

Annual Meeting of Stockholders

Altria Group, Inc.
April 27, 2006
East Hanover, NJ

Introduction

Altria Group, Inc. has steadfastly maintained its focus on delivering shareholder value for many years, and we entered 2006 confident in our ability to generate the superior returns to our shareholders envisaged by our long-term plan. In 2005, we had another successful year, with a number of key accomplishments and developments.

Strategically, two highlights were the acquisition by Philip Morris International (PMI) of Sampoerna in Indonesia, and the announcement of PMI's long-term alliance with the China National Tobacco Corporation.

In the litigation arena, the Illinois Supreme Court provided Philip Morris USA (PM USA) with an important favorable development in December 2005 when it reversed the trial court's judgment of \$10.1 billion in the *Price* case.

Overall, strong financial performances by PM USA and PMI more than offset weaker than expected results at Kraft Foods (Kraft), with diluted earnings per share from continuing operations rising 11.6% to \$5.10 in 2005.

Our total shareholder return was 27.7%, assuming dividend reinvestment, significantly outperforming the Dow Jones, the NASDAQ and the Standard & Poor's 500 indices, and exceeding that of nearly all our peers in the consumer packaged goods industry.

We raised the dividend 9.6%, to an annual rate of \$3.20 per common share, marking the 38th time in 36 years that the dividend has been increased and representing a compound annual growth rate of 8.6% over the past five years.

The combination of our solid financial performance, coupled with continued improvement in the litigation environment, which I will discuss in more detail later, has garnered the attention of the investment community.

However, in the 12 months since I addressed you at last year's meeting, our stock price appreciation has trailed that of several other tobacco companies, and we continue to trade at a multiple discount to a number of them. While this has been a source of disappointment, it clearly demonstrates the significant upside potential that remains to reward our shareholders.

During 2005, we advanced our preparations for a potential restructuring of the company into two, or possibly three, stand-alone entities. As I have said before, the timing and chronology of events are uncertain, and continuing improvements in the entire litigation environment are a prerequisite to any restructuring. Any potential restructuring will proceed on our own timeline, and we will not act prematurely.

Last week, we announced our first-quarter results, which were in line with our expectations. Net revenues increased 3.1% to \$24.4 billion. Operating income decreased 2.3% to \$4.1 billion, reflecting a number of items in both 2006 and the year-ago period, as detailed in our first-quarter news release. Earnings from continuing operations increased 34.6% to \$3.5 billion, largely due to a significantly lower effective tax rate.

Diluted earnings per share from continuing operations were up 33.1% from last year to \$1.65, including \$0.46 per share from the reversal of tax reserves at the conclusion of an IRS examination of Altria's consolidated tax returns for the years 1996 through 1999.

Kraft Foods Inc. (Kraft)

I would like to briefly review first quarter results for each of our businesses and illustrate some of their outstanding opportunities for growth, beginning with Kraft Foods.

In the first quarter of 2006, Kraft made solid progress against its long-term goals. Net revenues increased 0.8% to \$8.1 billion, reflecting positive product mix and pricing, partially offset by lower volume, the impact of divestitures and unfavorable currency.

Ongoing volume decreased approximately 1.1%, driven by declines in ready-to-drink beverages and results in the European Union, with an estimated two percentage points of the decline due to discontinued products.

Operating income decreased 12.0% to \$1.0 billion, primarily as a result of higher restructuring and impairment costs, higher commodity costs net of pricing, and an unfavorable comparison with 2005 gains on sales of businesses.

Excluding the asset impairment, exit and implementation costs, and gains and losses on sales of businesses, operating income increased 2.8%, benefiting from favorable product mix and cost-saving initiatives.

Kraft's financial performance has lagged its improving business fundamentals for several quarters, largely as a result of surging commodity costs. In the first quarter, commodity costs increased by \$100 million, following an increase of \$900 million in 2004 and \$800 million in 2005 versus the prior year. However, the higher commodity costs, primarily energy and packaging, were mostly offset by pricing increases in the first quarter of this year.

Earlier this year, Kraft announced plans to expand its restructuring program, with organizational streamlining that will eliminate up to 8,000 additional positions and facility closures affecting an additional 20 plants. This expanded program will add approximately \$2.5 billion in estimated costs, for a total of \$3.7 billion, and is expected to add approximately \$700 million in cumulative annualized cost savings, for a total of \$1.2 billion by 2009.

Kraft's restructuring involves much more than just reducing costs. It is clearly focused on providing consumers with the right benefits at the right price, and it is addressing consumer needs such as health and wellness, convenience, and premium taste, and driving future growth with "fewer, bigger and better" new products.

A great example is the **South Beach Diet** line, which has generated approximately a quarter-billion dollars in revenues since its introduction just 12 months ago, making it one of Kraft's most significant new product introductions ever.

To improve health and wellness, Kraft is using new whole grain technologies to enhance many areas of its portfolio, from **Wheat Thins** chips to **Chips Ahoy!** cookies to **DiGiorno** pizza. It is also fortifying products with important nutritional benefits, such as **Tang** milk mix in China and other developing markets.

Consumers want convenience, and Kraft is meeting that need with products such as **Jacobs** and **Maxwell House** coffee sticks, **Easy Mac** cups, **Kraft to Go** crackers and cheese and **Kool Aid** Singles powdered drink sticks.

Kraft is also expanding its offerings of premium-quality products, such as the **Tassimo** hot beverage system, which is now available in France, Germany, Switzerland, the United Kingdom and the United States, where it will be expanded from specialty channels to a broader market launch later this year.

Corporate responsibility is a core business strategy at all of our operating companies, and Kraft is sharing more information than ever about its policies, programs and responsibility activities on topics ranging from sustainable agriculture, to nutrition, health and wellness, to food safety. For more on these and other issues, I urge you to visit Kraft's website.

Driven by one of the best brand portfolios in the food and beverage industry, Kraft expects its momentum to build as 2006 progresses, with accelerating top-line growth, additional improvement in market share and continued cost savings.

Philip Morris USA (PM USA)

Turning to our domestic tobacco business, in the first quarter, PM USA's operating companies income increased 7.5% to \$1.1 billion, primarily driven by lower wholesale and retail promotional allowance rates, and higher volume.

Shipment volume increased 1.2% to 43.3 billion units versus the same period a year ago, but was estimated to be essentially flat when adjusted for one more shipping day versus the first quarter last year.

PM USA's first quarter total retail share was up 0.4 share points versus the prior year to 50.4%, driven primarily by **Marlboro**, which achieved a 40.4% retail share, up 0.6 percentage points versus the year-ago period.

PM USA continues to enhance **Marlboro**'s brand equity by effectively managing all aspects of the value equation to deliver the highest quality product at a competitive price to adult smokers. Its other focus brands, **Parliament**, **Virginia Slims** and **Basic**, also performed well in a highly competitive environment during the first quarter.

PM USA is delivering excellent results within a background of solid improvement in cigarette industry fundamentals, including a decline in the discount category, and within that category, a lack of vitality in the deep-discount segment, which decreased to 11.6% of the U.S. cigarette market in the first quarter of 2006.

Imports, primarily low-price cigarettes, continued to decline on a 12-month moving average basis. And sales over the Internet, which has historically been a conduit for excise tax avoidance, have declined significantly.

This progress is a result of greater law enforcement attention, and the fact that major credit card and package delivery companies have agreed to take steps to prohibit the use of their services for illegal Internet sales.

PM USA recognizes that its long-term success is dependent upon its ability to respond to society's evolving expectations of a responsible tobacco company. It continues to be the only manufacturer supporting regulation of the tobacco industry by the U.S. Food and Drug Administration. While we are disappointed with the lack of action to date by the U.S. Congress on this issue, PM USA is making progress on its societal alignment initiatives on a number of fronts. For example, it is providing information and resources in both English and Spanish on its website, where you can learn more about programs such as the Parent Resource Center and QuitAssist™.

PM USA is exploring opportunities for growth, and during 2005 announced a tobacco category adjacency growth strategy to develop new revenue and income sources. It is making significant investments in product development, consumer research and other areas, including an estimated \$350 million for a Center for Research and Technology in Richmond, Virginia. The Center will be dedicated to enhancing scientific research, new product development and commercialization of products that might help address the harm caused by smoking.

I believe that PM USA's strategies are clearly working. The investments it has made have strengthened its focus brands and delivered solid business performance, while it continues to make significant progress with its societal alignment initiatives.

Philip Morris International (PMI)

Turning to our international tobacco business, in the first quarter, PMI generated operating companies income of \$2.0 billion, down 5.2% versus the same period last year, due to the adverse impact of a combination of factors including unfavorable currency movements, lower results in Spain and a difficult comparison to the prior-year period. However, excluding acquisitions, a 2005 inventory sale to a new Italian distributor, a 2006 charge relating to an antitrust matter in Italy and unfavorable currency, operating companies income was up 2.8%.

PMI's cigarette shipments of 210.2 billion units rose 4.6% in the first quarter, driven by solid gains in Argentina, Egypt, France, the Philippines, Russia, Turkey and Ukraine, and acquisitions in Indonesia and Colombia, partially offset by declines in Japan, Spain, worldwide duty-free and the impact of the 2005 inventory sale in Italy. However, shipments were essentially flat excluding acquisitions, the 2005 inventory sale in Italy and inventory build-up in Japan before the expiration of the **Marlboro** license last April.

Turning to a brief review of PMI's business by geographic region, in the European Union (EU), cigarette volume was down 11.9%, driven primarily by a decline in Spain and a difficult comparison with the first quarter of last year when results included the one-time inventory sale to a new distributor in Italy. On a comparable basis, EU volume declined a more modest 6.8% in the first quarter.

Importantly, PMI gained share in most major EU markets, including France, Germany and Italy. The notable exception was Spain. PMI's overall share in the European Union at 39.4% was down 0.6 points versus the same period last year.

In Germany, consumer switching to lower-taxed, lower-priced tobacco portions has resulted in a decline of the total cigarette market and PMI's cigarette shipments. However, it is encouraging that PMI's share of total tobacco consumption in Germany was up 1.1 share point to 29.1% in the first quarter, representing sequential share growth for the second consecutive quarter.

PMI's cigarette market share of 37.1% grew 0.7 points versus the prior year in Germany, driven by the recent price repositioning of **L&M**, the growth of **Next** and the resilience of **Marlboro**, which benefited from gains by **Marlboro Red**. In addition, PMI's share of tobacco portions advanced 6.1 percentage points versus the prior year to 19.1%.

In Italy, PMI's shipments were down but market share rose to 53.3%, an increase of 1.1 share point versus the same period a year ago, fueled by **Marlboro**.

In France, PMI's business continues to perform strongly, reflecting a stable pricing environment and moderate price gaps. First quarter 2006 share grew to 42.6%, an increase of 1.1 share point versus the same period last year due to the success of **Marlboro** and the **Philip Morris** brand.

In Spain, the environment remains difficult as the low-price segment surged to a 31% share during the fourth quarter of 2005, due to widening price gaps, but has since declined to 29%. The Spanish government recently raised the ad valorem and specific tax rates on cigarettes, and also introduced a minimum excise tax. On a sequential basis, PMI's share improved by 1.0 point in the first quarter. However, PMI's profit margins remain well below those generated in 2005, and a number of very low-price brands remain on the market.

Moving on to Eastern Europe, the Middle East and Africa, cigarette volume grew 5.3%, driven mainly by gains in Egypt, Russia, Turkey and Ukraine.

In Russia, by far the largest market in Eastern Europe, PMI is the clear market leader with a share of approximately 27.0% behind the success of its diverse brand portfolio.

In Japan, volume was down 7.1% in the first quarter, due to an inventory build-up in 2005 before the expiration of the **Marlboro** license, as well as a decline of 1.4% in the total market. Importantly, **Marlboro**'s share continues to grow in Japan, reaching 10.1% in the first quarter, up 0.5 points compared to the prior year.

In the rest of Asia, cigarette volume increased 71.3%, benefiting from the acquisition of Sampoerna in Indonesia in May of last year. Absent the Sampoerna acquisition, volume was down 1.5% in the first quarter.

In Indonesia, PMI's business is performing well, and is well above expectations in terms of both volume and income, driven by the success of its strong brand portfolio, led by **Dji Sam Soe, A Mild, A Hijau** and **Marlboro**. This portfolio achieved a 27.3% market share in the first quarter.

In Latin America, volume was up 19.1%, due primarily to the 2005 acquisition of Coltabaco in Colombia. Excluding acquisitions, volume rose 3.7% in the first quarter reflecting gains in Argentina and Mexico.

Turning to a major strategic priority, PMI continues to focus on harm reduction for its tobacco products. It supports the principle of the Framework Convention on Tobacco Control (FCTC), and supports regulation of the tobacco industry, including many issues covered in the FCTC such as descriptors, health warnings, ingredient disclosure and assessment, constituent testing, public place smoking restrictions and efforts to stop the illicit trade in cigarettes. However, like PM USA, PMI does not support a complete ban on all tobacco advertising, excessive excise tax increases or the promotion of litigation.

PMI continues to pursue comprehensive regulatory frameworks. At the same time, it is making significant investments in research and development and collaborating with the world scientific community. It continues to encourage governments to consider tax policies that advance public health objectives by removing incentives for down trading to cheap products or to substitute products, such as tobacco portions in Germany. PMI also supports governments' efforts to regulate all tobacco products, including the development, manufacture and commercialization of potentially reduced-harm products.

Knowing that it has a shared responsibility with society to prevent underage smoking, PMI currently supports Youth Smoking Prevention programs in some 70 countries. Barring access is vital to stopping underage smoking, and PMI is distributing point-of-sale materials to retailers around the world. In addition, PMI encourages consumers to obtain comprehensive information about tobacco product issues and the negative health effects of smoking on its website, currently available in 27 languages.

PMI's growth potential continues to be attractive. With just a 15% share of the international market, it has plenty of room to expand both organically and through acquisitions. Given its superb brand portfolio, commitment to reducing the harm caused by tobacco and to building an increasingly agile organization, PMI is well-positioned for future growth.

Litigation

I would like to comment briefly on developments in the litigation environment since last year's meeting. Recent results reinforce our belief that the litigation climate continues to evolve favorably and that greater clarity is slowly, but surely, emerging.

Since last year's meeting, there has been significant progress, notably in the *Price* case in Illinois. We continue to await developments in several other cases that investors have been watching especially closely, notably the *Engle* case in Florida and the *United States Government* case in Washington, D.C.

In the *Price* “Lights” class action case, PM USA was gratified when, in December 2005, the Illinois Supreme Court reversed the trial court’s judgment of \$10.1 billion for compensatory and punitive damages. Although the plaintiffs have requested a rehearing, we believe this case has been correctly decided.

In the *Engle* case, you will recall that a Florida appeals court overturned the \$145 billion verdict against PM USA and others, decertified that class action in May of 2003, and then reaffirmed that decision in September of the same year. In November 2004, the Florida Supreme Court heard oral arguments on appeal. There is strong legal precedent in PM USA’s favor on both class certification and punitive damages issues. We are awaiting the Florida Supreme Court’s decision, and remain optimistic that the appeal court’s decision will prevail.

In the *United States Government* case, the United States Court of Appeals for the District of Columbia ruled in February 2005 that disgorgement is not an available remedy in a civil RICO claim. In October 2005, the United States Supreme Court denied the government’s request for a review at that time. The trial concluded in June 2005 and post-trial briefing concluded in September of last year. We await a decision by the federal district court judge.

While the litigation record in 2005 was positive, it was not totally unblemished. PM USA lost the *Rose* trial in New York, one of five individual cases tried during the year. This case is now on appeal. In the *Henley* case in California, the judgment of \$17 million was paid to the plaintiff during 2005, and earlier this year PM USA paid the judgment of \$56 million plus approximately \$27 million in interest in the *Boeken* case.

In addition to the favorable development in the *Price* case, we were encouraged by developments during 2005 in other “Lights” cases in the U.S. Five “Lights” cases are presently certified as class actions, and 19 are in various pre-trial stages in the trial courts, with decisions on class certification and other issues yet to come.

While these cases are an important part of the evolving litigation environment and remain a particular focus of our attention and resources, we are pleased with the recent positive trend in “Lights” cases, including decisions in the *Watson*, *Pearson*, *Flanagan* and *Sullivan* cases, and just last week, a state court judge in Washington refused to certify the *Davies* case as a class action.

Together, these cases upheld a number of principles that we believe are fundamental to all “Lights” cases, including the view that PM USA acted under the direction and control of the Federal Trade Commission in relation to tar and nicotine testing, measurement and disclosures; that individual issues predominate over common ones; and that many state consumer protection statutes exempt claims based upon conduct specifically authorized by, or in compliance with, FTC action.

As we await further developments this year, I continue to urge you to have patience, remembering that the legal system in the United States moves at a deliberate pace. I believe that our litigation history teaches us that patience and perseverance will ultimately be rewarded.

Conclusion

I hope that I have conveyed my enthusiasm for Altria's prospects, and the strengths that I believe will ensure our future success. Our operating companies have some of the world's most valuable brands, including **Marlboro, L&M, Kraft** and **Nabisco**.

Additionally, our financial resources provide us with a significant competitive advantage. In 2005, we delivered \$10.4 billion in net earnings, placing us at number 10 among the most profitable companies on the Fortune 500 list.

The Altria family of companies generated a total of \$17.8 billion in total taxes paid to federal, state and local governments in the U.S. alone in 2005, and that number more than doubles when taxes outside the U.S. are considered.

We delivered more than \$11 billion in operating cash flow in 2005, and we plan to continue using our strong cash flow to reward you, our shareholders.

Employee Tribute

2006 is a milestone in the history of our company. It marks fifty years since we awarded our first philanthropic grant, which went to the United Negro College Fund. What began as a modest attempt to reach out to local communities has blossomed into a worldwide commitment to support organizations that offer vital services for those with critical needs, and that tradition continues.

In 2005, we continued our ongoing fight against hunger by assisting more than 500 organizations that provide food and nutrition services, with grants totaling nearly \$13 million.

In addition, through our long-standing arts program we have nourished the soul and helped transform neighborhoods and lives. Altria's contribution to the arts has recently been acknowledged by the Arts & Business Council of New York with their first-ever Corporate Hall of Fame Award.

In partnership with other companies, we were a corporate pioneer in addressing domestic violence prevention, and since establishing our grant-making program in 1998, the Altria family of companies has awarded over \$45 million to help victims become survivors.

And when tragedy of unimaginable proportions struck the Gulf Coast states, we committed almost \$5 million in aid, not just for immediate relief, but for reconstruction.

However, our effort to strengthen and improve our communities is far more than the sum of our grant-making. It begins with the unequivocal dedication of our employees. Their relentless energy extends well beyond our businesses, into our communities.

Through company-sponsored programs such as Cares Day, Employee Funds and Dollars for Doers, almost \$12 million were donated to not-for-profit organizations in 2005 by employees, which the company then matched with an additional \$8.5 million.

Whether working in a bookstore that funds housing and support services for homeless men, women and children living with HIV/AIDS, nourishing homebound seniors, or nurturing inner city preschoolers, our employees turn their passion for success into compassion for the needy.

I cannot emphasize enough the extraordinary pride and admiration I feel for our employees. You'd be hard pressed to find better, more motivated, more ethical people in any corporation. They balance ability and creativity with honesty and humility. They are uncompromising in their commitment to the highest standards of integrity. They make leading this incredible company rewarding in every possible way. I am very proud of them, and very grateful. My thanks to all of them.

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