

## HIGHLIGHTS OF 1998 SECOND-QUARTER EARNINGS

Reported Net Earnings Down 2.0%

Underlying Net Earnings Up 8.9%

Reported Diluted E.P.S. Down 1.3% to \$0.74 per Share (\$0.74 Basic)

Underlying Diluted E.P.S. Up 9.3% to \$0.82 per Share (\$0.82 Basic)

- Philip Morris' underlying net earnings rose 8.9% to \$2.0 billion and diluted earnings per share climbed 9.3% to \$0.82 per share. These underlying results exclude the impact of \$232 million in pre-tax charges related to voluntary early retirement and separation programs for the company's domestic tobacco and corporate operations, and \$96 million in pre-tax charges for advances for plaintiffs' attorney fees and a prior litigation settlement.
- Taking the total \$328 million in pre-tax charges into account, reported net earnings declined 2.0% to \$1.8 billion and diluted earnings per share were down 1.3% to \$0.74 per share.
- Underlying operating income, which excludes the above-mentioned charges, as well as results from operations divested since the beginning of 1997, rose 6.9% to \$3.9 billion despite an unfavorable currency impact of \$91 million. Including these charges and income from divested operations, reported operating income declined 2.6% to \$3.6 billion.
- *Domestic Tobacco:* Underlying income rose 4.5% to \$1.2 billion on higher pricing.
- *International Tobacco:* Income grew a strong 11.0% to \$1.3 billion on higher pricing and good volume growth, despite difficult business conditions in Asia and the adverse impact of currency.
- *North American Food:* Excellent growth continued as underlying income rose 10.0% to \$884 million, driven by strong volume gains and higher margins.
- *International Food:* Underlying income declined 5.9% to \$272 million due to lower coffee margins and unfavorable currency.
- *Beer:* Underlying income was up 0.6% to \$158 million.

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