REPORT OF THE BOARD OF DIRECTORS ON THE COMPANY'S BUSINESS ACTIVITIES FOR THE ACCOUNTING PERIOD OF 2009

Philip Morris ČR a.s. ("PMCR") 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, Petra* and *Sparta* in more than fifty packaging variants across different taste and price segments.

PMCR is an affiliate of Philip Morris International, Inc. ("PMI"). PMCR has a 99% interest in Philip Morris Slovakia s.r.o. ("PMSK") registered in the Slovak Republic.

The report of the Board of Directors is based on the consolidated financial statements of PMCR and PMSK prepared in accordance with International Financial Reporting Standards (IFRS).

Consolidated Highlights (CZK million)

	Year ended December 31	
	2009	2008
Revenues, net of excise tax and VAT	11 690	9 749
Profit from operations	3 206	2 330
Pre-tax income	3 182	2 179
Net Income	2 506	1 693
Earnings per share (CZK)	913	616
Shipments (Bio units)		
Czech Republic	10.9	9.5
Slovakia	3.9	4.1
Exports	13.8	14.4
Total	28.6	28.0

Consolidated Financial Results

Revenues, net of excise tax and VAT, of CZK 11.7 billion increased 19.9% versus the prior year driven primarily by favourable volume and pricing in the Czech Republic and favourable currency of CZK 0.4 billion, partially offset by unfavourable volume/mix in Slovakia and by lower cigarette export volume to other PMI affiliates within the European Union. Excluding the impact of currency, net revenues increased 15.9% versus the prior year.

Profit from operations increased 37.6% to CZK 3.2 billion versus the prior year, driven primarily by the favourable volume and pricing in the Czech Republic noted above, favourable currency of CZK 0.1 billion, partially offset by higher fixed manufacturing and operating costs. Excluding the impact of currency, profit from operations increased 34.9% versus the prior year.

Pre-tax income increased 46.0% to CZK 3.2 billion reflecting in addition to the items noted above, significantly lower interest expense related to the financing of PMSK's 2009 inventory build-up driven mainly by lower interest rates in 2009 versus the prior year.

Net income increased 48.0 % to CZK 2.5 billion reflecting in addition to the items noted above, a decrease in the corporate income tax rate in the Czech Republic from 21% in 2008 to 20% in 2009.

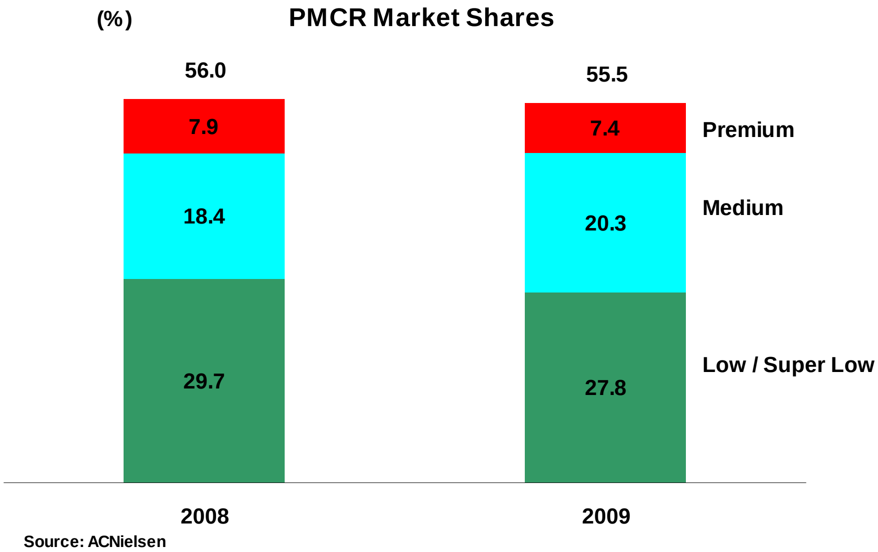
Business in the Czech Republic

Domestic revenues, net of excise tax and VAT, increased 49.7% versus the prior year, mainly due to favourable volume of CZK 0.6 billion driven by the 2007 trade inventory movements, in anticipation of the January 2008 excise tax increase, which were not repeated in 2009, as well as favourable pricing of CZK 1.3 billion, including a tax absorption cost of CZK 0.7 billion in 2008.

According to internal estimates of PMCR, the total market in the Czech Republic was up by 35.0% to 21.7 billion units in 2009 versus the prior year, reflecting the 2007 trade inventory movements noted above. Adjusted for this distortion, the total market is estimated to have declined 5.9%, due mainly to tax-driven price increases in the third and fourth quarters of 2008 and industry price increases in 2009.

PMCR's Czech domestic shipments increased 15.2% versus the prior year, reflecting depressed 2008 sales driven by the impact of the 2007 trade inventory movements noted above. Adjusted for these inventory distortions, shipments are estimated to have declined by 4.8% or 0.6 billion units versus the prior year primarily reflecting the lower total market as described above.

According to Retail Audit research conducted by the ACNielsen agency, PMCR's market share in the Czech Republic declined 0.5 share points from 56.0% in 2008 to 55.5% in 2009. This decline was due mainly to the impact of earlier price increases versus competitors in 2008 and 2009 with share losses incurred by PMCR's premium and low/super-low priced brands, partially offset by the strong performance of *L&M* in the medium-price segment.



In addition to PMI brand cigarettes, as part of the cooperation between PMI and the China National Tobacco Corporation ("CNTC"), in the Czech Republic we distribute and sell *RGD,* a Chinese brand. Shipments of *RGD* are neither in PMCR's reported shipment volume numbers nor in the reported market share.

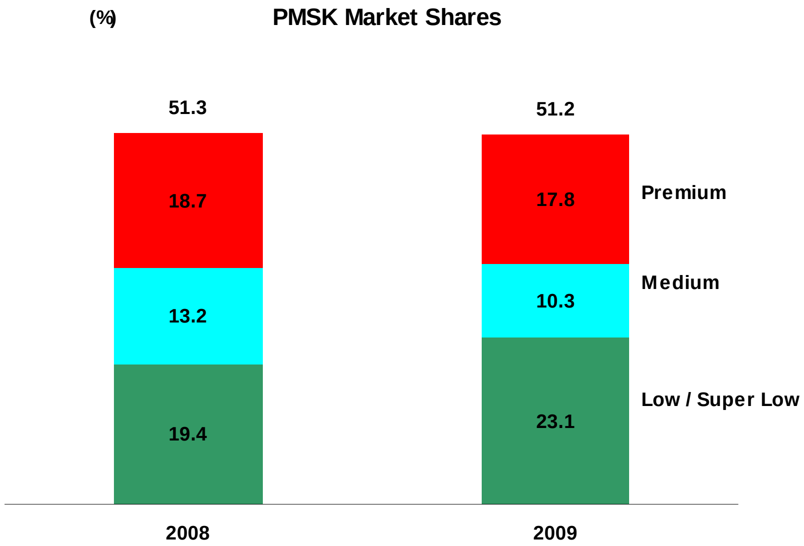
Business in Slovakia

PMSK's revenues, net of excise tax and VAT, declined 11.1% versus the prior year in local currency terms mainly due to unfavourable volume/mix of EUR 8.3 million, and unfavourable pricing of EUR 1.1 million driven primarily by partial absorption of the January 1, 2008 excise tax increase on *Marlboro*.

According to internal estimates of PMSK, the total cigarette market in Slovakia was down 4.2% to 7.7 billion units versus the prior year, mainly due to excise tax-driven price increases and a lower total market in the first quarter of 2009 reflecting higher consumption by Slovak consumers of cigarettes purchased in neighbouring countries, particularly Poland and Hungary, where currency depreciation made retail prices significantly more attractive as well as the impact of a one-off reduction of wholesale and retail trade inventories driven by working capital requirements.

According to Retail Audit research conducted by the ACNielsen agency, PMSK's market share in Slovakia declined 0.1 share points from 51.3% in 2008 to 51.2% in 2009 due to consumer down-trading as well as the prolonged availability of lower-priced competitive brands at old excise tax rates in the first quarter of 2009 with share losses incurred by PMSK's local heritage brands, partially offset by the strong performance of *L&M* in the low/super-low price segment.

PMSK's shipments declined 4.5% versus the prior year for the same reasons in addition to the lower total market as described above. Since the depletion of lower-priced competitive brands at old excise tax rates, PMSK's market share is showing signs of growth as market share for the last six months of 2009 was 52.4%.



Source: ACNielsen

In addition to PMI brand cigarettes, as part of the cooperation between PMI and CNTC, in Slovakia we continue to distribute and sell *RGD*, a Chinese brand. Shipments of *RGD* are neither in PMSK's reported shipment volume numbers nor in the reported market share.

Exports

Export revenues increased slightly by 0.7% versus the prior year, due to favourable currency of CZK 0.2 billion and higher exports of supplies, partially offset by lower export shipments of cigarettes to other PMI affiliates within the European Union. Excluding the impact of currency, export revenues decreased 4.8% versus the prior year.

Strong and Effective Regulation

PMCR supports strong and effective tobacco regulation and fiscal policies governing the manufacture, marketing, sale, and use of tobacco products. Our support of effective regulation and related fiscal policies is one element of the broader goal of harm reduction. Our support of regulations that are aligned with the public health objective of reducing harm caused by tobacco products does not, however, mean that we support each and every proposal made by public health groups. As a guiding principle, we will not support regulations that would deprive us of our ability to compete fairly with other manufacturers or deprive adult consumers of the ability to buy and use tobacco products. In this regard, we do not support the growing call for product display bans and plain packaging, which not only rely on unproven evidence, but which also ignore the potential unintended consequences of such actions, particularly with regard to illicit trade. More information can be found at http://www.productdisplayban.com/ and http://www.plain-packaging.com/ .

Responsibility

For us, as a tobacco company, responsibility begins with our products. Therefore, we remind people about the dangers of smoking and we do what we can to keep cigarettes away from children. Our position towards youth smoking is straightforward: we do not want children to smoke. And we take actions to be a part of the solution. In the Czech Republic we take part in the activities of the association Alliance Law 18 (www.aliance18.cz) whose aim is to promote legislation prohibiting the sale of tobacco products to persons under the age of eighteen and to monitor and enforce retailer compliance with age limits.

PMSK continued to support its Age Matters retail access youth smoking prevention program launched in 1998. The program aims to prevent the access of minors to tobacco products and to motivate retailers to comply with minimum age legislation for purchasing tobacco products. In 2009, the focus of the program was again to create public awareness via a billboard campaign.

Contributions

Over the past seventeen years, PMCR has contributed significantly to activities in the areas of charity. Examples of our successful involvement include the Philip Morris Charitable Fund (www.dobrocinnyfond.cz), which provides grants to non-governmental organizations both at a national and regional level. The Academy of Social Entrepreneurship (www.socialnipodnikani.cz) supports individuals from the NGO sector in obtaining business related qualifications with the goal of improving the long-term financial viability of their non-profit organizations. In 2009, PMSK focused its charitable contributions on the reconstruction of classrooms to support education.

Outlook

In October 2009, the Czech Parliament approved an increase in VAT and excise taxes. The higher VAT rate became effective January 1, 2010 while the new excise tax rates became effective February 1, 2010. The new VAT and excise tax rates will begin to be reflected in retail selling prices in the second quarter of 2010 and may potentially result in a contraction of the Czech duty paid cigarette market and a potential consumer shift to lower priced products.

In Slovakia, although the outlook for excise taxes in 2010 is favourable, the February 1, 2009 excise tax increase, which began to be reflected in retail selling prices in the fourth quarter of 2009, may potentially result in a contraction of the Slovak duty paid cigarette market and a potential consumer shift to lower priced products.

On February 16, 2010 the Council of the European Union adopted a new EU Directive 2010/12/EU amending EU Directives on taxation of tobacco products. Among other changes, the Directive calls for an increase of the minimum excise yield rule to EUR 90 per 1,000 cigarettes by January 1, 2014. According to the EU Commission's excise tax tables, the current excise tax yields using currently effective excise tax rates are EUR 79 (or CZK 2,010) per 1,000 cigarettes in the Czech Republic and EUR 81 per 1,000 cigarettes in Slovakia.

While the fragile economic recovery, particularly with regard to unemployment, results in some uncertainty making it particularly difficult to predict any potential exposure to an increase in illicit trade or to changes in consumer behaviour, we are confident that our continued focus on product innovation will be a driving force behind the success of our portfolio of leading brands, such as the continued rollout of the new *Marlboro* architecture.

Forward-Looking and Cautionary Statements

We may from time to time make written or oral forward-looking statements, including statements contained in filings with the Czech National Bank or other authorities, in reports to shareholders and in press releases and investor webcasts. You can identify these forward-looking statements by use of words such as "strategy", "expects", "continues", "plans", "anticipates", "believes", "will", "estimates", "intends", "projects", "goals", "targets" and other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements and whether to invest in or remain invested in PMCR securities.

We confirm that to the best of our knowledge the annual report and the consolidated annual report gives a true and fair view of the financial situation, business activities and economic results of Philip Morris ČR a.s. and its consolidated group for the last accounting period, and prospects for the future development of its financial position, business activities and economic results.

In Kutná Hora on March 22, 2010

Alvise Giustiniani	Daniel Gordon
Chairman of the Board of Directors	Member of the Board of Directors
Philip Morris ČR a.s.	Philip Morris ČR a.s.