

**PHILIP MORRIS INTERNATIONAL INC.'s
FIRST 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 FINLAND,
THE FRENCH REPUBLIC,
THE FEDERAL REPUBLIC OF GERMANY,
THE REPUBLIC OF GREECE,
IRELAND,
THE ITALIAN REPUBLIC,
THE GRAND-DUCHY OF LUXEMBOURG,
MALTA,
THE KINGDOM OF THE NETHERLANDS,
THE PORTUGUESE REPUBLIC, and
THE KINGDOM OF SPAIN**

July 11, 2005

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").

At the outset, Philip Morris International notes that it is extremely pleased with the operation and functioning of the Agreement to date. We believe that the high level of cooperation that has characterized the conduct of the Parties pursuant to the Agreement over its first year 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 certifies 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 material. The section below describing Philip Morris International's compliance with specific obligations 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

Protocol 2.03(g) requires Philip Morris International to conduct Follow-up Due Diligence for each Approved Contractor on an annual basis. In light of the timing of the completion of the initial Due Diligence required by the Agreement, the Parties agreed earlier this year that Philip Morris International will conduct its first Follow-up Due Diligence pursuant to Protocol 2.03(g), (h) and (i) in the first quarter of 2006, and annually thereafter. An assessment of Follow-up Due Diligence will be provided in all future Certifications of Compliance.

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 for 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 ██████████ for Compliance Systems, was appointed to that position on December 1, 2004, succeeding ██████████. The responsibilities of the ██████████ 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

Performance reviews, compensation, and promotions of Philip Morris International employees whose activities relate to the sale, distribution, storage, and shipment of Philip Morris Cigarettes take 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 a letter dated March 31, 2005 from [REDACTED] of Philip Morris International to [REDACTED] and [REDACTED] of OLAF, Philip Morris International notified OLAF of the curriculum of these training programs and invited a representative of OLAF to participate in these training programs, in accordance with Protocol 11.01. OLAF and Philip Morris International are now in the process of arranging for a representative of OLAF to participate in one of these training programs.

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 the amendments that will have to be made to Exhibits A-1, A-2 and A-4 to reflect labeling changes with respect to a number of markets where Philip Morris International has either started selling Cigarettes just in the last year or ceased selling Cigarettes (and has not had any sales for at least one year), as well as markets for which unique market-specific labeling had previously not been in place but will now be implemented;
- 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; 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 countries listed in Exhibits B-I and B-II and for worldwide duty free (except duty free PM Australia) with a barcode label and a human readable translation;
- scans Master Cases containing Cigarettes produced for Tier I Markets listed in Exhibit C-II and for worldwide duty free (except duty free PM Australia);
- maintains a First Purchaser Database that is searchable by customer order or Master Case barcode number for all markets in which it has implemented Master Case labeling and scanning pursuant to Protocols 3.01 and 3.02 of Appendix D of the Agreement, 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
- expects that on or before October 9, 2005, it will be able to provide 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 expects that, where applicable, on or before October 9, 2005, it will be able to provide 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, and will provide OLAF with a report concerning developments relating to these new technologies by September 1, 2005.

II. ISSUES DISCUSSED WITH OLAF

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. Three 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.

First, as indicated in a letter dated June 9, 2005 from [REDACTED] of Philip Morris International to [REDACTED] of OLAF, Philip Morris International encountered some resistance from [REDACTED] to its uniform set of sales terms and conditions. [REDACTED] objected to the terms relating to Second Layer Tracking, which are not among the terms listed in Protocol 3 of Appendix B of the Agreement, but were nonetheless included in Philip Morris International's uniform sales terms and conditions in order to facilitate its compliance with its obligations under the Agreement. After much negotiation, Philip Morris International removed the sales terms relating to Second Layer Tracking for the time being and has implemented the remaining sales terms with almost all customers in Germany (and is continuing to negotiate the sales terms with the remaining customers). Philip Morris International has also sought the assistance of OLAF to persuade the [REDACTED] to encourage its members to agree to the Second Layer Tracking terms of sale.

Second, as indicated in an e-mail from [REDACTED] of Philip Morris International to [REDACTED] of OLAF dated February 17, 2005, Philip Morris International is working both independently and with OLAF to address diversion of product from the Ukraine market to higher-tax markets in the EU such as Poland and Germany. As we conveyed to OLAF, our analysis suggests the problem is substantially occurring at the in-market retail level, over which Philip Morris International has little control (as opposed to the wholesale level). Philip Morris International has nonetheless taken several steps to better assess the situation in Ukraine and will continue to work closely with OLAF to ensure that Philip Morris International is doing all it reasonably can as a manufacturer to prevent illegal trade in its Cigarettes sold in Ukraine. Philip Morris International believes that enhanced efforts by the customs agencies of the Relevant Administrations are essential to address this issue effectively, and notes its understanding that the currently existing issues are greater with respect to other manufacturers' brands of cigarettes than with respect to Philip Morris Cigarettes.

Third, as discussed in a March 31, 2005 e-mail from [REDACTED] of Philip Morris International to [REDACTED], [REDACTED], [REDACTED], [REDACTED], 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 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. 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 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 over its first year 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:

[REDACTED]

[REDACTED]

[REDACTED]

Philip Morris International Management S.A.