

The states of New York, Vermont and California have thus far adopted standards for reduced cigarette ignition propensity, each of which requires a certain level of minimum performance as assessed by the New York standard. The New York standard has been in effect since June 30, 2004, and the Vermont and California standards are scheduled to take effect respectively on May 1, 2006 and January 1, 2007. Both the Vermont and California statutes recognize the importance of uniformity by requiring that they be implemented “in accordance with the implementation and substance” of New York’s standard. PM USA is opposed to the adoption of individual state standards for reduced cigarette ignition propensity. However, if a state decides to enact such a standard, it is important for the standard to be consistent with the requirements uniformly adopted by New York, California and Vermont.

Similarly, PMI believes that reduced cigarette ignition-propensity standards should be uniform, technically feasible, and applied against all manufacturers. PMI is prepared to work with regulators, legislators and fire-safety organizations to develop ignition-propensity standards, including sharing the results of PMI’s research with governments for the purpose of developing such standards.

It is important to note that cigarettes that comply with the New York regulations are not “fire-safe.” Anything that burns, if handled carelessly, can cause a fire. Although cigarettes that meet the New York standard are less likely than cigarettes that do not meet that standard to ignite certain fabrics under specific laboratory conditions, the relationship between reduced ignition-propensity cigarettes and the number of cigarette-related fires will remain unclear until the actual impact of reduced ignition-propensity cigarettes has been evaluated in the marketplace.

The Company believes that the best approach to this issue is for PM USA and PMI to continue to work with interested governments on appropriate and consistent regulatory standards.

Therefore, your Board urges stockholders to vote AGAINST this proposal, and proxies received by the Company will be so voted unless stockholders specify a contrary choice in their proxies.

PROPOSAL 5 – ANIMAL WELFARE POLICY

People for the Ethical Treatment of Animals, 501 Front Street, Norfolk, Virginia 23510, claiming beneficial ownership of 114 shares of common stock, submitted the proposal set forth below.

WHEREAS, the Company conducts tests on animals as part of its product research and development; and

WHEREAS, the Company also retains independent laboratories to conduct tests on animals as part of product research and development; and

WHEREAS, abuses in independent laboratories have recently been revealed and disclosed by the media; and

WHEREAS, the Company has no published animal welfare or animal care policy prominently posted on its website; NOW THEREFORE,

BE IT RESOLVED, that the shareholders request that the Board adopt and post an Animal Welfare Policy online which addresses the Company’s commitment to (a) reducing, refining and replacing its use of animals in research and testing, and (b) ensuring superior standards of care for animals who continue to be used for these purposes, both by the Company itself and by all independently retained laboratories, including provisions to ensure that animals’ psychological, social and behavioral needs are met. Further, the shareholders request that the Board issue an annual report to shareholders on the extent to which in-house and contract laboratories are adhering to this policy, including the implementation of the psychological enrichment measures.

Supporting Statement:

The Boards of many companies have adopted and prominently published animal welfare policies on their websites relating to the care of animals used in product research and development. Our Company should be an industry leader with respect to animal welfare issues, and yet has no publicly available animal welfare policy.

The recent disclosure of atrocities recorded at Covance, Inc. has made the need for a formalized, publicly available animal welfare policy that extends to all outside contractors all the more relevant, indeed urgent. Filmed footage showed primates being subjected to such gross physical abuses and psychological torments that Covance sued to stop PETA Europe from publicizing it. The Honorable Judge Peter Langan, in the United Kingdom, who denied Covance's petition, stated in his decision that the video was "highly disturbing" and that just two aspects of it, namely the "rough manner in which animals are handled and the bleakness of the surroundings in which they are kept . . . even to a viewer with no particular interest in animal welfare, at least cry out for explanation."¹

Shareholders cannot monitor what goes on behind the closed doors of the animal testing laboratories, so the Company must. Accordingly, we urge the Board to commit to ensuring that basic animal welfare measures are an integral part of our Company's corporate stewardship.

We urge to shareholders to support this Resolution.

The Board recommends a vote AGAINST this proposal.

The Company recognizes and understands the sensitivities raised by the use of animals in scientific research. While animal research is an essential step in certain product development and health-and-safety-related testing measures, all animal testing should be conducted in a manner that is informed by these sensitivities. The Company follows principles governing animal research that are accepted by and employed at many medical research facilities and major consumer products companies.

The Company is committed to the humane treatment of laboratory animals in all animal research conducted by or for the Company. The Company's animal research policies and practices are guided by three principles, which are a key component of the United States Department of Agriculture's (USDA's) regulation of animal welfare:

- To substitute alternative non-animal testing systems in place of live animal testing.
- To use the fewest number of animals possible.
- To develop procedures that limit the potential for discomfort to animals.

Our research is performed in compliance with all applicable international, national, state, and local laws and regulations, such as the USDA Animal Welfare Regulations and the European Union Directive of Animal Experiments. The Company is also guided by well-respected United States and international scientific bodies, such as the National Institutes of Health Public Health Service Policy on the Humane Care and Use of Laboratory Animals, the Guidelines of the American Association of Laboratory Animal Science, standards of the Society of Toxicology, and standards of the American Association for the Assessment and Accreditation of Laboratory Animal Care.

Moreover, we are willing to share our principles concerning animal use and care standards with interested parties.

¹ The case captioned *Covance Laboratories Limited v. PETA Europe Limited* was filed in the High Court of Justice, Chancery Division Leeds District Registry, Claim No. 5C-00295. In addition to ruling in PETA's favor, the Court ordered Covance to pay PETA £50,000 in costs and fees.

The Company thus adheres to the same animal use and care standards that are widely recognized and implemented throughout the consumer products industry and medical research community.

Therefore, your Board urges stockholders to vote AGAINST this proposal, and proxies received by the Company will be so voted unless stockholders specify a contrary choice in their proxies.

PROPOSAL 6 – SUPPORT FOR LAWS AT ALL LEVELS COMBATING USE OF TOBACCO

WHEREAS, The Sisters of St. Joseph of Carondelet, 1884 Randolph Avenue, St. Paul, MN 55105-1700, claiming beneficial ownership of 75 shares of common stock, together with two co-proponents, submitted the proposal set forth below. The names, addresses and shareholdings of the co-proponents will be furnished upon request made to the Secretary of the Company.

WHEREAS, this Company has publicly said that using its tobacco products is a danger to peoples' health;

According to *Market Wire* (August 25, 2005), the American Lung Association (ALA) has noted an increasing number of states are taking aggressive action to reduce tobacco use. For instance, "during the first half of 2005, several states went completely smokefree, others moved to strengthen existing restrictions on smoking in public places, and new increases in state tobacco taxes are bringing the national average to nearly \$1.00 a pack."

The report noted: "While states are making it harder for people to smoke in public places, higher cigarette taxes are also making smoking more expensive. Since January 1, 2005, tobacco taxes have increased in 11 states, including the tobacco-growing states of North Carolina and Kentucky .s [SIC] of August 15, the average state cigarette tax was \$0.89 cents per pack. It will increase to \$0.92 cents per pack when tax increases in Maine and North Carolina take effect. Texas is considering a \$1.00 increase in its cigarette tax, which would push the nationwide average even higher."

According to John L. Kirkwood, President and CEO of the ALA, "Higher cigarette taxes mean significant drops in smoking rates. Studies show that a 10 percent increase in the price of cigarettes reduces consumption by 7 percent for youth and 4 percent for adults. Raising the cigarette tax is one of the most effective ways to reduce adult smoking and stop kids from ever starting."

The Company has publicly said it does not want youth to start smoking. It has been running ads to help people to stop smoking. However, it has not demonstrated that such efforts have reduced smoking for young people and/or adults.

The report took note of preemption of smokefree [SIC] laws: "Illinois became only the second state (after Delaware) to repeal preemption of local smokefree air ordinances. This action will allow any local community in Illinois to adopt smokefree air ordinances that are stronger than state law. Once the Illinois law goes into effect on January 1, 2006, 19 states will have total or partial preemption. Preemption is a major priority for the tobacco industry and its front groups because they have less influence at the local level and prefer to lobby for weak statewide smokefree air laws that cannot be replaced by stronger local ordinances."

RESOLVED that, since a combination of laws against smoking in public places as well as tax increases has been [SIC] shown to demonstrably reduce smoking, especially among young people, the Company make as public policy a commitment to support legislation at all levels of local, regional, state and federal government which is geared to that end. Furthermore, the Company shall also support all efforts to repeal existing preemption laws limiting local smokefree air ordinances.