

2004 Annual Shareholders Meeting
Altria Group, Inc.
April 29, 2004
East Hanover, NJ

Introduction

Good morning, ladies and gentlemen, and thank you for being here. I am Louis Camilleri, Chairman of the Board and Chief Executive Officer. It is my pleasure to welcome you to this year's meeting at the Robert Schaeberle Technology Center.

For Altria and its family of companies, 2003 was a year of significant business and legal challenges. We met most of the goals we had set at the beginning of the year, and surpassed a number of strategic objectives, especially on the litigation and legislative fronts. Throughout 2003, our operating companies invested for long-term growth and continued to successfully implement long-standing strategies to strengthen their businesses and brands.

In 2003, we delivered diluted earnings per share of \$4.52, which compares favorably with 2002 when adjustments are made for gains and charges in both years, and in particular the \$1.7 billion after-tax gain on the Miller Brewing Company transaction in 2002. Our total shareholder return in 2003 was 42.7%, assuming dividend reinvestment, compared with a 28.7% return for the Standard & Poor's 500 Index. We raised the dividend 6.3%, to an annual rate of \$2.72 per common share, marking the 36th time in 34 years that the dividend has been increased.

Last week, we reported our first-quarter 2004 results. Net revenues increased 12.7% to \$21.8 billion. Operating income declined 3.5% to \$3.7 billion, due primarily to the impact of restructuring charges at Kraft, partially offset by higher income from Philip Morris USA (PM USA) and favorable currency. Net earnings increased slightly to \$2.2 billion. Diluted earnings per share were flat with last year at \$1.07, including nine cents in charges, mainly for the restructuring at Kraft Foods (Kraft). Excluding charges, diluted earnings per share would have been \$1.16, or 8.4% ahead of last year on a comparable basis.

All in all, we had a solid first quarter that met our expectations. PM USA had a strong quarter with robust retail share growth, driven by **Marlboro**. Philip Morris International (PMI) delivered market share gains in many top markets, although total volume growth was adversely impacted by declines in France, Germany and Italy. Kraft is making investments to improve volume and share trends – and its Sustainable Growth Plan is on track. However, cheese and other commodity costs have surged and are expected to be a key challenge for Kraft this year.

Litigation

As I mentioned earlier, 2003 was a significant year for U.S. tobacco litigation, with positive implications for the future. There were a number of important rulings at both the federal and state levels, and before proceeding with a review of our businesses, I would like to comment briefly on developments in the litigation environment since last year's meeting.

Most importantly, a Florida appeals court overturned the \$145 billion verdict against PM USA and others in the *Engle* case and decertified that class action in May, and then reaffirmed that decision in September 2003. We remain optimistic that the appeal court's decision will prevail, despite a request by the plaintiffs for review by the Florida Supreme Court.

In September, The Illinois Supreme Court agreed to review the judgment in the *Price* "Lights" class action case, thereby shortening the appellate process and expediting what we hope will be a favorable decision by some time early next year.

We are encouraged by recent developments in "Lights" class action cases. Courts have refused to allow "Lights" cases to proceed as class actions in Florida, Massachusetts and Minnesota, and in states where trial courts have certified "Lights" classes, no appellate court has upheld such a certification to date.

PM USA has made it a priority, as part of a broad coalition of businesses across the country, to advocate appeal bond cap legislation in state legislatures. Today, including the addition this week of South Carolina, 34 states and Puerto Rico, representing more than 75% of the U.S. population, have such caps in place or do not require one. There has been remarkable success on this issue, and we are hopeful that there will be additional progress in 2004.

Last year I commented in some detail on the U.S. Supreme Court decision in *Campbell versus State Farm*, which speaks clearly on the issue of excessive punitive damages, as well as a number of other issues. During 2003, the *State Farm* decision resulted in positive developments in cases where excessive punitive damages had been awarded against PM USA, and we expect similar results in future cases.

In California, Philip Morris USA successfully defended the last three cases that went to trial. A decision earlier this month by the California Court of Appeal overturned a plaintiff's verdict in the *Whiteley* individual smoking case, citing numerous errors and sending that case back to a lower court for retrial, and just yesterday, in another favorable development, the California Supreme Court agreed to grant review in the *Henley* case.

However, we still face challenges, such as the Department of Justice case pending in the federal court in Washington, D.C. In that case, a trial date has been set for this September. PM USA has filed motions for summary judgment seeking dismissal of the remaining RICO claim, and remains hopeful that the judge will rule favorably before the trial.

There are several important trends that I believe illustrate the general improvement in the

litigation environment, although they receive relatively little attention. Overall, the vast majority of pending cases are inactive, and fewer cases are set for trial this year and next than at any time in the past five years. In addition, the total number of PM USA cases dismissed before going to trial continues to increase. Between 2002 and March 31 of this year, about 350 cases were dismissed. At the same time, the number of new cases initiated has continued to decline, dropping from nearly 200 in 2002, to less than 100 in 2003 and to less than 10 through March 31 of this year.

Taken together, I believe that recent litigation trends are likely to have continued positive effects for our tobacco companies throughout 2004 and into the future.

Business Review

Our food and tobacco businesses have many growth opportunities, and I would like to briefly review their first-quarter results and illustrate how they are executing on long-term strategies, beginning with Kraft.

Kraft encountered a number of challenges in 2003 and its results were below expectations. As a result, Kraft increased its investment in marketing programs and price-gap management by nearly \$200 million beginning in September 2003. Results in the last four months of the year were encouraging in key categories including cheese, cold cuts, crackers and coffee, with improved share trends in all categories except cookies.

This January, Kraft announced a Sustainable Growth Plan to further strengthen its performance and achieve long-term growth objectives. The four components of the plan are to build superior brand value, transform the portfolio, expand global scale and drive out costs and assets.

As part of its plan, Kraft has launched a three-year restructuring program to improve its overall cost structure and help fund its future growth.

Kraft expects to incur total pre-tax charges of about \$1.2 billion over the next three years to implement the restructuring program, primarily reflecting asset write-offs, severance and associated implementation costs. About half of those costs will be non-cash. However difficult, plant closings and workforce reductions are needed to build a stronger, more competitive Kraft. Wherever possible, Kraft is using natural turnover to achieve reductions, but for those employees who are regrettably affected by plant closings or other actions, Kraft is committed to doing all that it can to treat them fairly and help them through their transition. Ongoing annual savings from the program should approach \$400 million pre-tax by 2006 and will be reinvested in the business to help achieve the goals of the Sustainable Growth Plan.

In the first quarter of 2004, Kraft had fairly broad-based growth across much of its portfolio,

but weakness in a few key categories and international markets resulted in only modest volume growth of 0.5%, or 0.8% excluding divestitures. Net revenues increased 4.5%, supported by a strong euro and Kraft's increased investment in consumer marketing. As anticipated, operating income declined by 33.5% to \$989 million. This was due to charges of \$308 million associated with both Kraft's cost restructuring program and intangible asset impairments, along with higher commodity and benefit costs and increased marketing investment.

As part of its Sustainable Growth Plan, Kraft's first and highest priority is to build superior brand value. Each of Kraft's brands offers unique benefits combining superior taste and packaging, new product innovations and wide availability, all at the right price.

This year, Kraft has earmarked \$500 to \$600 million for additional spending on consumer marketing and price-gap management. In the first quarter, Kraft spent approximately \$75 million of that amount. In the three categories where it focused spending, cheese, cold cuts and snack nuts, it achieved strong results.

The second component of Kraft's Sustainable Growth Plan is to transform its portfolio in line with changing consumer and customer trends. Kraft plans to drive growth across all its global sectors by addressing important trends such as convenience and health and wellness. I would like to provide just a few examples.

For consumers who are counting carbohydrates, Kraft is introducing cereals and cereal bars along with new barbecue sauces, salad dressings and cookies under the **CarbWell** line. For people concerned with portion control, Kraft plans to launch these **Nabisco** 100 Calorie Packs in mid-year 2004. And for those interested in additional vitamins, **Crystal Light** Sunrise is a great tasting new breakfast drink with only five calories per serving and 100% of the daily requirement of vitamin C.

In the growing natural and organic food channel, Kraft's **Back To Nature** line will expand to include cookies, crackers and cheeses, all with no artificial flavors, colors or preservatives and zero grams of trans fat.

Kraft also is transforming its portfolio with strategic acquisitions, such as recently acquired Veryfine Products – the makers of **Fruit₂0** flavored water and **Veryfine** juices. And it has announced licensing agreements to market, sell and distribute Tazo teas and Seattle's Best coffees to grocery retailers nationwide.

The third component of Kraft's Sustainable Growth Plan is to expand global scale, particularly in fast-growing developing markets such as China, Russia, Brazil and Mexico. Developing markets have grown from 2% of Kraft's revenues in 1990 to 11% in 2003 and there is considerable potential for future growth.

The **Stollwerck** confectionery business in Russia is a good example. It transformed Kraft's

business in that market, giving it a strong number two position in the Russian chocolate market and a distribution platform to leverage coffee and salted snacks. As a result, Kraft's revenues in Russia have grown 31% per year since 1998.

Importantly, Kraft recognizes that its future success rests on its ability to address evolving societal expectations.

Kraft's commitment to responsibility is evident in its dedication to ensuring the quality and safety of the food it manufactures and markets to consumers around the world.

Another prime example is Kraft's strong ongoing program to respond to the rise in obesity. As part of this program, Kraft is working proactively to improve the overall nutrition profile of its portfolio.

One of its most comprehensive, challenging efforts is to reduce or, wherever possible, eliminate trans fat – including reformulated **Triscuits**, two varieties of Golden **Oreo** and Reduced Fat **Oreo**.

Kraft also is strengthening marketing policies, especially those governing marketing related to children. As part of these efforts, Kraft has eliminated advertising and promotion in schools in the U.S. and most parts of the world, and plans to end the practice completely in 2004.

In addition, Kraft is providing nutrition information to help consumers make healthy food choices. In 2003, it began a program to provide nutrition labeling in all markets worldwide, even in countries that don't require it.

Another responsibility initiative at Kraft focuses on the sustainability of its agricultural supply chain. Kraft has formed a partnership with the Rainforest Alliance to improve conditions on coffee farms, provide better economic returns for coffee growers and help move sustainable coffee to the mainstream.

Kraft is a strong and profitable food industry leader with enormous global potential and a great management team led by Roger Deromedi. We are pleased that Roger has made a complete recovery from his recent illness and plans to resume his duties as CEO on May 10. The Kraft management team is fully focused on tapping into Kraft's strengths and unique advantages – including its powerful brands, enormous scale and terrific people – to deliver realistic, sustainable growth over the long term.

Turning now to our domestic tobacco business -- in the first quarter, PM USA's operating companies income increased 30.7% to \$970 million, as it benefited from the absence of one-

time promotional and other costs incurred in the first quarter of 2003, partially offset by lower volume and charges for the move of PM USA's headquarters to Richmond, VA. Shipment volume decreased 1.7% to 43.1 billion units, but was essentially flat when adjusted for the timing of promotions, wholesaler inventory changes and an extra shipping day in 2004. Retail share performance was very strong, with PM USA's first-quarter total retail share up 1.3 percentage points to 49.6%, driven by **Marlboro** and **Parliament**.

PM USA's long-term growth strategy includes a sustained investment behind its four focus brands -- **Marlboro**, **Parliament**, **Virginia Slims** and **Basic**.

No franchise better demonstrates the effectiveness of PM USA's investment than **Marlboro**. Over the last year, PM USA further strengthened the **Marlboro** franchise with the introduction of **Marlboro** Blend No. 27, a product with a distinctive flavor and packaging that is doing well this year. PM USA continued to enhance **Marlboro**'s brand equity with the March 2004 national launch of **Marlboro** Menthol 72mm. The launch met both its initial share and distribution objectives. In the first quarter of 2004, **Marlboro** continued to grow, achieving a 39% share at retail, up 1.5 percentage points versus the same period a year ago.

Parliament is also performing strongly at retail, aided by last year's launch of the Ultra Lights version that complements the taste lineup for this growing brand. In the first quarter of this year, **Parliament** achieved a 1.7% share at retail, up 0.2 percentage points versus the same period a year ago.

PM USA's strategies helped strengthen the premium category's retail share of the total industry to 73.1% in the first quarter, with PM USA's share of that category up 0.8 percentage points to 61.8%.

The deep discount category of the industry, which includes both all other manufacturers' discount brands and major manufacturers' private label brands, is flat, and in the first quarter the category's retail share was 11.9%.

PM USA is supporting a number of important legislative initiatives. It is the only major tobacco manufacturer advocating meaningful, effective FDA regulation of tobacco products, which PM USA has made its top federal legislative priority. FDA regulation could reduce the harm caused by smoking, provide greater consistency in tobacco policy, more predictability for the tobacco industry and an effective way to address issues that are of concern to PM USA and society.

In addition, PM USA is strongly supporting passage of the Prevent All Cigarette Trafficking Act, a bill that passed in the U.S. Senate. This federal law is aimed at cracking down on the

illegal sale of cigarettes on the Internet and through direct mail, which are some of the principal vehicles used to evade state excise taxes and state mandated escrow payments. A similar bill was approved by the House Judiciary Committee and PM USA is hopeful that strong, effective anti-contraband legislation will become law this year.

Complementing these legislative efforts are the aggressive anti-contraband actions PM USA is taking. It is working closely with law enforcement agencies to address the sale of illegal diverted cigarettes, and consumers can report such sales to the Alcohol and Tobacco Tax and Trade Bureau of the Treasury Department. Another early indication of PM USA's focused efforts is that the availability of counterfeit product has declined in states that experienced the highest incidence of counterfeit, such as California and Texas.

PM USA recognizes that its long-term success is dependent upon aligning with society's evolving expectations of a responsible tobacco company. It is making progress on this critical issue on several fronts.

One of the most visible actions it has taken is advertising to support the PM USA Website, where it communicates to the public about a range of tobacco issues, from messages on the harm caused by smoking to youth smoking prevention.

PM USA continues to work towards preventing youth smoking through comprehensive actions including responsible marketing to adult smokers, retail merchandising programs, engagement with policy makers, and communication and resources designed for parents.

Data from a University of Michigan study provide third-party confirmation of a significant decline in youth smoking among 8th, 10th and 12th graders since the late 1990s, but the incidence of youth smoking remains high and there is still progress to be made.

The parent resource center on PM USA's Website provides information and advice from child development and parenting experts to assist parents in better connecting with, and talking to, their kids about not smoking and avoiding other risky behaviors.

As a major sponsor of the We Card age verification program, PM USA is also helping to encourage age verification at the point of sale.

In addition, PM USA continues to seek, in conjunction with PMI, ways to reduce the harm caused by smoking. They are funding research and development efforts to develop products that could potentially reduce adult smokers' exposure to harmful compounds in cigarette smoke, and hope to test-market a first-generation product later this year.

I believe that PM USA's strategies are clearly working and that the investments it has made are paying off with solid financial performance and good retail market share gains, particularly for **Marlboro** and **Parliament**, and continuing progress on meeting societal

expectations.

Turning to our international tobacco business -- in the first quarter, PMI delivered operating companies income growth of 8.6%, to \$1.8 billion, aided by favorable currency of \$243 million. The favorable currency is allowing PMI to consciously invest in its brands and expand its sales, manufacturing and research infrastructure around the world. PMI's volume of 196.9 billion units advanced 3.2% in the first quarter including acquired volume, partially offset by lower volume in France, Germany and Italy.

In France, tax-driven price increases continued to adversely impact the industry and PMI's volume performance. However, PMI's market share was essentially stable in the first quarter at 39.2%. We believe the French government is unlikely to raise taxes again this year, which should result in greater price stability and will moderate the rate of market decline. Going forward, we are optimistic about PMI's volume comparisons in France.

In Italy, PMI's leading brands, **Marlboro** and **Diana**, continue to be under pressure from low-priced competitive brands. PMI is determined to recover lost market share through a number of regulatory and marketing initiatives, including efforts to further narrow price gaps through a change in the minimum tax methodology, and ongoing investments to increase the sales force, launch a number of product initiatives, introduce new retail trade programs, and improve the presence of its brands at the point of sale.

In Germany, the difficult economic environment coupled with a series of tax-driven price increases have resulted in a 6.0% decline in the cigarette market in the first quarter. Although PMI's cigarette volume declined 3.0%, market share grew slightly to 37.3%, demonstrating **Marlboro**'s resilience.

PMI is investing in new marketing programs in Germany, and has already announced plans to make a robust entry into the growing tobacco portions category. These initiatives, coupled with **Marlboro**'s strength, give us confidence that PMI can grow its volume and share of the overall tobacco industry in Germany this year.

Notwithstanding challenges in certain markets, PMI has considerable opportunity for long-term growth. It operates in a huge industry, estimated at 4.9 trillion cigarettes. In Russia, Germany, Italy and the Ukraine, PMI holds the leading position in the industry. While in Japan, Turkey, Spain, Brazil and the Philippines, PMI is number two and growing, with well-established operations and strong brands.

PMI continues to invest behind its superior brand portfolio to achieve organic volume growth and generate share gains, and **Marlboro** remains its top priority. The success of this strategy is clear, as PMI is the leader of the international premium segment with nearly 48% share of the segment. PMI intends to build on **Marlboro**'s success and ensure that it remains the

quality leader around the world. **Marlboro**'s volume is nearly as large as the next seven competitive international brands combined. The **Marlboro** franchise is vibrant and the brand is well positioned for future growth around the world.

In addition, the growth of PMI's other international brands continued in the first quarter, led by **L&M**, which achieved a strong volume gain of 8.6% in the first quarter. **Lark** was up 3.3%, reflecting its successful launch in Korea and Taiwan last year. And **Parliament** was up 6.0%, driven by gains in Central and Eastern Europe. The underlying strength of its powerful portfolio is demonstrated by PMI's share performance in the first quarter.

An important area of focus for PMI is addressing the escalating problem of counterfeit cigarettes worldwide. Earlier this month, PMI announced that it is in discussions to reach an agreement with the European Commission that provides for broad cooperation with European law enforcement agencies on anti-contraband and anti-counterfeit efforts. The draft agreement also would resolve past disputes relating to these issues. We are optimistic that the agreement will go a long way in building ongoing dialogue and a collaborative relationship between PMI and the EU on a range of issues that are of mutual concern and interest.

PMI also continues to address regulatory and societal expectations, and advocates strong and effective tobacco regulation in every country where it does business.

Along with PM USA, PMI supported the process that led to the adoption of the World Health Organization Framework Convention on Tobacco Control, the first international treaty to set a global agenda for the regulation of tobacco products. While there are some provisions within the Framework Convention that, in our opinion, do not represent sensible and effective regulatory measures, there are many that are appropriate and useful.

We encourage governments to take action today, with or without ratification of the Treaty, to adopt strong rules applicable to all manufacturers of tobacco products. For example, many member states have no minimum age laws. In those countries, it is legal to sell cigarettes to children. PMI supports a globally consistent minimum age of 18. Many countries also do not require health warnings on cigarette packs. PMI believes that all tobacco products and advertisements should carry clear, conspicuous health warnings, which PMI already uses, even where they are not required by law.

Our tobacco companies are committed to working with governments around the world to encourage effective regulation of tobacco products everywhere. We believe that the best way to arrive at effective regulation is for governments, regulators, public health authorities and other tobacco manufacturers to work together.

PMI is fully committed to youth smoking prevention, and is also demonstrating its commitment to responsibility by providing consumers with complete and timely information about its products and related issues on its Website, and on cigarette packs in key markets.

To sum up, today PMI has a 14.5% share of the international tobacco market, leaving ample room for growth. PMI possesses a strong base, with its superb brand portfolio, led by **Marlboro, L&M, Parliament** and many other outstanding international brands, as well as significant global scale and infrastructure. These strengths, coupled with its terrific people and its determination to address challenges in certain markets and societal expectations, give us confidence that PMI has a promising future with opportunities for long-term growth.

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, Kraft, Jacobs, L&M, Maxwell House, Nabisco, Oscar Mayer, Parliament, Philadelphia, Post** and **Virginia Slims**.

They also have thousands of talented and dedicated employees who share a commitment to compliance and integrity in all they do, understand the importance of quality and innovation, and are committed to meeting or exceeding evolving societal expectations.

We have significant financial resources, delivering \$9.2 billion in net earnings in 2003, placing us 7th among the most profitable companies on the Fortune 500 list.

The Altria family of companies generated a total of \$15.5 billion in total taxes paid to federal, state and local governments in the U.S. alone in 2003, and that number more than doubles when taxes outside the U.S. are considered.

We delivered nearly \$11 billion in operating cash flow in 2003, largely from our tobacco operating companies, and after funding capital expenditures, acquisitions and debt reduction, we plan to continue using our strong cash flow to reward you, our shareholders.

In closing, I want to emphasize that the entire management team is committed to delivering superior returns to our shareholders, and I am confident that the Board of Directors will fully consider all alternatives in deciding how best to achieve that goal.

Conclusion and Tribute to Employees

As we indicated in our proxy statement, we are not distributing gift boxes with samples of Kraft's food products this year, and have chosen instead to make a donation to Jersey Battered Women's Services, a New Jersey based not-for-profit organization that provides valuable life-saving services to victims of domestic violence.

That donation is part of a much larger effort by Altria and its operating companies and employees to support programs that help people in need, and that enhance the quality of life in the communities where we live and work. Let me tell you about just a few examples.

To help alleviate the critical problem of hunger, our family of companies supported more than 430 domestic and international hunger programs and initiatives with monetary grants and in-kind donations in 2003. These programs helped provide nutritious meals to the homebound elderly and people living with HIV/AIDS and other critical illnesses.

The Altria companies have been leading supporters of the arts for many years, celebrating diverse cultures and disciplines by sponsoring organizations that provide inspiration for people of all ages.

Altria and its companies helped bring the devastating problem of domestic violence to the forefront of public consciousness, working closely with the National Network to End Domestic Violence Fund in the U.S.

Partnering with leading humanitarian aid organizations, the Altria family of companies has provided assistance when crisis strikes, from Red Cross aid for victims of natural disasters to the airlift of food and medical supplies via AmeriCares.

Driving the success of our businesses are the wonderful men and women who make up the Altria family. Their energy knows no bounds, their generosity no limits. They donated \$15 million of their own money last year to non-profit organizations in the communities where they live and work. In addition, they volunteered countless hours of their own time to help those less fortunate than themselves.

Our employees remain steadfast in their desire to succeed in all they aspire to. They are supremely ethical, hard-working, creative and committed. Never complacent, their dedication is matched only by their pride in what they do.

In closing, I want to thank all the members of the Altria family, including you, our shareholders, for your dedication to this fine company. Thank you.

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