, 2016
- January 1, 2017
- January 1, 2018

* Recommended retail selling price

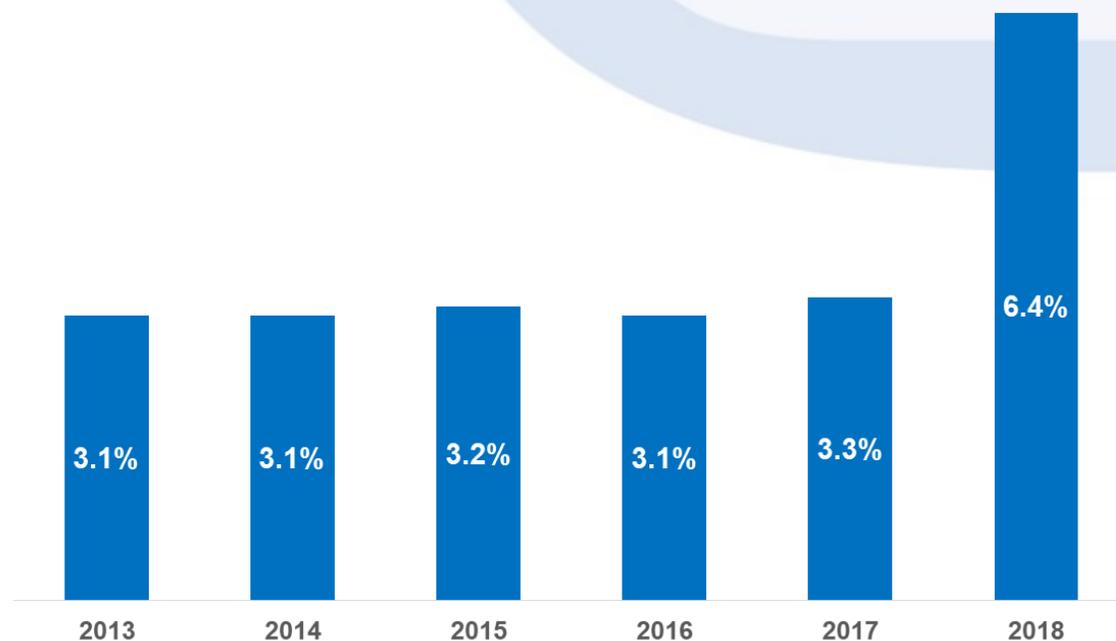
Fiscal Framework – Czech Republic



- Adopted three-year excise tax roadmap for 2016 - 2018 meeting minimum EU requirements.
- Excise tax increase as of Jan'16, '17 & '18, ad valorem remains 27%, specific & MET Increase.
- Anti-forestalling regulation introduced for cigarettes in Dec'14 remains in 2016 – 2018.
- **For 2019 the excise tax incidence is below the minimum EU requirement of 60% (at 59.55%).**
- **As of April 1, 2019 Heated Tobacco Products are subject to Excise Tax at value of 2,236 per 1 kg of tobacco.**

Illicit Trade (Cigarettes) – Czech Republic

Illicit Trade 2013 - 2018



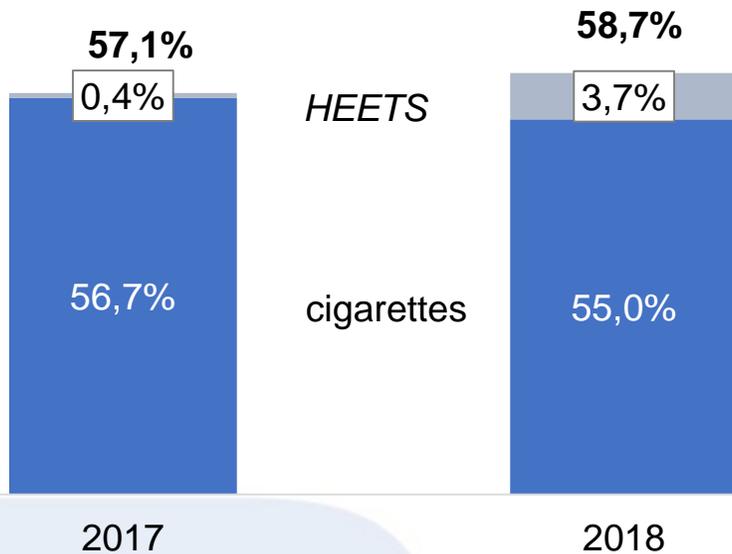
- Illicit trade in the Czech Republic in 2017 marginally increased reaching 3.3%, still one of the lowest level when comparing with other EU countries.
- Biggest portion of illicit is contraband cigarettes coming from Ukraine and Belarus.
- Preliminary data for 2018 however indicate steep increase in illicit trade.

Business Performance Update Slovak Republic



Share of Market – Slovak Republic

Market share in Slovak Republic (%)



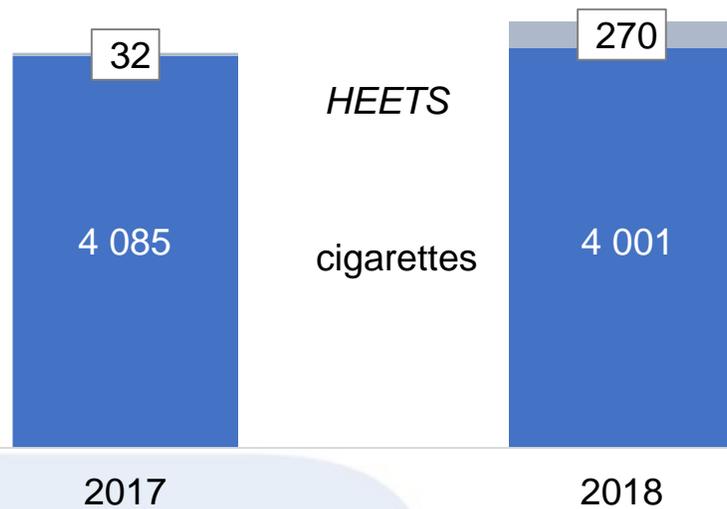
The combined market share up by 1.6% due predominantly to:

- increase of the market share of *HEETS*,
- partially offset by the decrease of the market share of cigarettes.

* Participating in this tabulation are all the major companies selling tobacco products in the Slovak Republic, who submit to PwC their data on cigarette sales to their direct trade partners. PwC provides back to the survey participants the anonymized aggregated total figure. Philip Morris Slovakia s.r.o. internal estimate for smoke-free products are then added to the data, which combined represents the total market as a base for market share calculation. We believe the market share reported using this methodology is more representative of the true performance of Philip Morris Slovakia s.r.o., as Nielsen Company (Europe) Sarl research retail audit data (which we have used as a proxy for our reporting previously) is based on an extrapolated sample of retail stores' data.

Shipments – Slovak Republic

Shipments (th. units)



Domestic cigarettes shipments down by 0.1 billion units due to:

- conversion of legal age smokers to our smoke-free products.

Domestic *HEETS* shipments up by 238 million units.

2016 – 2018 Pricing (EUR/20s pack) Slovak Republic

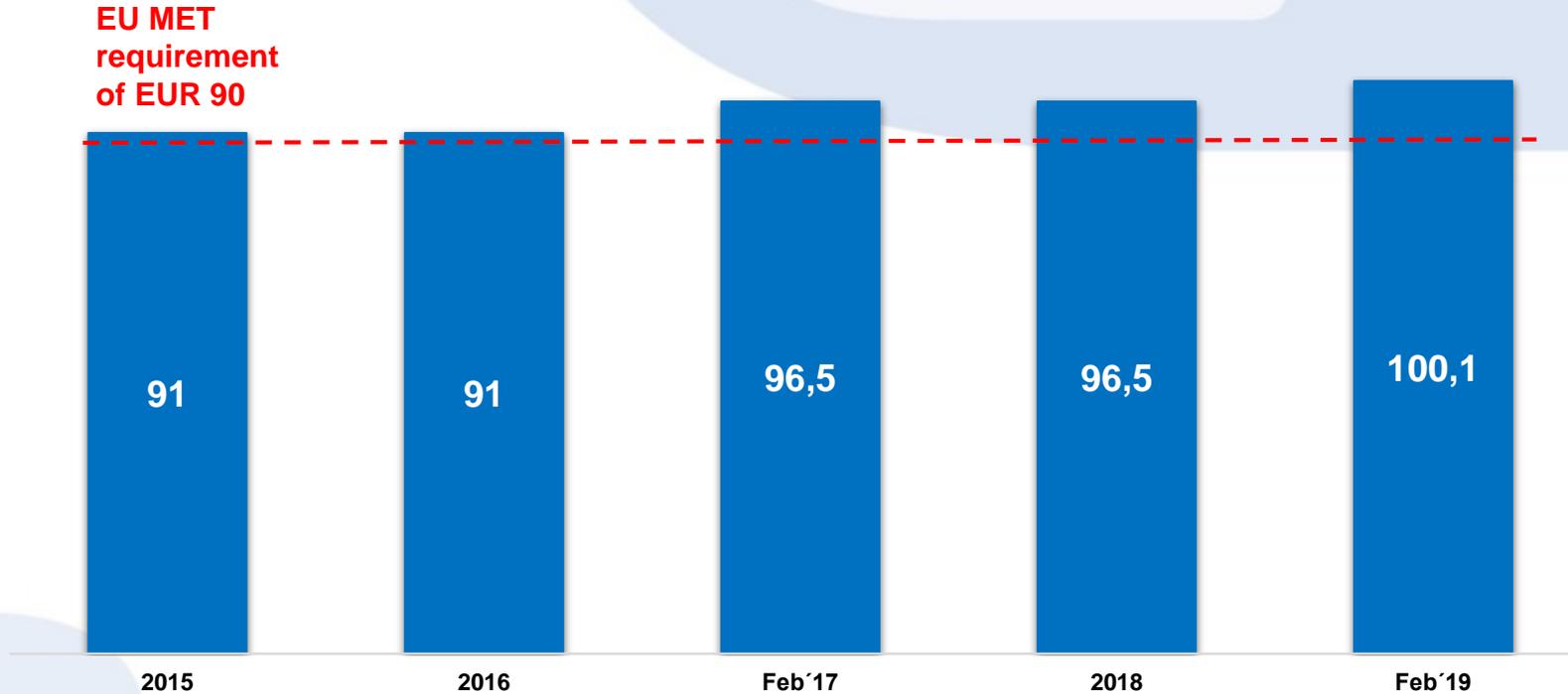
		Dec '16	Dec '17	Dec '18
Combustible portfolio	Premium 	3,70	3,80	3,90
	Medium 	3,30	3,50	3,60
	Low 	3,10	3,30	3,30
	SuperLow 	3,00	3,10	3,20
RRP portfolio*	HEETS 	-	3,50	3,50

Excise tax increase
 • February 1, 2017

* Recommended retail selling price
 Source: Philip Morris Slovakia s.r.o. price lists, Philip Morris Slovakia s.r.o. internal estimate

Fiscal Framework – Slovak Republic

Minimum Excise Tax for Cigarettes
(EUR/'000)



- 3 year fiscal plan adopted in fall 2016 – EUR 0.08/20s increases in February 1, '17 & '19.
- **As of May 2017 Heated Tobacco Products (“HTP”) are subject to Excise Tax at value of EUR 73.90 per 1 kg of tobacco.**
- **The Excise Tax on HTP increased to EUR 76.70 effective Feb 1, 2019 – EUR 0.02/20s increase in 2018.**

RRPs

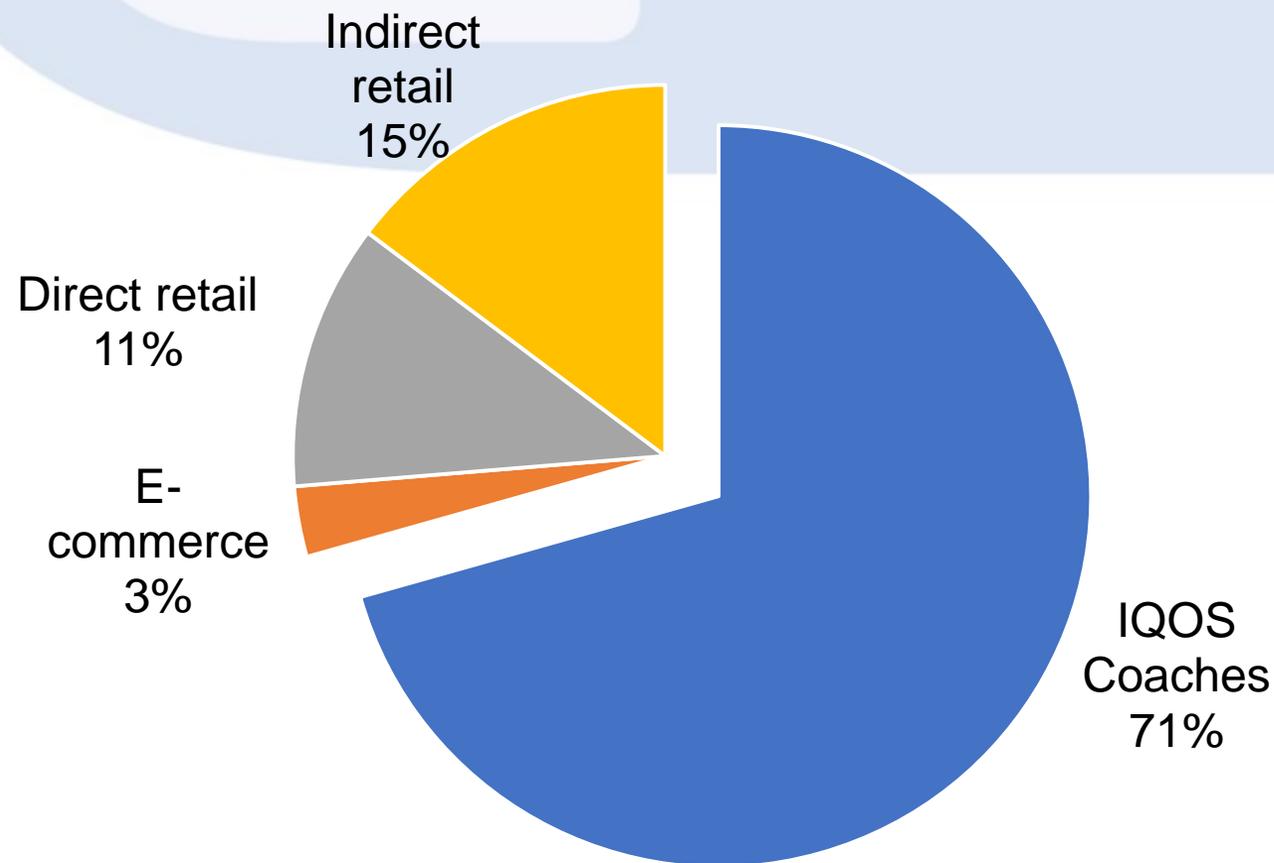
Czech & Slovak Republics

Diversified New IQOS Users Acquisition Czech & Slovak Republics

IQOS users **(through 2018 year-end)**

Czech Republic: 226,000

Slovak Republic: 111,000



IQOS | HEETS

Affordable entry into the world of IQOS



IQOS 2.4 PLUS

Smaller, most refined for personalized IQOS experience



IQOS 3

Most refined, flexible offering multiple experiences



IQOS 3 MULTI

Czech Republic

Recommended retail selling price

CZK 1,790

CZK 2,790

CZK 2,490

Slovak Republic

Recommended retail selling price

EUR 69

EUR 109

EUR 99



CZK 100/900



EUR 3.50/35



IQOS 2018 Limited Editions

IQOS metallic blue and pink



IQOS Metallic Holders Limited Editions



IQOS Ruby



IQOS Motor



Expanding Direct Retail Footprint - Czech & Slovak Republics

1x LARGE BOUTIQUE
(Slovanský Dům, Prague)



1x LARGE BOUTIQUE
(Bratislava)



1x SMALL BOUTIQUE
(Kutná Hora)

7x SHOP-IN-SHOP

1x MOBILE BOUTIQUE



8x SHOP-IN-SHOP



IQOS | *HEETS* Availability in Indirect Retail - Czech Republic

HEETS - **8,100** retail stores

- 70% weighted handling
- more than 4,600 retail staff LAS converted

IQOS - more than **550** retail stores

IQOS | *HEETS* Availability in Indirect Retail - Slovak Republic

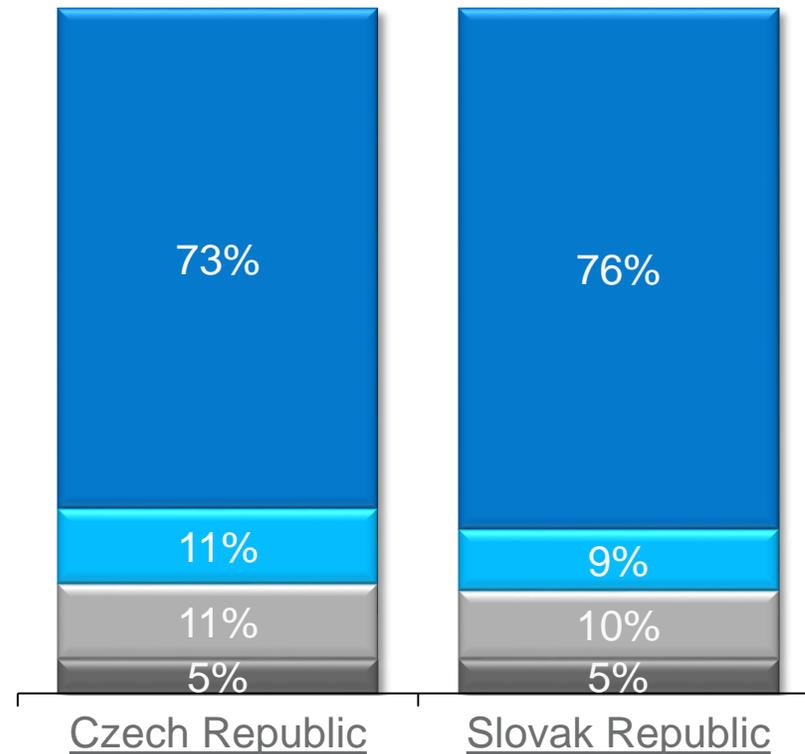
HEETS - **5,400** retail stores

- 75% weighted handling
- more than 1,000 retail staff LAS converted

IQOS - nearly **300** retail stores

/QOS Conversion Rates – Czech & Slovak Republics

December 2018 Adult Smoker Conversion Rates (%)



Distribution Model

Combustible products

Reduced-risk products



Philip Morris Product S.A.
Entrepreneur

Distribution agreements



Philip Morris ČR a.s.
Limited Risk Distributor



Philip Morris Slovakia s.r.o.
Limited Risk Distributor

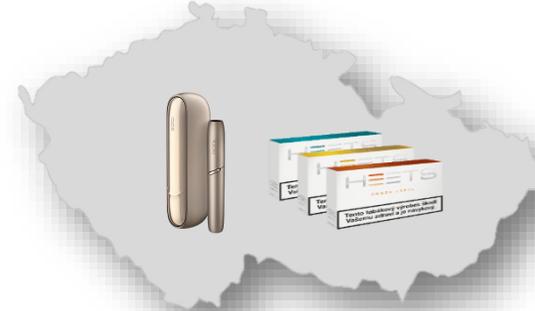


Philip Morris ČR a.s.
Entrepreneur



Philip Morris Slovakia s.r.o.
Limited Risk Distributor

Distribution agreement



Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o. (distributors) are under distribution agreement for commercialization of *IQOS* and *HEETS* products with Philip Morris Products S.A.

Philip Morris Slovakia s.r.o. (distributor) is under distribution agreement for combustible products with Philip Morris ČR a.s.

=> Significantly lower profit <=



2018 Annual Report Risk Factor

- 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 over the longer-term the current adult consumer preference for reduced-risk products continues while the decline of combustible product accelerates and is not compensated for by any additional pricing that we implement, we do not expect that over time the additional profit generated from increased sales of reduced-risk products will necessarily fully offset the decreasing profits generated from the sales of combustible portfolio products.

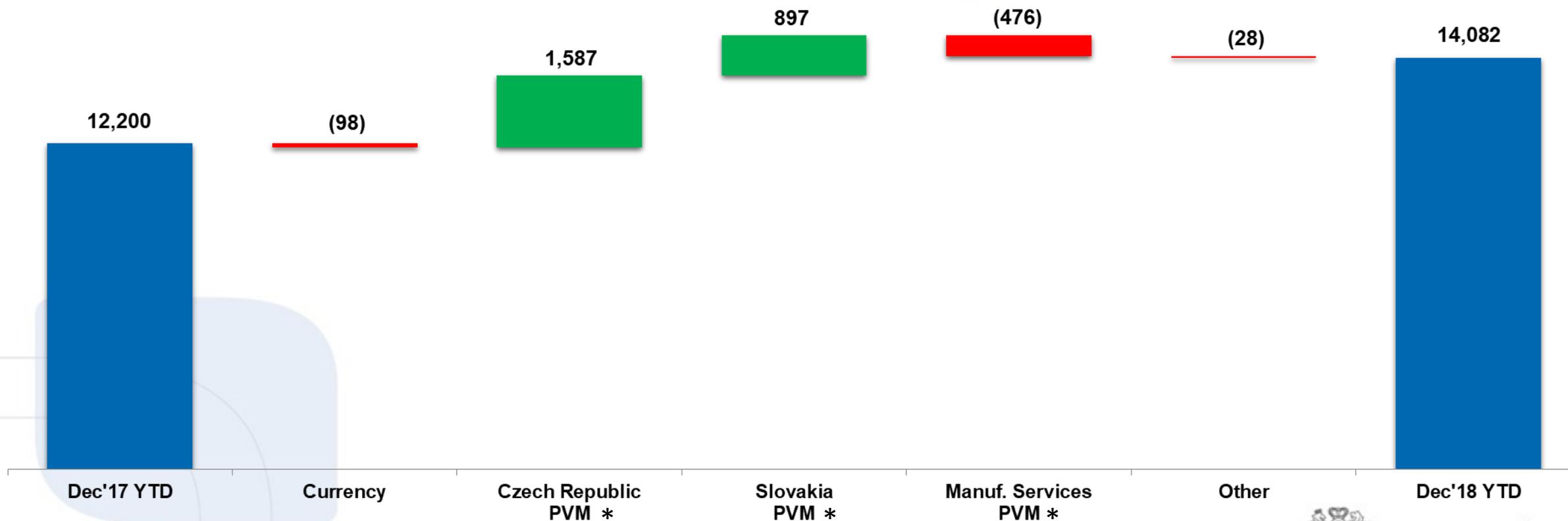
Long term trends

- Reduction in demand for combustible tobacco
- Increase in demand for smokeless products
- PMI Transformation
- Including local business model

2018 Consolidated Financial Results

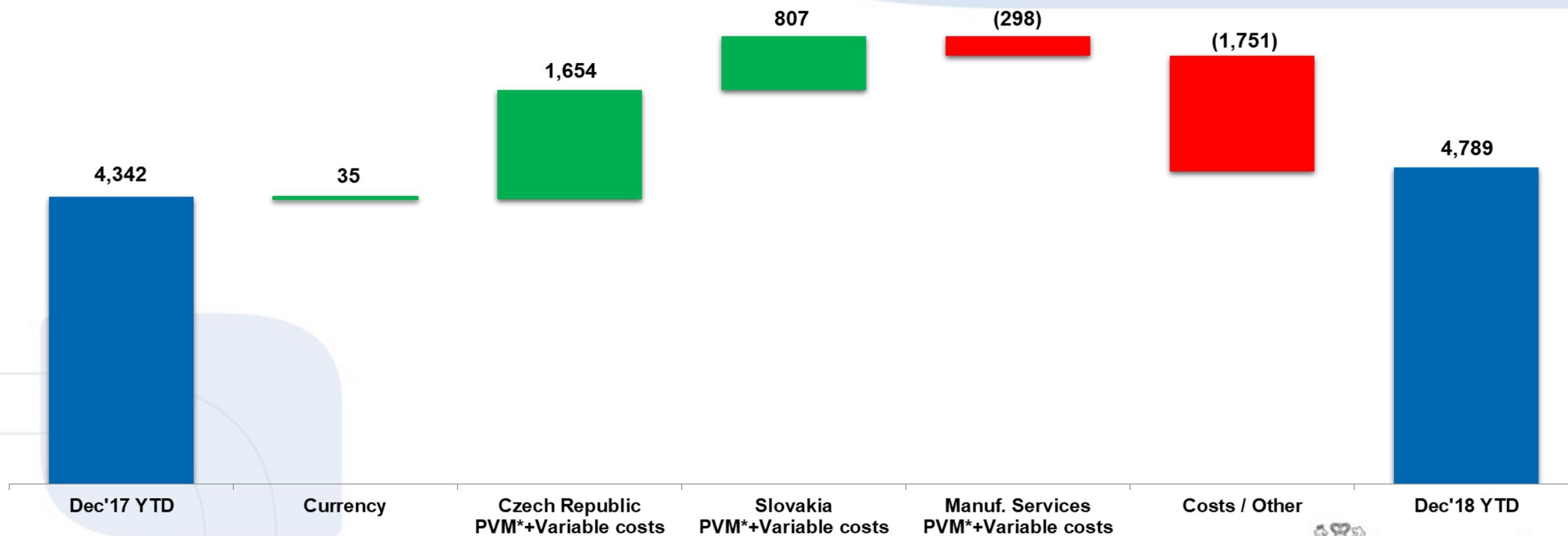
Net Revenues

(CZK million)	YTD Dec 2018	YTD Dec 2017	Variance Fav./(Unfav.)	% Change vs. YTD Dec 2017	
				Actual	Excl. Currency
Net Revenues	14,082	12,200	1,882	15.4 %	16.2 %



Operating Income

(CZK million)	YTD Jun 2018	YTD Jun 2017	Variance Fav./((Unfav.)	% Change vs. YTD Dec 2017	
				Actual	Excl. Currency
Net Revenues	14,082	12,200	1,882	15.4 %	16.2 %
Operating Income	4,789	4,342	447	10.3 %	9.5 %



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Assets & Liabilities

(CZK million)

Assets	Dec 2018	Dec 2017	Incr./(Decr.)
Cash & Equivalents	5,570	7,312	(1,742)
Inventories	1,125	630	495
Receivables	2,110	835	1,275
Other Non-Financial Assets	2,827	2,365	462
Non-Current Assets	4,324	4,415	(91)
Total Assets	15,956	15,557	399

Liabilities & Equity	Dec 2018	Dec 2017	Incr./(Decr.)
Trade & Other Financial Liabilities	1,089	1,434	(345)
Other	414	488	(74)
Other Tax Liabilities	4,426	4,509	(83)
Deferred Tax Liability	230	205	25
Equity	9,797	8,921	876
Total Liabilities & Equity	15,956	15,557	399



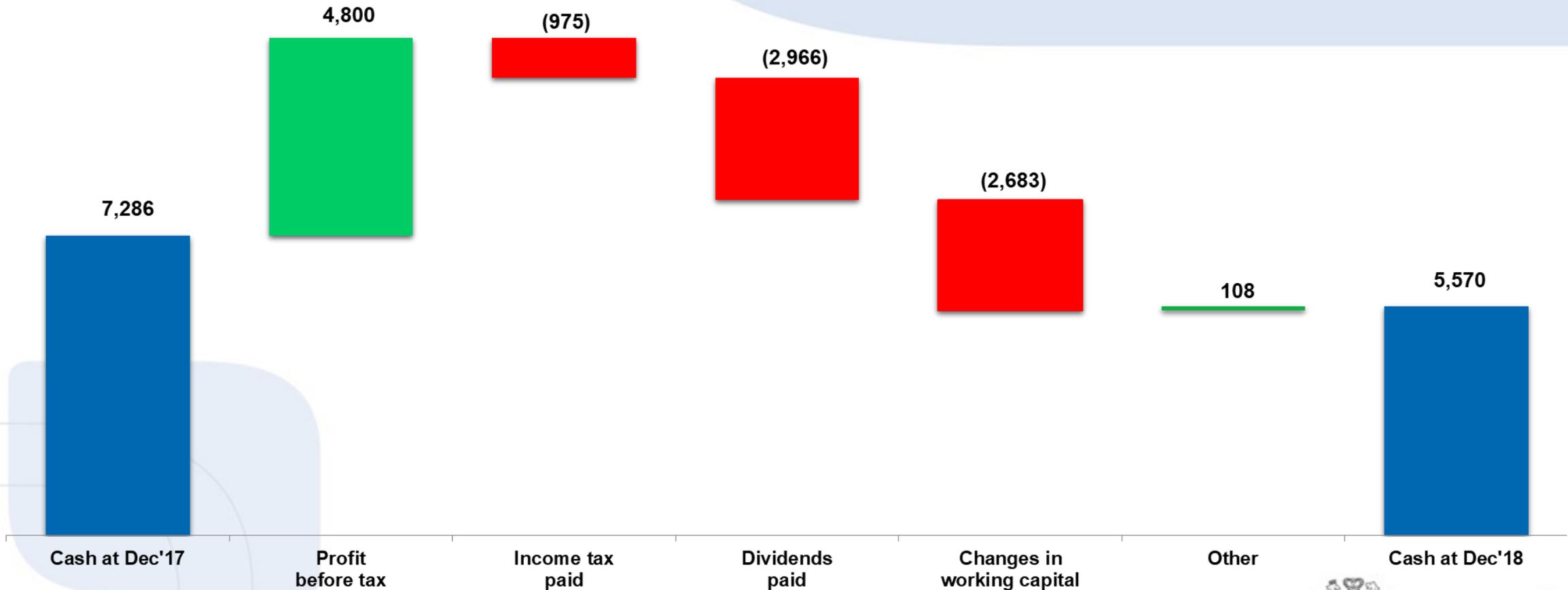
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Cash & Cash Equivalents

(CZK million)

	Dec 2018	Dec 2017	Dec'18 vs. Dec'17	
			Incr./(Decr.)	%
Cash & Equivalents	5,570	7,286	(1,716)	(24) %



Net Earnings & EPS

Philip Morris ČR a.s.
(CZK / share)

	2018	2017	2016	2015	2014
Earnings per Share	1,376	1,286	1,007	925	825
Earnings Current Year	1,376	1,286	1,007	925	825
Retained Earnings Prior Year	+ 224	(206)	(7)	(5)	+ 55
Dividend Paid / Proposed	1,600	1,080	1,000	920	880

Thank you

