



INTERIM MANAGEMENT STATEMENT FOR THE THIRD-QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2014

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. has a 99% interest in Philip Morris Slovakia s.r.o. registered in Slovakia.

Consolidated Highlights

(in CZK million)

	Third-Quarter			Nine Months Year-to-Date		
	2014	2013	Change in %	2014	2013	Change in %
Revenues, net of excise tax and VAT	3 833	3 260	17.6	10 233	9 288	10.2

Shipments per Segment

(in million units' equivalent)¹

	Third-Quarter			Nine Months Year-to-Date		
	2014	2013	Change in %	2014	2013	Change in %
Czech Republic	2 376	2 168	9.6	6 478	6 076	6.6
Slovakia	1 075	969	10.9	2 881	2 683	7.4
Exports	5 504	4 471	23.1	14 401	13 941	3.3
Total	8 955	7 608	17.7	23 760	22 700	4.7

Consolidated Financial Results

Consolidated revenues, net of excise tax and VAT, of CZK 3.8 billion increased by 17.6% in the third quarter of 2014 versus the same period in 2013, mainly driven by favorable volume/mix in the Czech Republic and Slovakia, higher exports to other PMI affiliates, as well as favorable currency of CZK 154 million, partially offset by unfavorable pricing in the Czech Republic. Excluding the impact of currency, consolidated revenues, net of excise tax and VAT, increased by 12.9% versus the same period in 2013. For the first nine months of 2014, consolidated net revenues increased by 10.2% to CZK 10.2 billion, driven by favorable pricing and volume/mix in the Czech Republic and Slovakia, higher exports to other PMI affiliates, as well as favorable currency of CZK 401 million. Excluding the impact of currency, consolidated revenues, net of excise tax and VAT, increased by 5.9% versus the same period in 2013.

¹ 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).

Business in the Czech Republic

Domestic revenues, net of excise tax and VAT, remained flat at CZK 1.4 billion in the third quarter of 2014 compared to the same period in 2013, driven by favorable volume/mix, fully offset by unfavorable pricing reflecting the impact of the later implementation of 2014 excise tax driven price increases by Philip Morris ČR a.s. For the first nine months of 2014, net revenues increased by 2.9% to CZK 3.9 billion, primarily driven by favorable pricing, reflecting mainly the impact of the excise tax and VAT driven price increases implemented by Philip Morris ČR a.s. in 2013 and the excise tax-driven price increases implemented in 2014, as well as favorable volume/mix.

In the third quarter of 2014, the total cigarette market in the Czech Republic increased by an estimated 1.1% to 5.4 billion units versus the same period in 2013, mainly reflecting stronger seasonality, partly offset by the unfavorable impact of estimated competitors' trade inventory movements and the impact of the excise tax driven price increases implemented in 2013 and 2014. In the first nine months of 2014, the total cigarette market declined by an estimated 0.1% to 14.9 billion units, mainly reflecting the unfavorable impact of estimated competitors' trade inventory movements, as well as the impact of price increases noted above, almost fully offset by the stronger seasonality.

According to retail audit research conducted by ACNielsen Czech Republic s.r.o., the cigarette market share of Philip Morris ČR a.s. (excluding RGD) declined by 1.6 share points to 46.5% in the third quarter of 2014 versus the same period in 2013, mainly reflecting the continued share declines of local brands and *Red & White*, partially offset by a higher shares for *Marlboro*, *L&M* and *Chesterfield*. The growth of *Marlboro* was mainly driven by *Marlboro* RS variant, *Marlboro* PSP, the first protected soft pack proposition in the Czech market launched in February 2014 and by the successful launch of *Marlboro Fuse Beyond*, the first double capsule proposition in the Czech market, in April 2014. *L&M*'s growth was mainly driven by the continued strong performance of *L&M Loft*, a slimmer format launched in 2012. *L&M* and *Chesterfield* also benefited from the optimization of the portfolio of our local brands at the end of 2013. In the first nine months of 2014, the cigarette market share declined by 2.7 share points to 46.4%, reflecting similar trends.

The Czech domestic shipments of Philip Morris ČR a.s. increased by 9.6% in the third quarter of 2014 to 2.4 billion units compared to the same period in 2013, reflecting a higher total market, partially offset by lower market share as described above. In the first nine months of 2014, domestic shipments increased by 6.6% to 6.5 billion units compared to the same period in 2013.

Business in Slovakia

Philip Morris Slovakia s.r.o. revenues, net of excise tax and VAT, increased by 10.4% to EUR 26.3 million in the third quarter of 2014 versus the same period in 2013 in local currency terms, driven primarily by favorable volume/mix as well as favorable pricing, reflecting the impact of price increases implemented by Philip Morris Slovakia s.r.o. in 2014. In the first nine months of 2014, net revenues increased by 7.6% to EUR 69.4 million, driven by favorable volume/mix and favorable pricing reflecting the impact of price increases implemented in 2013 and 2014.

In the third quarter of 2014, the total cigarette market in Slovakia increased by an estimated 3.0% to 1.9 billion units versus the same period in 2013, mainly driven by stronger seasonality. In the first nine months of 2014, the total cigarette market increased by 2.4% to 5.3 billion units.

According to retail audit research conducted by ACNielsen Slovakia s.r.o., the cigarette market share of Philip Morris Slovakia s.r.o. (excluding RGD) increased by 1.9 share points to 53.5% in the third quarter of 2014 versus the same period in 2013, primarily driven by the strong performance of *L&M* and *Marlboro*, partially offset by continued share declines of local brands. The growth of *Marlboro* was mainly driven by the success of *Marlboro* PSP, the first protected soft pack proposition in the Slovak market launched in May 2014. In the first nine months of 2014, market share increased by 1.4 share points to 53.0%, reflecting similar trends. *L&M* further strengthened its position as the market's best-selling cigarette brand.

The shipments of Philip Morris Slovakia s.r.o. increased by 10.9% in the third quarter of 2014 to 1.1 billion units compared to the same period in 2013, reflecting a higher total market and market share as described above. In the first nine months of 2014, the shipments increased by 7.4% to 2.9 billion units compared to the same period in 2013.

RGD brand in the Czech Republic and Slovakia

In addition to PMI brands, as part of the cooperation agreement between PMI and the China National Tobacco Corporation ("CNTC"), Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o. distribute and sell *RGD* in both the Czech and Slovak markets. Pursuant to the new sub-license agreement, Philip Morris ČR a.s. acquired full brand management control over the *RGD* brand in both markets. As a result of this change, effective as of April 1, 2014, *RGD* is fully integrated into the PMI brand portfolio and the related shipments are included in the reported PMI volumes and market shares.

Market share of Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o. in the third quarter of 2014, including *RGD*, was 47.7% and 56.0%, respectively. In the first nine months of 2014 the market share including *RGD* as of April 1, 2014, was 47.3% and 54.7%, respectively.

Exports

Export revenues increased by 37.7% to CZK 1.7 billion in the third quarter of 2014 versus the same period in 2013, mainly driven by higher shipments of cigarettes and other tobacco products to other PMI affiliates, as well as favorable currency of CZK 108 million. In the first nine months of 2014 export revenues increased by 15.3% to CZK 4.4 billion driven by the same reasons including favorable currency of CZK 279 million. Excluding the impact of currency, export revenues increased by 28.9% and 7.9% in the third-quarter and first nine months of 2014, respectively.

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 September 30, 2014, and there have been no material changes in financial arrangements since the beginning of the financial year 2014.

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, 2014, up to and including November 13, 2014, 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 Kutná Hora on November 13, 2014



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.