



PHILIP MORRIS INTERNATIONAL

2011 Second-Quarter Earnings Results

July 21, 2011



Introduction

- Unless otherwise stated, we will be talking about results for the second-quarter 2011 and comparing them with the same period in 2010
- References to PMI volumes refer to PMI shipment data, unless otherwise stated
- Industry volume and market shares are the latest data available from a number of internal and external sources
- Organic volume refers to volume excluding acquisitions
- Net revenues exclude excise taxes
- OCI stands for Operating Companies Income, which is defined as operating income before general corporate expenses and the amortization of intangibles. OCI growth rates are on an adjusted basis, which excludes asset impairment, exit and other costs
- Data tables showing adjustments to net revenues and OCI for currency, acquisitions, asset impairment, exit and other costs, free cash flow calculations, adjustments to EPS, and reconciliations to U.S. GAAP measures are at the end of today's web cast slides and are posted on our web site



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Forward-Looking and Cautionary Statements

- This presentation and related discussion contain statements that, to the extent they do not relate strictly to historical or current facts, constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on current plans, estimates and expectations, and are not guarantees of future performance. They are based on management’s expectations that involve a number of business risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. PMI undertakes no obligation to publicly update or revise any forward-looking statements, except in the normal course of its public disclosure obligations. The risks and uncertainties relating to the forward-looking statements in this presentation include those described under Item 1A. “Risk Factors” in PMI’s Form 10-Q for the quarter ended March 31, 2011, filed with the Securities and Exchange Commission



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Second-Quarter 2011 Results

- Very strong financial performance:

	<u>Q2, 2011 Results^(a)</u>
Organic Cigarette Volume	+0.1%
Net Revenues	+10.1%
Adjusted OCI	+16.5%
Adjusted Diluted EPS	+21.0%

- Key drivers:

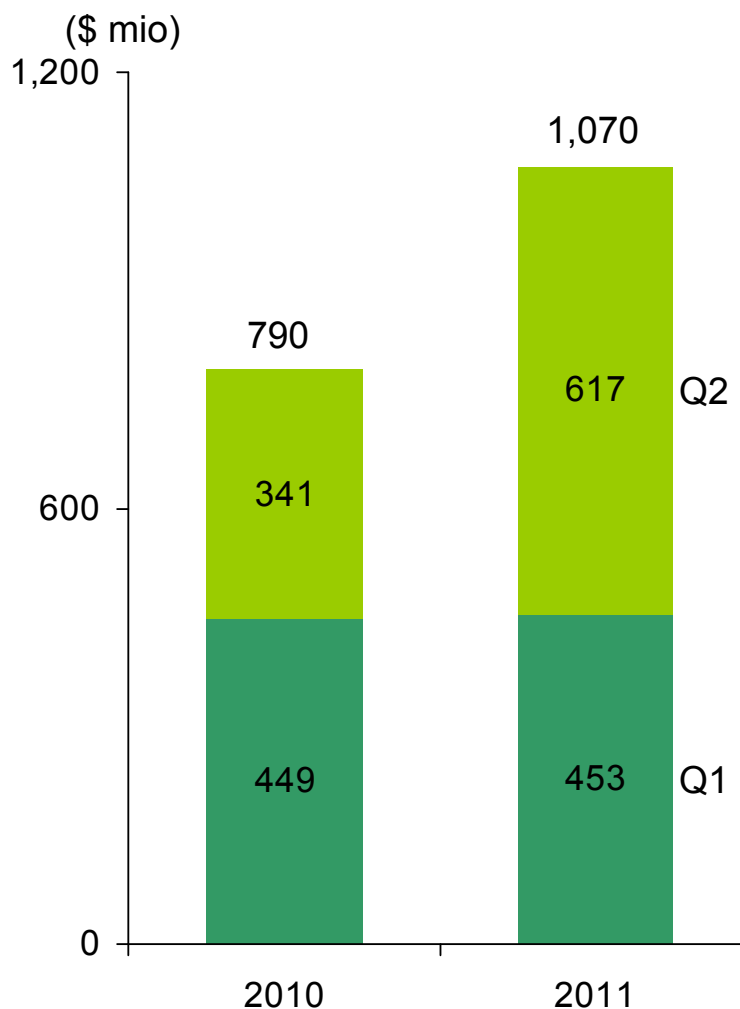
- Excellent results in the Asia Region, led by Indonesia, Japan, Korea and the Philippines
- Higher prices in a wide range of markets

(a) All financial growth rates exclude currency. Net revenues and OCI growth rates also exclude acquisitions
Source: PMI Financials



Pricing Variance

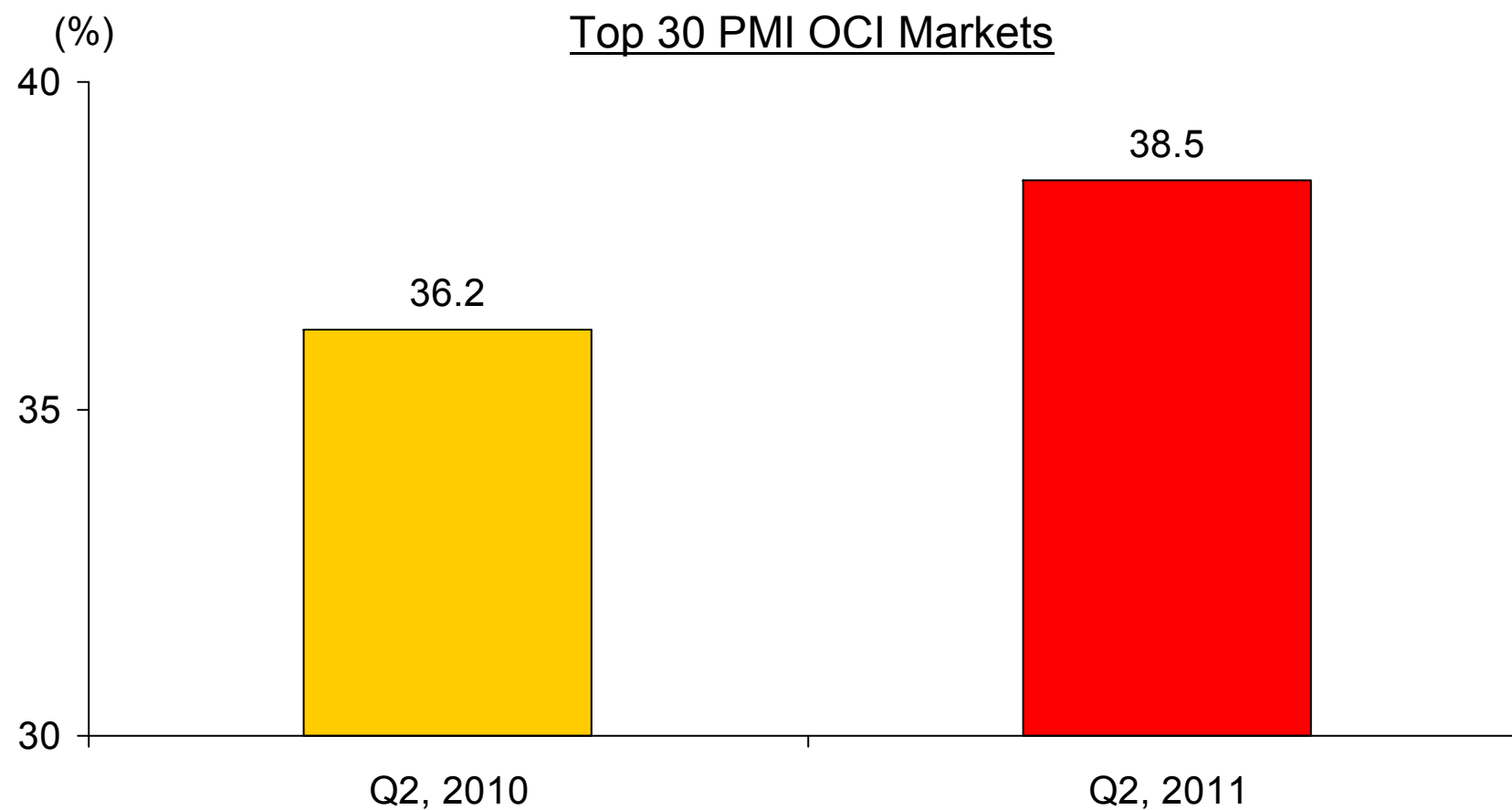
- Pricing remains the key driver of our increased profitability
- During the last three months, PMI implemented or announced price increases in numerous markets
- Pricing situation in Spain improved in July





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PMI Market Share Developments



Source: PMI Financials and estimates



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Marlboro Market Share Developments

	Market Shares		
	<u>Q2, 2010</u>	<u>Q2, 2011</u>	<u>Variance</u>
EU	18.1 %	18.1 %	- pp
EEMA	6.3	6.9	0.6
Asia ^(a)	6.0	6.7	0.7
LA&C	13.6	13.7	0.1
Total^{(a)(b)}	8.9	9.3	0.4

(a) Excluding PRC

(b) Also excluding the USA

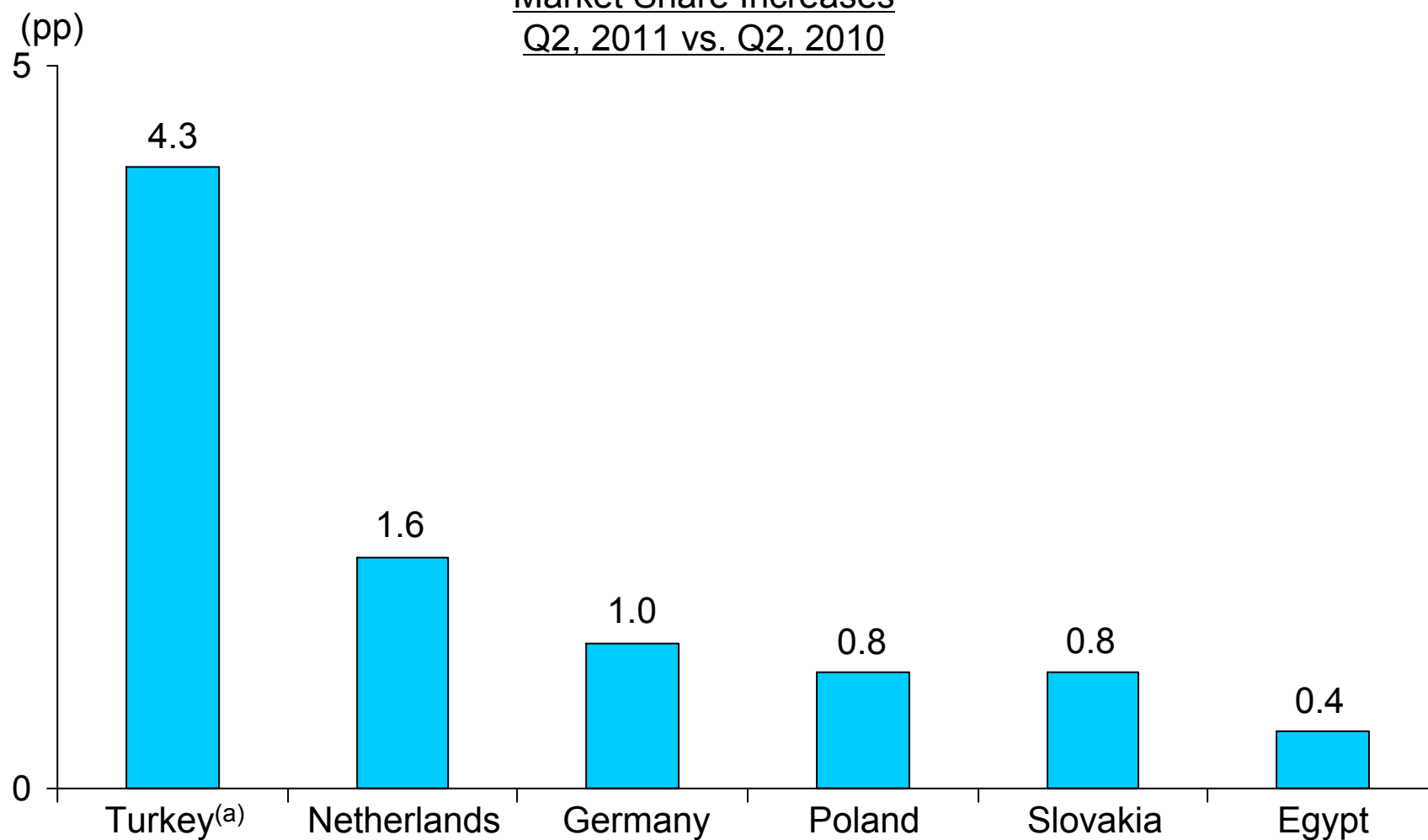
Source: PMI estimates



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L&M Market Share Developments

Market Share Increases
Q2, 2011 vs. Q2, 2010



(a) QTD May

Source: A.C. Nielsen and PMI estimates



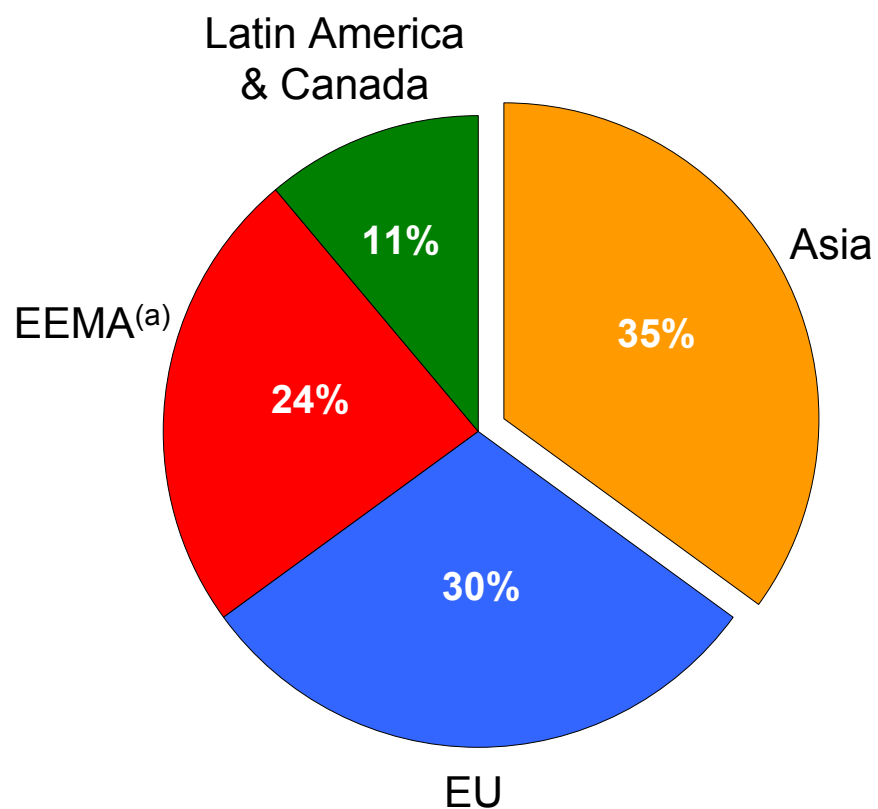
2011 EPS Guidance

- Reported diluted EPS guidance for 2011 is being raised by a further 15 cents to \$4.70 to \$4.80
- Ten cents of the increase are attributable to improvements in the business, largely Japan
- Five cents relate to a more favorable currency outlook at prevailing exchange rates
- Compared to our adjusted diluted EPS of \$3.87 in 2010, this corresponds to a growth rate of approximately 21.5 to 24% at prevailing exchange rates, and approximately 15% to 17.5% excluding currency

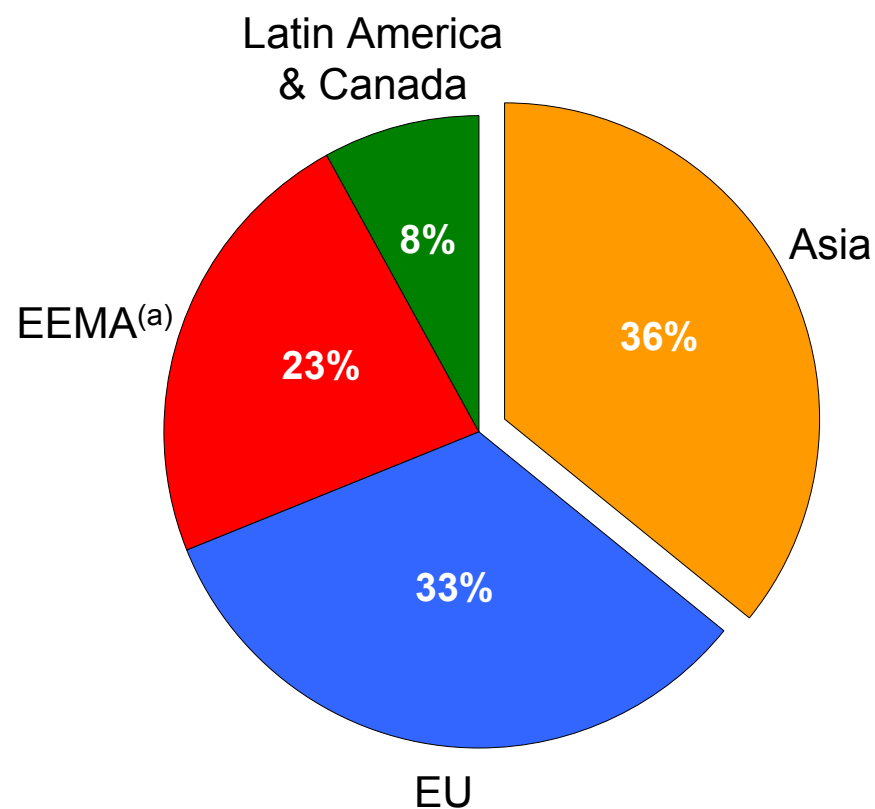


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PMI Results by Region



H1, 2011 Net Revenues:
\$15.1 billion



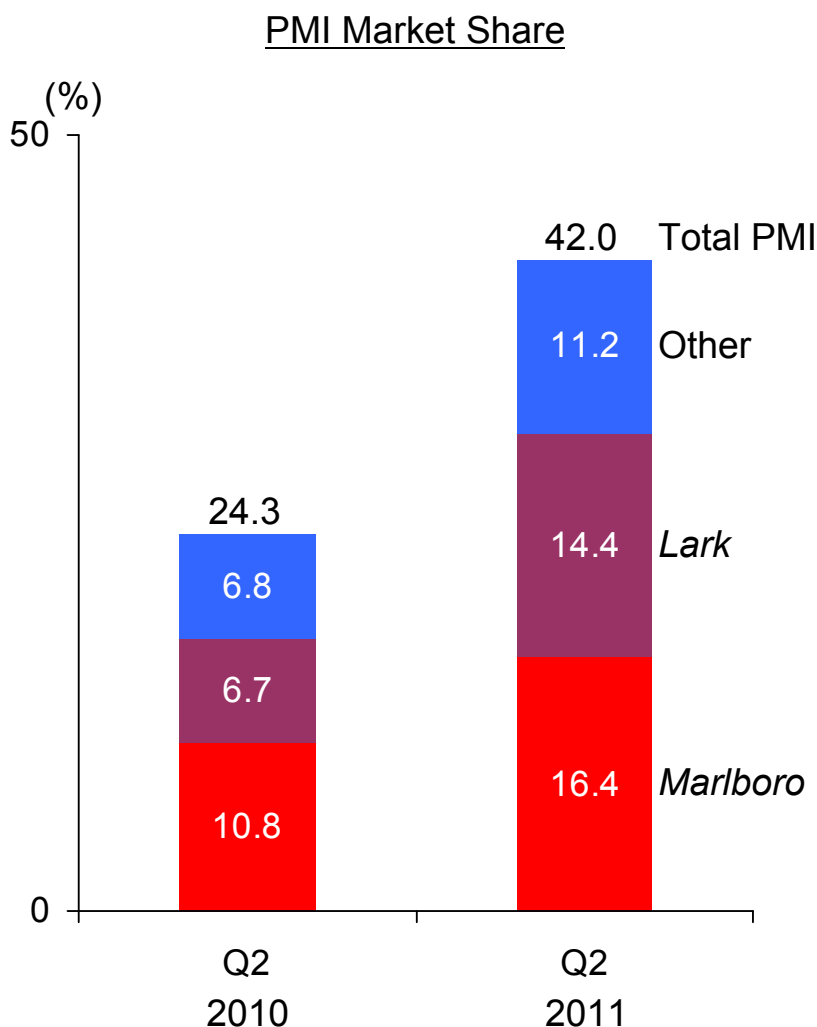
H1, 2011 Adjusted OCI:
\$6.9 billion

(a) Eastern Europe, Middle East & Africa Region
Source: PMI Financials



Japan

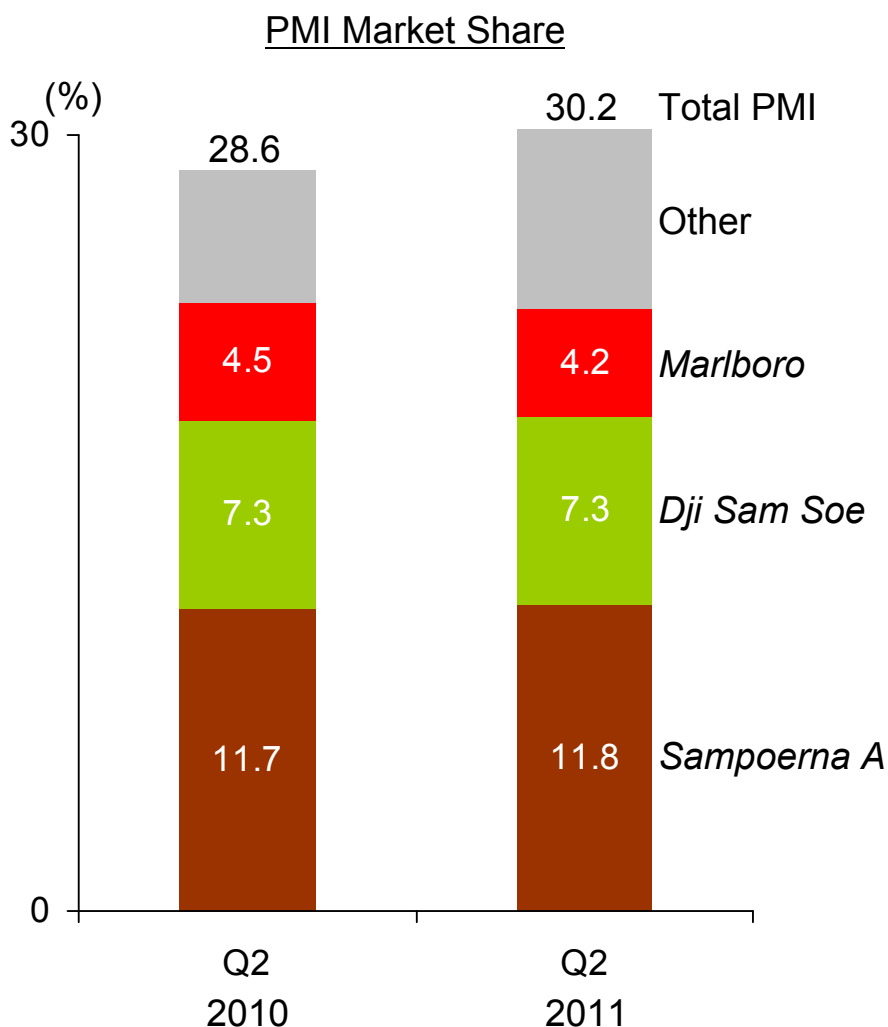
- PMI shipments to Japan reached 19.5 billion units in Q2, 2011, up 1.9 billion, or 11.0%
- Second half impact subject to complex interaction of multiple factors
- New base for industry volume and PMI share will not be clear until Q4, 2011, at the earliest





Indonesia

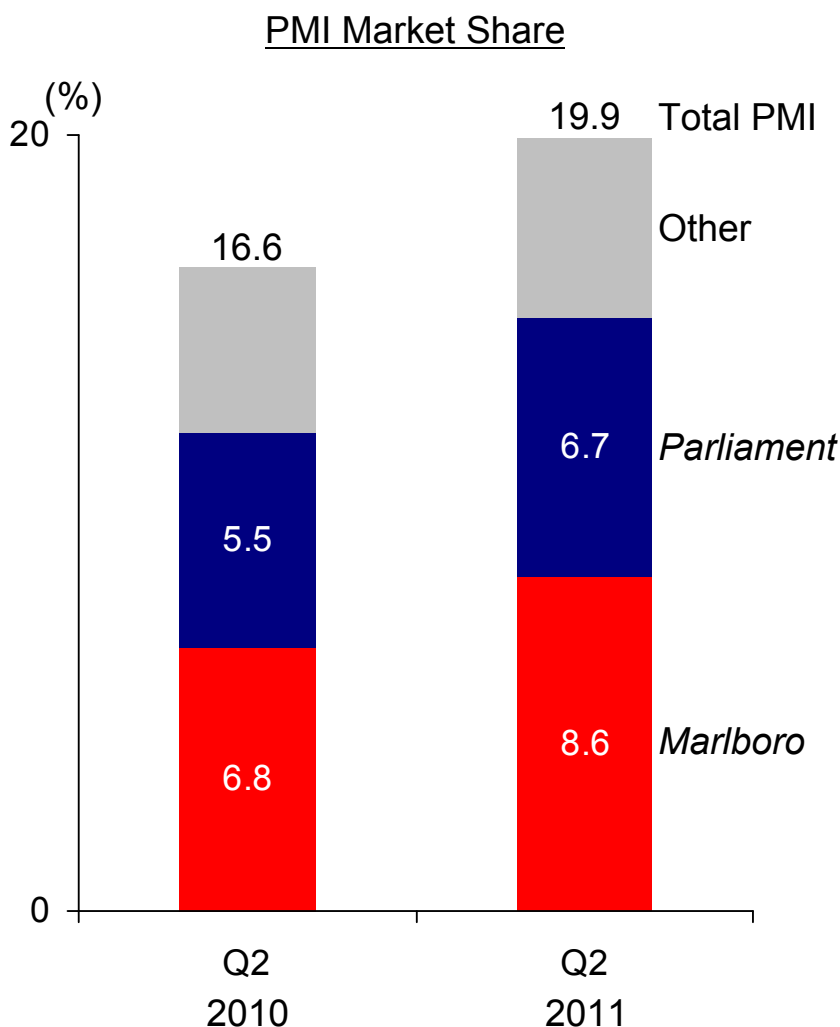
- Strong economy and relatively soft Q2, 2010, drove industry volume up 13.9% in Q2, 2011
- PMI volume up 20.7% to 22.6 billion units in the same period
- Strong profitability growth in Asia's second largest market after China





Korea

- Strong volume and share growth momentum continued, driven by *Marlboro* and *Parliament*
- Innovative *Marlboro* menthol line extensions contributed 1.0 share points in Q2, 2011
- PMI seeking to secure excise tax reform





EEMA Region

- PMI's organic volume declined by 3.4% due primarily to Ukraine
- Full-year Regional volume expected to be stable
- Net revenues and adjusted OCI, excluding currency and acquisitions, were up 3.6% and 4.8%, respectively in Q2
- Profitability improvement driven by:
 - Increased volumes in Turkey and North Africa, and
 - Higher prices across the Region, most notably in Russia, partly offset by
 - Lower volumes in Eastern Europe, and
 - Increased investments in business building initiatives in Russia



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Russia

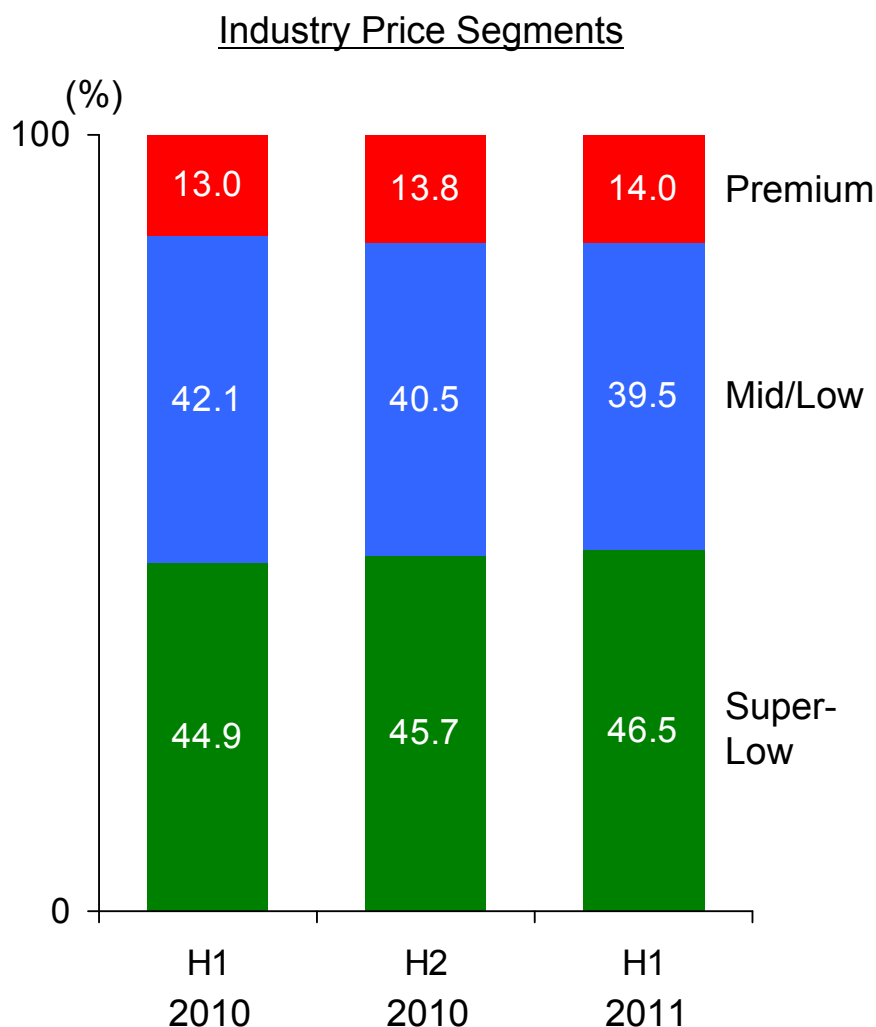
- Investments to support strong performance of *Parliament*, *Chesterfield* and *Bond Street*, and address *Marlboro* issues
- Market share down 0.1pp QTD May, 2011, to 25.4%
- PMI price increase announced earlier this month
- Limited consumer uptrading and expected overall market decline of 2-3% this year, in line with 2010
- Russian Government has approved new road map for excise taxes





Ukraine

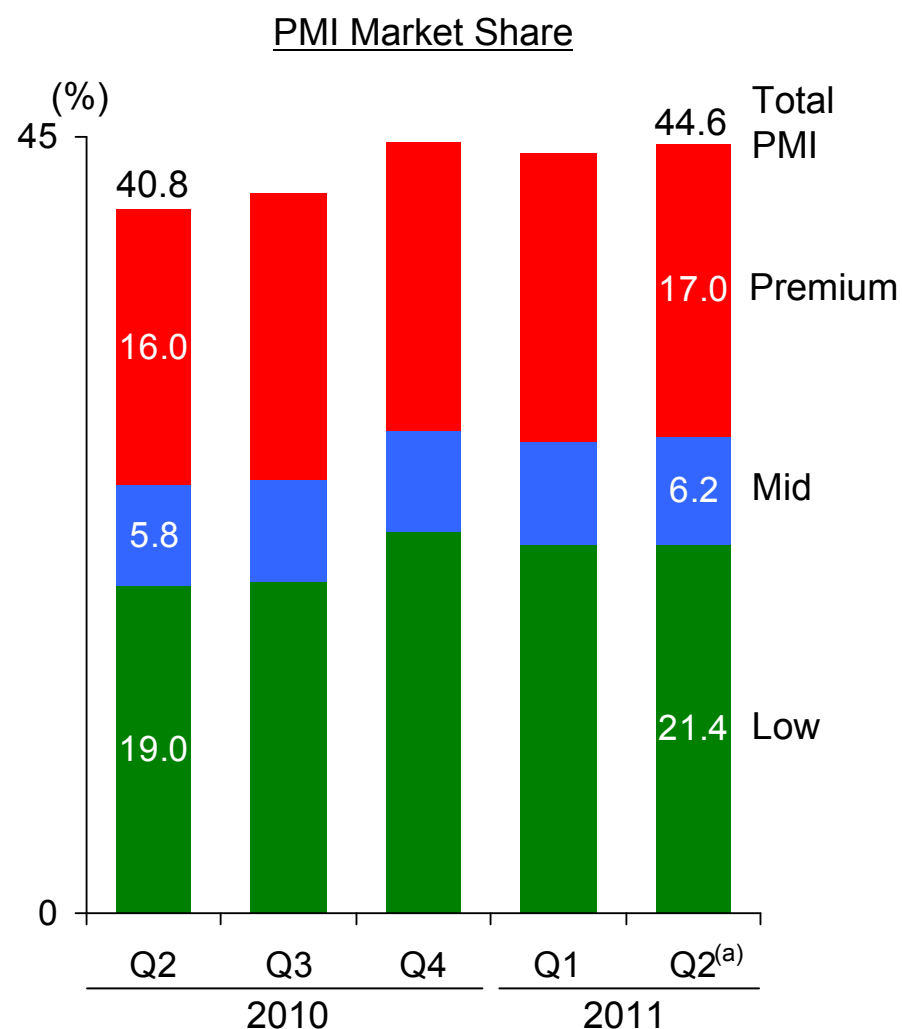
- Estimated industry volume decline of 15% distorted by trade loading in Q2, 2010
- Total market expected to stabilize during second half
- PMI share down 3.5pp to 32.1% in the second quarter, due to under-representation in super-low segment. Issue being addressed through more attractive pricing of *Bond Street*
- Market shares of *Parliament* and *Marlboro* are growing





Turkey

- Total market has stabilized
- PMI volume up 12.1% in Q2, 2011
- PMI reached a market share of 44.6% in QTD May, 2011, up 3.8pp
- PMI share improvement in all three price segments, led by *Parliament*, *Muratti* and *L&M*



(a) QTD May

Source: PMI estimates, PMI Financials and A.C. Nielsen



EU Region

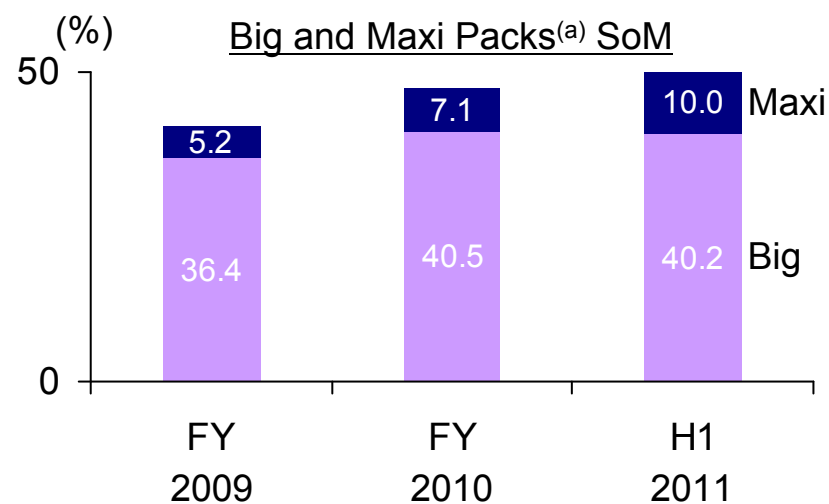
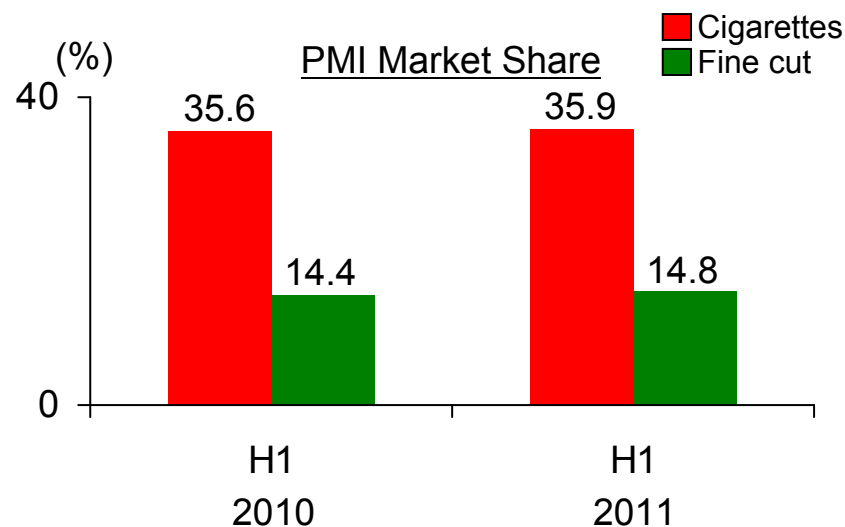
- Despite the issues that continued to impact Spain and to a lesser extent Greece, the results in the second quarter were more positive:
 - Industry volume declined by a modest 1.7%
 - PMI volume was 3.1% lower due to Greece, Poland and Spain
 - *Marlboro's* Regional share was stable at 18.1% and *L&M* grew a further 0.3pp to 6.6%
 - Net revenues and adjusted OCI were up 0.7% and 2.3%, respectively, excluding currency and acquisitions



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Germany

- Total industry volumes of cigarettes and fine cut have increased this year
- PMI cigarette and fine cut market shares are growing
- Very strong performance of *L&M*
- Unit margin-enhancing price increases implemented
- Continued growth of “maxi” pack segment



(a) Big packs (22-25 cigs) and Maxi packs (26+ cigs)
Source: PMI estimates

High unemployment



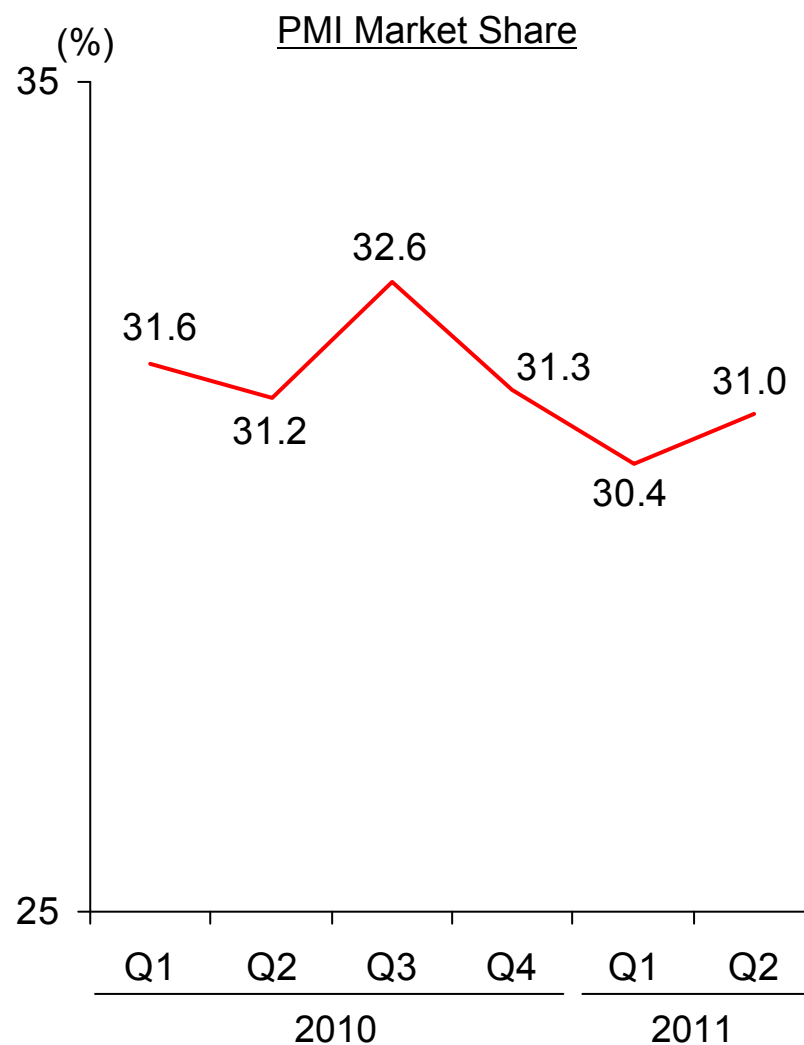
Cigarette industry contracting at
double-digit rate and consumer
downtrading



Price competition exacerbated in
May/June this year

BUT

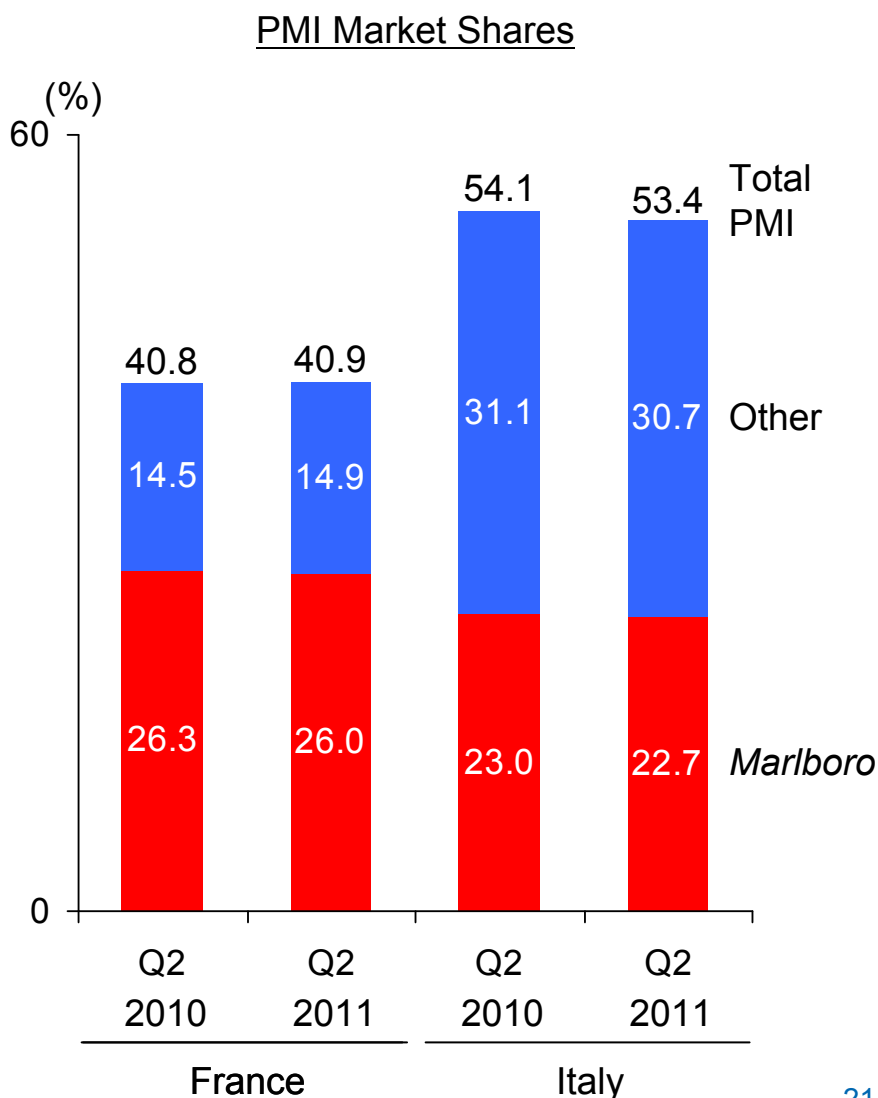
Recent developments indicate the
situation has improved





France and Italy

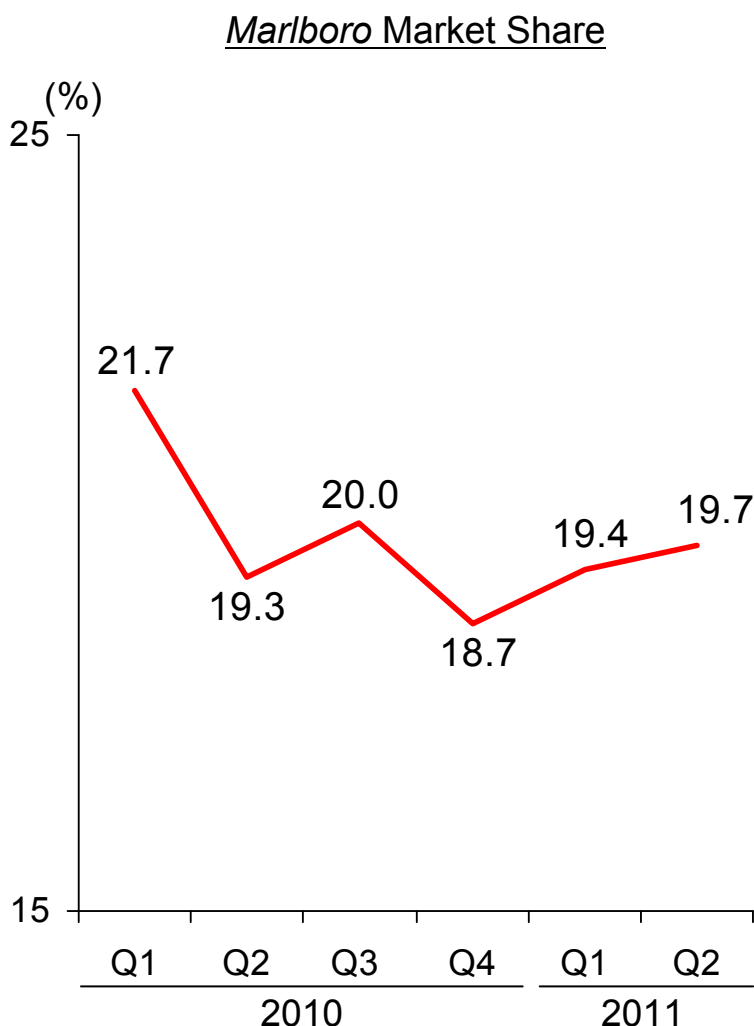
- Industry cigarette volume up 1.8% in France and stable in Italy during Q2, 2011
- Following entry of *Marlboro*, PMI became market leader in fine cut in France in Q2 with a share of 25.0%, up 5.6pp
- High single digit profitability increases in both markets
- PMI has announced a price increase of €0.10/pack in Italy





Greece

- Government has increased Minimum Excise Tax from 75% to 100% of excise tax on “WAP” (Weighted Average Price)
- Tax pass-on at bottom of the market (€2.40/20) is almost €0.50/20
- PMI has announced price increase on *L&M* 25s from €3.20 to €3.70 per pack
- Price gap reduction should help spur *Marlboro* share recovery

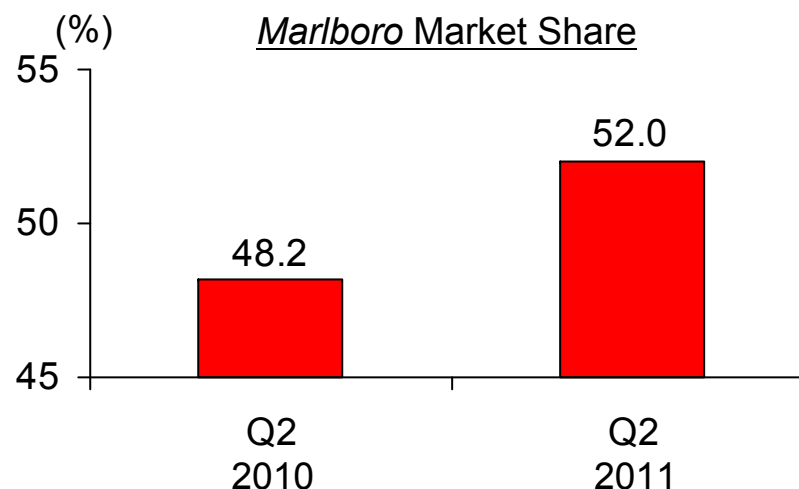




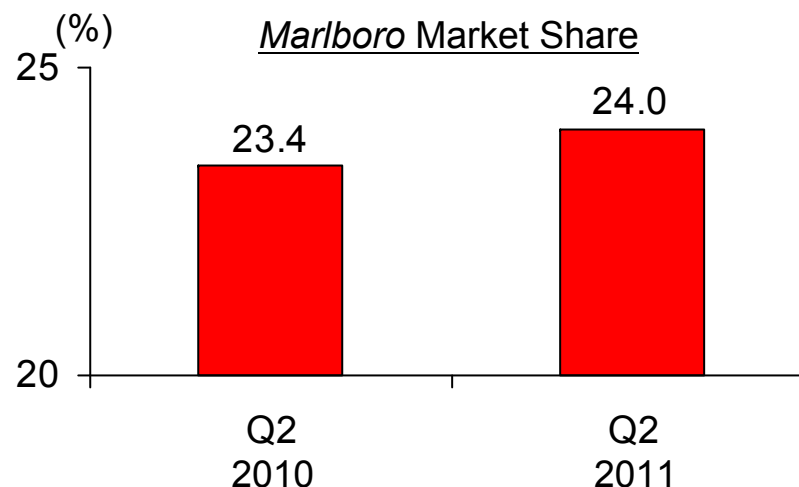
Latin America & Canada Region

- Regional volume down 4.8%, driven by impact of tax-driven price increases in Mexico and timing of shipments in Brazil
- Strong *Marlboro* performance
- Regional net revenues grew by 5.8% and adjusted OCI was up 8.8%, both excluding currency and acquisitions

Mexico



Argentina





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Australia - Plain Packaging

- Australian Government appears intent on mandating the implementation of plain packaging
- Plain packaging will result in the illegal confiscation of our very valuable trademarks and branded assets
- PMI has served notice of its intention to file an arbitration claim for compensation under the Hong Kong – Australia Bilateral Investment Treaty



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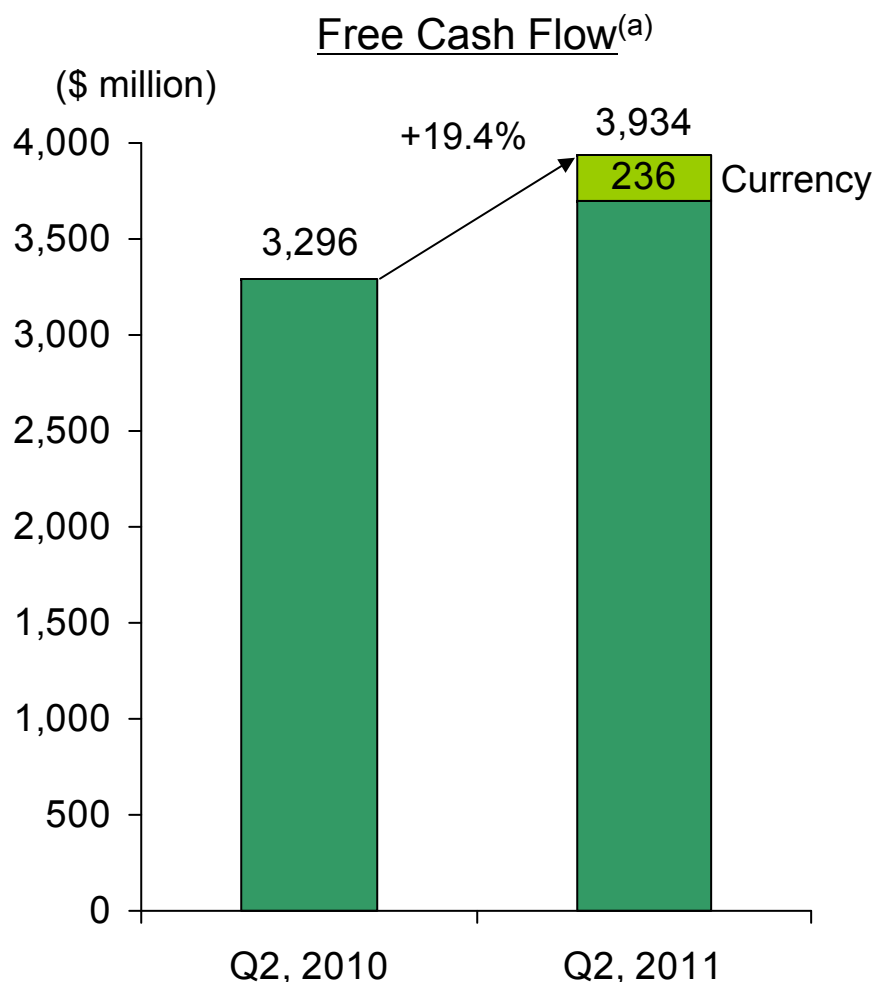
Adjusted OCI Margins

	Second-Quarter		
	<u>2011</u> ^(a)	<u>2010</u>	<u>Variance</u> ^(a)
EU	48.9 %	48.1 %	0.8 pp
EEMA	42.1	41.6	0.5
Asia	46.2	39.8	6.4
LA&C	32.5	31.6	0.9
Total	44.6	42.1	2.5

(a) Excluding currency and acquisitions
Source: PMI Financials



Free Cash Flow



- Quarterly increase of \$402 million, or 12.2%, excluding currency
- Driven mainly by our excellent business results
- For the first half, free cash flow is up more than \$1 billion to nearly \$6.2 billion

(a) Free cash flow equals net cash provided by operating activities less capital expenditures
Source: PMI Financials



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Share Repurchases

- During the second quarter, PMI spent \$1.5 billion to purchase a further 22.7 million shares at an average price of \$68.32 per share
- Since the March 2008 spin, 17.9% of shares outstanding at that time have been repurchased



Summary

- Very strong second-quarter results
- Adjusted diluted EPS growth of 21.0%, excluding currency
- Outlook is promising, with strong market share and business momentum
- Pricing remains the key driver of profitability, with Spain a special case
- Very limited input cost pressures and we expect to exceed our \$250 million annual productivity target
- 2011 reported diluted EPS guidance raised by another 15 cents to a range of \$4.70-\$4.80
- We continue to use our growing cash flow to generously reward our shareholders



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2011 Second-Quarter Results

Questions & Answers

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Reconciliation of Non-GAAP Measures



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Adjustments for the Impact of Currency and Acquisitions
For the Quarters Ended June 30,
(\$ in millions)
(Unaudited)

2011							2010			% Change in Reported Net Revenues excluding Excise Taxes		
Reported Net Revenues	Less Excise Taxes	Reported Net Revenues excluding Excise Taxes	Less Currency	Reported Net Revenues excluding Excise Taxes & Currency	Less Acquisi- tions	Reported Net Revenues excluding Excise Taxes, Currency & Acquisitions	Reported Net Revenues	Less Excise Taxes	Reported Net Revenues excluding Excise Taxes	Reported Reported	Reported excluding Currency	Reported excluding Currency & Acquisitions
\$ 8,080	\$ 5,583	\$ 2,497	\$ 187	\$ 2,310	\$ -	\$ 2,310	\$ 7,260	\$ 4,965	\$ 2,295	8.8%	0.7%	0.7%
4,603	2,591	2,012	55	1,957	-	1,957	4,125	2,236	1,889	6.5%	3.6%	3.6%
5,146	2,210	2,936	222	2,714	3	2,711	3,903	1,780	2,123	38.3%	27.8%	27.7%
2,405	1,577	828	30	798	-	798	2,095	1,341	754	9.8%	5.8%	5.8%
\$ 20,234	\$ 11,961	\$ 8,273	\$ 494	\$ 7,779	\$ 3	\$ 7,776	\$ 17,383	\$ 10,322	\$ 7,061	17.2%	10.2%	10.1%

2011							2010			% Change in Reported Operating Companies Income		
Reported Operating Companies Income	Less Currency	Reported Operating Companies Income excluding Currency	Less Acquisi- tions	Reported Operating Companies Income excluding Currency & Acquisitions	Reported Operating Companies Income	Reported Operating Companies Income	Reported Operating Companies Income	Reported Operating Companies Income	Reported Operating Companies Income	Reported Reported	Reported excluding Currency	Reported excluding Currency & Acquisitions
\$ 1,280	\$ 152	\$ 1,128	\$ (1)	\$ 1,129	\$ 1,105	15.8%	2.1%	2.2%				
835	11	824	-	824	786	6.2%	4.8%	4.8%				
1,398	145	1,253	1	1,252	845	65.4%	48.3%	48.2%				
268	9	259	-	259	238	12.6%	8.8%	8.8%				
\$ 3,781	\$ 317	\$ 3,464	\$ -	\$ 3,464	\$ 2,974	27.1%	16.5%	16.5%				

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Reconciliation of Non-GAAP Measures



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Reconciliation of Reported Operating Companies Income to Adjusted Operating Companies Income &
Reconciliation of Adjusted Operating Companies Income Margin, excluding Currency and Acquisitions
For the Quarters Ended June 30,
(\$ in millions)
(Unaudited)

2011								2010			% Change in Adjusted Operating Companies Income		
Reported Operating Companies Income	Less Asset Impairment & Exit Costs	Adjusted Operating Companies Income	Less Currency	Adjusted Operating Companies Income excluding Currency	Less Acquisitions	Adjusted Operating Companies Income excluding Currency & Acquisitions		Reported Operating Companies Income	Less Asset Impairment & Exit Costs	Adjusted Operating Companies Income	Adjusted	Adjusted excluding Currency	Adjusted excluding Currency & Acquisitions
\$ 1,280	\$ (1)	\$ 1,281	\$ 152	\$ 1,129	\$ (1)	\$ 1,130	European Union	\$ 1,105	\$ -	\$ 1,105	15.9%	2.2%	2.3%
835	-	835	11	824	-	824	EEMA	786	-	786	6.2%	4.8%	4.8%
1,398	-	1,398	145	1,253	1	1,252	Asia	845	-	845	65.4%	48.3%	48.2%
268	-	268	9	259	-	259	Latin America & Canada	238	-	238	12.6%	8.8%	8.8%
\$ 3,781	\$ (1)	\$ 3,782	\$ 317	\$ 3,465	\$ -	\$ 3,465	PMI Total	\$ 2,974	\$ -	\$ 2,974	27.2%	16.5%	16.5%

2011									2010			% Points Change	
Adjusted Operating Companies Income excluding Currency	Net Revenues excluding Excise Taxes & Currency ^(a)	Adjusted Operating Companies Income Margin excluding Currency	Adjusted Operating Companies Income excluding Currency & Acquisitions	Net Revenues excluding Excise Taxes, Currency & Acquisitions ^(a)	Adjusted Operating Companies Income Margin excluding Currency & Acquisitions				Adjusted Operating Companies Income	Net Revenues excluding Excise Taxes ^(a)	Adjusted Operating Companies Income Margin	Adjusted Operating Companies Income Margin excluding Currency	Adjusted Operating Companies Income Margin excluding Currency & Acquisitions
\$ 1,129	\$ 2,310	48.9%	\$ 1,130	\$ 2,310	48.9%	European Union			\$ 1,105	\$ 2,295	48.1%	0.8	0.8
824	1,957	42.1%	824	1,957	42.1%	EEMA			786	1,889	41.6%	0.5	0.5
1,253	2,714	46.2%	1,252	2,711	46.2%	Asia			845	2,123	39.8%	6.4	6.4
259	798	32.5%	259	798	32.5%	Latin America & Canada			238	754	31.6%	0.9	0.9
\$ 3,465	\$ 7,779	44.5%	\$ 3,465	\$ 7,776	44.6%	PMI Total			\$ 2,974	\$ 7,061	42.1%	2.4	2.5

(a) For the calculation of net revenues excluding excise taxes, currency and acquisitions, refer to previous slide

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Reconciliation of Non-GAAP Measures



Reconciliation of Reported Diluted EPS to Adjusted Diluted EPS and Adjusted Diluted EPS, excluding Currency
For the Quarters Ended June 30,
(Unaudited)

	<u>2011</u>	<u>2010</u>	<u>% Change</u>
Reported Diluted EPS	\$ 1.35	\$ 1.07	26.2%
Adjustments:			
Asset impairment and exit costs	-	-	
Tax items	<u>(0.01)</u>	<u>(0.07)</u>	
Adjusted Diluted EPS	\$ 1.34	\$ 1.00	34.0%
Less:			
Currency impact	<u>0.13</u>		
Adjusted Diluted EPS, excluding Currency	<u>\$ 1.21</u>	<u>\$ 1.00</u>	21.0%

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Reconciliation of Non-GAAP Measures



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Reconciliation of Operating Cash Flow to Free Cash Flow and Free Cash Flow, excluding Currency
For the Quarters and Six Months Ended June 30,
(\$ in millions)
(Unaudited)

	For the Quarters Ended June 30,			% Change	For the Six Months Ended June 30,			% Change
	2011	2010			2011	2010		
Net cash provided by operating activities^(a)	\$ 4,120	\$ 3,465		18.9%	\$ 6,515	\$ 5,439		19.8%
Less:								
Capital expenditures	186	169			345	319		
Free cash flow	\$ 3,934	\$ 3,296		19.4%	\$ 6,170	\$ 5,120		20.5%
Less:								
Currency impact	236				264			
Free cash flow, excluding currency	\$ 3,698	\$ 3,296		12.2%	\$ 5,906	\$ 5,120		15.4%

(a) Operating Cash Flow

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Reconciliation of Non-GAAP Measures



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Adjustments for the Impact of Currency and Acquisitions
For the Six Months Ended June 30,
(\$ in millions)
(Unaudited)

2011									2010			% Change in Reported Net Revenues excluding Excise Taxes		
Reported Net Revenues	Less Excise Taxes	Reported Net Revenues excluding Excise Taxes	Less Currency	Reported Net Revenues excluding Excise Taxes & Currency	Less Acquisi- tions	Reported Net Revenues excluding Excise Taxes, Currency & Acquisitions			Reported Net Revenues	Less Excise Taxes	Reported Net Revenues excluding Excise Taxes	Reported	Reported excluding Currency	Reported excluding Currency & Acquisitions
\$ 14,495	\$ 9,997	\$ 4,498	\$ 81	\$ 4,417	\$ -	\$ 4,417	European Union		\$ 14,008	\$ 9,529	\$ 4,479	0.4%	(1.4)%	(1.4)%
8,274	4,575	3,699	26	3,673	-	3,673	EEMA		7,481	3,846	3,635	1.8%	1.0%	1.0%
9,434	4,175	5,259	350	4,909	108 ^(a)	4,801	Asia		7,465	3,469	3,996	31.6%	22.8%	20.1%
4,561	2,953	1,608	54	1,554	-	1,554	Latin America & Canada		4,016	2,569	1,447	11.1%	7.4%	7.4%
\$ 36,764	\$ 21,700	\$ 15,064	\$ 511	\$ 14,553	\$ 108	\$ 14,445	PMI Total		\$ 32,970	\$ 19,413	\$ 13,557	11.1%	7.3%	6.6%

2011									2010			% Change in Reported Operating Companies Income		
Reported Operating Companies Income			Less Currency	Reported Operating Companies Income excluding Currency	Less Acquisi- tions	Reported Operating Companies Income excluding Currency & Acquisitions				Reported Operating Companies Income		Reported	Reported excluding Currency	Reported excluding Currency & Acquisitions
\$ 2,286			\$ 131	\$ 2,155	\$ (1)	\$ 2,156	European Union		\$ 2,167			5.5%	(0.6)%	(0.5)%
1,557			(1)	1,558	-	1,558	EEMA		1,556			0.1%	0.1%	0.1%
2,491			247	2,244	24 ^(b)	2,220	Asia		1,569			58.8%	43.0%	41.5%
519			10	509	-	509	Latin America & Canada		455			14.1%	11.9%	11.9%
\$ 6,853			\$ 387	\$ 6,466	\$ 23	\$ 6,443	PMI Total		\$ 5,747			19.2%	12.5%	12.1%

(a) Includes the business combination in the Philippines (\$105)

(b) Includes the business combination in the Philippines (\$23)

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Reconciliation of Non-GAAP Measures



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Reconciliation of Reported Operating Companies Income to Adjusted Operating Companies Income &
Reconciliation of Adjusted Operating Companies Income Margin, excluding Currency and Acquisitions
For the Six Months Ended June 30,
(\$ in millions)
(Unaudited)

2011									2010			% Change in Adjusted Operating Companies Income		
Reported Operating Companies Income	Less Asset Impairment & Exit Costs	Adjusted Operating Companies Income	Less Currency	Adjusted Operating Companies Income excluding Currency	Less Acquisitions	Adjusted Operating Companies Income excluding Currency & Acquisitions			Reported Operating Companies Income	Less Asset Impairment & Exit Costs	Adjusted Operating Companies Income	Adjusted	Adjusted excluding Currency	Adjusted excluding Currency & Acquisitions
\$ 2,286	\$ (12)	\$ 2,298	\$ 131	\$ 2,167	\$ (1)	\$ 2,168	European Union		\$ 2,167	\$ -	\$ 2,167	6.0%	- %	- %
1,557	(2)	1,559	(1)	1,560	-	1,560	EEMA		1,556	-	1,556	0.2%	0.3%	0.3%
2,491	(2)	2,493	247	2,246	24 ^(a)	2,222	Asia		1,569	-	1,569	58.9%	43.1%	41.6%
519	(1)	520	10	510	-	510	Latin America & Canada		455	-	455	14.3%	12.1%	12.1%
\$ 6,853	\$ (17)	\$ 6,870	\$ 387	\$ 6,483	\$ 23	\$ 6,460	PMI Total		\$ 5,747	\$ -	\$ 5,747	19.5%	12.8%	12.4%

2011									2010			% Points Change	
Adjusted Operating Companies Income excluding Currency	Net Revenues excluding Excise Taxes & Currency ^(b)	Adjusted Operating Companies Income Margin excluding Currency	Adjusted Operating Companies Income excluding Currency & Acquisitions	Net Revenues excluding Excise Taxes, Currency & Acquisitions ^(b)	Adjusted Operating Companies Income Margin excluding Currency & Acquisitions				Adjusted Operating Companies Income	Net Revenues excluding Excise Taxes ^(b)	Adjusted Operating Companies Income Margin	Adjusted Operating Companies Income Margin excluding Currency	Adjusted Operating Companies Income Margin excluding Currency & Acquisitions
\$ 2,167	\$ 4,417	49.1%	\$ 2,168	\$ 4,417	49.1%	European Union		\$ 2,167	\$ 4,479	48.4%		0.7	0.7
1,560	3,673	42.5%	1,560	3,673	42.5%	EEMA		1,556	3,635	42.8%		(0.3)	(0.3)
2,246	4,909	45.8%	2,222	4,801	46.3%	Asia		1,569	3,996	39.3%		6.5	7.0
510	1,554	32.8%	510	1,554	32.8%	Latin America & Canada		455	1,447	31.4%		1.4	1.4
\$ 6,483	\$ 14,553	44.5%	\$ 6,460	\$ 14,445	44.7%	PMI Total		\$ 5,747	\$ 13,557	42.4%		2.1	2.3

(a) Includes the business combination in the Philippines (\$23)

(b) For the calculation of net revenues excluding excise taxes, currency and acquisitions, refer to previous slide

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Reconciliation of Non-GAAP Measures



Reconciliation of Reported Diluted EPS to Adjusted Diluted EPS
For the Year Ended December 31,
(Unaudited)

	<u>2010</u>
Reported Diluted EPS	\$ 3.92
Adjustments:	
Tax items	(0.07)
Asset impairment and exit costs	0.02
Adjusted Diluted EPS	<u>\$ 3.87</u>



PHILIP MORRIS INTERNATIONAL

2011 Second-Quarter Results

July 21, 2011