



INTERIM MANAGEMENT STATEMENT FOR THE THIRD-QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 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. 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		
	2015	2014	Change in %	2015	2014	Change in %
Revenues, net of excise tax and VAT	2 939	3 833	(23.3)	8 049	10 233	(21.3)
Gross profit	1 462	1 442	1.4	3 898	3 672	6.2

Shipments per Segment ¹ (in million units' equivalent) ²	Third-Quarter			Nine Months Year-to-Date		
	2015	2014	Change in %	2015	2014	Change in %
Czech Republic	2 428	2 376	2.2	6 598	6 478	1.9
Slovakia	1 119	1 075	4.1	2 986	2 881	3.6
Exports ³	-	5 504		-	14 401	
Total	3 547	8 955		9 584	23 760	

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 Kutna 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 and it 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.

¹ RGD is included in shipments as of April 1, 2014.

² 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).

³ 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, decreased by 23.3% in the third quarter of 2015 versus the same period in 2014 to CZK 2.9 billion, primarily due to the change of the operating model in production as described above. The decrease was partially offset mainly by favorable pricing in the Czech Republic and Slovakia, as well as favorable volume/mix in Slovakia. Excluding the impact of currency, consolidated revenues, net of excise tax and VAT, decreased by 22.6% versus the same period in 2014. For the first nine months of 2015, consolidated net revenues of CZK 8.0 billion decreased by 21.3% versus the same period in 2014, reflecting the reasons noted above. Excluding the impact of currency, consolidated revenues, net of excise tax and VAT, decreased by 21.2% versus the same period in 2014.

Gross profit of CZK 1.5 billion, increased by 1.4% in the third quarter of 2015 versus the same period in 2014, primarily reflecting favorable pricing in the Czech Republic and Slovakia. For the first nine months of 2015, gross profit of CZK 3.9 billion increased by 6.2% versus the same period in 2014, reflecting the items noted above.

Business in the Czech Republic

Domestic revenues, net of excise tax and VAT increased by 10.1% in the third quarter of 2015 versus the same period of 2014 to CZK 1.6 billion, mainly driven by favorable pricing of CZK 151 million, principally reflecting the impact of the excise tax driven price increases implemented by Philip Morris ČR a.s. in 2014 and in 2015, partially offset by unfavorable volume/mix of CZK 8 million. For the first nine months of 2015, domestic net revenues increased by 7.7% to CZK 4.2 billion, primarily driven by favorable pricing of CZK 408 million, mainly reflecting the impact of the excise tax driven price increases implemented by Philip Morris ČR a.s. in 2014 and 2015, partially offset by unfavorable volume/mix of CZK 106 million.

The total cigarette market in the Czech Republic increased by an estimated 6.2% in the third quarter of 2015 versus the same period in 2014 to 5.7 billion units, mainly driven by stronger seasonality and improving economic environment. In the first nine months of 2015, the total cigarette market of 15.3 billion units increased by an estimated 2.5% versus the same period in 2014, mostly driven by the items noted above.

According to retail audit research conducted by Nielsen Company (Europe) Sàrl, the cigarette market share of Philip Morris ČR a.s. (including *RGD*) declined by 1.9 share points in the third quarter of 2015 versus the same period in 2014 to 45.8%, mainly reflecting the continued share declines of local brands and *Red & White*, partially offset by higher shares for *Philip Morris* and *L&M*. In the first nine months of 2015, the cigarette market share of Philip Morris ČR a.s. (including *RGD*) declined by 1.1 share points versus the same period in 2014 to 46.2%⁴, reflecting similar trends.

Including *RGD*, the Czech domestic shipments of Philip Morris ČR a.s. increased by 2.2% in the third quarter of 2015 compared to the same period in 2014 to 2.4 billion units, reflecting a higher total market of cigarettes and fine cut, coupled with a higher fine cut market share, partially offset by a lower cigarette market share as described above. In the first nine months of 2015, domestic shipments increased by 1.9% versus the same period in 2014 to 6.6 billion units, driven by the items noted above.

Business in Slovakia

Philip Morris Slovakia s.r.o. revenues, net of excise tax and VAT, increased by 7.7% in the third quarter of 2015 versus the same period in 2014 to EUR 28.4 million in local currency terms, primarily driven 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 2015, net revenues increased by 8.6% versus the same period in 2014 to EUR 75.4 million, driven by favorable pricing of EUR 3.7 million, reflecting the impact of price increases noted above, as well as favorable volume/mix of EUR 2.3 million.

In the third quarter of 2015, the total cigarette market in Slovakia increased by an estimated 2.0% versus the same period in 2014 to 2.0 billion units, mainly driven by stronger seasonality and improving economic conditions. In the first nine months of 2015, the total cigarette market increased by 0.3% to 5.3 billion units, mainly driven by the items noted above.

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

According to retail audit research conducted by Nielsen Company (Europe) Sarl, the cigarette market share of Philip Morris Slovakia s.r.o. (including *RGD*) increased by 1.3 share points in the third quarter of 2015 versus the same period in 2014 to 57.3%, primarily driven by the strong performance of *Marlboro* and *L&M*. In the first nine months of 2015, market share of Philip Morris Slovakia s.r.o. (including *RGD*) increased by 2.0 share points versus the same period in 2014 to 56.8%⁵, reflecting similar trends.

Including *RGD*, the shipments of Philip Morris Slovakia s.r.o. increased by 4.1% in the third quarter of 2015 compared to the same period in 2014 to 1.1 billion units, reflecting a higher total market and a higher market share as described above. In the first nine months of 2015, the shipments increased by 3.6% compared to the same period in 2014 to 3.0 billion units, driven by the items noted above.

Manufacturing Services

In the third quarter of 2015 the revenues from manufacturing services reached CZK 0.6 billion. In the first nine months of 2015 the revenues from manufacturing services reached CZK 1.7 billion.

Financial Position

Philip Morris R 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, 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 November 19, 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 R a.s.

In Kutn Hora on November 19, 2015



Andras Tovisi
Chairman of the Board of Directors
Philip Morris R a.s.



Stanislava Jurıkov
Member of the Board of Directors
Philip Morris R a.s.

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