

CONFIDENTIAL/BUSINESS SECRETS

**PHILIP MORRIS INTERNATIONAL INC.'s
SEVENTH ANNUAL CERTIFICATION OF COMPLIANCE**

pursuant to

**THE ANTI-CONTRABAND AND ANTI-COUNTERFEIT
AGREEMENT AND GENERAL RELEASE**

among

**PHILIP MORRIS INTERNATIONAL INC.,
PHILIP MORRIS PRODUCTS INC.,
PHILIP MORRIS DUTY FREE INC., and
PHILIP MORRIS WORLD TRADE SARL**

**THE EUROPEAN COMMUNITY
REPRESENTED BY THE EUROPEAN COMMISSION**

and

**THE REPUBLIC OF AUSTRIA,
THE KINGDOM OF BELGIUM,
THE REPUBLIC OF BULGARIA,
THE REPUBLIC OF CYPRUS,
THE CZECH REPUBLIC,
THE KINGDOM OF DENMARK,
THE REPUBLIC OF ESTONIA,
THE REPUBLIC OF FINLAND,
THE FRENCH REPUBLIC,
THE FEDERAL REPUBLIC OF GERMANY,
THE REPUBLIC OF GREECE,
THE REPUBLIC OF HUNGARY,
IRELAND,
THE ITALIAN REPUBLIC,
THE REPUBLIC OF LATVIA,
THE REPUBLIC OF LITHUANIA,
THE GRAND-DUCHY OF LUXEMBOURG,
MALTA,
THE KINGDOM OF THE NETHERLANDS,
THE REPUBLIC OF POLAND,
THE PORTUGUESE REPUBLIC,
ROMANIA,
THE SLOVAK REPUBLIC,
THE REPUBLIC OF SLOVENIA,
THE KINGDOM OF SPAIN,
THE KINGDOM OF SWEDEN, and
THE UNITED KINGDOM**

June 24, 2011

CERTIFICATION OF COMPLIANCE

Pursuant to Section 2.02(a) of the Anti-Contraband and Anti-Counterfeit Agreement and General Release dated as of July 9, 2004 (the "Agreement"), Philip Morris International hereby provides the European Community and the Member States of the European Union that are signatories to the Agreement (the "Relevant Administrations")¹ with this report (the "Certification of Compliance") describing Philip Morris International's fulfillment of the requirements of (i) the EC Compliance Protocols, which are set forth in Appendix B of the Agreement, and (ii) the Tracking and Tracing Protocols, which are set forth in Article 5 and Appendix D of the Agreement (the "Certified Protocols").

Philip Morris International continues to be extremely pleased with the operation of the Agreement. We believe that the high level of cooperation that has characterized the conduct of the Parties pursuant to the Agreement has been greatly beneficial to the interests of all Parties by creating an effective framework for curbing the illegal sale and distribution of contraband and counterfeit Cigarettes in the European Union, which causes significant harm to all Parties.

In order to prepare this Certification of Compliance, Philip Morris International's Chief Compliance Officer & Vice President Brand Integrity reviewed Philip Morris International's obligations under the Certified Protocols and conducted an assessment of its compliance therewith, which included obtaining supporting certifications from those within Philip Morris International who are responsible for implementation of the actions required under the Certified Protocols, and has relied on those certifications in making this Certification of Compliance.

Based on such review, Philip Morris International hereby confirms that it is in substantial compliance with its obligations under the Certified Protocols. To the extent that any matters remain outstanding, they are being addressed and are not considered to be significant, OLAF has been informed of these issues, and/or they are more fully described in Section II of this Certification. Section I below, which describes Philip Morris International's compliance with specific obligations of the Agreement, should be read subject to that general qualification.

¹ The definitions of the capitalized terms used in this Certification of Compliance can be found in Section 1.01 of the Agreement.

I. COMPLIANCE WITH SPECIFIC OBLIGATIONS

A. Appendix B Obligations – EC Compliance Protocols

Protocol 2 – Know Your Customer Obligations and Due Diligence

In accordance with the terms of Protocol 2 of Appendix B of the Agreement, Philip Morris International:

- conducts business only with Approved Contractors;
- sells Cigarettes in amounts commensurate with the Retail Demand in the Intended Market of Retail Sale and refuses to sell Cigarettes in volumes exceeding that amount;
- has conducted Due Diligence on all of its Contractors;
- conducts business only with Contractors that have demonstrated that they are able and committed to meeting the objectives of the EC Compliance Protocols; and
- maintains a list of all Approved Contractors, which is updated every six months, and maintains files containing its records of Approved Contractors.

Protocol 2 – Follow-Up Due Diligence

Pursuant to Protocol 2.03(g), (h) and (i), Philip Morris International has conducted annual Follow-up Due Diligence for each Approved Contractor.

Protocol 3 – Approved Contractor Relations and Sales Terms

Philip Morris International has made commercially reasonable efforts to enter into contractual arrangements with all Approved Contractors regarding delivery terms, packaging, legal compliance, and cooperation with Governments as set forth in Protocol 3.01(a)-(d), and in almost all cases, such terms and conditions have been agreed. Where they have not, Philip Morris International will continue its commercially reasonable efforts to have such terms and conditions implemented.

Philip Morris International strongly encourages its First Purchasers to cooperate with the Relevant Administrations for the purposes of investigating Cigarette smuggling and/or money laundering of proceeds arising out of the illegal trade in Cigarettes, in accordance with Protocol 3.02, although to date it has not received any formal request under the Agreement that it encourage such cooperation from the Relevant Administrations.

Protocol 4 – Termination of First Purchasers

Philip Morris International has not had occasion to terminate business relations with Approved Contractors in accordance with Protocol 4.01 or Protocol 4.02.

Protocol 5 – Accountability for Payments for Cigarettes

For transactions with Approved Contractors relating to the sale, storage, or distribution of Philip Morris Cigarettes, Philip Morris International limits acceptable forms of payment to those listed in Protocol 5.01(a)(i)-(v), and all exceptions to these acceptable forms of payments have been approved by or are currently under review by the Chief Financial Officer of Philip Morris International or his delegates in accordance with Protocol 5.01(b).

Protocol 6 – Disclosure of Information

Philip Morris International has not had occasion to respond to formal requests by OLAF for information covered by Protocols 6.01, 6.02, and 6.03.

Protocol 7 – International Compliance Officer

Philip Morris International has created the position of Chief Compliance Officer and Vice President Brand Integrity, which reports directly to senior management of Philip Morris International, in accordance with Protocol 7.01.

██████████ was appointed ██████████ Compliance Officer & ██████████ Brand Integrity on July 1, 2010. His responsibilities include oversight of compliance and integrity programs, compliance training programs, investigating allegations of violations of compliance policies, Philip Morris International's obligations and responsibilities under the Agreement, and periodic reporting to the Chairman & CEO of Philip Morris International and his senior management team.

Protocol 8 – Shipments to Warehouses and Early Warning Notification

Philip Morris International has not had occasion to respond to requests by OLAF for information covered by Protocol 8.01 of Appendix B of the Agreement. Philip Morris International complies with the early warning system notification requirements of Protocol 8.02.

Protocol 9 – Delegation of Authority

Philip Morris International delegates substantial discretionary authority relating to the sale, distribution, storage, and shipment of Philip Morris Cigarettes only to Philip Morris International employees it believes are able and committed to act in full compliance with the EC Compliance Protocols, in accordance with Protocol 9.01.

Protocol 10 – Performance Reviews

The process for performance reviews, compensation, and promotions of Philip Morris International employees whose activities relate to the sale, distribution, storage, and shipment of Philip Morris Cigarettes takes into account such employees' performance in connection with the EC Compliance Protocols, in accordance with Protocol 10.01.

Protocol 11 – Training Programs

Philip Morris International has designed training programs for its employees whose activities involve the sale, distribution, storage, and shipment of Philip Morris Cigarettes, and such employees have either conducted or participated in these training programs. Philip Morris International has notified OLAF of the curriculum for training programs, including annual refresher programs and, of the implementation of its web-based training course on Fiscal Compliance and the EC Agreement which it implemented in 2007.

For the present certification period, training will consist of a web-based training course which has been jointly developed with another manufacturer. Philip Morris International anticipates that all of its employees pursuant to Protocol 11 will have completed the training program within two months of the date of this Certification or soon thereafter. Should OLAF wish to view the program material, Philip Morris International will provide a copy of the material upon request.

Protocol 12 – Monitoring and Auditing Systems

Philip Morris International has developed Anti-Contraband and Anti-Counterfeit Monitoring and Auditing Systems and designated Fiscal Compliance Coordinators to be responsible for implementing these systems in their business units, in accordance with Protocol 12.01.

Protocol 13 – Reporting of Suspicious Activity

Philip Morris International requires that employees report suspected violations of the EC Compliance Protocols and has created a Reporting System that permits anonymous reporting of suspected violations of the EC Compliance Protocols, in accordance with Protocol 13.

With respect to Protocol 13.04, Philip Morris International has not received any request from OLAF to interview employees or agents of Philip Morris International for purposes of giving sworn statements relating to matters covered by the Agreement.

Protocol 14 – Distribution of Protocols

Philip Morris International has made the EC Compliance Protocols available to all Philip Morris International employees on Philip Morris International's internal website, and has revised and consolidated its policies on the sale, distribution, storage, and shipment of Philip Morris Cigarettes and has also made such policies available on its internal website.

B. Appendix D Obligations – Tracking and Tracing Protocols

Protocol 2 – Pack and Carton Marking and Coding

In accordance with the terms of Protocol 2 of Appendix D of the Agreement and the Exhibits thereto, Philip Morris International:

- marks Packs and/or Cartons of Philip Morris Cigarettes with markings that permit a determination of the Intended Market of Retail Sale for

Parks or Cartons that have those markets identified in Exhibit A-1 as the Intended Market of Retail Sale;

- has notified OLAF of those changes that will have to be made to Exhibits A-1, A-2 and A-4 to reflect labeling changes with respect to: markets where Philip Morris International had started selling, or is about to launch, its products; markets where Philip Morris International had recently ceased selling its products; markets for which unique market-specific labeling had previously not been in place but is now being applied; and certain other labeling clarifications and modifications;
- has provided OLAF on-February 21, 2011, with updated copies of the manual designed to allow for the determination of the Intended Market of Retail Sale for Philip Morris Packs and Cartons;
- except as indicated in Exhibit A-3 and Protocol 2.05, marks all Packs or Cartons with markings that allow for the identification of the product's manufacture date, manufacturing facility, machine of manufacture, and production shift of manufacture;
- has notified OLAF of those changes that will have to be made to Exhibit A-3 to reflect the termination of certain business relationships and the implementation of pack and carton coding at recently acquired manufacturing facilities;
- has implemented or will implement the Pack and/or Carton Marking requirements of Protocol 2.03 for new manufacturing facilities it has acquired since July 9, 2004 within 12 months of the acquisition; and
- marks Pack and/or Cartons of Duty Free Philip Morris Cigarettes with markings, codes or other information which permit a determination of the country or region in which Philip Morris International intends such Cigarettes to be sold duty-free, in accordance with Exhibit A-5(I)(A)-(D). For the reasons set forth in our April 25, 2007 letter to [REDACTED] of OLAF, Philip Morris International is using the EU duty-free labeling for Cigarettes sold duty free on military bases.

Protocol 3 – Master Case Labeling and Scanning

In accordance with the terms of Protocol 3 of Appendix D of the Agreement and the Exhibits thereto, Philip Morris International:

- marks Master Cases containing Cigarettes produced for the markets and/or by the manufacturers listed in Exhibits B-I, B-II, B-III, and B-IV with a barcode label and a human readable translation;
- scans Master Cases containing Cigarettes produced by Philip Morris International for the Tier I, Tier II (including Cigarettes produced by Third Party Manufacturers), and Tier III Markets listed in Exhibit C-II, C-III, and C-IV;
- as discussed in Philip Morris International's Sixth Annual Certification of Compliance (the "2010 Certification"), continues to produce Kretek cigarettes in Indonesia subject to a temporary exception to the Master Case labeling and scanning requirements of the Tracking and Tracing Protocols of the Agreement;

- as discussed in the 2010 Certification, uses common Pack and Carton markings for duty-free products in the following countries: United Arab Emirates, Kuwait, Bahrain, Qatar, Oman, Yemen, and Ethiopia. Although duty-free sales in these markets exceeded one billion units in 2008, the United Arab Emirates, Kuwait, Bahrain, Qatar, and Oman are members of the GCC Customs Union; Yemen's addition to the GCC has been under consideration for some time. For these reasons, Philip Morris International applied uniform packaging to Packs and Cartons sold in these markets pursuant to Exhibit A-5 of Appendix D. The transition of the Ethiopian market to the duty-free Pack and Carton markings that currently apply to Africa duty-free products is expected to be complete by the end of 2011. Until the completion of this transition period, certain brands remain unavailable with Africa duty-free Pack and Carton markings; as a result, Philip Morris International expects to sell approximately 16 million cigarettes marked with GCC duty-free Pack and Carton markings in the Ethiopian market in 2011.
- as noted in the 2010 Certification, has shipped to markets other than their original Intended Market of Retail Sale limited quantities of certain variants in order to test for market demand for these brands, correct an out of stock situation or to deplete stocks, including since the 2010 Certification:
 - to Azerbaijan 750,000 Cigarettes of the *PARLIAMENT SUPER SLIMS* brand originally intended for the Russian duty free market;
 - to the Lebanon duty-free market approximately two million Cigarettes of *CHESTERFIELD* originally intended for the African duty-free market;
 - to Turkey approximately 24 million Cigarettes of the *L&M* brand originally intended for the duty-free markets of Central Europe South, Eastern Europe and Central Asia;
 - to the Japan shipping duty-free market approximately 12 million Cigarettes of *L&M* originally intended for the Singapore shipchandlering market.

These shipments were approved by the Managing Director for duty-free sales and determined by him to pose little risk of diversion.

- as advised in the 2010 Certification and as per our letter dated May 12, 2010 to [REDACTED] of OLAF sold to the Afghanistan duty-free market approximately 99 million Cigarettes of *MARLBORO* originally intended for the Iraq duty-free market because of insufficient demand for certain products in the Iraqi market;
- implemented in 2008 at new facilities labeling of Master Cases containing Cigarettes with Bangladesh as their Intended Market of Retail Sale. Because of technical difficulties with printing equipment beginning in August 2009, duplicate machine readable barcode labels were produced as well as labels with low print quality that were not consistently machine readable, although human readable barcode label content remained in compliance during this period. Replacement equipment has been received, and all Master Cases are now receiving labels meeting the requirements of Appendix D;

- following the acquisition of the rights to *PETTEROES* brand Cigarettes from British American Tobacco Norway on February 19, 2009, employed commercially reasonable efforts to transition to EU-specific markings for Pack and Cartons of *PETTEROES* brand Cigarettes as required by Appendix D which was completed in February 2011;
- plans to request an exception from the Master Case scanning requirements of Appendix D for *PETTEROES* brand Roll-Your-Own Cigarettes produced in Germany and Denmark and shipped directly to customers from a British American Tobacco entity;
- following the acquisition of several Roll-Your-Own brands from Imperial Tobacco, employed commercially reasonable efforts to implement the requirements of Appendix D at the third-party manufacturing facilities in Menen and Joure that produce these brands. The Menen facility is now compliant with the Master Case labeling of Appendix D. Philip Morris International's contract with its third-party manufacturer in Joure is expected to be terminated by September 2011;
- has planned during 2011 to established a back-up system for Master Case scanning following a disruption in Master Cases scanning in the Polish domestic market lasting two weeks in duration due to a technical breakdown in the scanning system; customer data was not captured during this period for approximately 151,000 Master Cases;
- has employed commercially reasonable efforts to implement the requirements of Appendix D for its Roll-Your-Own brands produced in South Africa, and anticipates that a plan outlining the steps necessary for full compliance in the market will be prepared by August 2011;
- has notified or will notify OLAF of changes that will have to be made to Exhibits C-I, C-II, C-III, and C-IV to reflect markets in which Phillip Morris International had changed its distribution system from selling to a single first purchaser to selling to multiple first purchasers or vice versa; certain changes resulting from Philip Morris International's entry into new markets and its exit from some existing markets; modifications to its pack and carton labeling in existing markets; and exemptions sought by Philip Morris International for certain Cigarettes in certain markets;
- maintains a First Purchaser Database that is searchable by customer order or Master Case barcode number for all Tier I, Tier II (including Third Party Manufacturers), and Tier III Markets listed in Exhibits C-II, C-III, and C-IV of the Tracking and Tracing Protocols which contains the product information specified in Protocol 3.03(a)(i)-(vi);
- maintains the electronic records created in the First Purchaser Database, as well as additional records necessary to identify the sales price and the Intended Market of Retail Sale; and
- has enabled the functionality that provides the Relevant Administrations with automated Query-Only Access to the data in the First Purchaser Database.

Protocol 4 – Second Layer Tracking

In accordance with the terms of Protocol 4 of Appendix D of the Agreement, Philip Morris International:

- has developed and continues to improve Second Layer Tracking Kits, makes such kits reasonably available to any First or Subsequent Purchasers in the circumstances identified in Protocol 4.02 of Appendix D of the Agreement, and provides training to recipients of Second Layer Tracking Kits (the kits are provided on a voluntary basis and are controlled by the customers); and
- requires that Second Layer Tracking information be maintained in the same manner as the First Purchaser Database and has enabled the functionality that provides the Relevant Administrations with access to the Second Layer Tracking information in the same manner as the First Purchaser Database.

Ongoing Research into Tracking and Tracing Technologies

In accordance with Protocols 3.01(c), 5.02, and 7.01 of Appendix D of the Agreement, Philip Morris International maintains an ongoing program of researching technologies for Master Case labeling and scanning, as well as for Carton and/or Pack coding and scanning technologies. As a result of this ongoing research program, Philip Morris International's introduction of its CODENTIFY technology for the tracking of Cartons has progressed beyond the initial research and development stage, and is expected to complete the industrialization stage during 2011, where it is being monitored for issues in real-world deployment and tested for potential improvements. Following completion of this stage, the roll-out of the CODENTIFY technology will continue, with the focus shifting toward the types of refinements in standardization and compliance that will be necessary to integrate it into more production centers. Currently, the technology is in use at nine centers, representing approximately 15% of the Company's production capacity. The CODENTIFY technology permits Philip Morris International to track Cartons by associating Cartons with their original Master Case, and has proven highly effective in tracking seized cartons back to their associated Master Cases in markets encountering diversion. Pack tracking and authentication technologies, currently in the research and development stage, also remain a focus of Philip Morris International's research programs.

II. SPECIFIC ISSUES

Representatives of Philip Morris International have discussed several issues with representatives of OLAF that relate to the operation of the Agreement and the movement of Cigarettes in various markets. We believe that these discussions have been very constructive and have greatly contributed to the overall success of the Agreement to date. We look forward to continuing to address in a cooperative manner the matters that have already been raised and to working with the other Parties to the Agreement to tackle new issues as they arise. Certain issues that have been the subject of previous discussions between Philip Morris International and OLAF are summarized below. Such summary

is not intended to be exhaustive of the issues that have been discussed between Philip Morris International and OLAF or between Philip Morris International and the Relevant Administrations.

Diversion Issues in the Russian Market

As noted in the 2010 Certification, because diversion from the Russian domestic market continues, Philip Morris International has undertaken a variety of additional measures in order to better identify possible sources of diversion in the distribution chain. Those efforts continue and include:

- implementation by Philip Morris International's First Purchaser in the Russian market of quotas on shipments of certain variants to Subsequent Purchasers operating in areas that have been identified as potential sources of diversion;
- strict measures to monitor sales volumes and consumer demand;
- enhanced Know-Your-Customer ("KYC") requirements for all Subsequent Purchasers who sell annually more than 10 million units of Philip Morris Russian domestic product;
- installation of the u-Track System at customers' Regional Sales Depots, which has allowed for improvements in the tracking of the movement of product among First and Subsequent Purchasers in the Russian market;
- introduction of CODENTIFY for certain brands, which permits carton tracking and tracing and will enhance the ability to identify subsequent purchasers of diverted products; and
- regular audits of the tracking data.

As a result of its efforts in this area, Philip Morris International is pleased to report that the total volume of seizures in the EU of genuine Russian-sourced product subject to Supplemental Payments decreased in 2010. As of May 31, 2011, the volume of 2010 seizures in the EU of genuine Russian-sourced product subject to Supplemental Payments was approximately 74% less than the volume of such seizures in 2009.

Diversion Issues in the Ukrainian Market

As previously explained also in the 2010 Certification, Philip Morris International has undertaken additional efforts to interdict the diversion of product from the Ukrainian market to higher tax markets in the EU. These steps include, among others:

- deployment of a new volume monitoring initiative for Subsequent Purchasers called CESAR (Customer Extended Sales Report) as well as sales quotas on certain brands in the Ukrainian market;
- strict measures to monitor sales volumes and consumer demand;

- installation of the u-Track System at each of its First Purchasers in the market;
- introduction of CODENTIFY in the Ukrainian market; and
- regular audits of the tracking data.

As a result of its efforts in this area, Philip Morris International is pleased to report that the total volume of seizures in the EU of genuine Ukrainian-sourced product subject to Supplemental Payments decreased in 2010. As of May 31, 2011, the volume of 2010 seizures in the EU of genuine Ukrainian-sourced product subject to Supplemental Payments was approximately 89% less than the volume of such seizures in 2009.²

III. CONCLUSION

Philip Morris International is pleased to confirm that, as described above, it is in substantial compliance with the obligations of the Certified Protocols and looks forward to continuing the excellent cooperation that has characterized the conduct of the Parties and the functioning of the Agreement in furtherance of the Parties' joint efforts to substantially curb the illegal trade in Cigarettes in the European Union and elsewhere.

PHILIP MORRIS INTERNATIONAL INC.

By:

A large black rectangular redaction box covering the signature and name of the representative of Philip Morris International Inc.

Philip Morris International Inc.

² Relevant facts relating to the others matters discussed in this section of the 2010 Certification remain unchanged. Please refer to the 2010 Certification for a full description of Philip Morris International's continuing efforts with regard to these matters.