



# Investor Day – Operations Lausanne, June 24, 2010

Martin King
Senior Vice President, Operations
Philip Morris International

### Agenda



- Operations overview
- Cost focus
- Supply chain optimization
- Innovation and quality leadership
- Environment, Health & Safety programs
- People development
- Conclusions

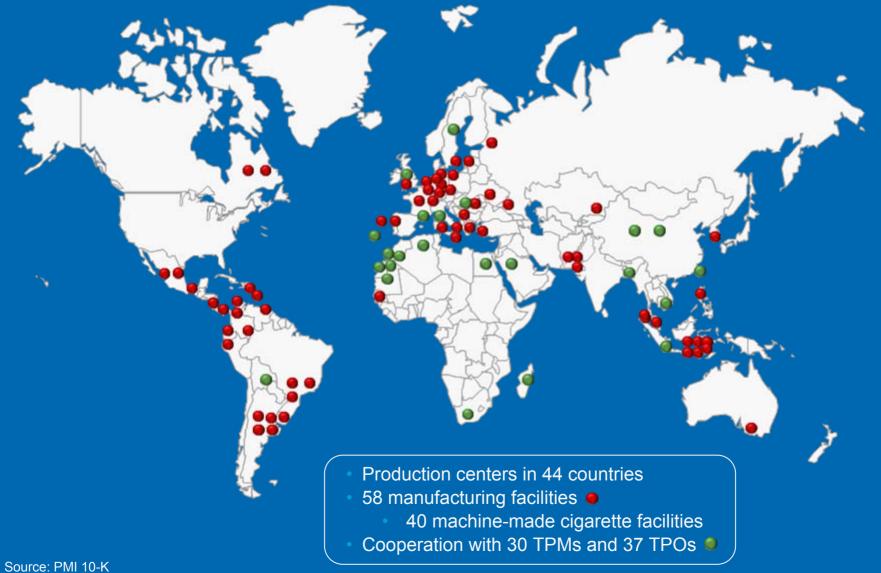




Operations overview

### PMI operates cigarette and non-cigarette manufacturing facilities worldwide



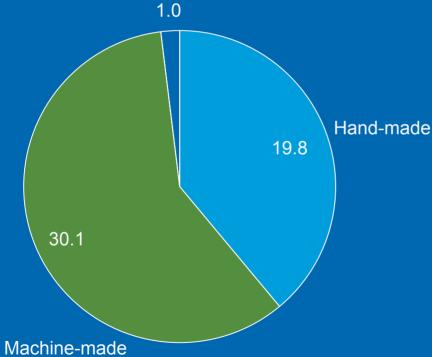


### More than 50,000 people work in Operations



2009 headcount (employees 000)





Source: PMI Operations Planning

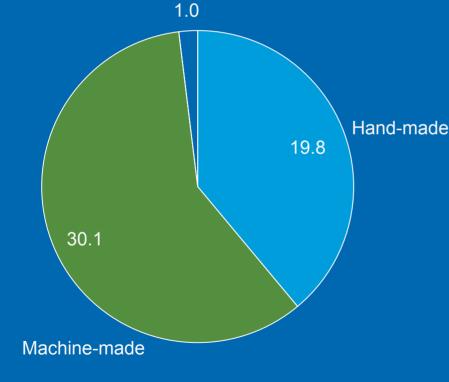


# HILIP MORRIS

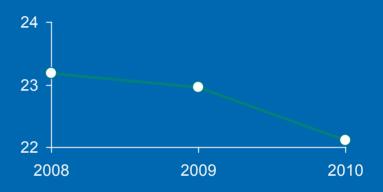
### More than 50,000 people work in Operations

2009 headcount (employees 000)

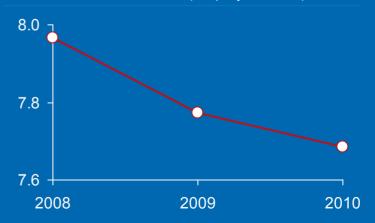
Product Development & Operations Center



# Machine-made variable headcount (employees 000)



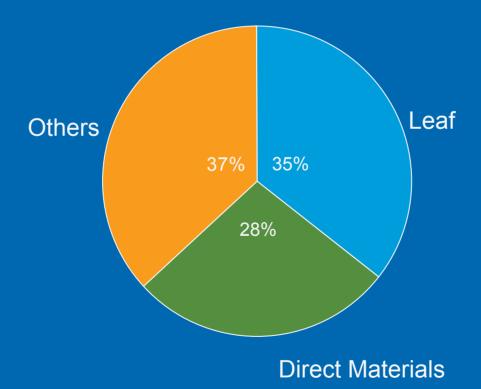
#### Fixed headcount (employees 000)



Source: PMI Operations Planning 6

### Total cost of sales in 2009 was \$9.0 billion

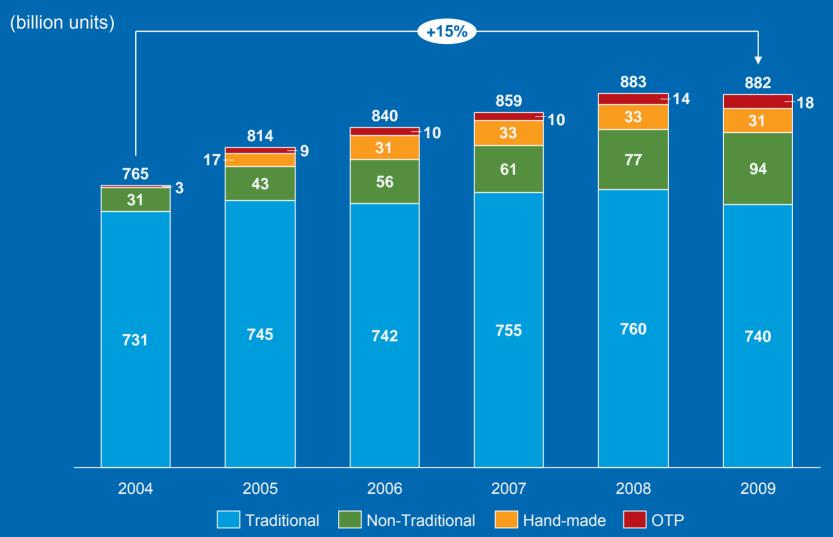




Note: Other cost of sales includes fixed costs, variable labor costs, third party manufacturing costs, and shipping and distribution Source: PMI Operations Finance

## PHILIP MORRIS INTERNATIONAL

### Sales volume by type



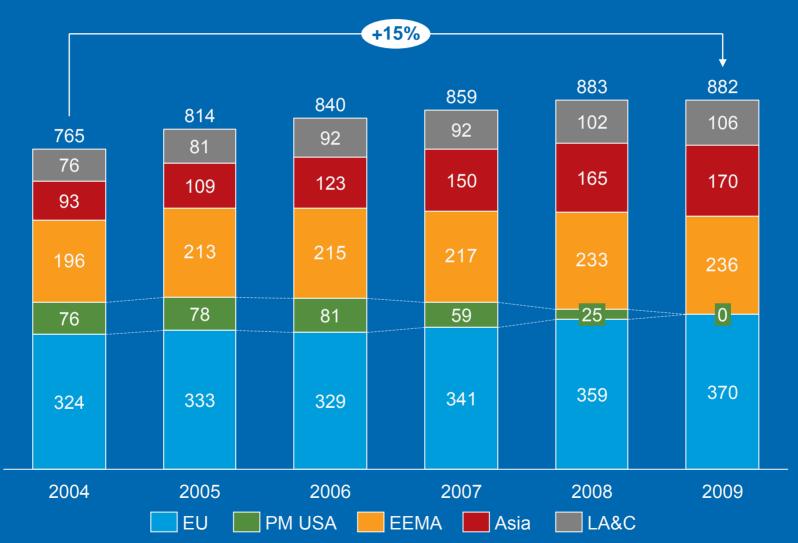
Volume includes TPMs

Traditional format: Pack type: Box, Round Corner Box, Soft / Diameter: regular / Length: Regular size, Long Size, King Size 100mm / Stick count: any Source: PMI Operations Finance

### Sales volume by production source



(billion units)





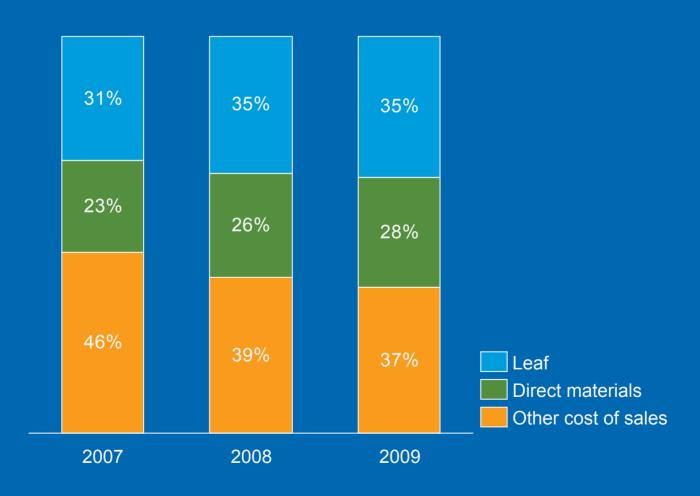


Cost focus





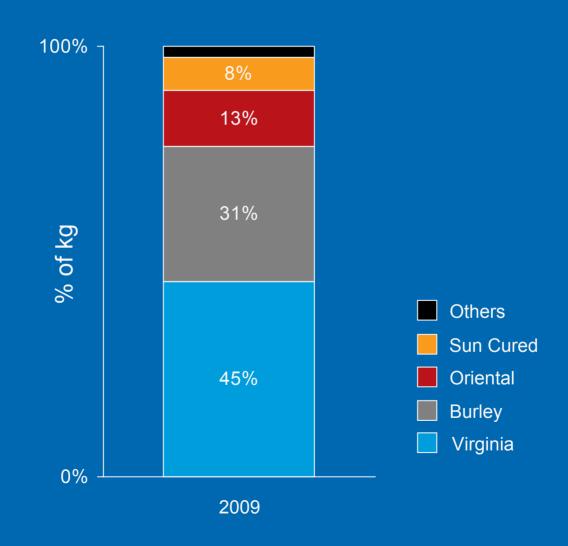
#### Cost of sales breakdown



Note: Other cost of sales includes fixed costs, variable labor costs, third party manufacturing costs, and shipping and distribution Source: PMI Operations Finance

### PMI leaf purchases by type

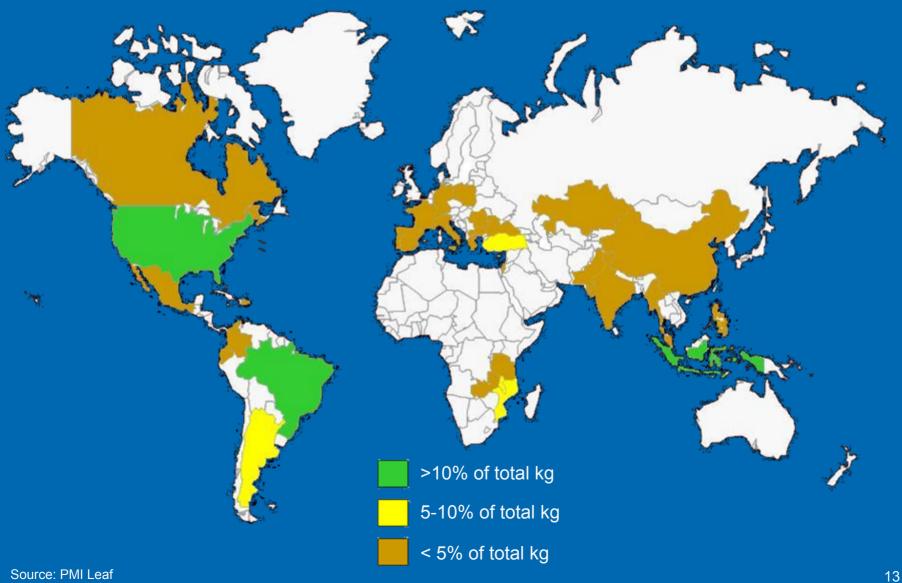




Note: figures exclude China Source: PMI Leaf

## PMI leaf purchases by key origin

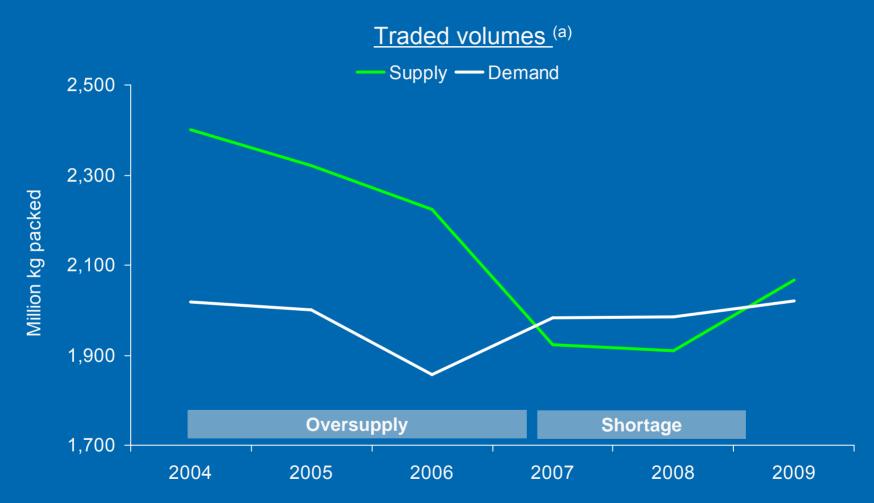




Source: PMI Leaf

### Leaf supply and demand



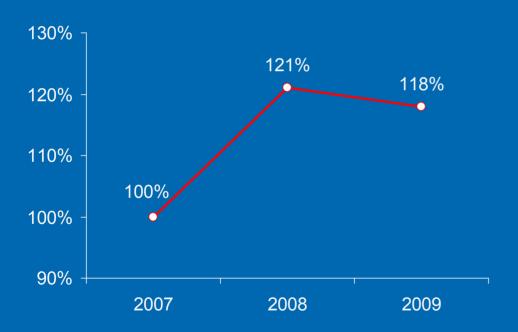


Note: Virginia, Burley and Oriental in million kilograms packed, excluding China
(a) Supply = Production + Supplier inventories; Demand = Consumption – Manufacturers inventory reduction Source: PMI estimates

### Leaf purchase price



#### Leaf purchase price evolution



### Leaf purchase price



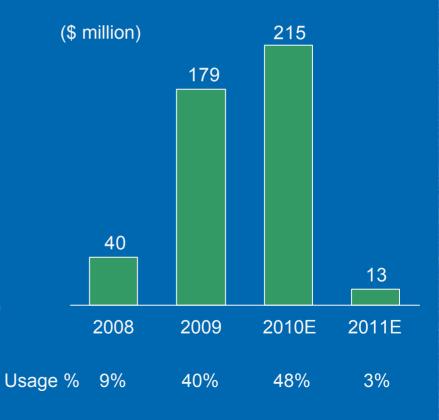


130% 120% 110% 100%

2008

2009

# Impact of 2008 price increase on cost of sales (approx. \$450 million)



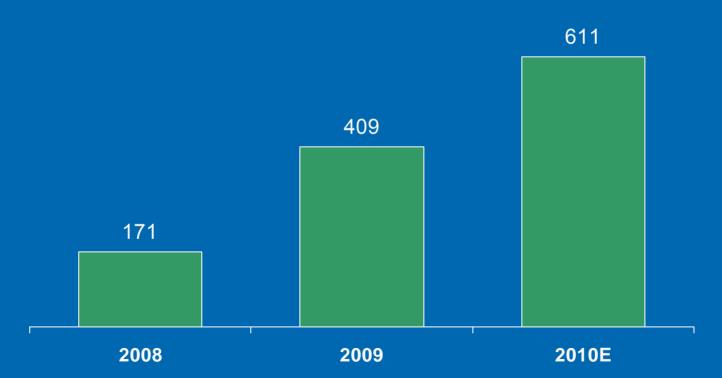
2007



### **Cumulative leaf impact on income statement**

# Cumulative effect of leaf price increases on the 2008-2010 income statement

(\$ million)



Source: PMI Finance

### Leaf strategy



- Secure availability of volumes, predictability of prices and quality
- Optimize inventory management
- Promote sustainability in the leaf supply chain

### Leaf vertical integration in Brazil



- On June 21, 2010, PMI announced separate agreements with Alliance One and Universal Leaf to vertically integrate leaf sourcing in Brazil
- New operation will provide approximately 50% of our purchases in Brazil and 10% of PMI's global leaf requirements
- Agreements subject to competition authority approval
- Transactions expected to be completed by the end of Q3, 2010
- Model similar to PMI's successful US leaf operation
- Total PMI leaf vertical integration will increase from 26% to 36%.

Source: PMI Operations Planning

# Leaf vertical integration in Brazil Key Objectives

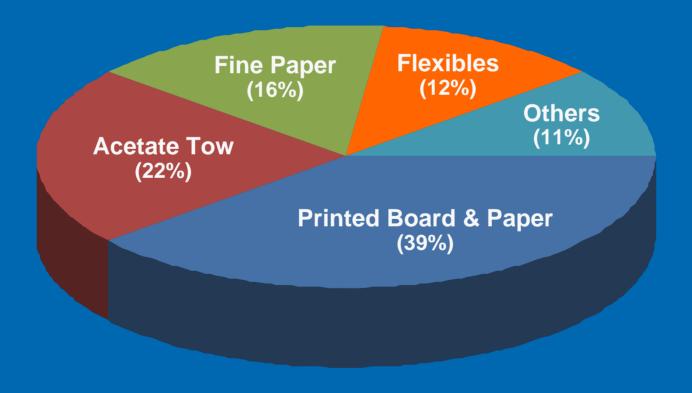


- Better alignment of the crop to our demand
- Better control on product quality and integrity
- Cost efficiency, predictability and transparency
- Greater impact on the sustainability of the leaf supply chain

### **Key direct materials categories**



- 2009 spend: approximately \$2.5 billion
- Three categories represent 77%



Source: PMI Procurement 21

### Challenges in direct materials procurement



- Growing portfolio complexity
- Reduced Cigarette Ignition Propensity ("RCIP") cigarette paper
- Relatively tight capacity in some categories

### **Direct materials strategy**

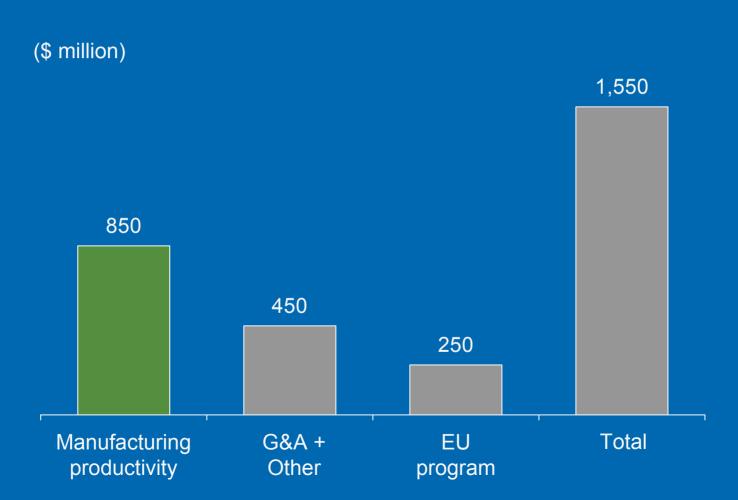


- Cost competitiveness and predictability
- Supplier relationship management
- Access to innovation



### We are delivering our productivity target

Forecast cumulative gross cost savings (2008-2010)



Source: PMI Finance

### Rational product structure choice by segment

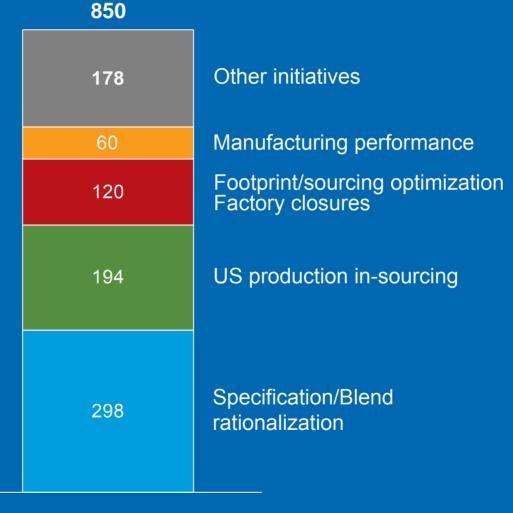


# **Brand positioning** Premium Mid Value Cost of materials Formats availability Features availability

### Manufacturing productivity initiatives



(\$ million)

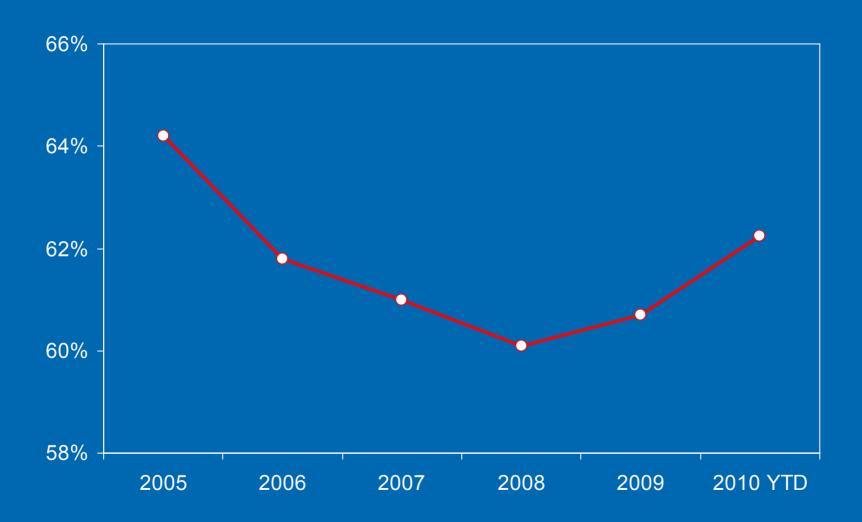


2008-2010

Source: PMI Finance 26

### **Equipment performance evolution**





Note: 2010 YTD include results through April 2010 Source: PMI Operations Planning





Supply chain optimization

### Develop an integrated and agile supply chain



#### Goal

 Contribute through inventory reduction to PMI's \$750 million to \$1 billion improvement in working capital between 2010 and 2012

#### **Strategy**

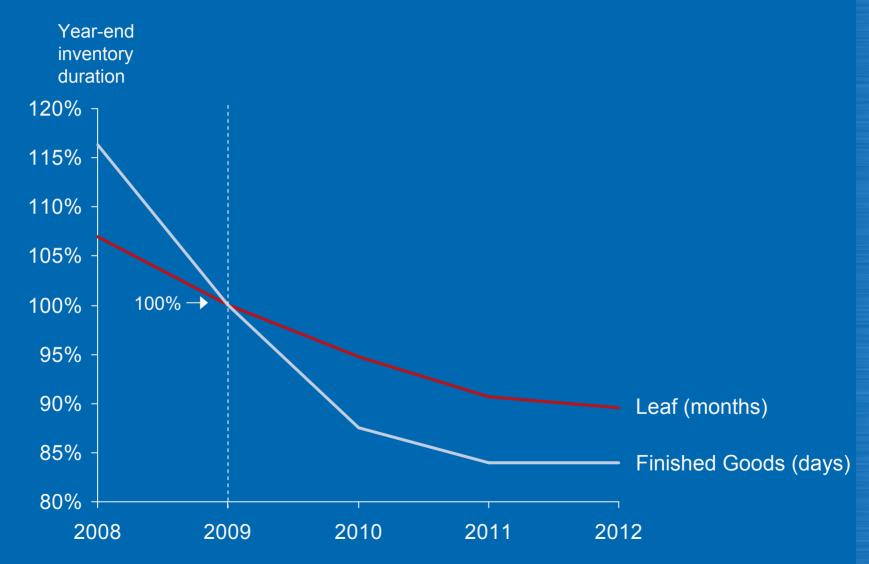
- Create visibility and transparency across the supply chain
- Integrate, collaborate and synchronize with supply chain partners

Manage leaf safety stocks according to grades criticality

Source: PMI Supply Chain

# Operations' contribution to working capital improvements through inventory reduction





# SCIPIO: Key to reducing finished goods' inventories



- System that provides visibility on finished goods inventories and links demand and supply planning
- Already rolled out in seven factories and 40 markets (260 billion units)

Plan to extend to 29 factories (721 billion units) by 2012

Source: PMI Supply Chain

## **PMI** is investing smarter



	<u>2007</u>	<u>2008</u>	2009
Capital expenditures (\$ million)	1,072	1,099	715
Capex to Depreciation	1.5	1.4	0.9

Source: PMI Operations Finance



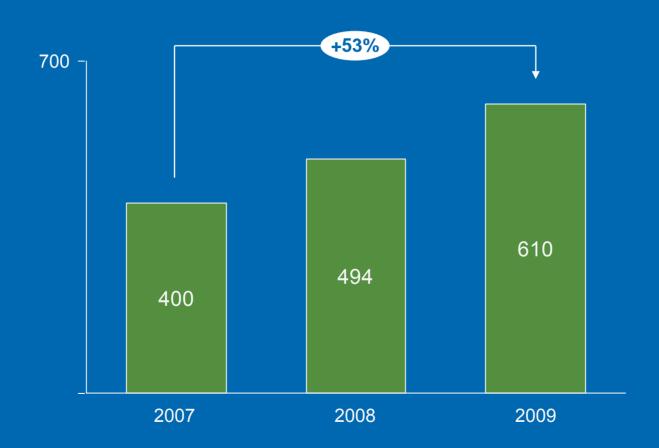


Innovation and quality leadership





### Number of innovations and new product launches



### **Product Development organization**



- Organized in 10 clusters close to the markets
- Focus on consumer preferences
- New scientific group focused on conventional cigarettes

### PMI is delivering innovation in packaging...



### Marlboro Filter Plus



### Virginia Uno 20s Super Slims



### Marlboro New Architecture







Source: PMI Product Development 36

#### ...in cigarettes and in filters



#### **Tobacco Plug**





#### **Triple Filters**





#### Colored Menthol Threads





#### **Recessed Filter**



#### Capsules in filters











Faites-vous aider pour arrêter de fumer, téléphonez au 0825-309-310 (0,15 EUR/min)

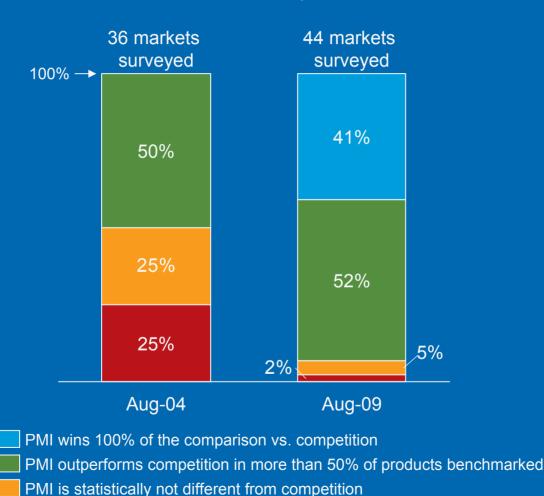


# PMI outperforms competition in manufacturing quality

Competition outperforms PMI



#### Market Visual Quality Index



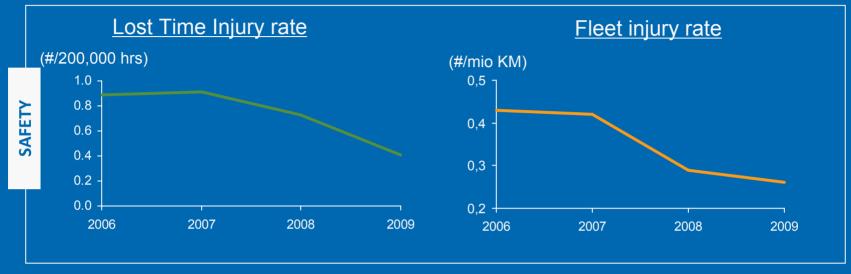


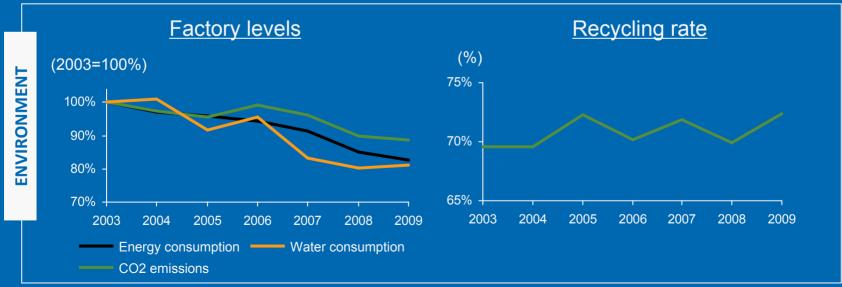


Environment, Health and Safety programs



#### 2009 Headline EHS performance









People development

#### **Operations Performance and Engagement: OPEN**





Organization

**Processes** 

Reward

- Business units
- Ownership
- Accountability

- Lean processes
- Tools
- Trainings

- Monetary
- Non-monetary





Conclusions

#### Key takeaways



- We will work to maintain cost leadership in our industry
- We will reduce our inventories and increase the integration of our supply chain
- We will continue to innovate our products and deliver the best quality
- We will continuously develop and engage our people to address our challenges





# **Investor Day – Operations Lausanne, June 24, 2010**

**Questions & Answers** 



#### **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, 2010, filed with the Securities and Exchange Commission.

#### **Glossary of Terms**



- References to PMI volumes refer to shipment volume, unless otherwise stated
- Industry volume and market shares are from a number of internal and external sources
- Organic volume refers to volume excluding acquisitions
- Net revenues exclude excise taxes
- Operating Companies Income ("OCI") is defined as operating income before corporate expenses and amortization of intangibles.
- Reconciliations to U.S. GAAP measures are at the end of today's web cast slides and are posted on our web site



% Change in Reported Net

Adjustments for the Impact of Currency and Acquisitions
For the Quarters Ended March 31,

(\$ in millions)

(Unaudited)

_					2010									2009			Revenues	excluding	Excise Taxes
	eported Net evenues	Less Excise Taxes	Re ex	orted Net evenues cluding ise Taxes	ess rency	Reve excl Excise	rted Net enues uding Taxes & rency	Ac	ess quisi- ons	Re ex Exci Cui	orted Net venues cluding se Taxes, rrency & uisitions		eported Net evenues	Less Excise Taxes	Rev exc	rted Net enues luding e Taxes	Reported	Reported excluding Currency	Reported excluding Currency & Acquisitions
\$	6,748	\$ 4,564	\$	2,184	\$ 178	\$	2,006	\$	3	\$	2,003	European Union	\$ 6,050	\$ 4,063	\$	1,987	9.9 %	1.0 %	0.8 %
	3,356	1,610		1,746	52		1,694		26		1,668	EEMA	2,831	1,379		1,452	20.2 %	16.7 %	14.9 %
	3,562	1,689		1,873	172		1,701		75		1,626	Asia	2,857	1,267		1,590	17.8 %	7.0 %	2.3 %
	1,921	1,228		693	51		642				642	Latin America & Canada	1,548	980		568	22.0 %	13.0 %	13.0 %
\$	15,587	\$ 9,091	\$	6,496	\$ 453	\$	6,043	\$	104	\$	5,939	PMI Total	\$ 13,286	\$ 7,689	\$	5,597	16.1 %	8.0 %	6.1 %
					2010									2009				e in Reporte ompanies In	ed Operating come
O Co	eported perating mpanies ncome				ess rency	Ope Com Inc excl	orted rating panies ome uding rency	Ac	ess quisi- ons	Op Cor Ir ex Cur	eported perating mpanies acome cluding rency & uisitions				Ope Com	ported erating panies come	Reported	Reported excluding Currency	Reported excluding Currency & Acquisitions
\$	1,062				\$ 80	\$	982	\$	2	\$	980	European Union			\$	967	9.8 %	1.6 %	1.3 %
	770				8		762		9		753	EEMA				586	31.4 %	30.0 %	28.5 %
					8 81		762 643				753 648	EEMA Asia				586 661	31.4 % 9.5 %	30.0 % (2.7)%	28.5 % (2.0)%
	770								9 (5) -										



Reconciliation of Reported Operating Companies Income to Adjusted Operating Companies Income, excluding Currency and Acquisitions

For the Quarters Ended March 31,

					20	10											2009				e in Adjusted Impanies Inco	
Op Co	eported perating mpanies ncome	Less Asset Ipairment & Exit Costs	C	adjusted perating ompanies Income		.ess rrency	Op Cor Ir ex	ljusted erating npanies come cluding irrency	,	Less Acquisi- tions	C G	Adjusted Operating Companies Income excluding Currency & ccquisitions		Op Cor	eported erating mpanies acome	Impa	Less Asset airment & it Costs	Ope Com	justed erating npanies come	Adjusted	Adjusted excluding Currency	Adjusted excluding Currency & Acquisitions
\$	1,062	\$	\$	1,062	\$	80	\$	982	\$	2	\$	980	European Union	\$	967	\$	(1)	\$	968	9.7 %	1.4 %	1.2 %
	770			770		8		762		9		753	EEMA		586				586	31.4 %	30.0 %	28.5 %
	724			724		81		643		(5)		648	Asia		661				661	9.5 %	(2.7)%	(2.0)%
	217			217		23		194				194	Latin America & Canada		155				155	40.0 %	25.2 %	25.2 %
\$	2,773	\$ -	\$	2,773	\$	192	\$	2,581	\$	6	\$	2,575	PMI Total	\$	2,369	\$	(1)	\$	2,370	17.0 %	8.9 %	8.6 %



Reconciliation of Reported Diluted EPS to Adjusted Diluted EPS and Adjusted Diluted EPS, excluding Currency

For the Quarters Ended March 31,

(Unaudited)

	 2010	 2009	% Change
Reported Diluted EPS	\$ 0.90	\$ 0.74	21.6%
Less: Asset impairment and exit costs		<u> </u>	
Adjusted Diluted EPS	\$ 0.90	\$ 0.74	21.6%
Less: Currency Impact	0.06		
Adjusted Diluted EPS, excluding Currency	\$ 0.84	\$ 0.74	13.5%



Reconciliation of Operating Cash Flow to Free Cash Flow and Free Cash Flow, excluding Currency Reconciliation of Operating Cash Flow to Operating Cash Flow, excluding Currency For the Quarters Ended March 31.

in millions)

(Unaudited)

	:	2010		2009	% Change
Net cash provided by operating activities <sup>(1)</sup>	\$	1,974	\$	1,427	38.3%
Less: Capital expenditures		150		145	
Capital experiolitules	_	130	_	143	
Free cash flow	\$	1,824	\$	1,282	42.3%
Less:					
Currency impact	_	116			
Free cash flow, excluding currency	\$	1,708	\$	1,282	33.2%
		2010		2009	% Change
Net cash provided by operating activities <sup>(1)</sup>	\$	1,974	\$	1,427	38.3%
Less:					
Currency impact	4	130			
Net cash provided by operating activities, excluding currency	\$	1,844	\$	1,427	29.2%

(1) Operating cash flow



% Change in Adjusted Operating

Reconciliation of Reported Operating Companies Income to Adjusted Operating Companies Income, excluding Currency and Acquisitions

For the Years Ended December 31,

						- 2	2009											2008			Co	ompanies Inco	me
Op Co	eported erating mpanies ncome	Impa Exit	.ess sset airment/ : Costs l Other	O <sub>l</sub> Co	djusted perating mpanies ncome		Less urrency	Op Cor Ir ex	djusted perating mpanies ncome cluding urrency	Acc	ess quisi- ons	Op Co li ex Cu	djusted perating mpanies ncome cluding rrency & quisitions		Op Co	eported perating mpanies ncome	Impa Exi	Less Asset airment/ t Costs d Other	O <sub>I</sub> Co	djusted perating mpanies ncome	Adjusted	Adjusted excluding Currency	Adjusted excluding Currency & Acquisitions
\$	4,506	\$	(29)	\$	4,535	\$	(481)	\$	5,016	\$	40	\$	4,976	European Union	\$	4,738	\$	(66)	\$	4,804	(5.6)%	4.4 %	3.6 %
	2,663				2,663		(893)		3,556		18		3,538	EEMA		3,119		(1)		3,120	(14.6)%	14.0 %	13.4 %
	2,436				2,436		146		2,290				2,290	Asia		2,057		(14)		2,071	17.6 %	10.6 %	10.6 %
	666		(135) <sup>(1</sup>		801		(162)		963		202		761	Latin America & Canada		520		(127)	2)	647	23.8 %	48.8 %	17.6 %
\$	10,271	\$	(164)	\$	10,435	\$	(1,390)	\$	11,825	\$	260	\$	11,565	PMI Total	\$	10,434	\$	(208)	\$	10,642	(1.9)%	11.1 %	8.7 %

<sup>(1)</sup> Represents 2009 Colombian investment and cooperation agreement charge

<sup>(2)</sup> Represents 2008 equity loss from RBH legal settlement (\$124 million) and asset impairment and exit costs (\$3 million)



Adjustments for Impact of Currency and Acquisitions For the Years Ended December 31,

_				2009				(Unaudited)	_		2008				ange in Repe	orted Net 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			eported Net evenues	Less Excise Taxes	R(e)	eported Net evenues ccluding Excise Taxes	Reported	Reported excluding Currency	Reported excluding Currency & Acquisitions
\$	28,550	\$ 19,509	\$ 9,041	\$ (856)	\$ 9,897	\$ 61	\$ 9,836	European Union	\$	30,265	\$ 20,577	\$	9,688	(6.7)%	2.2 %	1.5 %
	13,865	7,070	6,795	(1,373)	8,168	41	8,127	EEMA		14,817	7,313		7,504	(9.4)%	8.8 %	8.3 %
	12,413	5,885	6,528	(41)	6,569		6,569	Asia		12,222	6,037		6,185	5.5 %	6.2 %	6.2 %
	7,252	4,581	2,671	(328)	2,999	462	2,537	Latin America & Canada		6,336	4,008		2,328	14.7 %	28.8 %	9.0 %
\$	62,080	\$ 37,045	\$ 25,035	\$ (2,598)	\$ 27,633	\$ 564	\$ 27,069	PMI Total	\$	63,640	\$ 37,935	\$	25,705	(2.6)%	7.5 %	5.3 %
															a in Paparta	ed Operating
				2009							2008				ompanies In	
Co	Reported Operating ompanies Income			2009 Less Currency	Reported Operating Companies Income excluding Currency	Less Acquisi- tions	Reported Operating Companies Income excluding Currency & Acquisitions				2008	Co	eported perating ompanies income		Reported excluding	
Co	Operating ompanies Income			Less Currency \$ (481)	Operating Companies Income excluding Currency \$ 4,987	Acquisitions \$ 40	Operating Companies Income excluding Currency & Acquisitions	European Union			2008	Co	perating ompanies Income	Reported (4.9)%	Reported excluding Currency	Reported excluding Currency & Acquisitions
Co	Operating ompanies Income 4,506 2,663			Less Currency \$ (481) (893)	Operating Companies Income excluding Currency \$ 4,987 3,556	Acquisi- tions	Operating Companies Income excluding Currency & Acquisitions  \$ 4,947 3,538	EEMA			2008	O Co	perating ompanies income 4,738 3,119	Reported (4.9)% (14.6)%	Reported excluding Currency  5.3 % 14.0 %	Reported excluding Currency & Acquisitions  4.4 % 13.4 %
Co	Operating ompanies Income			Less Currency \$ (481)	Operating Companies Income excluding Currency \$ 4,987	Acquisitions  \$ 40 18	Operating Companies Income excluding Currency & Acquisitions		_		2008	O Co	perating ompanies Income	Reported (4.9)%	Reported excluding Currency	Reported excluding Currency & Acquisitions



Reconciliation of Reported Diluted EPS to Adjusted Diluted EPS and Adjusted Diluted EPS, excluding Currency For the Years Ended December 31,

(Unaudited)

	 2009	 2008	% Change
Reported Diluted EPS	\$ 3.24	\$ 3.31	(2.1)%
Less:			
Colombian investment and cooperation agreement charge	(0.04)		
Asset impairment and exit costs	(0.01)	(0.02)	
Equity loss from RBH legal settlement		(0.06)	
Tax items	 <u>-</u>	 0.08	
Adjusted Diluted EPS	\$ 3.29	\$ 3.31	(0.6)%
Less:			
Currency Impact	 (0.53)		
Adjusted Diluted EPS, excluding Currency	\$ 3.82	\$ 3.31	15.4 %



% Change in Adjusted Operating

Reconciliation of Reported Operating Companies Income to Adjusted Operating Companies Income, excluding Currency and Acquisitions

For the Years Ended December 31,

					2	8008											2007			Co	ompanies Inco	ome
Op Con	ported erating npanies come	Less Asset Impairment & Exit Costs and other	O Co	Adjusted perating ompanies Income		Less	C C	Adjusted Operating companies Income xcluding Currency	A	Less cquisi- tions	Op Co Ii ex Cu	djusted perating mpanies ncome ccluding irrency & quisitions		Op Cor	ported erating npanies come	Impa Exit C	Less lsset irment & costs and other	Op Cor	ljusted erating npanies come	Adjusted	Adjusted excluding Currency	Adjusted excluding Currency & Acquisitions
\$	4,738	(66)	\$	4,804	\$	432	\$	4,372	\$	20	\$	4,352	European Union	\$	4,195	\$	(137)	\$	4,332	10.9%	0.9%	0.5%
	3,119	(1)		3,120		21		3,099				3,099	EEMA		2,431		(12)		2,443	27.7%	26.9%	26.9%
	2,057	(14)		2,071		32		2,039				2,034	Asia		1,803		(28)		1,831	13.1%	11.4%	11.1%
	520	(127)		647		(4)		651		100		551	Latin America & Canada		514		(18)		532	21.6%	22.4%	3.6%
\$	10,434	\$ (208)	\$	10,642	\$	481	\$	10,161	\$	125	\$	10,036	PMI Total	\$	8,943	\$	(195)	\$	9,138	16.5%	11.2%	9.8%



Adjustments for Impact of Currency and Acquisitions
For the Years Ended December 31,

(\$ in millions)

(\$ in millions) (Unaudited)

% Change in Reported Net Revenues
2008 2007 excluding Excise Taxes

orted Net venues	Less Excise Taxes	R	Reported Net Revenues excluding Excise Taxes	Cı	Less irrency	Re ex Exci	orted Net venues cluding se Taxes currency	L Ac	ess quisi- ions	excl Taxe	Reported Net Revenues cluding Excise kes, Currency Acquisitions		eported Net evenues	Less Excise Taxes	Re ex	oorted Net evenues coluding ise Taxes	Reported	Reported excluding Currency	Reported excluding Currency & Acquisitions
\$ 30,265	\$ 20,577	\$	9,688	\$	899	\$	8,789	\$	26	\$	8,763	European Union	\$ 26,829	\$ 17,994	\$	8,835	9.7%	(0.5)%	(0.8)%
14,817	7,313		7,504		296		7,208				7,208	EEMA	12,166	5,820		6,346	18.2%	13.6%	13.6%
12,222	6,037		6,185		140		6,045		46		5,999	Asia	11,097	5,449		5,648	9.5%	7.0%	6.2%
6,336	4,008		2,328		47		2,281		157		2,124	Latin America & Canada	5,151	3,170		1,981	17.5%	15.1%	7.2%
\$ 63,640	\$ 37,935	\$	25,705	\$	1,382	\$	24,323	\$	229	\$	24,094	PMI Total	\$ 55,243	\$ 32,433	\$	22,810	12.7%	6.6%	5.6%

% Change in Reported Operating 2008 2007 Companies Income

Op Cor	eported erating npanies acome		ess rency	Op Con In exc	ported erating npanies come cluding rrency	Acq	ess Juisi- ons	Reported Operating Companies Income excluding Currency & Acquisitions		Ope	ported erating epanies come	Reported	Reported excluding Currency	Reported excluding Currency & Acquisitions
\$	4,738	\$	432	\$	4,306	\$	20	\$ 4,286	European Union	\$	4,195	12.9%	2.6%	2.2%
	3,119		21		3,098			3,098	EEMA		2,431	28.3%	27.4%	27.4%
	2,057		32		2,025		5	2,020	Asia		1,803	14.1%	12.3%	12.0%
	520		(4)		524		100	424	Latin America & Canada		514	1.2%	1.9%	(17.5)%
\$	10,434	\$	481	\$	9,953	\$	125	\$ 9,828	PMI Total	\$	8,943	16.7%	11.3%	9.9%



Reconciliation of Reported Operating Companies Income to Adjusted Operating Companies Income, excluding Currency and Acquisitions For the Years Ended December 31,

						200	)7			_								2006				ompanies Inc	
Ope Com	ported erating apanies come	Impa Exit 0	Less Asset irment & Costs and Other	Op Co	djusted perating mpanies ncome		Less rrency	Op Con In exc	justed erating npanies come cluding rrency	Acc	ess quisi- ons	Ope Com Inc excl Curr	usted rating panies come luding ency & esitions		Op Cor	eported erating npanies acome	Impa Exit (	Less Asset irment & Costs and Other	O <sub>l</sub> Co	djusted oerating mpanies ncome	Adjusted	Adjusted excluding Currency	Adjusted excluding Currency & Acquisitions
\$	4,195	\$	(137)	\$	4,332	\$	424	\$	3,908	\$	(1)	\$	3,909	European Union	\$	3,500	\$	(165)	\$	3,665	18.2%	6.6%	6.7%
	2,431		(12)		2,443		98		2,345				2,345	EEMA		2,080		(2)		2,082	17.3%	12.6%	12.6%
	1,803		(28)		1,831		(36)		1,867		11		1,856	Asia		1,847		(19)		1,866	(1.9)%	0.1%	(0.5)%
	514		(18)		532				532		(66)		598	Latin America & Canada		1,013		538		475	12.0%	12.0%	25.9%
\$	8,943	\$	(195)	\$	9,138	\$	486	\$	8,652	\$	(56)	\$	8,708	PMI Total	\$	8,440	\$	352	\$	8,088	13.0%	7.0%	7.7%

2007



% Change in Reported Net Revenues excluding Excise Taxes

Adjustments for Impact of Currency and Acquisitions

#### For the Years Ended December 31,

	orted Net evenues	Less Excise Taxes	Re ex	eported Net evenues ccluding Excise Taxes		_ess rrency	Rev excl Ex Tax	ported Net venues luding xcise xes & rrency	Les Acqu tion	ıisi-	Reporte Reven exclud Excise T Curren Acquisi	nues ding Taxes, ncy &		Reported Net Revenues	Less Excise Taxes	Re	oorted Net evenues ccluding ise Taxes	Reported	Reported excluding Currency	Reported excluding Currency & Acquisitions
\$	26,829	\$ 17,994	\$	8,835	\$	757	\$	8,078	\$		\$ 8	8,078	European Union	\$ 23,745	\$ 15,869	\$	7,876	12.2%	2.6%	2.69
	12,166	5,820		6,346		330		6,016			$\epsilon$	6,016	EEMA	10,012	4,387		5,625	12.8%	7.0%	7.09
	11,097	5,449		5,648		76		5,572		118	5	5,454	Asia	10,139	4,634		5,505	2.6%	1.2%	(0.9)%
	5,151	3,170		1,981		34		1,947		37	1	1,910	Latin America & Canada	4,406	2,643		1,763	12.4%	10.4%	8.39
				22,810	\$	1,197	\$	21,613	\$ 1	155	\$ 21	21,458	PMI Total	\$ 48,302	\$ 27,533	\$	20,769	9.8%	4.1%	3.39
\$	55,243	\$ 32,433	Ů		· •	.,	·					1,430	i mi rotai						ge in Reported	d Operating
\$	55,243	\$ 32,433			20		<u>*</u>					1,430	T IIII TOTAL		 2006			% Chan		
Op Cor	eported perating mpanies acome	\$ 32,433			20 L		Rep Ope Com Ind	ported erating ipanies come luding rrency	Les Acqu tion	ss uisi-	Repor Operat Compa Incor exclud Current Acquisi	orted ating anies ome ding ncy &	T IIII TOTAL			Ri Ol Co	eported perating mpanies ncome	% Chan	ge in Reported	
Op Cor	eported berating mpanies	\$ 32,433			20 L	.ess	Rep Ope Com Ind	ported erating apanies come luding	Les Acqu	ss uisi-	Repor Operat Compa Incor exclud Curren Acquisi	orted ating anies ome ding ncy &	European Union			Ri Ol Co	eported perating mpanies	% Chan	ge in Reported companies Inc Reported excluding	Reported excluding Currency &
Op Cor In	eported erating mpanies ncome	\$ 32,433			20 L Cu	ess	Rep Ope Com Inc excl Cur	ported erating ipanies come luding rrency	Les Acqu tion	ss uisi- ns	Repor Operat Compa Incor exclud Curren Acquisi	orted ating anies ome ding ncy & aitions				Ri Op Co	eported perating mpanies ncome	% Chan	ge in Reporter companies Inc Reported excluding Currency	Reported excluding Currency & Acquisitions
Op Cor In	eported perating mpanies ncome	\$ 32,433			20 L Cu	ess rrency	Rep Ope Com Inc excl Cur	ported erating ipanies come luding rrency	Les Acqu tion	ss uisi- ns (1)	Repor Operat Compa Incor exclud Curren Acquisi	orted ating anies me ding ncy & itions	European Union			Ri Op Co	eported perating mpanies ncome	% Change C	ge in Reporter companies Inc Reported excluding Currency	Reported excluding Currency & Acquisitions
Op Cor In	eported berating mpanies ncome 4,195 2,431	\$ 32,433			20 L Cu	ess rrency 424 98	Rep Ope Com Inc excl Cur	ported erating panies come luding rrency	Les Acqu tion	ss uisi- ns (1)	Repor Operat Compa Incor exclud Curren Acquisi	orted ating anies ime ding ncy & itions 3,772 2,333	European Union EEMA			Ri Op Co	eported perating mpanies ncome	% Chang C Reported 19.9% 16.9%	ge in Reported Reported excluding Currency 7.7% 12.2%	Reported excluding Currency & Acquisitions



% Change in Reported Net Revenues

Adjustments for Impact of Currency and Acquisitions

#### For the Years Ended December 31,

				20	006						(Onadariou)			2005				luding Excise	
	Less Excise Taxes	Re ex	Net evenues coluding Excise			Re ex E	Net evenues cluding Excise axes &	Less Acquisi- tions	R ex Exc	evenues xcluding cise Taxes, urrency &		Reported Net Revenues		Less Excise Taxes	Re ex	evenues cluding	Reported	Reported excluding Currency	Reported excluding Currency & Acquisitions
23,745	\$ 15,869	\$	7,876	\$	(152)	\$	8,028	\$ -	\$	8,028	European Union	\$ 23,813	\$	15,364	\$	8,449	(6.8)%	(5.0)%	(5.0)%
10,012	4,387		5,625		(23)		5,648			5,648	EEMA	8,951		3,867		5,084	10.6%	11.1%	11.1%
10,139	4,634		5,505		(179)		5,684	587		5,097	Asia	8,609		3,668		4,941	11.4%	15.0%	3.2%
4,406	2,643		1,763		14		1,749	50		1,699	Latin America & Canada	3,943		2,400		1,543	14.3%	13.4%	10.1%
48.302	\$ 27.533	\$	20.769	\$	(340)	\$	21,109	\$ 637	\$	20,472	PMI Total	\$ 45.316	\$	25,299	\$	20.017	3.8%	5.5%	2.3%
																	% Chang	ne in Penerte	Operating
				20	06									2005				ge in Reported ompanies Inc	
eported perating mpanies ncome				L	ess rrency	Op Cor Ir ex	eported perating mpanies ncome cluding urrency	Less Acquisi- tions	O Cc e Cc	Reported operating ompanies Income xcluding urrency & quisitions				2005	Op Co	eported perating mpanies ncome			
perating mpanies ncome				L	_ess	Op Cor Ir ex	perating mpanies ncome cluding urrency	Acquisi- tions	O Cc e Ct Acc	perating ompanies Income xcluding urrency & quisitions	European Union			2005	Op Co	perating mpanies ncome	Reported	ompanies Inc Reported excluding Currency	Reported excluding Currency & Acquisitions
perating mpanies				L Cui	_ess rrency	Op Cor Ir ex Cu	perating mpanies ncome cluding	Acquisi- tions	O Cc ex Cu Acc	perating ompanies Income xcluding urrency & quisitions	European Union EEMA			2005	Op Co lı	perating mpanies	<u> </u>	ompanies Inc Reported excluding	Reported excluding Currency &
mpanies ncome				L Cui	ess rrency	Op Cor Ir ex Cu	mpanies mcome cluding urrency	Acquisitions	O Cc e Ct Acc	perating ompanies Income xcluding urrency & quisitions				2005	Op Co lı	mpanies ncome	Reported (10.0)%	Reported excluding Currency	Reported excluding Currency & Acquisitions
mpanies ncome 3,500 2,080				L Cui	Less rrency 2 10	Op Cor Ir ex Cu	poerating mpanies ncome cluding urrency 3,498 2,070	Acquisitions  \$ -	O Cc e Ct Acc	perating ompanies Income xcluding arrency & quisitions 3,498 2,070	EEMA			2005	Op Co lı	operating mpanies ncome 3,890 1,664	Reported (10.0)% 25.0%	Reported excluding Currency (10.1)% 24.4%	Reported excluding Currency & Acquisitions (10.1)% 24.4%
	10,012 10,139 4,406	23,745 \$ 15,869 10,012 4,387 10,139 4,634 4,406 2,643	Less Excise Taxes  23,745 \$ 15,869 \$ 10,012 4,387	Less Excise Taxes  23,745 \$15,869 \$7,876 10,012 4,387 5,625 10,139 4,634 5,505 4,406 2,643 1,763	Reported   Net   Revenues   excluding   Excise   Taxes   Taxes   Cu	Net Revenues excluding   Excise Taxes   Taxes   Currency	Reported Net Revenues excluding Excise Excise Excise Taxes Taxes Currency Co. 23,745 \$ 15,869 \$ 7,876 \$ (152) \$ 10,012 4,387 5,625 (23) 10,139 4,634 5,505 (179) 4,406 2,643 1,763 14	Reported Net   Revenues   Excise   Taxes   Reported   Revenues   excluding   Excise   Taxes   Revenues   Excise   Currency   Excise   Taxes   Currency   Excise   Taxes   Excise   Taxes   Excise   Taxes   Excise   Taxes   Excise   Excis	Reported Net   Revenues   Excise   Excise   Taxes   Reported   Revenues   excluding   Excise   Taxes   Currency   Curre	Reported   Net   Revenues   Rev	Reported Net   Revenues   Reven	Reported Net   Revenues   Reven	Reported Net   Revenues   Excise   Excise   Taxes   Excise   Taxes   Evenues   Evenues   Evenues   Excise   Taxes   Evenues   Evenues   Evenues   Excise   Excise   Excise   Excise   Excise   Evenues   Eve	Reported Net Revenues excluding   Excise Pavenues   Excise Taxes   Excise Pavenues   Excise Pavenues	Reported Net   Revenues   Reven	Reported Net   Revenues   Reven	Reported Net Revenues excluding Excise Taxes   Less Excise Taxes	Reported Net   Revenues   Reven	Reported Net   Revenues   Excise   Excise   Excise   Taxes   Currency   Currency   Excise   Taxes   Currency   Currency   Excise   Taxes   Excise   Excise



% Change in Reported Net Revenues

Adjustments for Impact of Currency and Acquisitions

#### For the Years Ended December 31,

_					20	05								2004			ехс	luding Excise	Taxes
	orted Net evenues	Less Excise Taxes	R ex	eported Net evenues kcluding Excise Taxes		ess rency	Re exc E Ta	ported Net venues cluding excise axes & arrency	Less Acquisi- tions	Re ex Exci Cu	oorted Net evenues ccluding ise Taxes, rrency & quisitions		Reported Net Revenues	Less Excise Taxes	Re ex	orted Net evenues cluding se Taxes	Reported	Reported excluding Currency	Reported excluding Currency & Acquisitions
\$	23,813	\$ 15,364	\$	8,449	\$	355	\$	8,094	\$ 10	\$	8,084	European Union	\$ 22,265	\$ 14,236	\$	8,029	5.2%	0.8%	0.7%
	8,951	3,867		5,084		81		5,003			5,003	EEMA	7,510	2,953		4,557	11.6%	9.8%	9.8%
	8,609	3,668		4,941		90		4,851	666		4,185	Asia	6,586	2,860		3,726	32.6%	30.2%	12.3%
	3,943	2,400		1,543		45		1,498	73		1,425	Latin America & Canada	3,276	1,983		1,293	19.3%	15.9%	10.2%
\$	45,316	\$ 25,299	\$	20,017	\$	571	\$	19,446	\$ 749	\$	18,697	PMI Total	\$ 39,637	\$ 22,032	\$	17,605	13.7%	10.5%	6.2%
					20	05								2004				ge in Reported ompanies Inc	
O <sub>l</sub> Co	eported perating mpanies ncome				ı	ess rrency	Op Con In exc	eported erating npanies acome cluding arrency	Less Acquisi- tions	Op Co Ii ex Cu	eported perating mpanies ncome ccluding rrency & quisitions			2004	Op Cor	eported serating mpanies scome			
O <sub>I</sub> Co	perating mpanies ncome				L Cur	ess rency	Op Con In exc Cu	erating mpanies acome cluding arrency	Acquisi- tions	Op Co In ex Cu Acq	mpanies mpanies ncome coluding rrency & quisitions			2004	Op Cor Ir	perating mpanies ncome	Reported	ompanies Inc Reported excluding Currency	Reported excluding Currency & Acquisitions
O <sub>l</sub> Co	mpanies ncome				ı	ess rency	Op Con In exc	erating npanies acome cluding arrency	Acquisitions 1	Op Co Ii ex Cu	perating mpanies ncome coluding rrency & quisitions	European Union		2004	Op Cor	perating mpanies ncome	Reported	Reported excluding Currency	Reported excluding Currency & Acquisitions
O <sub>I</sub> Co	mpanies ncome 3,890 1,664				L Cur	ess rency 194 30	Op Con In exc Cu	anpanies ocome cluding orrency 3,696	Acquisitions  \$ 1	Op Co In ex Cu Acq	perating mpanies ncome coluding rrency & quisitions 3,695 1,634	EEMA		2004	Op Cor Ir	oerating mpanies ncome 3,350 1,554	Reported 16.1% 7.1%	Reported excluding Currency	Reported excluding Currency & Acquisitions
O <sub>I</sub> Co	3,890 1,664 1,801				L Cur	ess rency 194 30 54	Op Con In exc Cu	and the second of the second o	Acquisitions  \$ 1 - 323	Op Co In ex Cu Acq	perating mpanies ncome coluding rrency & quisitions 3,695 1,634 1,424	EEMA Asia		2004	Op Cor Ir	3,350 1,554 1,298	Reported  16.1% 7.1% 38.8%	Reported excluding Currency  10.3% 5.1% 34.6%	Reported excluding Currency & Acquisitions  10.3% 5.1% 9.7%
O <sub>I</sub> Co	mpanies ncome 3,890 1,664				L Cur	ess rency 194 30	Op Con In exc Cu	anpanies ocome cluding orrency 3,696	Acquisitions  \$ 1	Op Co II ex Cu Acq	perating mpanies ncome coluding rrency & quisitions 3,695 1,634	EEMA		2004	Op Cor Ir	oerating mpanies ncome 3,350 1,554	Reported 16.1% 7.1%	Reported excluding Currency	Reported excluding Currency & Acquisitions



Calculation of Total Debt to EBITDA and Net Debt to EBITDA Ratios (\$ in millions, except ratios) (Unaudited)

			Marc 20					Year Ended ember 31, 2009
	April ^	~ December	January			months		
		2009	20	10	-	rolling		
Earnings before income taxes	\$	7,081	\$	2,492	\$	9,573	\$	9,243
Interest expense, net		639		223		862		797
Depreciation and amortization		660		223		883		853
EBITDA	\$	8,380	\$	2,938	\$	11,318	\$	10,893
					Ma	arch 31,	Dec	ember 31,
						2010		2009
Short-term borrowings					\$	1,050	\$	1,662
Current portion of long-term debt						151		82
Long-term debt						14,809		13,672
Total Debt					\$	16,010	\$	15,416
Less: Cash and cash equivalents						850		1,540
Net Debt					\$	15,160	\$	13,876
Ratios								
Total Debt to EBITDA						1.41		1.42
Net Debt to EBITDA						1.34		1.27



Calculation of Total Debt to EBITDA and Net Debt to EBITDA Ratios
(\$ in millions, except ratios)
(Unaudited)

March 31,
2000

	April -	~ December 2007	ary ~ March 2008	months rolling
	-			 - Clining
Earnings before income taxes	\$	7,033	\$ 2,449	\$ 9,482
Interest expense, net			75	75
Depreciation and amortization		585	201	786
EBITDA	\$	7,618	\$ 2,725	\$ 10,343

	arch 31, 2008
Short-term borrowings	\$ 793
Current portion of long-term debt	104
Long-term debt	6,643
Total Debt	\$ 7,540
Less: Cash and cash equivalents	1,231
Net Debt	\$ 6,309

#### Ratios

Total Debt to EBITDA	0.73
Net Debt to EBITDA	0.61



Reconciliation of Reported Operating Income to Reported Operating Companies Income
Reconciliation of Reported Operating Companies Income to Adjusted Operating Companies Income
For the Years Ended December 31,

(\$ in millions, except volume in billions)
(Unaudited)

	2003	2007	2009
Reported Operating Income	\$ 6,195	\$ 8,894	\$ 10,040
Add back:			
Amortization of Intangibles & Corporate Expenses	91	49_	231
Reported Operating Companies Income	\$ 6,286	\$ 8,943	\$ 10,271
Add back:			
Asset Impairment & Exit Costs and Other	(45)	195	164
Adjusted Operating Companies Income	\$ 6,241	\$ 9,138	\$ 10,435
Cigarette Shipment Volume	735.8	848.6	864.0





# **Investor Day – Operations Lausanne, June 24, 2010**