

CONFIDENTIAL/BUSINESS SECRETS

**PHILIP MORRIS INTERNATIONAL INC.'s
THIRD 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, and
THE KINGDOM OF SWEDEN**

July 9, 2007

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").

Once again this year, Philip Morris International is extremely pleased with the operation and functioning 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 Vice President for Compliance and 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 or will soon be 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 with two immaterial pending exceptions relating to Protocol 5.01 (a)(iv) which will be approved by July 31, 2007, all exceptions to these acceptable forms of payments have been approved 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 Vice President for Compliance Systems, which reports directly to senior management of Philip Morris International, in accordance with Protocol 7.01.

██████████ became ██████████ for Compliance Systems on December 1, 2004. 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 President & CEO of Philip Morris International and his management team. On December 1, 2006, the Company added Brand Integrity to ██████████ responsibilities, and since then, he has been the ██████████ for Compliance and Brand Integrity.

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. In March of 2005, Philip Morris International notified OLAF of the curriculum for training programs, and on November 21, 2005, OLAF representative [REDACTED] participated in a refresher training program in accordance with Protocol 11.01.

For the present certification period, training will consist of live and online training, and 838 employees have received training in live sessions. The remainder will be trained on-line.

Philip Morris International is currently in the process of rolling out its multi-lingual, web-based training course on Fiscal Compliance and the EC Agreement, which will be the primary means for providing training on these issues to relevant employees in the future. This new training platform will allow Philip Morris International to provide uniform, coordinated, high-quality training across the globe, with the ability to easily monitor training compliance and effectively modify the program as appropriate.

For the present certification period, to date 1,631 employees have been enrolled in this training program and it is anticipated that all relevant employees will receive this new web-based training by July 31, 2007. Should OLAF wish to view the program on-line, Philip Morris International will be pleased to facilitate access 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 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, which permit a determination of the Intended Market of Retail Sale for Packs or Cartons that have those markings 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 with copies of the manual designed to allow for the determination of the Intended Market of Retail Sale for Philip Morris Packs and Cartons, as well as updates to that manual;
- 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 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 World Wide 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, we are 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 and Tier II Markets listed in Exhibit C-II and C-III;
- as per our exchange of correspondence dated October 31, 2005 and June 20, 2006, Master Case labeling and scanning of Kretek cigarettes in Indonesia are subject to a temporary exception to the tracking and tracing requirements of the Agreement;
- as per our letter dated May 21, 2007 (see Annex 1), Philip Morris International has requested an extension to June 2008 of the deadline to implement Master Case scanning and recording with respect to non-Kretek cigarettes sold by Philip Morris International in the Indonesian market;
- as per our letter dated May 22, 2006, due to the continuing unstable political situation in the Ivory Coast, Philip Morris International representatives have not been able to travel to the Ivory Coast to implement Master Case labeling at our third-party manufacturer there. However, PMI plans to terminate that relationship in the coming year and supply that market with product that meets the labeling requirements of the Agreement;
- has notified OLAF of changes that will have to be made to Exhibits C-I, C-II, and C-III 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 and Tier II Markets listed in Exhibits C-II and C-III 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 Pack coding and scanning technologies. Philip Morris International has provided OLAF with its second report concerning developments relating to these new technologies dated July 5, 2007.

II. SPECIFIC ISSUES

Over the course of the last year, 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. Five 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

Diversion from the Russian domestic market continues to be an issue for Philip Morris International and OLAF. In 2006, certain quantities of genuine Russian domestic Philip Morris Cigarettes were seized in EU markets such as Finland, Germany and Lithuania. This diversion appears to have been driven in large part by retail price disparities among Russia and other European markets and by other extrinsic market forces over which Philip Morris International has no control.

Nonetheless, to ensure that it is taking all commercially reasonable steps to make sure that its Cigarettes are sold, distributed, stored, and shipped in accordance with all applicable fiscal and legal requirements, Philip Morris International has taken a variety of short-term and long-term steps that go well beyond that which is required pursuant to the Agreement to try to curb this problem.

In the short term, Philip Morris International developed and implemented measures to better identify possible sources of diversion in the Russian market's distribution chain, and its First Purchasers have implemented product quotas on shipments of certain variants to Subsequent Purchasers operating in Moscow, St. Petersburg, Kaliningrad, Volgograd, Ekaterinberg, Voronezh, and Pyatigorsk that have been identified as likely sources of diversion.

As a longer-term strategy, enhanced Know-Your-Customer requirements have been implemented in Russia with respect to key Subsequent Purchasers, and will be fully implemented in 2008 as to all Subsequent Purchasers who sell annually more than 10 million units of Philip Morris Russian domestic product. Pursuant to these requirements, First Purchasers have taken steps including the following: (1) conducting site visits of key Subsequent Purchasers; (2) requiring such Subsequent Purchasers to sign fiscal and trade compliance letters, and (3) maintaining files that are shared with Philip Morris International on the key Subsequent Purchasers. In addition, both Philip Morris International and its First Purchasers in the Russian market perform monthly sales plan and volume monitoring.

Moreover, Philip Morris International has implemented tracking and tracing procedures and technologies that permit it to more effectively track the movement of domestic Russian product among First and Subsequent Purchasers in the Russian market. Such measures include the implementation

of: additional coding on Master Cases; the u-Track and i-Track Systems,² which permit Philip Morris International to centrally track the movement of Master Cases to Subsequent Purchasers based on the identification information that is embedded in the barcode labels attached to the outside of each Master Case; and certain Carton coding technologies.

Diversion Issues in the Ukrainian Market

As previously addressed in a February 17, 2005 email from [REDACTED] of Philip Morris International to [REDACTED] of OLAF, and also in Philip Morris International's 2005 and 2006 Certifications, Philip Morris International is aware that product demand in Ukraine is distorted by demand from neighboring EU countries and is working to prevent the diversion of product from the Ukrainian market to higher tax markets in the EU such as Poland and Germany. As previously reported, our analysis suggests that a significant portion of such diversion is occurring at the in-market retail level, over which Philip Morris International has little control. Nonetheless, to ensure that it is taking all commercially reasonable steps to ensure that its Cigarettes are sold, distributed, stored, and shipped in accordance with all applicable fiscal and legal requirements, Philip Morris International has taken a number of steps over and above the implementation of the requirements set forth in the Agreement.

For example, Philip Morris Ukraine monitors weekly sales in the Ukrainian market by customer and by brand. Philip Morris International has imposed weekly and monthly quotas for sales of the Marlboro and L&M brands, has sent letters to its customers in the Ukrainian market recommending that they adopt similar quotas, and has excluded sales of the L&M brand from its volume incentive program. In addition, Philip Morris International is deploying a pilot project designed to permit monitoring of sales volumes by customer and brand for Subsequent Purchasers through the Customer Extended Sales Report ("CESAR") system.

Philip Morris International has deployed the u-Track System (described above) for 17 First Purchasers at 46 sales points in the Ukrainian market (with priority given to customers with high L&M Master Case sales). Further, Philip Morris International has implemented certain Carton coding technologies for all L&M and Marlboro product manufactured for the Ukrainian market, and is considering expansion to other brands. Finally, by the end of 2007, Philip Morris International plans to implement more advanced carton coding technologies that are expected to allow a one-to-one link between a Carton and the Master Case in which it had been contained.

² u-Track is a tracking system/kit developed by Philip Morris International to allow Second Layer Tracking of Master Cases at customer locations. u-Track kits record the link between the Master Case unique identifier and the Ship To/Sold To information related to the subsequent customer at shipment time. It is compatible and interfaced with i-Track, the PMI central tracking database.

Negotiations with [REDACTED]

As set forth in the 2006 Certification, Philip Morris International has encountered resistance from [REDACTED] (" [REDACTED] ") to certain of Philip Morris International's fiscal compliance terms and conditions while other [REDACTED] affiliates have agreed to these terms and conditions. To remedy this problem, upon the invitation of [REDACTED] Philip Morris International representatives met with [REDACTED] representatives in Spring 2006 to propose and discuss a Master Agreement on Fiscal Compliance and Combating the Illegal Trade with Cigarettes. This agreement, which is consistent with the sales terms and conditions under Protocol 3 of Appendix B, sets forth fiscal compliance terms and conditions that are intended to govern the commercial relationships between all Philip Morris International affiliates and all [REDACTED] affiliates in [REDACTED] European markets. Unfortunately, on June 29, 2006, [REDACTED] legal department informed Philip Morris International by e-mail that [REDACTED] would not enter into such an agreement.

In July 2006, Philip Morris International continued to pursue the proposed Master Agreement with [REDACTED] (and kept OLAF informed of its progress). However, by letter dated July 28, 2006 (see Annex 2), [REDACTED] reiterated its prior refusal to enter into such an agreement. Thereafter, at the Annual Meeting between representatives of Philip Morris International and the European Commission earlier this year, the parties discussed [REDACTED] continued refusal to agree to Philip Morris International's fiscal compliance terms and conditions. At that time, it was decided that follow up with [REDACTED] was appropriate, possibly by OLAF representatives.

Negotiations with Wholesalers in Greece

Philip Morris International has made commercially reasonable efforts to subject General Wholesalers in Greece to the EC Agreement's fiscal compliance terms and conditions. To date, 30 out of 85 General Wholesalers have accepted those terms. The rest have not signed due to a pending complaint filed by their association with the Greek Competition Committee, although the terms are being applied to these wholesalers by Philip Morris International with few exceptions.

Payment Verification

As discussed in Philip Morris International's First and Second Annual Certifications of Compliance, Protocol 5.01(a)(v) of Appendix B requires that payments received for Philip Morris Cigarettes be made from a bank account designated by the Approved Contractor during the Due Diligence process. Although Philip Morris International requires every Approved Contractor to comply with Protocol 5.01(a)(v), in some instances, due to limitations on bank clearing information, Philip Morris International is unable to verify that the payments it has received were in fact made from a specific bank account. As


Philip Morris International has previously explained to OLAF, it is, however, able to verify whether payments originated from the same bank as the designated account, and will reject payments that do not.³ Philip Morris International is also requiring Approved Contractors to confirm annually in writing that their payments for the previous year were made from their designated accounts, and will seek the consent of the Approved Contractors to obtain separate confirmation in this regard from the respective banks in circumstances where there is doubt regarding an Approved Contractor's confirmation.

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: 

  
Philip Morris International Management S.A.

³ Because of banking regulations, technical limitations and other factors in certain markets (e.g., Luxembourg, Switzerland, Denmark, and Finland), there have been instances where Philip Morris International and/or its subsidiaries have been unable to verify that the payments they have received originated from the same bank as the designated account. Philip Morris International has been working closely with the relevant bank officials to resolve these issues. In most instances, a solution has been reached that provides Philip Morris International with this data, and the Company is hopeful that similar solutions will be found for the remaining outstanding situations. In any event, as mentioned in the 2005 and 2006 Certifications, Philip Morris International as a general matter requires Approved Contractors whose payment accounts cannot be verified to confirm annually in writing that their payments for the previous year were made from their designated accounts. In most instances, such confirmations have been received, and Philip Morris International is in the process of gathering the remaining confirmations.

PHILIP MORRIS INTERNATIONAL INC.'s
THIRD ANNUAL CERTIFICATION OF COMPLIANCE

ANNEX 1



May 21, 2007

BY FACSIMILE

European Anti-Fraud Office (OLAF)

Rue Joseph II 30
B-1049 Brussels

**Subject: Anti-Contraband and Anti-Counterfeit Cooperation Agreement
Tracing and Tracking Protocols – Indonesia**

Dear Ian and Austin:

We are writing to ask for an extension of the deadline to implement Master Case scanning and recording with respect to cigarettes sold by Philip Morris International in Indonesia. (Please note that we are referring here solely to traditional cigarettes and not to Kreteks cigarettes.)

As we explained in our letter to you dated October 31, 2005, in May of 2005, PMI acquired 98% of the outstanding shares of PT Hanjaya Mandala Sampoerna Tbk., a large Indonesian tobacco company with substantial operations. This acquisition resulted in a change of PMI's distribution system in Indonesia, in that we no longer sold PMI cigarettes to a single First Purchaser, but instead started distributing our products through Sampoerna's pre-existing distribution system in that market, which involved sales to multiple First Purchasers. Consequently, Indonesia had to be removed from Exhibit C-I of the Tracing and Tracking Protocols (Appendix D to the Agreement) and made a Tier II Market under Exhibit C-III, for which the deadline is July 9, 2007. In our letter dated October 31, 2005, we also noted already that we might have to contact you regarding an extension of the deadline. Unfortunately, while we believe that we have been making commercially reasonable efforts and indeed good progress with the implementation, it is now clear that the unusual scope and complexity of the project requires us to ask for more time.

The volume of PMI cigarettes covered by the project is approximately 8.5 billion sticks. It is comprised entirely of variants of the *Marlboro* brand family. These cigarettes are produced in our factory in Bekasi, West Java, from which they are shipped to over 80 different regional warehouses, either directly from the factory or via one of five transit warehouses (see attached chart). Both at the factory as well as at the relevant transit warehouses, full scanning and recording capabilities have already been implemented. This means that we are able to track the movement of each individual Master Case from the factory to any of the 80 regional warehouses.

Philip Morris International Management S.A.

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From the 80 regional warehouses, the product is then shipped to over 20,000 First Purchasers. Evidently, by any standard, this is an extremely high number of direct customers. Furthermore, Indonesia has a vast territory comprised of many islands, requiring most of our product to be delivered by small vans or boats. Indeed, covering distances of up to 4000 km, our products are delivered to all Indonesia's major islands such as Java, Sumatera, Sulawesi and Kalimantan. The scanning and recording of any Master Case shipped to the over 20,000 First Purchasers will have to be performed upon delivery at each of the First Purchaser's premises. To that end, over 1,500 sales persons are in the process of being equipped with, and trained in the use of, special handheld devices.

Importantly, product tracking in Indonesia is part of a larger, comprehensive project to replace existing multiple standalone financial, inventory, and sales systems, which for the most part are still paper based, with an automatic and integrated system for sales force automation, management of accounts receivables, inventory and other financial accounting functions, and interfacing with PMI's worldwide i-Track system for Master Case tracking. The handheld devices mentioned above are intended to enable the sales force in the field not only to scan and record Master Cases, but, for instance, also to issue invoices and to reconcile stock. To that end, it is necessary to make multiple technological applications work together seamlessly and in a dependable fashion. And all of that has to be achieved in a very large distribution chain that has practically no pre-existing technological platform.

As you can imagine, this project is very important to the business of our affiliates in Indonesia. They expect it to significantly improve the efficiency of sales and distribution as well as related back office functions. That is why PMI is investing close to US\$10 million in it. Unfortunately, we have been encountering delays in the implementation of the project due to complex interfaces and unforeseen technical difficulties. Also, the user acceptance testing program has proven to be more extensive than initially estimated. These delays affect not only our product tracking capability but also our overall ability to operate as efficiently as possible, and the project team in Indonesia is diligently working on completing the project as fast as they can.

We expect that the development and testing of the automatic and integrated system will be completed in July of this year. Once that has happened, our affiliates in Indonesia will start phasing in, one by one, the deployment of the system at each of the 80 regional warehouses. This means that product tracking information will become progressively available in the i-Track database as the system is being rolled-out across the entire market. However, the final completion of the system with full coverage of the product flow to all First Purchasers will likely not occur before the first half of next year.

Finally, as regards the diversion of genuine PMI product from Indonesia into the territory of the European Union, we believe that the risks related to such diversion are relatively low. The empty pack survey carried out in 2006 in connection with Project Star showed a very low incidence of the product in four markets – Belgium, France, Ireland and UK, with quantities between one and five packs out of up to 10,000 packs – and no incidence at all in any of the other EU markets. Apart from that, during the same time period, we have seen a total of five isolated seizures in the EU of genuine PMI cigarettes from Indonesia. These seizures were made in the UK and in Italy, with seized quantities ranging from three packs (60 cigarettes) to 2.2 million cigarettes.¹ We will, of course, continue to monitor closely any indications of smuggling of genuine PMI cigarettes from Indonesia into the EU.

We regret the delays described above and ask for your understanding that despite our efforts we will not be able to bring the sales of PMI cigarettes in the Indonesian market into compliance with the

¹ A seizure of 2.2 million cigarettes is, of course, a significant quantity, and we take this very seriously. In this case, however, the outer cardboard layer of the shipping cases (including the barcode labels) had been torn off by the smugglers, which means that as far as this particular seizure was concerned Master Case tracking would anyhow not have enabled us to learn more about the route of diversion. For more details about this seizure, please refer to our letter dated May 15, 2007 in response to your Notice of Seizure 163/0711 dated March 28, 2007.

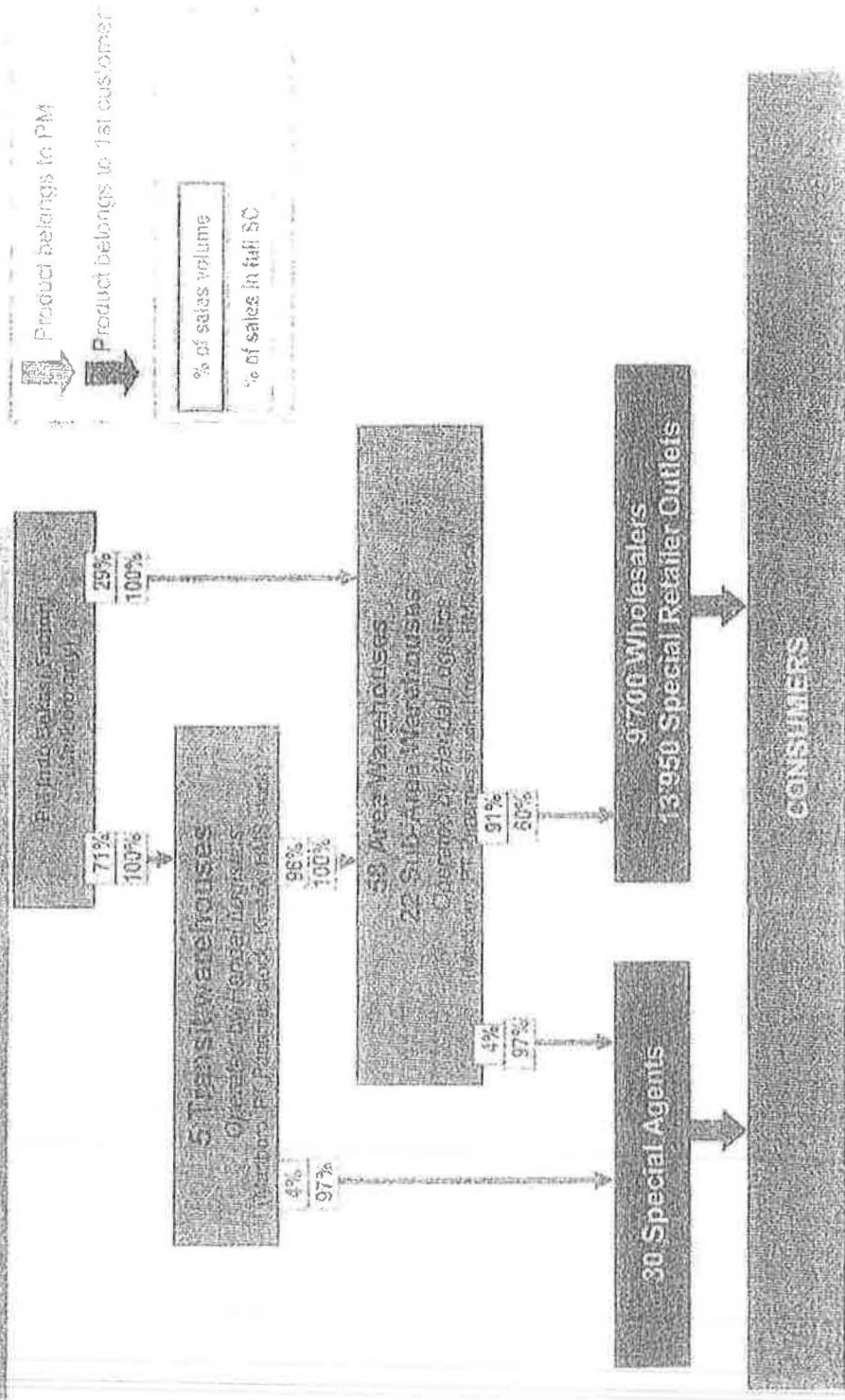
requirements of Protocol 3,02(a) and (b) by July of this year. We will keep you informed on a regular basis as to the further progress of this important project in Indonesia. If you need further details or would like to talk to one of the local project managers please let us know.

Sincerely



Enclosures

Indonesia finished product flow July 2007, white cigarettes



Data in % is based on YTD week 18th, 2007

Total estimated white cigarettes volume 2007 8.55 bto sticks (Marlboro)

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ANNEX 2

[REDACTED]

[REDACTED]

Philip Morris International Management SA

[REDACTED]
35, Route de Chavannes
P.O. Box 1143
1001 Lausanne
Switzerland

[REDACTED] July 28, 2006

Agreement on Fiscal Compliance and Combating the Illegal Trade in Cigarettes

Dear [REDACTED]
Dear [REDACTED]

We refer to your letter dated July 5, 2006 regarding the proposed Agreement on Fiscal Compliance and Combating the Illegal Trade with Cigarettes.

As already stated, we appreciate and support the initiative of Philip Morris International, the European Union and its Member States against the illicit trade in cigarettes as this is a serious issue for governments, our suppliers, and also for us.

Within [REDACTED] compliance of our companies with all applicable laws and regulations is a priority. Our compliance procedures, of course, cover all applicable laws and regulations governing the trade in cigarettes and other tobacco products or governing money laundering.

As we apply effective compliance procedures and as our sales lines sell countless products, we neither see the necessity nor do we think it would be appropriate to enter into an agreement providing for rules and governing just one specific kind of products sold by our sales lines. We are convinced that only a comprehensive and uniform approach with respect to our trade activities and the products sold by us is an efficient and appropriate way to ensure compliance with all applicable laws and regulations, including such regarding the prevention of illicit trade in cigarettes and other tobacco products or money laundering. Needless to say that of course we will cooperate with you and compliance authorities on this.

[REDACTED]

We are looking forward to continuing our successful and reliable business relationship and thank you for your cooperation.

Kind regards,



cc. [Redacted]