

**A) SUMMARY EXPLANATORY REPORT OF THE BOARD OF DIRECTORS OF PHILIP MORRIS ČR A.S. FOR 2009 PURSUANT TO SECTION 118, SUBSECTION 8 OF ACT NO. 256/2004 COLL., ON BUSINESS ACTIVITIES ON THE CAPITAL MARKET, AS AMENDED (THE “ACT ON BUSINESS ACTIVITIES ON THE CAPITAL MARKET”), REGARDING THE MATTERS PURSUANT TO SECTION 118, SUBSECTION 5 (A) TO (K) OF THE ACT ON BUSINESS ACTIVITIES ON THE CAPITAL MARKET**

- (i) Information about the structure of the issuer’s equity, including securities which have not been admitted for trading on a regulated market with a registered office in an EU member state and, if applicable, specification of the various classes of shares or similar securities representing participation in the issuer and specification of the share in the registered capital of each class of shares or similar securities representing participation in the issuer:**

The equity of Philip Morris ČR a.s. (“Company”) consists of four basic components: the registered capital, share premium and other shareholders’ contributions, retained earnings and other capital funds.

(in CZK million)	2009	2008
Registered capital	2 745	2 745
Share premium and other shareholders’ contributions	2 356	2 356
Reserves	549	549
Retained earnings	3 211	2 597
Equity	8 861	8 247

The Company’s registered capital comprises 2,745,386 registered ordinary shares with a nominal value of CZK 1,000 each. 1,913,698 book-entry registered ordinary shares have been admitted for trading on the main market of the Prague Stock Exchange (*Burza cenných papírů Praha, a.s.*). The remaining 831,688 certificated registered ordinary shares have not been admitted for trading on any regulated market with its registered office in an EU member state. The Company’s registered capital is fully paid.

- (ii) Information about limitations on the transferability of securities:**

For the transfer of the Company’s shares, it is necessary to meet only the requirements set by the legal regulations. The Company’s Articles of Association do not set any limitations on the transfer of the Company’s shares, nor are there any other restrictions from the Company relating to the transferability of the Company’s shares.

- (iii) Information about significant direct and indirect participation in the issuer’s voting rights:**

The information on significant direct participations in the issuer’s voting rights as at December 31, 2009 is specified in the Notes to the Financial Statements, point 1.1. Company description and in the Report on Relations between Related Parties, including the share in the issuer’s voting rights.

The composition of significant indirect participation in the Company’s voting rights as at December 31, 2009 is only known to the Company in the case of the controlling entity, Philip Morris Holland Holdings B.V.

The funds administered by Millgate Capital Inc. are shareholders whose participation in the Company's registered capital and thus in the Company's voting rights exceeds 3% as defined in Section 181 (1) of the Commercial Code.

**(iv) Information about the owners of securities with special rights, including the description of such rights:**

The Company did not issue any shares with special rights; it only issued the ordinary shares specified in Section (i) above.

**(v) Information about limitations on voting rights:**

Voting rights apply to all shares issued by the Company and may only be limited or excluded where stipulated by law. The Company is not aware of any restrictions on or exclusions of voting rights attached to the shares that it has issued.

**(vi) Information about agreements between the shareholders or similar owners of securities representing participation in the issuer that may reduce the transferability of shares or similar securities representing participation in the issuer or the transferability of the voting rights, if known to the issuer:**

The Company is not aware of any agreements between shareholders or similar owners of securities representing participation in the Company that may reduce the transferability of shares or similar securities representing participation in the Company or of the voting rights.

**(vii) Information about special rules regulating the election and recalling of members of the statutory body and changes to the Articles of Association or similar documents of the issuer:**

The members of the Company's Board of Directors are elected and recalled by the General Meeting of the Company. The conditions relating to the election of the members of the Board of Directors are stipulated by law and by the Company's Articles of Association. The Company has no special rules regulating the election and recalling of members of the Board of Directors. The Company also does not have any special rules regulating amendments and changes to the Articles of Association of the Company.

**(viii) Information about special powers of the members of the statutory body, particularly authorisations pursuant to Sections 161a and 210 of the Commercial Code:**

The members of the Board of Directors have no special powers.

**(ix) Information about significant agreements to which the issuer is a party and which will become effective, change or cease to exist in the event of a change of control of the issuer as a result of a take-over bid, and about the effects arising from such agreements, with the exception of agreements whose disclosure would cause harm to the issuer; this does not limit any other obligation to disclose such information pursuant to the Act on Business Activities on the Capital Market or other legal regulations in force:**

The Company has not entered into any agreements that will become effective, change or cease to exist in the event of a change of control of the issuer as a result of a take-over bid.

**(x) Information about agreements between the issuer and the members of its statutory body or employees that bind the issuer to take on any commitments in the event of the termination of their offices or employment in connection with a takeover bid:**

The Company has not entered into any agreements with the members of the Board of Directors or employees that bind the Company to take on any commitments in the event of the termination of their offices or employment in connection with a takeover bid.

- (xi) Information about schemes on the basis of which employees and members of the Company's statutory body may acquire participation securities in the Company, options concerning such securities or any other rights related to these securities, under more favourable terms, and information about how these rights are exercised:**

The Company has no schemes on the basis of which employees or members of the Board of Directors of the Company may acquire participation securities in the Company, options concerning such securities or any other rights related to these securities under more favourable terms.

## **B) APPLICATION OF THE RULES OF CORPORATE GOVERNANCE**

The Company voluntarily meets and complies with all the main criteria, principles and recommendations set out in the Code of Corporate Governance based on the OECD principles adopted by the Securities Commission in 2004. This Code is available at the Company's registered office and also on the following website:

<http://www.philipmorris.cz>

**Information about the Company for 2009 pursuant to Section 118, Subsection 4 (b), (c), (d) and (e) of Act No. 256/2004 Coll., on Business Activities on the Capital Market, as amended**

- (i) Information about the principles and procedures related to internal controls and the rules relating to the approach of the issuer and its consolidated group to the risks that the issuer and its consolidated group are facing or may face in relation to the financial reporting process:**

In its operations, the Company faces a number of external and internal risks as presented in the description of the Company and its business in the Report of the Board of Directors and in the Notes to the Separate Financial Statements and the Consolidated Financial Statements.

The Company has set up procedures and processes that aim to identify, quantify and reduce these risks in order to prevent and manage them effectively. The Company's Internal Controls department provides the Board of Directors and the Supervisory Board, and after its establishment also to the Audit Committee, with objective assessments of the adequacy and effectiveness of the Company's internal control systems. In particular, the Internal Controls Department assesses the controls, procedures, and systems in place to ensure reliability and integrity of financial and operational information and control the risk of accounting and other errors and fraud, safeguarding of assets, compliance with Company policies and the cost-effective and efficient use of resources.

- (ii) Description of the composition and decision-making process of the issuer's statutory body, supervisory body or other executive or controlling body and of the issuer's committees, if established:**

The Board of Directors of the Company is the statutory body which manages the Company's activities and acts in its name in the manner defined in the Company's Articles of Association. The Board of Directors consists of six members who are elected and recalled by the General Meeting. The Board of Directors decides by way of resolutions which are generally adopted at Board of Directors meetings. The Board of Directors is quorate if at least four members of the

Board of Directors are present at Board of Directors meeting. Resolutions are adopted if they are approved by more than half of the members of the Board of Directors present. Every member of the Board of Directors has one vote. In the event of a tie, the chairman's vote is decisive. In urgent events, the Board of Directors may adopt resolutions outside of a meeting if all members of the Board of Directors agree to this. The Board of Directors is quorate for outside-of-meeting voting if at least four members of the Board of Directors participate in such voting. Resolutions are valid if they are approved by more than half of the members of the Board of Directors participating in the outside-of-meeting voting.

The Supervisory Board consists of six members. They must be natural persons and comply with the requirements stipulated by law. Two members of the Supervisory Board are elected and recalled by the Company's employees in accordance with Section 200 of the Commercial Code, and four members are elected and recalled by the General Meeting. The members of the Supervisory Board elect one member as a chairman. The Supervisory Board is quorate if more than half of its members are present. Every member of the Supervisory Board has one vote. Resolutions are adopted if they are approved by more than half of all the members of the Supervisory Board. The same rules as those for adopting resolutions outside Board of Directors meetings apply to adopting resolutions outside Supervisory Board meetings; however, in the latter case approval by a majority of votes of all the members of the Supervisory Board is required for such a resolution to be valid.

**(iii) Description of the rights and obligations relating to the relevant classes of shares or similar securities representing participation in the issuer, at least by way of reference to the Commercial Code and the issuer's Articles of Association in regard to classes of shares, or reference to a similar foreign legal regulation or a document similar to Articles of Association in regard to similar securities representing participation in the issuer:**

The rights and obligations of the shareholders are set out in the legal regulations and in the Articles of Association of the Company. The authorised owners of the shares are entitled to participate in the Company's management. This right is exercised at General Meetings. A shareholder is obliged to pay the issue price and the share premium, if any, for the shares it subscribes for. The shareholder's rights include the right to participate in General Meetings, to vote at General Meetings, to ask for explanations and to receive answers to questions about matters concerning the Company and to submit proposals and counterproposals. A shareholder is entitled to receive a portion of the Company's profit (i.e. dividends) and a shareholder may not demand the refund of its investment contribution during the existence of the Company or even in the event of its dissolution. If the Company goes into liquidation, the shareholders are entitled to a share on liquidation estate.

**(iv) Description of the decision-making process and the basic scope of powers of the issuer's general meeting or a similar meeting of owners of securities representing participation in the issuer:**

The General Meeting is the supreme body of the Company. It makes decisions on all matters of the Company that fall within its powers pursuant to the Articles of Association or pursuant to generally binding legal regulations.

The powers of the General Meeting particularly include the power to make decisions on changes to the Articles of Association, decisions on the increase or reduction of the registered capital, decision on approval of the financial statements, decisions on the issue of bonds, decisions on the winding up of the Company and its going into liquidation, and decisions on merger, transfer of business assets to one shareholder, de-merger or on the conversion of the legal form.

Furthermore, it is within the powers of the General Meeting to elect and recall members of the Company's statutory bodies, to approve agreements on the performance of an office by the members of such bodies and their remuneration, to decide on the listing of the participating securities of the Company under another act or their withdrawal from trading on a regulated market, to decide on entering into agreements the subject matter of which is the transfer of business or part of it or its lease, to approve acts performed on behalf of the Company before its incorporation as defined in Section 64 of the Commercial Code, to approve controlling agreements, agreements on the transfer of profit and silent partnership agreements and any changes to such agreements, to create non-mandatory reserves of the Company and to decide on the procedure for the creation and use of such reserves, to decide on changes to the rights related to individual classes of shares, as well as on changes to the class, form and nature of shares, on splitting of shares or merging several shares into one share, on restrictions related to the transferability of shares, as well as to decide on the acquisition of the Company's own shares in accordance with Section 161a of the Commercial Code.

The General Meeting is quorate if shareholders owning shares with a nominal value exceeding 30% of the Company's registered capital are present. Unless the Commercial Code or the Company's Articles of Association require otherwise, the General Meeting's decisions must be adopted by a simple majority of the votes of the shareholders present. Voting is performed by a show of hands unless decided otherwise by the General Meeting. Proposals submitted by the Board of Directors or the Supervisory Board are voted on first. If such proposals are not adopted, shareholders' counterproposals are voted on.