CONFIDENTIAL/BUSINESS SECRETS

PHILIP MORRIS INTERNATIONAL INC.'s
SECOND 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 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,
THE REPUBLIC OF IRELAND,
THE ITALIAN REPUBLIC,
THE REPUBLIC OF LATVIA,
THE REPUBLIC OF LITHUANIA,
THE GRAND-DUCHEY OF LUXEMBOURG,
THE REPUBLIC OF MALTA,
THE KINGDOM OF THE NETHERLANDS,
THE REPUBLIC OF POLAND,
THE PORTUGUESE REPUBLIC,
THE SLOVAK REPUBLIC,
THE REPUBLIC OF SLOVENIA,
THE KINGDOM OF SPAIN, and
THE KINGDOM OF SWEDEN

July 7, 2008
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") 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 Systems 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, and/or are more fully described in Section 1.0 of this Certification. Section 1 below, which describes Philip Morris International's compliance with specific obligations of the Agreement, should be read subject to that general qualification.

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:

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

Protocol 2.03(g) requires Philip Morris International to conduct Follow-up Due Diligence for each Approved Contractor on an annual basis. As previously agreed among the parties, Philip Morris International conducted its first Follow-up Due Diligence pursuant to Protocol 2.03(g), (h) and (i) mainly during the first quarter of this year.

**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 all exceptions to these acceptable forms of payments are approved by the Chief Financial Officer of Philip Morris International 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.

The current officer for Compliance Systems, Philip Morris International, has held this position since December 1, 2004. The responsibilities of the officer for Compliance Systems 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.

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 participated in a refresher training program in accordance with Protocol 11.01.
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 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 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; and

- 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.

**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;

- has notified OLAF of certain exceptions to Exhibits B-II and B-III relating to the Indonesian Market and with respect to some of the product manufactured for Philip Morris International by certain Third-Party Manufacturers;

- scans Master Cases containing Cigarettes produced for the Tier I Markets listed in Exhibit C-II;

- 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 Philip 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 Markets listed in Exhibit C-II 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

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2 In addition, 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.
• has provided 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 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; and

• requires that Second Layer Tracking information be maintained in the same manner as the First Purchaser Database and has provided 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. On November 7, 2005, Philip Morris International provided OLAF with a report concerning developments relating to these new technologies.

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. Six 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

Over the last several months, certain quantities of genuine Russian domestic Philip Morris Cigarettes have been seized in EU markets such as Finland, Denmark, Germany and Lithuania. This diversion appears to be 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 has developed and is implementing measures to better identify possible sources of diversion in the Russian market's distribution chain, and it has implemented product quotas on shipments of certain variants to Subsequent Purchasers operating at Moscow and St. Petersburg locations 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. 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 volume monitoring.

Moreover, Philip Morris International is in the process of implementing tracking and tracing procedures and technologies that will 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, 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.

Finally, Philip Morris International has significantly adjusted its Russian distribution chain so that its First Purchasers are selling more of their product directly to retailers, thereby reducing reliance on wholesalers who present a much greater risk of diversion.

**Diversion Issues in the Ukrainian Market**

As previously addressed in a February 17, 2005 e-mail from of Philip Morris International to of OLAF and also in

\[1\] 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.
Philip Morris International’s First Annual Certification of Compliance, Philip Morris International is working to prevent the diversion of product from the Ukrainian market to higher tax markets in the EU such as Poland and Germany. Our analysis suggests that such diversion is substantially 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 International monitors weekly sales in the Ukrainian market by customer and by brand. Philip Morris International has also imposed weekly and monthly quotas for the sales of the L&M brand, and it has excluded sales of the L&M brand from its volume incentive program.

In addition, Philip Morris International has implemented Carton tracking for all L&M product manufactured for the Ukrainian market as of April 24, 2006 and for all Marlboro product manufactured for the Ukrainian market as of May 1, 2006. Further, Philip Morris International is phasing in the u-Track System for all Master Cases of Philip Morris product sold in the Ukraine. A u-Track pilot test that is currently underway for certain customers will be completed soon. During the second half of 2006, Philip Morris International intends to phase in the u-Track system for Philip Morris International’s top ten customers (by Master Case volume) in the Ukrainian market.

Implementation of Master Case Labeling at Third-Party Manufacturing Facilities

Philip Morris International has implemented Master Case labeling for the vast majority of third-party manufacturing facilities ("TPMs") that manufacture Cigarettes on its behalf.

In a May 22, 2006 letter from [redacted] of Philip Morris International to [redacted] of OLAF, and by previous correspondence to OLAF, Philip Morris International has sought certain limited exceptions from the Master Case labeling requirements for six TPMs. By letter to [redacted] of Philip Morris International received on June 21, 2006, Ian Walton of OLAF requested some additional information, but indicated that these exceptions had been accepted.

Negotiations with [redacted]

Philip Morris International encountered resistance from [redacted] ("[redacted]") to certain of Philip Morris International’s fiscal compliance terms and conditions while other [redacted] had agreed to these terms and conditions. To remedy this problem, upon the invitation of [redacted] Philip Morris International representatives met with [redacted] representatives in March 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 affiliates in European markets. Unfortunately, on June 29, 2006, the legal department informed Philip Morris International by e-mail that it would not enter into such an agreement (see Annex 1). On July 5, 2006, senior management of Philip Morris International sent a letter to the CEO explaining the background of, and the need for, the fiscal compliance terms and conditions, and asking his help in getting the negotiations back on track (see Annex 2).

Negotiations with

As indicated in letters dated October 13, 2005 and January 13, 2006, from Philip Morris International to representatives of finance and customs authorities (copies of which were provided to [redacted] of OLAF), Philip Morris International's largest customer in the European market, had resisted adoption of Philip Morris International's fiscal compliance terms and conditions. To address these concerns, Philip Morris International representatives have met with their counterparts on several occasions. Based on these efforts, on June 28, 2006, [redacted] signed the fiscal compliance terms and conditions.

Payment Verification

As discussed in a March 31, 2005 e-mail from [redacted] of Philip Morris International to [redacted] of OLAF and in Philip Morris International's First Annual Certification 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, generally able to verify whether payments originated from the same bank as the designated account, and will reject payments that do not. 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.

Because of banking regulations, technical limitations and other factors in certain markets such as Luxembourg, however, 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 designated bank or the designated account. Philip Morris International has been working closely with the relevant bank officials to resolve these issues. (continued)
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.

(continued...)

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 last year’s Certification, Philip Morris International 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.
ANNEX 1
Sehr geehrter Mr. Morris,

ich komme zurück auf unser neulich geführtes Telefonat und auf die verschiedenen E-Mails in dieser Sache.


Mit freundlichen Grüßen

Best regards

Legal and Corporate Affairs


This e-mail message and any attachment are intended exclusively for the named addressee. They may contain confidential information which may also be protected by professional secrecy. Unless you are the named addressee (or authorized to receive for the addressee) you may not copy or use this message or any attachment or disclose the contents to anyone else. If this e-mail was sent to you by mistake please notify the sender immediately and delete this e-mail.
July 5, 2006

Walton
European Commission
European Anti-Fraud Office (OLAF)
Rue Joseph II 30
B-1049 Brussels

Agreement on Fiscal Compliance and Combating the Illegal Trade with Cigarettes

Dear [Name],

We are writing with reference to the Anti-Contraband and Anti-Counterfeit Cooperation Agreement among the European Community, twenty-four of its Member States, including the Federal Republic of Germany, and Philip Morris International Inc. and several of its affiliates, including Philip Morris GmbH. As you may be aware, that Agreement was signed in July of 2004, and is considered by the European Community and the signatory Member States to be the model framework for industry and governmental cooperation in the fight against the illicit trade in cigarettes. Indeed, in a press release issued last month, the Vice President of the European Commission, Mr. Slim Kallas, was quoted as saying, “This cooperation to date has exceeded all expectations and sets an example of what industry and law enforcement can do when they work together in pursuit of a common goal”. See copy of European Commission Press Release of June 6, 2006, attached.

Among the key elements of the Agreement are, again as stated in the Commission’s press release, “strong measures to: ensure complete understanding of the identity of tobacco customers and of their business (“know your customer”); further protect legitimate trade from the dangers of money laundering (“fiscal compliance”); and ensure continued appropriate information collection and sharing (“record-keeping components”).”

Philip Morris International Management S.A.
Pursuant to the Agreement, Philip Morris International has prepared and implemented globally a set of sales terms and conditions that not only satisfies the desires of the Commission and the Member States to have in place a framework for our customers to cooperate in the fight against the illicit trade, but also outlines the common understandings of seller and buyer concerning the ways in which issues related to the illicit trade will be addressed.

When our global sales terms and conditions were presented to us earlier this year, your company invited us, rather than to deal with the individual affiliates of, separately, to propose to you a “Master Agreement on Fiscal Compliance and Combating the Illegal Trade with Cigarettes.” This Master Agreement, which would have represented and symbolized global commitment to assist in the fight against the counterfeiting and smuggling of Philip Morris cigarettes, unfortunately has now been rejected by your representatives.

We are writing to seek your reconsideration of this decision and your help in getting the discussions concerning this Master Agreement back on track.

The illegal trade in cigarettes is a very serious problem - not only for governments and for Philip Morris International, but also for its customers, who have equally as much or more to lose. Obviously, the European Community and its Member States lose many hundreds of millions of Euros in revenue every year because of illegal cigarettes, both counterfeit and contraband; and we ourselves estimate our lost revenues in the hundreds of millions of Euros. But for our business partners such as yourselves, the issue is every bit as serious. You have surely read of the situation in the German cigarette market, where it is estimated that between one in six and one in five cigarettes consumed are in fact not purchased through the legitimate trade but instead in the streets, in workplaces, and through other informal outlets.

We know from our regular contacts with the European Anti-Fraud Office that one current area of particular concern is the outflow of genuine brand cigarettes from Russia into EU markets such as Germany. Some of these cigarettes appear to be originating with If this represents a correct assessment of the situation, and we believe it does, your business in an important EU market is being damaged. With your help and commitment, you and we, together with the EU and Member State governments, can take positive and cooperative steps to address this problem, to the benefit of all of us.

Of course, such cooperation has to be reflected in a formal framework for cooperation, such as the Master Agreement on Fiscal Compliance and Combating the Illegal Trade with Cigarettes that was being discussed with your organization until we last week received a short note of stating that no longer saw any reason to conclude such an agreement. The position reflected in the note was not only disappointing to us, as it undoubtedly will be to the European Commission; but it would set completely apart from virtually all of our significant customers worldwide, who already have agreed to binding fiscal compliance agreements with PMI.

When representatives of PMI and Philip Morris Germany met with and in March of this year, to discuss an
international agreement that would cover all relevant and PMI affiliates, we came away with the impression that a strong cooperation between and PMI was in the making. Indeed, we even felt that could become a role model for the entire trade, and communicated our hopes and expectations to our partners at the European Commission. We still hope that, with your help, we can achieve that cooperation.

In closing, let us say that we firmly believe that extending fiscal compliance throughout the trade chain is a key element in the fight against the illegal trade in cigarettes, and that it continues to be our hope that you, as valued business partners, will assume a leading role in that initiative. We very much value our relationship with you, and we sincerely hope that with your kind assistance we can soon resume and conclude the negotiations for this most important initiative.

Yours faithfully,

[Signature]

President European Union

Managing Director Germany and Austria
Anti-Contraband and Anti-Counterfeit Agreement between PMI and the European Community and Member States: twenty-four Member States are now Parties

Since July 2004 fourteen Member States have joined the Community and the initial ten Member States in their fight against cigarette smuggling and have signed the Anti-Contraband and Anti-Counterfeit Agreement with Philip Morris International, Inc, bringing the total number to twenty-four. This landmark agreement, which calls for substantially enhanced cooperation on many fronts in the fight against the shared problem of illegal trade in cigarettes, has proved to be highly effective in practice.

Vice-President Slim Kallas, responsible for the fight against fraud, declared: "This cooperation to date has exceeded all expectations and sets an example of what industry and law enforcement can do when they work together in pursuit of a common goal."

The Agreement includes an efficient system to fight against future cigarette smuggling and counterfeiting, and permits Philip Morris International to work with the European Commission, its anti-fraud office OLAF, and national law enforcement authorities to help in the fight against contraband, including the rapidly growing problem of counterfeit cigarettes.

The Agreement builds on the efforts of all parties and introduces new and innovative procedures to combat the diversion of cigarettes into contraband channels in Europe and around the world. Specifically, the Agreement calls for the implementation and/or enhancement of several components of Philip Morris' business practices, including strong measures to: ensure complete understanding of the identity of tobacco customers and of their business ("know your customer"); further protect legitimate trade from the dangers of money laundering ("fiscal compliance"); and ensure continued appropriate information collection and sharing (record-keeping components).

Other main components of the Agreement are the "Tracking and Tracing" protocols, which have allowed OLAF and the Member States rapidly to re-create the route taken by genuine smuggled cigarettes from the factory into the hands of the smugglers.
One area of particular benefit to OLAF and the Member States is the Notification of Seizures to Philip Morris. In 2005, OLAF and the Member States notified Philip Morris of almost 300 individual seizures totalling over 400 million cigarettes. While 85-90% of the cigarettes turned out to be counterfeit, the seizures have allowed for the identification of areas of concern in the continued fight against counterfeit and smuggled cigarettes.

The Agreement is proving in practice to be a highly effective means of combating cigarette smuggling. The Commission hopes that it should therefore serve as a model for other cigarette companies.

Background
On July 9, 2004, the European Community and ten Member States (Belgium, Finland, France, Germany, Greece, Italy, Luxembourg, The Netherlands, Portugal and Spain) had entered into a landmark 12-year cooperation agreement with Philip Morris International (the "Agreement") to fight the illegal trade in cigarettes. Since that date, fourteen additional Member States have signed the Agreement (Austria, Cyprus, Czech Republic, Denmark, Estonia, Hungary, Ireland, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia and Sweden).

More information:
IP/04/882