

Philip Morris ČR a.s.

Separate Statement of Financial Position at December 31, 2009

(in CZK million)

ASSETS	Note	December 31, 2009	December 31, 2008 (restated*)	January 1, 2008 (restated*)
Property, plant and equipment (PP&E)	4	2 531	2 224	2 183
Intangible assets		103	123	16
Investment in subsidiary	1	19	19	19
Non-current assets		2 653	2 366	2 218
Inventories	6	1 281	1 485	1 925
Trade and other financial receivables	7	1 398	1 734	6 476
Other non-financial assets	7	2 133	3 448	2 829
Income tax prepaid		51	-	-
Cash and cash equivalents	8	5 890	1 374	2 219
Current assets		10 753	8 041	13 449
Property, plant and equipment classified as held-for-sale		-	-	28
Total assets		13 406	10 407	15 695
EQUITY & LIABILITIES				
	Note			
Registered capital	9	2 745	2 745	2 745
Share premium and other shareholders' contributions		2 356	2 356	2 355
Retained earnings		3 211	2 597	3 475
Statutory reserve fund	9	549	549	549
Equity		8 861	8 247	9 124
Deferred tax liability	12	118	118	123
Non-current liabilities		118	118	123
Trade and other financial liabilities	10	713	463	860
Other non-financial liabilities	10	135	128	112
Income tax liability		-	66	161
Other tax liabilities	11	3 564	1 363	5 287
Provisions for current liabilities	16	4	20	-
Borrowings	8	11	2	28
Current liabilities		4 427	2 042	6 448
Total liabilities		4 545	2 160	6 571
Total equity & liabilities		13 406	10 407	15 695

Separate Statement of Comprehensive Income for the year ended December 31, 2009

(in CZK million)

	Note	2009	2008 (restated*)
Revenues	17	10 375	8 622
Cost of goods sold	14	(6 117)	(5 372)
Gross profit		4 258	3 250
Distribution expenses	14	(873)	(791)
Administrative expenses	14	(745)	(604)
Other income	13	59	85
Other operating income	18	259	317
Other operating expense	19	(246)	(282)
Profit from operations		2 712	1 975
Financial expenses		-	(9)
Profit before income tax		2 712	1 966
Income tax expense	21	(565)	(432)
Net profit for the year		2 147	1 534
Other comprehensive income		-	-
Total comprehensive income for the year		2 147	1 534
Earnings per share basic and diluted (CZK/share)	22	782	559

*Some amounts have been restated and do not correspond to the amounts presented in the separate financial statements for the year ended 31 December 2008.

The accompanying notes form an integral part of the financial statements

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Separate Statement of Changes in Equity for the year ended December 31, 2009 (in CZK million)

	Note	Attributable to equity holders of the Company				
		Registered capital	Share premium and other shareholders' contributions	Statutory reserve fund	Retained earnings	Total equity
Balance as at January 1, 2008		2 745	2 355	549	3 475	9 124
Total comprehensive income for the year	22	-	-	-	1 534	1 534
Transactions with owners						
Profit distribution	23	-	-	-	(2 416)	(2 416)
Share based payments		-	1	-	-	1
Forfeited dividends		-	-	-	4	4
Balance as at December 31, 2008		2 745	2 356	549	2 597	8 247
Total comprehensive income for the year	22	-	-	-	2 147	2 147
Transactions with owners						
Profit distribution	23	-	-	-	(1 538)	(1 538)
Share based payments		-	-	-	-	-
Forfeited dividends		-	-	-	5	5
Balance as at December 31, 2009		2 745	2 356	549	3 211	8 861

Separate Statement of Cash Flow for the year ended December 31, 2009 (in CZK million)

	Note	2009	2008 (restated*)
Cash flow from operating activities			
Profit before tax		2 712	1 966
Depreciation and amortisation expense, including intangibles	14	426	366
Impairment	5	-	20
Unrealised foreign exchange loss / (gain), net		33	(41)
Net interest income		(59)	(77)
Gain on disposal of PP&E		(5)	(40)
Other non-cash (gain) / loss, net		(21)	16
Operating cash flows before working capital changes		3 086	2 210
Changes in:			
Trade and other receivables		1 610	4 179
Trade and other payables		2 470	(4 318)
Inventories		206	445
Cash generated from operations		7 372	2 516
Interest paid		-	(8)
Income tax paid		(682)	(532)
Net cash generated from operating activities		6 690	1 976
Cash flow from investing activities			
Purchase of PP&E	4	(707)	(425)
Proceeds from sale of PP&E		9	72
Purchase of intangible assets		(8)	(113)
Interest received		61	87
Net cash used by investing activities		(645)	(379)
Cash flow from financing activities			
Dividends paid	23	(1 538)	(2 416)
Net cash used by financing activities		(1 538)	(2 416)
Net increase / (decrease) in cash and cash equivalents		4 507	(819)
Cash and cash equivalents as at the beginning of the year		1 372	2 191
Cash and cash equivalents as at the end of the year	8	5 879	1 372

*Some amounts have been restated and do not correspond to the amounts presented in the separate financial statements for the year ended 31 December 2008.

The accompanying notes form an integral part of the financial statements

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Notes to the Separate Financial Statements at December 31, 2009

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. The Strážnice facility is used for leaf warehousing activities.

Philip Morris ČR a.s. is an affiliate of Philip Morris International, Inc. ("PMI" or "Philip Morris International"). As at December 31, 2009, PMI is the ultimate controlling party of the Company.

On January 30, 2008, the Board of Directors of Altria Group, Inc. ("Altria Group") announced the spin-off of 100% of the shares of Philip Morris International owned by Altria Group to Altria Group's shareholders with the effective date on March 28, 2008. The spin-off resulted in the change of the Company's ultimate parent company from Altria Group to Philip Morris International without any impact on the operation and activities of the Company in the Czech Republic.

As at December 31, 2009, the only entity holding more than 20% of the registered capital of the Company was Philip Morris Holland Holdings B.V., which held 77.6% of the registered capital.

The following individuals were recorded as members of the Board of Directors and Supervisory Board in the Commercial Register as at December 31, 2009:

Board of Directors

Alvise Giustiniani - Chairman	Daniel Gordon
Andre Dahan	Ivo Slanina
Andrea Gontkovičová	Walter Veen

Supervisory Board

Daniel Fahrny – Chairman	Jolana Peterková
Jiří Davídek	Petr Bubeníček
Antonis Koupparis	Paul Maas

The Company has a 99% interest in Philip Morris Slovakia s.r.o., Galvani street 15/A, Bratislava, Slovakia. Registered share capital of Philip Morris Slovakia s.r.o. as at December 31, 2009 and 2008 was EUR 763 thousands (equivalent to CZK 19 million). In 2009, the income after tax of Philip Morris Slovakia s.r.o. was EUR 1.2 million, equivalent to CZK 32 million (2008: EUR 1.1 million, equivalent to CZK 27 million). Total equity of Philip Morris Slovakia s.r.o. was EUR 4 million as at December 31, 2009, equivalent to CZK 107 million (2008: EUR 2.8 million, equivalent to CZK 77 million). Slovak Republic adopted EUR as national currency starting January 1, 2009.

The Company has not concluded 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.

The Company's financial statements were authorised for issue by the Board of Directors on March 25, 2010.

1.2 Translation note

The 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 financial statements takes precedence over the English version.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements of Philip Morris ČR a.s. as at December 31, 2009 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, 2009. 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 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 Changes in accounting policies and procedures

a) The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after January 1, 2009 and have been fully adopted by the Company:

IAS 1 (revised) – Presentation of Financial Statements (effective for annual periods beginning on or after January 1, 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity. Entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Company has elected to present one statement: the statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised standard had no impact on the recognition or measurement of specific transactions and balances.

IFRS 8 – Operating segments (effective for annual period beginning on or after January 1, 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. Segment reporting structure is affected. The company presents segment reporting only in consolidated financial statements.

IFRIC 13 – Customer Loyalty Programs (effective for annual periods beginning on or after July 1, 2008). Management of the Company reevaluated the effect of this interpretation on its revenue recognition policies. Adoption of this interpretation resulted in reclassification of certain customer incentives in the statement of comprehensive income as described in Note 2.3.

b) The following standards, amendments and interpretations mandatory for accounting periods beginning on or after January 1, 2009 do not have a material impact or are not relevant to the Company's operations:

- IAS 23 – Revised – Borrowing Costs (revised March 2007, effective for annual period beginning on or after January 1, 2009). The Company did not change its accounting policy on accounting for borrowing costs as it complies with the revised standard.
- Amendment to IAS 32 – Financial instruments: Presentation and IAS 1 – Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 1 – Amendment (effective for annual periods beginning on or after January 1, 2009).
- Amendment to IFRS 7 - Improving Disclosures about Financial Instruments, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after January 1, 2009).
- IFRS 1 – Amendment – First-time Adoption of International Financial Reporting Standards and IAS 27 – Amendment – Consolidated and separate financial statements: The presentation of costs on

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investment to the subsidiaries at the first-time adoption of IAS/IFRS (issued in May 2008, effective for annual periods beginning on or after January 1, 2009).

- IFRS 2 – Amendment – Share-based Payment – Vesting conditions and cancellations (issued in January 2008, effective for annual periods beginning on or after January 1, 2009).
- IFRIC 9 and IAS 39 – Amendment – Embedded Derivatives (effective for annual periods ending on or after June 30, 2009, endorsed by the EU for annual periods beginning on or after January 1, 2010, earlier application is permitted).
- IFRIC 15 – Agreements for the Construction of Real Estate (effective for annual periods beginning on or after January 1, 2009).
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after October 1, 2008).

Improvements to International Financial Reporting Standards (issued in May 2008). The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment of a defined benefit plan under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. The amendments have no material effect on the financial statements of the Company.

c) The following standards, amendments and interpretations are not yet effective and have not been adopted early by the Company:

- IFRS 1 - First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after July 1, 2009, endorsed by the EU for annual periods beginning on or after December 31, 2009, earlier application is permitted).
- IFRS 1 - First-time Adoption of International Financial Reporting Standards - Amended (effective for annual periods beginning on or after January 1, 2010, not yet adopted by the EU).
- IFRS 2 – Amendment - Group Cash-settled Share-based Payment Transactions - (effective for annual periods beginning on or after January 1, 2010, not yet adopted by the EU).
- IFRS 3 – Business Combinations (revised January 2008, effective for annual periods beginning on or after July 1, 2009).
- IFRS 9 - Financial Instruments (issued in November 2009, effective for annual periods beginning on or after January 1, 2013, with earlier application permitted, not yet adopted by the EU).
- IAS 24 - Related Party Disclosures (amended in November 2009, effective for annual periods beginning on or after January 1, 2011, not yet adopted by the EU).
- IAS 27 – Consolidated and Separate Financial Statements (revised in January 2008, effective for annual periods beginning on or after July 1, 2009).
- IAS 32 – Amendment - Financial Instruments: Presentation (effective for annual periods beginning on or after February 1, 2010).
- IAS 39 – Amendment – Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after July 1, 2009).
- IFRIC 14 – Amendment - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after January 1, 2011, not yet adopted by the EU).
- IFRIC 18 - Transfers of Assets from Customers (effective for annual periods beginning on or after July 1, 2009, endorsed by the EU for annual periods beginning on or after October 31, 2009, earlier application is permitted).
- IFRIC 17 - Distribution of non-cash assets to owners (effective for annual periods beginning on or after July 1, 2009, endorsed by the EU for annual periods beginning on or after October 31, 2009, earlier application is permitted).
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 1, 2010, not yet adopted by the EU).

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Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after July 1, 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after January 1, 2010; the improvements have not yet been adopted by the EU). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations:

- clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2;
- clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations;
- requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker;
- amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current;
- changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities;
- allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease;
- providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent;
- clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation;
- supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination;
- amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender;
- amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and
- removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged.

The Company does not expect the amendments to have any material effect on its financial statements.

Basis of preparation of the separate financial statements

The 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 IAS 39 as disclosed in the accounting policies below.

The preparation of 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 resulting accounting estimates will, by definition, seldom equal the related actual results.

2.3 Comparative amounts

The Company adopted IFRIC 13 as at January 1, 2009. In connection with the adoption of the interpretation, the Company reviewed classification of various types of sales incentives and reclassified sales based incentives of CZK 109 million for 2008 from "Distribution expenses" to "Sales". As a result of the adoption of IFRIC 13, the related liability is classified as deferred revenue in "Non-financial liabilities". Correspondingly, IFRIC 13 liability resulting from sales based incentive programs of CZK nil as at December 31, 2008 (January 1, 2008: CZK 2 million) was reclassified from accrued expenses to deferred revenue. Additionally, the Company reclassified excise tax of CZK 3 423 million included in the valuation of inventories as at December 31, 2008 (January 1, 2008: CZK 2 796 million) from "Inventories" to "Other non-financial assets" in order to measure inventories consistently with the presentation of costs of goods sold, which are reported net of excise tax. As a result of the excise tax reclassification in the statement of financial position, amount of CZK 627 million was reclassified in the Statement of cash flow for the year ended December 31, 2008

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from “Changes in inventories” to “Trade and other financial receivables and Other non-financial assets”.

The Company also reclassified shipping expenses of CZK 112 million for from “Costs of goods sold” to “Distribution expenses”.

2.4 Foreign currency transactions

a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The 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 rates prevailing as at the dates 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 recognised in the statement of comprehensive income.

2.5 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 capitalised 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 the profit or loss during the financial year in which they are incurred.

Items of 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 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).

Items of property, plant and equipment that are retired, or otherwise disposed of, are eliminated from the 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.

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2.6 Intangible assets

Intangible assets include computer software. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring the specific software to use. These costs are amortised over their estimated useful life (three to five years).

Costs associated with developing or maintaining computer software programs are recognised 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, are recognised 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 recognised as assets are amortised over their estimated useful lives (three to five years).

2.7 Non-current assets held for sale

The Company classifies non-current assets (or disposal groups) as held-for-sale separately if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and measures them at the lower of its carrying amount and fair value less costs to sell.

2.8 Investment in subsidiary

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

2.9 Impairment of assets

Property, plant and equipment and other non-financial assets, including intangible 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 recognised 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 realisable value. Costs of inventories include the purchase price and related costs of acquisition (transport, customs duties, etc.). The value of work-in-progress and finished goods includes direct material costs and allocated overhead costs. Overhead costs include labour, depreciation, power and heating, repair and maintenance and other related costs. The carrying amount of work-in-progress, merchandise and finished goods is determined on the basis of FIFO. The carrying amount of tobacco, operating supplies and spare parts is determined on the basis of weighted average cost.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the statement of financial position.

Trade receivables are recognised initially at fair values and subsequently measured at amortised costs using the effective interest method, less provision for impairment. Such provision for impairment of domestic and foreign third-party trade receivables is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy and default or there is delinquency in payments (in the case of trade receivables from third parties more than 14 - 30 days overdue based on individual assessment of the debtor) are considered indicators that the

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trade receivable is impaired. The amount of the impairment loss is the difference between the carrying amount and the recoverable amount, being the present value of estimated future cash flows discounted at the original effective interest rate. The amount of the impairment provision is recognised in profit or loss. Receivables from PMI entities do not represent collection risk.

2.12 Excise tax

Excise tax on purchased fiscal stamps is initially recognised as other non-financial asset with a corresponding liability classified in "Other tax liabilities". The asset is derecognised 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.

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 statement of financial position within borrowings in current liabilities.

2.14 Trade Payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 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 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 realised or the deferred income tax liability is settled. Changes in deferred tax resulting from the change in tax rates are recognised in the period in which the changes are enacted or substantially enacted.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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.

2.16 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. Company has no further payment obligations once the contributions have been paid.

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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 recognises 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. The fair value corresponds to the market price of PMI common stock on the date the award is granted to the employee. Compensation cost is recognised over the vesting period on a straight-line basis as a charge to the employee benefits expense with a corresponding entry in equity. Amounts recognised as compensation expense in 2009 and 2008 were immaterial.

2.17 Provisions

Provisions are recognised 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 recognised 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.

2.18 Revenue and expense recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, net of value-added tax, excise tax, rebates and discounts.

Sales of goods

Revenue from the sales of goods is recognised when the Company has transferred the significant risks and rewards of ownership of the goods to the buyer; the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue is recognised at the moment of delivery despatch to the customer for both export and domestic sales.

Sales of services

Sales of services are recognised when the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Dividend income

Dividend income is recognised when the shareholder's right to receive payment is established.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

Costs of goods sold include variable and fixed manufacturing costs, costs of goods purchased for resale and royalties paid for the cigarettes sold.

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Distribution expenses include personnel and material costs, and depreciation and amortisation applicable to the distribution function, as well as the costs of shipping, advertising, sales promotion, market research and customer service.

Administrative expenses include personnel costs and overheads as well as depreciation and amortisation applicable to administrative functions.

2.19 Leases

Leases under which a significant portion of the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. The Company does not acquire its operating assets via finance leases.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. Market and liquidity risks are managed under approved policies by a central Treasury group of PMI 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. The Board of Directors provides written principles 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 recognised assets and liabilities in foreign currencies. To hedge part of this exposure, the Company occasionally uses currency option derivative instruments, transacted with PMI Treasury. There were no currency options used in 2009 and 2008.

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

Carrying amount as at December 31, 2009	CZK	EUR	SKK	Other	Total
Receivables from third parties - domestic	985	-	-	-	985
Receivables from third parties - foreign	3	-	-	-	3
Receivables from PMI entities	7	402	-	1	410
Cash at banks	6	-	-	-	6
On demand deposits with related parties	5 884	-	-	-	5 884
Total	6 885	402	-	1	7 288

Carrying amount as at December 31, 2008	CZK	EUR	SKK	Other	Total
Receivables from third parties - domestic	1 005	2	-	-	1 007
Receivables from third parties - foreign	4	-	-	13	17
Receivables from PMI entities	-	495	201	14	710
Cash at banks	14	-	-	-	14
On demand deposits with related parties	1 360	-	-	-	1 360
Total	2 383	497	201	27	3 108

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

Carrying amount as at December 31, 2009	CZK	EUR	SKK	USD	Other	Total
Payables to third parties - domestic	310	3	-	-	-	313
Payables to third parties - foreign	3	132	-	20	11	166
Payables to PMI entities	-	169	-	41	24	234
Borrowings	11	-	-	-	-	11
Total	324	304	-	61	35	724

Carrying amount as at December 31, 2008	CZK	EUR	SKK	USD	Other	Total
Payables to third parties - domestic	218	4	-	-	-	222
Payables to third parties - foreign	4	25	-	4	4	37
Payables to PMI entities	1	132	-	33	38	204
Borrowings	2	-	-	-	-	2
Total	225	161	-	37	42	465

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 PMI Swiss subsidiaries. The common currencies used by the Company are the EUR and USD. 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 only unpaid financial assets and liabilities denominated in foreign currencies and it measures the impact from recalculation of these items as at the balance sheet date using exchange rates published by the Czech National Bank as at December 31, 2009. The Company considers the movements of exchange rates against CZK in the following period +20% (appreciation of CZK) and -20% (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. As Slovakia replaced the SKK by the EUR as national currency as at January 1, 2009, financial assets and liabilities denominated in SKK as at December 31, 2008 were for the purpose of sensitivity analysis translated to EUR and sensitivity was calculated based on the CZK/EUR exchange rate.

The following table presents the impact on profit and loss before tax of an appreciation (+20%) or depreciation (-20%) of the CZK to foreign currencies (in CZK million):

2009	CZK depreciation by 20%	
Currency	EUR	USD
Increase / (decrease) in profit or loss	19	(12)

2009	CZK appreciation by 20%	
Currency	EUR	USD
Increase / (decrease) in profit or loss	(19)	12

2008	CZK depreciation by 20%	
Currency	EUR	USD
Increase / (decrease) in profit or loss	102	(4)

2008	CZK appreciation by 20%	
Currency	EUR	USD
Increase / (decrease) in profit or loss	(102)	4

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Sensitivity to interest rates

The Company is exposed to interest rate risk mainly in relation to short-term loans and short-term on-demand deposits with PMI companies. The Company assumes the possible movements of the yield curve in the following period by +100/ -50 basis points.

For short-term loans receivable and short-term on-demand deposits with PMI companies, the impact on the profit and 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 and loss before tax of an expected increase (+100 basis points) or decrease (- 50 basis points) of interest rates (in CZK million):

	Interest rate increased by 100 basis points	Interest rate decreased by 50 basis points
2009		
Increase / (decrease) in profit or loss	59	(29)
2008		
Increase / (decrease) in profit or loss	14	(14)

b) Credit risk

The Company has policies in place to ensure that sales of products and 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. Apart from PMI Treasury, the Company also uses the services of external rating agencies for counterparty analysis.

The financial insolvency of a 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 and advance payments 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, foreign 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 third party foreign customers are partially secured by bank guarantees. Trade receivables from PMI entities are considered as low-risk receivables by the Company, and are therefore unsecured.

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Maximum exposure to credit risk

The maximum exposure to credit risk in the case of activities connected to business operations and trade credits rendered to customers is calculated as the gross carrying amount of the above-mentioned financial assets less any impairment losses.

Carrying amount as at December 31, 2009 (in CZK million)	Unimpaired financial assets not yet due	Unimpaired financial assets past due	Total
Receivables from third parties – domestic	985	-	985
Receivables from third parties – foreign	3	-	3
Receivables from PMI entities	400	10	410
Cash at banks	6	-	6
On demand deposits with related parties	5 884	-	5 884
Total	7 278	10	7 288

Carrying amount as at December 31, 2008 (in CZK million)	Unimpaired financial assets not yet due	Unimpaired financial assets past due	Total
Receivables from third parties – domestic	992	15	1 007
Receivables from third parties – foreign	17	-	17
Receivables from PMI entities	664	46	710
Cash at banks	14	-	14
On demand deposits with related parties	1 360	-	1 360
Total	3 047	61	3 108

Credit risk concentration

The Company monitors the concentration of credit risk by distribution regions.

Classification of trade receivables by distribution regions:

Carrying amount as at December 31, 2009 (in CZK million)	Czech Republic	Slovak Republic	Other	Total
Receivables from third parties – domestic	985	-	-	985
Receivables from third parties – foreign	-	-	3	3
Receivables from PMI entities	-	106	304	410
Total	985	106	307	1 398

Carrying amount as at December 31, 2008 (in CZK million)	Czech Republic	Slovak Republic	Other	Total
Receivables from third parties – domestic	1 007	-	-	1 007
Receivables from third parties – foreign	-	-	17	17
Receivables from PMI entities	-	204	506	710
Total	1 007	204	523	1 734

Credit quality of financial assets not yet due and not impaired

The Company uses the following criteria when setting ratings of financial assets that are not yet due and are not impaired.

- Solvency class 1 includes receivables from third parties secured by bank guarantees for which there is no objective evidence indicating impairment.
- Solvency class 2 includes receivables that are unsecured trade receivables from third parties for which there is no objective evidence indicating impairment.
- Receivables from and on-demand deposits with PMI entities are classified according to Standard & Poor's rating of PMI. In 2009, the S&P rating was A (2008: A).
- Cash with banks is classified according to Moody's Long-term Deposit rating. For banks and financial institutions, only independently-rated parties with a minimum rating of A1 (2008: AA3) are accepted.

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Balance as at December 31, 2009 (in CZK million)	Solvency class 1	Solvency class 2	Standard & Poor's Ratings (A)	Moody's Long-term deposit rating (A1)	Total
Receivables from third parties - domestic	846	139	-	-	985
Receivables from third parties - foreign	-	3	-	-	3
Receivables from PMI entities	-	-	400	-	400
Cash at banks	-	-	-	6	6
On demand deposits with related parties	-	-	5 884	-	5 884
Total	846	142	6 284	6	7 278

Balance as at December 31, 2008 (in CZK million)	Solvency class 1	Solvency class 2	Standard & Poor's Ratings (A)	Moody's Long-term Deposit rating (AA3)	Total
Receivables from third parties - domestic	873	119	-	-	992
Receivables from third parties - foreign	13	4	-	-	17
Receivables from PMI entities	-	-	664	-	664
Cash at banks	-	-	-	14	14
On demand deposits with related parties	-	-	1 360	-	1 360
Total	886	123	2 024	14	3 047

Carrying amount of financial assets past due but not impaired

Balance as at December 31, 2009 (in CZK million)	Months past due			Total
	Less than 1 month	1 – 3 months	More than 3 months	
Receivables from PMI entities	4	2	4	10
Total	4	2	4	10

Balance as at December 31, 2008 (in CZK million)	Months past due			Total
	Less than 1 month	1 – 3 months	More than 3 months	
Receivables from third parties - domestic	15	-	-	15
Receivables from PMI entities	3	29	14	46
Total	18	29	14	61

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash. Liquidity of the Company is managed and controlled by the central PMI Treasury 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 (undiscounted amounts)

Balance as at December 31, 2009 (in CZK million)	Less than 3 months
Trade payables to third parties and PMI entities	704
Dividend payable	9
Borrowings	11

Balance as at December 31, 2008 (in CZK million)	Less than 3 months
Trade payables to third parties and PMI entities	452
Dividend payable	11
Borrowings	2

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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.

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.

4. PROPERTY, PLANT AND EQUIPMENT

(in CZK million)	Property, Buildings & Constructions	Vehicles & Machinery Equipment	Furniture & Fixtures	Constructions in progress & Advances paid	Total
As at January 1, 2008	697	1 430	20	36	2 183
Cost	1 652	3 465	87	36	5 240
Accumulated depreciation and impairment	(955)	(2 035)	(67)	-	(3 057)
Net carrying amount	697	1 430	20	36	2 183
Year ended December 31, 2008					
Opening net carrying amount	697	1 430	20	36	2 183
Additions cost	53	230	1	141	425
Disposal net carrying amount	-	(4)	(1)	-	(5)
Impairment	-	(20)	-	-	(20)
Depreciation charge	(79)	(276)	(4)	-	(359)
Closing net carrying amount	671	1 360	16	177	2 224
As at December 31, 2008					
Cost	1 705	3 568	85	177	5 535
Accumulated depreciation and impairment	(1 034)	(2 208)	(69)	-	(3 311)
Net carrying amount	671	1 360	16	177	2 224
Year ended December 31, 2009					
Opening net carrying amount	671	1 360	16	177	2 224
Additions cost	49	523	-	135	707
Disposal net carrying amount	-	(3)	-	-	(3)
Depreciation charge	(84)	(310)	(3)	-	(397)
Closing net book amount	636	1 570	13	312	2 531
As at December 31, 2009					
Cost	1 743	3 896	82	312	6 033
Accumulated depreciation and impairment	(1 107)	(2 326)	(69)	-	(3 502)
Net carrying amount	636	1 570	13	312	2 531

Lease rentals amounting to CZK 114 million (2008: CZK 94 million) relating to the lease of warehousing and office space are included in profit or loss.

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

5. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

In 2008, the Company revised the net book value of machinery and equipment. As a result of this revision, an impairment loss was recognised in the amount of CZK 20 million. Impaired assets were disposed in 2009.

There was no impairment loss recognised in 2009.

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6. INVENTORIES

(in CZK million)	December 31, 2009	December 31, 2008	January 1, 2008
Materials	789	1 020	1 560
Work-in-progress	165	32	31
Finished goods	274	329	171
Merchandise	53	104	163
Total	1 281	1 485	1 925

The cost of inventories, excluding allocated overheads, recognised as expense in 2009 and included in costs of goods sold amounted to CZK 4 792 million (2008: 4 259 million).

7. TRADE RECEIVABLES AND OTHER ASSETS

(in CZK million)	December 31, 2009	December 31, 2008	January 1, 2008
Trade and other financial receivables:			
Third parties	988	1 024	5 981
Subsidiary	106	204	439
Other related parties	304	506	56
Total	1 398	1 734	6 476
Other non-financial assets:			
Other assets - excise tax	2 107	3 423	2 796
Prepayments	24	23	31
Other receivables	2	2	2
Total	2 133	3 448	2 829

8. CASH AND CASH EQUIVALENTS

(in CZK million)	December 31, 2009	December 31, 2008
Cash at banks	6	14
On-demand deposits with related parties (Note 26)	5 884	1 360
Total	5 890	1 374

On-demand deposits with related parties are interest-bearing loans. See Note 26 for the analysis of receivables from related parties.

Cash, cash equivalents and bank overdrafts for the purposes of the cash flow statement include the following:

(in CZK million)	December 31, 2009	December 31, 2008
Cash and cash equivalents	5 890	1 374
Bank overdrafts	(11)	(2)
Total cash and cash equivalents	5 879	1 372

9. SHARE CAPITAL

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 dematerialised	1 913 698	1 913 698 000
Total ordinary shares	2 745 386	2 745 386 000

The same rights are attached to all shares.

The identification mark of the Company's shares according to the international numbering system is ISIN: CS0008418869.

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The Company's shares are admitted for trading on the public market organised by the Prague Stock Exchange and the RM-S - Czech Share Trading System. As at December 31, 2009, 2 745 386 shares were publicly held, out of which 77.6% were held by the company Philip Morris Holland Holdings B.V.

The Company created a statutory reserve fund. It may not be distributed to shareholders, but may be used to offset losses. The statutory reserve fund equals 20% of the Company's issued share capital.

10. TRADE AND OTHER LIABILITIES

(in CZK million)	December 31, 2009	December 31, 2008	January 1, 2008
Trade and other financial liabilities			
Third parties	241	98	357
Other related parties	234	204	282
Accrued expenses	229	150	209
Dividends payable	9	11	12
Total	713	463	860
Other non-financial liabilities			
Amounts due to employees	97	93	73
Social security and health insurance	30	30	32
Advances received	2	2	5
Deferred revenues	6	-	2
Other	-	3	-
Total	135	128	112

Trade payables to related parties are disclosed in Note 26.

11. OTHER TAX LIABILITIES

(in CZK million)	December 31, 2009	December 31, 2008
VAT	457	497
Excise tax	3 101	857
Other taxes	6	9
Total	3 564	1 363

12. 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)	December 31, 2009	December 31, 2008
Deferred tax assets offset	12	15
Deferred tax liabilities	(130)	(133)
Deferred tax liabilities net	(118)	(118)
Deferred tax assets		
- Deferred tax asset to be recovered within 12 months	8	13
- Deferred tax asset to be recovered after more than 12 months	4	2
	12	15
Deferred tax liabilities		
- Deferred tax liabilities to be recovered within 12 months	(12)	(21)
- Deferred tax liabilities to be recovered after more than 12 months	(118)	(112)
	(130)	(133)

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

(in CZK million)	2009	2008
January 1	(118)	(123)
Profit or loss credit	-	5
December 31	(118)	(118)

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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 January 1, 2008	(144)
Credit to profit or loss	11
As at December 31, 2008	(133)
Credit to profit or loss	3
As at December 31, 2009	(130)

Deferred tax assets (in CZK million)	Provisions for inventories	Share based payments	Other	Total
As at January 1, 2008	2	4	15	21
Charge to profit or loss	(2)	-	(4)	(6)
As at December 31, 2008	-	4	11	15
Charge to profit or loss	-	-	(3)	(3)
As at December 31, 2009	-	4	8	12

Effective from January 1, 2008, the rate in the Czech Republic was 21%. Effective from January 1, 2009 the rate decreased to 20% and effective from January 1, 2010 the rate will decrease to 19%.

As at December 31, 2008, deferred tax assets (+) and liabilities (-) were calculated at 20% and 19%, (depending upon the period in which the temporary difference is expected to reverse) and as at December 31, 2009 at 19% in accordance with the enacted tax legislation.

13. OTHER INCOME

Other income of CZK 59 million (2008: CZK 85 million) includes interest income received from interest-bearing short-term loans and deposits with related parties, see Note 26.

14. EXPENSES BY NATURE – ADDITIONAL INFORMATION

(in CZK million)	2009	2008
Changes in inventories of FG and WIP	(122)	(173)
Own work capitalised	-	(25)
Raw materials and consumables used	4 856	4 304
Services	1 627	1 399
Employee benefits expense	846	809
Depreciation and amortisation	426	366
Other	102	87
Costs of goods sold, distribution expenses and administrative expenses	7 735	6 767

15. EMPLOYEE BENEFITS EXPENSE

(in CZK million)	2009	2008
Wages and salaries, including termination benefits CZK 29 million (2008: CZK 41 million)	618	593
Social security and health insurance	69	70
Pension costs – defined contribution plans	127	120
Other employee related costs	32	26
Total	846	809

As at December 31, 2009, the number of employees was 1 058 (2008: 1 070) including 36 managers (2008: 36). Managers of the Company include employees who are department heads and senior managers.

The Company is legally required to make contributions to government health, pension and unemployment schemes. During 2009, the Company paid contributions at a rate of 34% of gross salaries (2008: 35%) and is not required to make any contributions in excess of this statutory rate.

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The Company has a voluntary pension plan for employees under which the Company makes contributions on behalf of the Company's employees to approved pension plan providers, under 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.

16. PROVISIONS

In 2009, management of the Company approved a plan related to the restructuring of the operations department. The estimated restructuring expense representing termination payments was CZK 4 million as at December 31, 2009.

In 2008, management of the Company approved a plan related to the restructuring of sales and distribution and to the transfer of certain procurement and information services activities to the regional shared service centres in Madrid and Krakow. The estimated restructuring expense representing termination payments to those made redundant were CZK 20 million as at December 31, 2008.

For both years, the estimate was based on the number of employees identified in the plans and the Collective Labour Agreement valid in 2009 and 2008, which specified the amount to be paid to those affected.

17. REVENUES

(in CZK million)	2009	2008
Sales of finished goods and merchandise	10 269	8 533
Sales of services	106	89
Total	10 375	8 622

18. OTHER OPERATING INCOME

(in CZK million)	2009	2008
Exchange rate gains	235	265
Gains on sale of materials	6	10
Gains on sale of PP&E	5	39
Other income	13	3
Total	259	317

19. OTHER OPERATING EXPENSE

(in CZK million)	2009	2008
Exchange rate losses	225	252
Bank charges	20	22
Other taxes & fees	-	4
Other expense	1	4
Total	246	282

20. NET PROFITS AND LOSSES FROM FINANCIAL INSTRUMENTS

2009 (in CZK million)	Receivables	Cash equivalents	Payables	Total
Operating income				
Foreign exchange gain	120	33	82	235
Interest income	-	59	-	59
Operating expense				
Foreign exchange losses	(96)	(40)	(89)	(225)
Net gain / (loss)	24	52	(7)	69

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2008 (in CZK million)	Receivables	Cash equivalents	Payables	Total
<u>Operating income</u>				
Foreign exchange gain	139	80	46	265
Interest income	-	85	-	85
<u>Operating expense</u>				
Foreign exchange losses	(106)	(76)	(70)	(252)
Net gain / (loss)	33	89	(24)	98

2008 (in CZK million)	Receivables	Cash equivalents	Payables	Total
<u>Financial expense</u>				
Interest expense	-	(9)	-	(9)
Net loss	-	(9)	-	(9)

21. INCOME TAX EXPENSE

(in CZK million)	2009	2008
Current tax	(565)	(437)
Deferred tax (Note 12)	-	5
Total	(565)	(432)

The statutory income tax rate for the 2009 assessment period was 20% (2008: 21%). Effective from January 1, 2010 the rate will be 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)	2009	2008
Profit before tax	2 712	1 966
Applicable tax rate	20%	21%
Tax calculated at local tax rate applicable to profit before tax	(542)	(413)
Expenses not deductible for tax purposes	(24)	(15)
Other	1	(4)
Tax charge	(565)	(432)

22. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the net profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2009	2008
Income attributable to shareholders in CZK million	2 147	1 534
Weighted average number of ordinary shares in issue in thousands	2 745	2 745
Basic earning per share in CZK	782	559

23. DIVIDENDS PER SHARE

The dividends approved by the Annual General Meeting in April 2009 and April 2008 were CZK 1 538 million (CZK 560 per share) and CZK 2 416 million (CZK 880 per share), respectively.

Disbursement of dividends from the 2009 results will be decided at the Annual General Meeting scheduled for April 30, 2010.

24. CONTINGENCIES

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.

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The tax authorities have carried out full-scope tax audits of the Company up to the year 2006. 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 additional material liability in this respect.

As at December 31, 2009 the banks have provided guarantees for the security of liability for fiscal stamps and for the security of transit operations within EU countries in the amount of CZK 6 270 million (2008: CZK 5 040 million) and for the Company's current or future lease obligations in the amount of CZK 37 million, equivalent to EUR 1.4 million (2008: CZK 39 million, equivalent to EUR 1.5 million).

25. COMMITMENTS

Operating lease commitments

The Company leases offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The Company also leases various warehouses under cancellable operating lease agreements. The Company is required to give from three to twelve months notice for the termination of those agreements. Lease expenditures charged to profit or loss during the year are disclosed in Note 4.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

(in CZK million)	December 31, 2009	December 31, 2008
No later than 1 year	89	77
Later than 1 year and not later than 5 years	186	88
Later than 5 years	26	43

26. RELATED PARTY TRANSACTIONS

The Company considers parent company and other companies of the PMI group of companies, members of its Board of Directors, Supervisory Board and parties close to such members of management to be related parties.

The following transactions were carried out with related parties:

a) Sales of goods and services to affiliates within the PMI

(in CZK million)	2009	2008
<u>Sales of goods</u>		
Subsidiary	674	907
Other related parties	3 648	3 639
<u>Sales of PP&E and material</u>		
Other related parties	113	283
<u>Sales of services</u>		
Subsidiary	20	20
Other related parties	86	71
Recharges	32	5
<u>Interest income</u>		
Other related parties	59	85
Total	4 632	5 010

Philip Morris ČR a.s.

b) Purchases of goods and services from affiliates within the PMI

(in CZK million)	2009	2008
<u>Purchases of goods and materials</u>		
Other related parties	2 407	2 112
<u>Purchases of PP&E and intangible assets</u>		
Parent company	119	-
Other related parties	66	124
<u>Purchases of services</u>		
Subsidiary	1	1
Other related parties	502	346
<u>Royalties paid</u>		
Other related parties	381	300
<u>Interest expense</u>		
Other related parties	-	2
Total	3 476	2 885

Dividends paid to Philip Morris Holland Holdings B.V. amounted to CZK 1 192 million in 2009 (2008: CZK 1 874 million).

c) Balances with affiliates within the PMI

(in CZK million)	December 31, 2009	December 31, 2008
<u>Receivables from related parties</u>		
Subsidiary	106	204
Other related parties	304	506
Total	410	710
<u>Payables to related parties</u>		
Other related parties	234	204
<u>Deposits</u>		
Other related parties	5 884	1 360

Loans and deposits with related parties include interest-bearing on-demand deposits (cash pool) of CZK 5 884 million with Philip Morris Finance S.A. (2008: CZK 1 360 million). The interest-bearing on-demand deposits are classified as cash and cash equivalents in the Company's statement of financial position as at December 31, 2009 and 2008.

The interest rate for on-demand deposits is calculated as overnight PRIMEAN - 0.25%. The actual interest rates reflect the current money market and the nature of the loan. The average effective interest rate of on-demand deposits was 1.202% p.a. (2008: 3.171% p.a.).

d) Key management compensation

Key management compensation reflects the remuneration of members of the Board of Directors. The members of the Board of Directors who are employees of the Company or an entity within the PMI group receive no additional compensation for services as members of the Board of Directors.

The compensation of members of the Board of Directors who are employees of the Company or an entity within the PMI group comprises 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. In addition to this, the members of the Board of Directors who are employees of Philip Morris Management Services S. A. or other PMI entities also have other income in-kind such as the payment of rent and school fees.

(in CZK million)	2009	2008
Salaries and other short-term employee benefits	44	37
Termination benefits	2	-
Share-based payments	5	8
Income in-kind	9	10
Total	60	55

Philip Morris ČR a.s.

The term of office for Board of Directors members is one year. No member of the Board of Directors is under contract for the exercise of their function as a member of the Board of Directors.

e) Information on the number of shares issued by the Company to Executives

Members of the Board of Directors owned no shares in 2009 and 2008.

27. SUBSEQUENT EVENTS

No subsequent events have occurred after December 31, 2009 that would have a material impact on these financial statements at December 31, 2009.

Statutory signatures

The financial statements were authorised for issue by the Board of Directors and have been signed below on its behalf.

March 25, 2010

Alvise Giustiniani
Chairman of the Board of Directors

Daniel Gordon
Member of the Board of Directors