

**INTERIM MANAGEMENT STATEMENT  
FOR THE THREE MONTHS ENDED MARCH 31, 2015**

Philip Morris ČR a.s. 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*, *Red & White*, *Philip Morris*, *Chesterfield*, *Petra Klasik* and *Sparta* in more than 50 variants across different price segments.

Philip Morris ČR a.s. is an affiliate of Philip Morris International Inc. ("PMI"). Philip Morris ČR a.s. holds a 99% interest in Philip Morris Slovakia s.r.o. registered in Slovakia.

**Consolidated Highlights**

(in CZK million)

Quarter ended March 31	2015	2014	Change in %
Revenues, net of excise tax and VAT	2 318	2 798	(17.2)
Gross profit	1 104	984	12.2

**Shipments per Segment<sup>1</sup>**

(in million units' equivalent)<sup>2</sup>

Quarter ended March 31	2015	2014	Change in %
Czech Republic	1 899	1 760	7.9
Slovakia	835	791	5.6
Exports <sup>3</sup>	-	3 676	
Total	2 734	6 227	

**Operating Model Change in Production**

In line with our efforts to maximize our efficiencies and increase future flexibility in order to continuously increase the competitiveness of our Kutná Hora factory, we have changed the operating model in our production. Starting January 1, 2015 our factory operates as a manufacturing service provider. As a result of this change, Philip Morris ČR a.s. does not own materials for the production, is being remunerated for the service of transformation of materials into finished goods, in a form of manufacturing service fee and at the same time does not record export shipments.

The revenues generated from manufacturing services are principally lower than revenues from export shipments reported last year, in line with lower manufacturing costs associated with the service provided from January 1, 2015, compared to higher costs associated with export shipments prior to the operating model change.

<sup>1</sup> RGD is included in shipments as of April 1, 2014.

<sup>2</sup> Shipments include other tobacco products such as cigarillos, make-your-own cigarettes (0.73 g is equivalent to 1 cigarette) and make-your-own volume cigarettes (0.60 g is equivalent to 1 cigarette).

<sup>3</sup> Due to the change of the operating model in production as of January 1, 2015, no export shipments reported.

## Consolidated Financial Results

Consolidated revenues, net of excise tax and VAT, of CZK 2.3 billion decreased by 17.2% in the first quarter of 2015 versus the same period in 2014, primarily due to the change of the operating model in production as described above. The decrease was partially offset mainly by positive pricing in the Czech Republic and Slovakia. Excluding the impact of currency, consolidated revenues, net of excise tax and VAT, decreased by 17.4%.

Gross profit increased by 12.2% to CZK 1.1 billion primarily reflecting the positive pricing in the Czech Republic and Slovakia.

## Business in the Czech Republic

Domestic revenues, net of excise tax and VAT, increased by 6.3% in the first quarter of 2015 to CZK 1.2 billion versus the same period in 2014, mainly driven by favorable pricing of CZK 105 million principally reflecting the impact of the excise tax driven price increases implemented by Philip Morris ČR a.s. in 2014, partially offset by unfavorable volume/mix of CZK 34 million.

In the first quarter of 2015, the total cigarette market in the Czech Republic declined by an estimated 3.1% to 4.2 billion units versus the same period in 2014, mainly due to the impact of the excise tax driven price increases in 2014 reflected in retail selling prices, as well as the continued growth of the lower-taxed fine cut tobacco category.

According to the retail audit research conducted by the Nielsen Company (Europe) Sàrl, the cigarette market share of Philip Morris ČR a.s. (including *RGD*) increased by 0.5 share points from 46.3% in the first quarter of 2014 to 46.8%<sup>4</sup> in the same period in 2015. Excluding *RGD*, the market share declined by 0.7 share points to 45.6%, mainly reflecting the continued share declines of local brands and *Red & White*, partially offset by higher shares for *Marlboro*, *Philip Morris*, *L&M* and *Chesterfield*. *L&M* and *Chesterfield* also benefited from the optimization of our local brands portfolio at the end of 2013.

Including *RGD*, in the first quarter of 2015, the Czech domestic shipments of Philip Morris ČR a.s. increased by 7.9% compared to the same period in 2014, to 1.9 billion units. Excluding *RGD*, the domestic shipments remained flat.

## Business in Slovakia

Philip Morris Slovakia s.r.o. revenues, net of excise tax and VAT, increased by 9.0% in the first quarter of 2015 to EUR 21.0 million versus the same period in 2014 in local currency terms, primarily driven by favorable pricing of EUR 1.4 million, reflecting the impact of price increases implemented by Philip Morris Slovakia s.r.o. in 2014, as well as favorable volume/mix of EUR 0.3 million.

In the first quarter of 2015, the total cigarette market in Slovakia remained flat at 1.5 billion units versus the same period in 2014.

According to the retail audit research conducted by the Nielsen Company (Europe) Sàrl, the cigarette market share of Philip Morris Slovakia s.r.o. (including *RGD*) increased by 3.8 share points from 52.4% in the first quarter 2014 to 56.2%<sup>5</sup> in the same period in 2015. Excluding *RGD*, the market share increased by 1.2 share points to 53.6%, primarily driven by the strong performance of *Marlboro* and *Philip Morris*, partially offset by share declines of *Red & White*, *Petra* and *L&M*. *Philip Morris* benefited mainly from the migration of *Red & White* to *Philip Morris* at the beginning of 2014.

Including *RGD*, in the first quarter of 2015, the shipments of Philip Morris Slovakia s.r.o. increased by 5.6% compared to the same period in 2014, to 0.8 billion units. Excluding *RGD*, the shipments increased by 1.9%, reflecting a higher market share as described above.

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<sup>4</sup> *RGD* shipments are included in the reported Philip Morris ČR a.s. market share as of April 1, 2014.

<sup>5</sup> *RGD* shipments are included in the reported Philip Morris Slovakia s.r.o. market share as of April 1, 2014.

## Manufacturing Services

In the first quarter of 2015 the revenues from manufacturing services reached CZK 0.5 billion.

## Financial Position

Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o. ("the Group") have sufficient financing and facilities available for the foreseeable future as at March 31, 2015, and there have been no material changes in financial arrangements since the beginning of the financial year 2015.

As of the date of the publication, there have been no material events, transactions or changes regarding the financial position of the Group other than those outlined in this Interim Management Statement. Furthermore, the Board of Directors is not aware of any material events, transactions or changes regarding the financial position of the Group, which have occurred since January 1, 2015, up to and including May 18, 2015, being the date of the publication of this Statement.

## Cautionary Statements

Past performance is no guarantee to future performance. Achievement of future results is subject to risks and uncertainties. Investors should bear this in mind as they consider whether to invest, or remain invested, in the shares of Philip Morris ČR a.s.

In Kutna Hora on May 18, 2015



András Tövisi  
Chairman of the Board of Directors  
Philip Morris ČR a.s.



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