

Philip Morris International Inc (PMI) in Mexico

Overview of tobacco use in Mexico (estimates)

- There are 16 million smokers (age 12-65) in México,¹ with an increasing trend among women.
- One third of men (30%) and a tenth of women (10%) are current cigarette smokers.²
- Among youth (age 13-15) in Mexico City, over 27% smoke cigarettes (male 26%; female 27%).³

Overview of PMI in Mexico

- Latin America generates 5.8% of PMI's profits which are driven mainly by sales in Mexico.⁴
- "(One of) our three most important local brands is...*Delicados* in Mexico. All three gained volume and market share in 2008."⁵ - Waldemer, PMI CFO (2009)
- PMI works under two names in Mexico. Both companies are licensed to produce PMI brands.⁶
 - **Cigarros la Tabacalera Mexicana, SA de CV (CIGATAM)** is PMI's local subsidiary as well as the largest cigarette maker in Mexico.
 - PMI first bought stock in CIGATAM in the 1970s and they increased their share to 50% in 1997.⁷
 - In 2007, PMI increased its share in the company to 80% acquiring an additional 30% from Carlos Slim, a leading business man in Mexico and CIGATAM's previous owner.⁸ The acquisition gave PMI more control over the manufacturing process in Mexico.
 - Slim currently sits on PMI's board of directors⁹ and maintains a 20% share in CIGATAM.
 - CIGATAM produces the local brands *Delicados*, *Tigres Rojo* and *Tigre Amarillo* as well as Philip Morris Mexico brands including *Marlboro*, *Brandon & Hedges*, *Broadway* and *L&M*.
 - **Philip Morris Mexico, S.A. de CV** is PMI's subsidiary in Mexico which commercializes local cigarette brands produced by CIGATAM.¹⁰
- In 2008, PMI reported that its holdings in Mexico constituted 67.7% of the cigarette market, an increase of 3.4 share points from 2007, placing the company first in the cigarette market in Mexico. The *Marlboro* brand accounts for much of PMI's market share and is a market leader with a share of 48.7% in 2008.¹¹
 - "In Mexico, the total cigarette market was down 1.3% in 2008, reflecting the impact of price increases in October 2007 and related trade inventory movements and tax driven price increases in January and December 2008. However, our cigarette shipment volume rose by 22.6% and share increased 3.4 share points to 67.7% led by *Benson & Hedges*, up 0.6 share points and *Delicados*, up 1.3 share points." - PMI 2008 Annual Report

- o PMI's economy brand, *Delicados* accounted for 50% of the economy brands.¹²
- Mexico is considered an emerging market, one that PMI will continue to invest in to increase the company's overall profits.

Table 1: Company Market Shares (by Global Brand Owner) - Retail Volume - %*

	2001	2002	2003	2004	2005	2006	2007
Mexico							
Cigarettes							
Philip Morris Cos Inc	44.1	44.9	46.2	47.6	48.5	50.4	52.0
British American Tobacco Plc	34.2	33.2	33.3	32.1	31.2	29.7	28.1
Japan Tobacco Inc	9.8	9.8	10	11.6	12.7	13.1	13.5
Cigarros La Tabacalera Mexicana SA de CV (CIGATAM)	7.4	7	6.3	5.3	4.2	3.3	2.7
Others	4.6	5.1	4.1	3.3	3.3	3.4	3.6
Total	100	100	100	100	100	100	100

Sources:

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- Note: In 2007, PMI gained an additional 30% share of CIGATAM bringing its total share to 80%. PMI's total market share in 2007 was 54.7%
- The PMI 2008 Annual Report has the company's share points at 64.3% for 2007 and 67.7% for 2008. Euromonitor International explained that their numbers are underestimated (draft numbers for 2009 report are much closer).

Changes in the Cigarette Market

- Since 2001, PMI has achieved a 13.8% increase in sales by volume from 21.5 billion sticks in 2003 to 24.5 billion sticks in 2007.

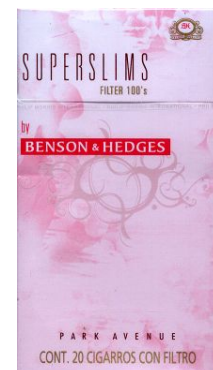
Table 2: PMI Volume Growth in Mexico, 2001-2007

	2001	2002	2003	2004	2005	2006	2007
Cigarettes Sold (billion sticks)	21.5	21.8	22.0	22.3	22.3	23.5	24.5

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Market Targets

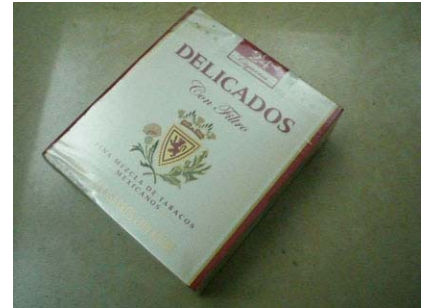
- According to Euromonitor International, CIGATAM's brands have very specific market targets: "*L&M* targets young people, *Benson & Hedges Super Slims* targets women and *Delicados* targets more mature consumers."¹³
- Increasing trends among female smokers makes them the number one target for cigarette companies in Mexico.
 - o Menthol Sector: *Marlboro Menthol*
 - In 2007, the brand had the highest growth of any brand in the menthol sector.¹⁴
 - PMI retained 5% of the menthol share of the market in 2008.¹⁵
 - o Slims Sector: *Benson and Hedges Super Slims*
 - Launched at the end of 2006 in a pink pack.
 - o "Light" and "Low"
 - In 2007, low and ultra low-tar cigarettes had



the highest growth rates in Mexico due mainly to the increase in female smoking but in part to rising health concerns.¹⁶

- Premium market: offers more fashionable designs and smoother flavors.¹⁷

- The economy brands sector is declining in Mexico, so CIGATAM's leading economy brand, *Delicados*, is moving into the premium sector.



- *Delicados Premium* is considered to be a more sophisticated brand because it has a filter and hard packaging.¹⁸

- *Marlboro Fresh*, launched in 2008, is a “modern” cigarette that “features an innovative blue thread in the filter that delivers a high cooling sensation in a brand with an easy-going and extroverted personality.” – PMI 2008 Annual report

- Brand has a page on networking website, Facebook, which is very popular among youth.¹⁹

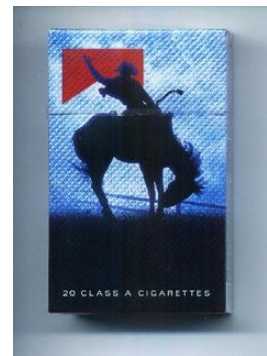
- Male smokers are also being targeted with limited edition products.

- In 2007, PMI launched *Marlboro Free Country* in Mexico featuring 3 different images of the iconic “Marlboro Man” cowboy.²⁰

- Examples of Advertising, Promotion and Sponsorship (preliminary list: country teams and grantees need to complete)

- Concerts

- Marlboro MX Beat: An annual concert series that promoted local and international independent groups.



- 2008's series was held February-March in Guadalajara, Puebla, Monterrey, and Mexico City and included performances by N.E.R.D, NORTEC presenta Bostich + Fussible, Vampire Weekend and Mystery Jets.²¹

Industry Interference

- Corporate Charitable Donations

- In 2008 PMI donated close to \$400 thousand USD to charity groups in Mexico.²²

- Half of all donations (\$191,000 USD) went through The Resource Foundation, a US nonprofit organization that helps corporations support locally driven development programs in Latin America and the Caribbean.²³

Table 3: PMI Charitable giving in Mexico

Organization	Project Name	US\$	Giving Area
The Resource Foundation	Reforestation program	48,000	Rural Sustainability
The Resource Foundation	Center for Social Development Jala-Jomulco	33,000	Education
The Resource Foundation	Commitment and technology for a better education	48,000	Education
The Resource Foundation	Revive Chapultepec	30,000	Rural Sustainability
The Resource Foundation	5 th Shared Learning Circle	10,000	Education
The Resource Foundation	Program to protect and preserve water	22,000	Rural Sustainability
Merced Foundation	Feed All Brigade	82,730	Human/Social Services
Desarrollo Rural de Nayarit AC (Dernay)	Center for Social Development Jala-Jomulco	50,658	Education
Desarrollo Rural de Nayarit AC	Agricultural projects to Natarit farmers	4,921	Rural Sustainability
Fundacion Mexicana de Apoyo Infantil AC	Prevent Child Labor in Tobacco Fields	48,000	Education
Total		377,309	

Source: PMI 2008 Corporate Charitable Donations.

In Country Management

Mirosław Zielinski, President Latin America and Canada Region

Luis Hernández García, CEO (listed in the 2007 annual report, but not sure if it is current)

Cigarros La Tabacalera Mexicana SA de CV (CIGATAM)

Manuel Salazar 132,

Col Providencia

Mexico DF, 02440

Mexico

+52 (55) 5267 6208 (Phone)

+52 (55) 5328 3001 (fax)

Gerardo Gonzalez, Project Manager

Philip Morris Mexico SA de CV

Vasco de Quiroga 3000, Piso 8

Lomas de Santa Fe

Distrito Federal

CP 01219

Mexico

Telephone: +52 (01)52 67 620

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- ³ Centers for Disease Control and Prevention (CDC). Global Youth Tobacco Surveillance, 2000-2007. CDC Morbidity and Mortality Weekly Report (MMWR). 2008;57(SS-1):1-28.
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- ⁵ Remarks by Hermann Waldemer, CFO PMI to Consumer analyst group of New York conference. Feb 17, 2009. Available from: http://library.corporate-ir.net/library/14/146/146476/items/324776/33115BF0-21E6-449E-8986-914AB234C783_PMI-2009-02-17-CAGNY-DISTRIBUTION-FINAL.pdf
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- ⁹ PMI website: <http://investors.philipmorrisinternational.com/phoenix.zhtml?c=146476&p=irol-govboard>
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- ¹³ Euromonitor Cigarette Report, 2008.
- ¹⁴ Euromonitor Cigarette Report, 2008.
- ¹⁵ Philip Morris International Inc. Form 8K Filed February 17, 2009 with the U.S. Securities and Exchange Commission.
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