

Philip Morris USA Inc.



MICHAEL E. SZYMANCZYK
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER

We have designed this website to share information about the Altria family of companies, our growth and development, and issues of interest to our stakeholders. Therefore, although we are very proud of our tobacco companies, we have not included any cigarette brand advertising in this online version of the 2006 Annual Report, because it is not our intention to market, advertise or promote their cigarette brands on this site.

DOMESTIC TOBACCO

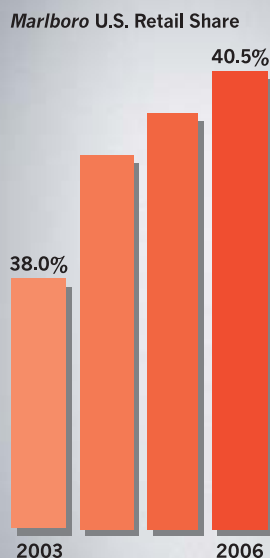
Philip Morris USA Inc. (PM USA) achieved solid retail share growth and income gains in 2006. Shipment volume of 183.4 billion units was down 1.1% versus 2005, but was estimated to be down approximately 1.5% when adjusted for trade inventory changes and the timing of promotional shipments.

Operating companies income increased 5.0% to \$4.8 billion in 2006, primarily driven by lower wholesale promotional allowance rates, partially offset by lower volume. Results for 2005 included charges for the disposition of pool tobacco stock and a \$56 million accrual for the *Boeken* case, partially offset by the reversal of a 2004 accrual related to tobacco quota buy-out legislation.

Total retail share increased to 50.3%, driven by *Marlboro* and *Parliament*. PM USA's premium focus brands performed well, with *Marlboro* retail share increasing 0.5 share points to 40.5% for the full year;

Parliament retail share increasing 0.1 share point to 1.8%; and *Virginia Slims* retail share remaining stable at 2.3%. PM USA's share of the premium category declined 0.1 share point versus the prior year to 62.0%, as gains by *Marlboro* and *Parliament* were more than offset by category share losses incurred by other PM USA non-focus premium brands. Premium mix for PM USA increased by 0.5 percentage points to 92.1%.

***Marlboro* Menthol retained its position as the number two premium menthol brand** in the growing menthol category. During 2006, the menthol category grew by 0.5 share points to 27.5% of the total cigarette market. *Marlboro* Menthol's retail share was up 0.4 share points in 2006 to 4.4% of the total industry. **PM USA's retail share of the discount category grew 0.1 share point to 16.4% in 2006**, reflecting the performance of *Basic* in a declining category. For the full-year 2006, *Basic* retail share declined 0.1 share point to 4.2% of the total retail market, while the discount category declined 0.8 share points to 25.6% of the



Source: IRI/Capstone Total Retail Panel

Marlboro Smooth

- Introduced at retail in March 2007, Marlboro Smooth is a new menthol product offering adult smokers a uniquely rich and smooth flavor choice. PM USA believes that Marlboro Smooth will help build Marlboro's already strong brand equity in the growing menthol category.

industry. The deep-discount segment (which includes both major manufacturers' private label brands and all other manufacturers' discount brands) declined 0.2 share points to 11.6% of the total industry.

An important area of focus for PM USA is developing products that have the potential to reduce smokers' exposure to harmful compounds and, ultimately, to reduce the harm caused by smoking. PM USA is making significant investments in research and product development that it hopes will lead to the commercialization of products with the potential to achieve those goals. It also continues to advocate regulation of tobacco products by the U.S. Food and Drug Administration (FDA), in part because it believes that the federal government should establish standards for products that could potentially reduce the harm caused by smoking and define the appropriate ways to communicate these products' attributes.

The ability to accelerate growth in the future will be determined, in part, by PM USA's success in expanding beyond its core business to other tobacco and tobacco-related adjacent categories. Internal development and acquisitions both represent promising and potentially complementary opportunities to achieve this objective.

Internal development provides PM USA with an opportunity to develop new categories by bringing innovative products to market, and to penetrate existing categories with products that enjoy a competitive edge over existing consumer offerings. During 2007, PM USA will introduce a number of new products as a result of its internal development efforts, with an emphasis on products that appeal to adult smokers.

The *Marlboro* family continued to gain market share during 2006, increasing 0.5 share points during the year to 40.5% of the U.S. retail market.

***Parliament* was up 0.1 share point to reach a retail share of 1.8% in a highly competitive market in 2006.**

Driving Future Growth...

PM USA has achieved the highest volume and market share among U.S. tobacco companies for more than a decade. It strives to maintain leadership by being the most responsible, effective and respected developer, manufacturer and marketer of consumer products, especially products intended for adults, and by acting in a way that reflects awareness of society's expectations.

INNOVATIVE NEW PRODUCTS

PM USA expects to introduce a number of exciting new tobacco products in line with its strategy to expand beyond its core cigarette business to other tobacco and tobacco-related adjacent categories. PM USA's first step beyond cigarettes was launched with test marketing during 2006 of *Taboka*, a smoke-free, spit-free tobacco product that provides a new way for adult smokers to enjoy tobacco in a pouch tucked in the cheek.

CENTER FOR RESEARCH AND TECHNOLOGY



PM USA's new Center for Research and Technology in Richmond, Virginia, is scheduled for completion in mid-2007. The Center will enhance PM USA's ability to develop innovative new products, and technologies that improve the products it currently manufactures. PM USA has already begun to add capabilities to its research-and-development team by starting to hire the diverse group of scientists who will work at the Center.

Committed to Responsibility

■ To help smokers who have decided to quit be more successful, PM USA offers QuitAssist™, a free information resource that helps connect such smokers to a wealth of expert quitting information from public health authorities and others.



- PM USA's Youth Smoking Prevention department focuses on three research-based initiatives: parent communications, positive youth development grant programs and youth access prevention.
- PM USA strictly complies with the tobacco settlement agreements signed in the late 1990s, and in many cases its marketing practices exceed the requirements of the agreements. For example, in stores that participate in PM USA's Retail Leaders program, PM USA voluntarily limits its cigarette advertising to the primary cigarette merchandising area, which exceeds the tobacco settlements' requirements regarding retail advertising.

Philip Morris International Inc.



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ANDRÉ CALANTZOPOULOS
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

INTERNATIONAL TOBACCO

Philip Morris International Inc. (PMI) delivered strong results in 2006, as it benefited from pricing and acquisitions.

Cigarette shipment volume increased 3.4% to 831.4 billion units, and was up 0.4% when adjusted for acquisitions and the one-time inventory benefit in Italy in 2005. PMI's total tobacco volume, which included 8.3 billion cigarette equivalent units of other tobacco products (OTPs), increased 3.5% to 839.7 billion units, and increased 0.6% when adjusted for acquisitions and the 2005 inventory benefit in Italy.

Operating companies income increased 8.1% to \$8.5 billion, due primarily to pricing, a \$488 million gain on the reorganization of its business in the Dominican Republic and a \$232 million benefit from acquisitions. These were partially offset by negative currency of \$183 million, a \$61 million charge in the first quarter of 2006 related to an Italian antitrust action and higher asset impairment and exit costs.

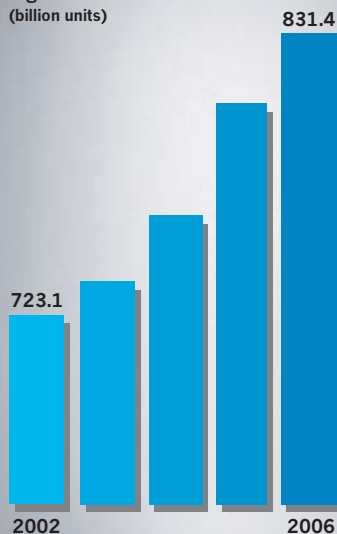
Share performance for Marlboro was strong, notably in France, Greece, Hong Kong, Italy, Japan, Korea, Kuwait, Mexico, Poland, Romania, Russia, Saudi Arabia, Singapore, Spain, Thailand and Ukraine. However, total Marlboro cigarette shipments of 316.0 billion units were down 1.9%, due mainly to adverse inventory movements and to declines in Argentina, Germany, Japan and Spain.

In the European Union (EU) region, PMI cigarette shipments were down 2.8%. Adjusted for the 2005 one-time distribution change in Italy of 3.0 billion units, EU volume declined a more moderate 1.7% in 2006. Declines in Czech Republic, Germany, Portugal and Spain were partially offset by gains in France, Hungary and Poland. PMI cigarette market share in the EU region was essentially unchanged at 39.4% and share of total tobacco consumption (cigarettes and OTPs) in the EU was up 0.2 share points to 35.3%.

In France, the total market grew 1.8% and PMI shipments were up 7.0%, driven by price stability, moderate price gaps and favorable timing of shipments. Market share continued to grow, rising 1.0 point to a record 42.7% behind the solid performance of Marlboro and the Philip Morris brand.

In Germany, total tobacco consumption was down 5.9% in 2006, reflecting the decline and ultimate exit of tobacco portions from the market. PMI's total tobacco in-market sales declined 0.2%, while its share of total tobacco consumption increased 1.7 points to 30.4%. The total cigarette market declined 3.9%, due to lower consumption as a result of tax-driven price increases. PMI's in-market cigarette volume declined 3.4%. However, its cigarette market share rose 0.2 points to 36.8%, driven by the price repositioning of L&M. Cigarette share for Marlboro declined 1.6 points in 2006 to 28.0%.

Cigarette Volume
(billion units)



Marlboro Filter Plus

■ Launched successfully in Korea in late 2006 and scheduled for introduction in additional markets in 2007, Marlboro Filter Plus is a real innovation in terms of cigarette and filter construction, as well as packaging. True to the brand's heritage, Marlboro Filter Plus delivers outstanding taste in a one-milligram product.

Sampoerna reported 2006 operating income of about \$600 million, aided by its best-selling *A Mild* brand kretek cigarette in Indonesia.

Market share increased a full share point in France to a record 42.7%, driven by solid performance of *Marlboro* and the *Philip Morris* brand.

Share in Mexico was up 1.4 share points to 63.5% in 2006 on the strength of *Marlboro*.

In Italy, the total cigarette market rose 1.1%. PMI shipment volume decreased 3.9%, but adjusted for the 2005 one-time distribution change, volume rose 1.9%. Market share advanced 1.3 points to 53.8%, driven by *Marlboro*, *Diana* and *Chesterfield*.

In Spain, the total cigarette market declined 2.8%, due to tax-driven price increases. PMI cigarette shipments were down 12.8% and market share declined 2.4 points to 32.2%, mainly reflecting *Chesterfield* and *L&M*, which suffered from consumers switching to the lowest-price segment and to competitors' brands that were repositioned from premium to lower-price segments. Share for *Marlboro* advanced 0.1 point to 17.1% in 2006 versus 2005, underscoring the brand's resilience in a highly competitive environment.

In Eastern Europe, the Middle East & Africa, PMI shipments were up 1.7%, with gains in Egypt, Russia and Ukraine partially offset by declines in Romania and Turkey. In Russia, shipments rose 3.4%, driven by *Marlboro*, *Muratti*, *Parliament* and *Chesterfield*. Market share, however, declined 0.4 points to 26.6%. This primarily reflected declines of low-price brands and *L&M*. Combined market share in Russia for higher-margin brands, *Marlboro* and *Parliament*, was up 0.4 share points versus 2005. In Ukraine, shipments increased and share advanced 0.8 points to 33.0%, as consumers continued to trade up to higher-priced *Marlboro* and *Chesterfield*. In Turkey, shipments declined 3.5%, reflecting the contin-

ued decline of low-price *Bond Street*. However, PMI market share rose 1.4 points to 42.5%, as consumers traded up to its higher-margin brands, *Parliament* and *Muratti*.

In Asia, volume was up 12.3%, due primarily to gains in Indonesia, partially offset by lower volume in Japan and Thailand. PMI shipment volume rose 69.6% in Indonesia, aided by the acquisition of Sampoerna in 2005. Market share grew 1.5 points to 27.7% on the strength of its brand portfolio, led by *A Hijau* and *A Mild*. In Japan, the total market declined 4.4%, or 12.5 billion units, due primarily to a tax-driven price increase in July 2006. PMI in-market sales were down 4.8%, and market share declined 0.1 point to 24.7%. *Marlboro* share rose 0.2 points to 9.9%. PMI's shipment volume declined 5.4% in Japan, mainly reflecting lower in-market sales.

In Latin America, PMI shipments increased 10.8%, driven by strong gains in Argentina and Mexico, as well as higher volume in Colombia due to the 2005 acquisition of *Coltabaco*. In Argentina, the total market advanced approximately 7.5%, while PMI shipments grew 15.9% and share was up 4.9 points to a record 66.3%, due mainly to the *Philip Morris* brand. In Mexico, the total market was up approximately 2.0% and PMI shipments grew 6.0%. Market share rose 1.4 points to a record high of 63.5%, reflecting the continued strong performance of *Marlboro*, which rose 1.4 share points to 47.7%, and *Benson & Hedges*.

Driving Future Growth...

PMI has ample opportunities for growth, with an estimated 15.4% of the international cigarette market (excluding the U.S. and worldwide duty-free). It embraces its role as a responsible company and actively presents its views on important issues, including regulation of the tobacco industry, the health effects of tobacco products, and fiscal policies (tax structures and pricing measures) that support public health and fiscal objectives.

STRATEGIC BUSINESS DEVELOPMENT

As a complement to its organic growth strategy, PMI vigorously pursues acquisitions when they provide advantages in terms of market entry, scale, strong brands and attractive returns. During 2006, PMI reorganized its investment in the Dominican Republic to focus exclusively on tobacco, and in early 2007, it announced its intention to raise its stake in Lakson Tobacco, the second-largest tobacco company in Pakistan, with an estimated annual cigarette volume of 30 billion units.

MARLBORO WIDES

Launched in Mexico and a number of EU markets in 2006, *Marlboro Wides* offers a different smoking experience. The novel cigarette dimension provides for a very smooth smoke and shows potential to develop widespread consumer acceptance, as adult smokers learn to appreciate its unique characteristics.

Committed to Responsibility

- PMI actively supports meaningful regulation of the manufacture, marketing, sale and use of tobacco products, and is committed to working with governments and the public health community toward that goal. This includes supporting mandatory health warnings, limitations on marketing and strong public-health-based product regulations.
- Contraband and counterfeit cigarettes are two of the most important challenges facing the tobacco industry. PMI is determined to continue to take steps to see that the illegal trade in both is stamped out, and is working with governments and other organizations that share its commitment to fight such trade.
- PMI is committed to working with others to eliminate child and forced labor, which it recognizes are worldwide problems. PMI has a policy that sets a minimum age and forbids use of forced labor in all its facilities around the world, and is a member of the Eliminate Child Labor in Tobacco (ECLT) foundation.
- PMI supports worldwide minimum-age laws and backs youth smoking prevention programs across the globe, with a focus on retail access prevention programs designed to prevent kids from getting access to cigarettes. It is also working with governments to encourage enforcement of minimum age laws where they exist.



Example of youth smoking prevention sign in Malaysia.

Kraft Foods Inc.

Kraft Spin-Off On March 30, 2007, Kraft will become a fully independent company. Kraft shares previously owned by Altria are scheduled to be distributed on that date to Altria shareholders of record as of March 16, 2007. Key terms of the spin-off and the business purpose supporting it are highlighted on page 2 of this report. Additional details are available at www.altria.com/kraftspinoff.



IRENE B. ROSENFELD*
CHIEF EXECUTIVE OFFICER

*Irene Rosenfeld will be elected to the additional post of Chairman upon the completion of the spin-off of Kraft Foods Inc.

Kraft Foods Inc. (Kraft) reported mixed results in 2006 and continued to implement a restructuring program designed to put the company on a path to predictable growth.

Net revenues were up only 0.7% to \$34.4 billion, primarily reflecting one less shipping week in 2006 versus 2005, which negatively impacted reported net revenues by approximately two percentage points.

Ongoing volume declined 1.7%, due primarily to the impact of product item pruning and the discontinuation of select product lines, primarily in the North American Foodservice and Canadian ready-to-drink beverage businesses, as well as one less shipping week in 2006.

Operating income decreased 4.8% to \$4.5 billion for 2006, due primarily to higher asset impairment, exit and implementation costs, including a non-cash pre-tax charge of \$245 million in the fourth quarter related to Kraft's *Tassimo* single-serve hot beverage system, and one less shipping week in 2006, partially offset by the gain on the redemption of Kraft's investment in United Biscuits (UB) in the third quarter.

Kraft North America Commercial (KNAC) net revenues were down 0.8% to \$23.1 billion, reflecting one less shipping week in 2006 and divestitures, as well as

declines in Cheese & Foodservice and Grocery, partially offset by favorable mix and favorable currency of \$153 million. Ongoing volume decreased 2.5%, primarily due to one less shipping week in 2006. Operating companies income decreased 2.0% to \$3.8 billion, as the impact of one less shipping week in 2006 and higher asset impairment, exit and implementation costs were partially offset by productivity and restructuring savings, positive mix, a gain on the sale of *Minute Rice* and favorable currency of \$27 million.

Kraft International Commercial (KIC) net revenues increased 3.9% to \$11.2 billion versus 2005, reflecting the UB acquisition and an increase in Developing Markets, Oceania & North Asia, partially offset by one less shipping week in 2006. Ongoing volume was up 0.5%, due primarily to the UB acquisition, partially offset by one less shipping week in 2006. Operating companies income decreased 14.1% to \$964 million, due primarily to higher asset impairment, exit and implementation costs, including the *Tassimo* charge, and the impact of one less shipping week in 2006, partially offset by the \$251 million gain on redemption of Kraft's investment in UB, as well as positive mix and price increases.

A separate Kraft Foods Inc. Annual Report is available at www.kraft.com.



Driving Future Growth...

Kraft is well positioned to grow and to expand its leadership in the worldwide food and beverage business with a pipeline of innovative new products that address health and wellness, and convenience.

Contributing to Kraft's results in 2006 were products such as *DiGiorno Sensible Solution Harvest Wheat* pizza; best-selling *Milka* chocolates; and convenient *Crystal Light* On-The-Go beverage sticks.

Committed to Responsibility

- Kraft has strengthened its policies and practices in the areas of product nutrition, marketing, labeling and health claims. It has also increased efforts to provide useful nutrition and fitness information, and is introducing new products and improving existing ones to give consumers more choices that address health-and-wellness needs, with a focus on promoting healthy lifestyles for children.
- Kraft has developed strong food safety systems, which it continually improves, using science-based risk identification. In addition to extensive training of its own employees, Kraft extends its quality and food safety systems to business partners across the supply chain and frequently shares advances and innovations with government regulators and the industry.
- Responsibility has long been a part of Kraft's recipe for success, and it is extending that interest from aspects of the business that it directly controls to the success and well-being of the company's agricultural supply base. It is focusing its initial efforts on commodities such as coffee and cocoa, which are both of special importance to its business and associated with critical societal issues.

