Philip Morris International Inc (PMI) in the Philippines

Overview of tobacco use in Philippines (estimates)
- 34.5% of adults (age 18+) smoke tobacco.  
- Over half of adult males (57%) and 12% of adult females smoke.
- 40% of adult males are daily smokers, averaging 13 cigarettes per day.
- Among youth (age 13-15), 17.5% currently smoke cigarettes (male 23%; female 12%).
- 8% of youth currently use tobacco products other than cigarettes.

Overview of PMI in the Philippines
- "The Philippines is one of PMI’s major markets."
- PMI’s affiliate in the Philippines is Philip Morris Manufacturing Inc (PMPMI), established in 2001.
  - PMI has been present in the Philippines since 1955 when it licensed La Suerte Cigar and Cigarette Factory to distribute its products.
  - In 1993 Philip Morris Philippines was established to manufacture PMI’s brands in country.
  - In 2000, PMI took over the distribution of its products in the Philippines.
    - PMI invested $300 million USD in its manufacturing plant in Tanauan, Batangas which produces cigarettes for the Philippines and exports to the rest of the Asia Pacific region. In addition to producing cigarettes, the plant also performs all leaf-related agronomy, logistics, planning and buying functions for the region.
    - The Tanauan plant has the capability of producing 40 billion cigarettes a year.
- PMI continues to expand in the Philippines and in 2003 it acquired four local economy brands from Sterling Tobacco Corp.: Bowling Green, Miller, Bowling Gold and Stork.
- PMI’s brands in the Philippines now include Marlboro, Philip Morris, Bowling Gold, Miller, Bowling Green and Stork.
- PMI is the market leader in the Philippines and 95% of its market share by volume is made up of Marlboro brand sales which sold 26 million sticks in 2007.
  - “In the Philippines, the total cigarette market increased 5.1% [in 2008]. Our shipment volume increased 4.9%, due mainly to the continued strong performance of Marlboro.” - PMI 2008 Annual Report
Table 1: Company Market Shares (by Global Brand Owner) - Retail Volume - %

<table>
<thead>
<tr>
<th>Philippines Cigarettes</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philip Morris Cos Inc</td>
<td>33.2</td>
<td>34.6</td>
<td>34.2</td>
<td>33.8</td>
<td>34.4*</td>
</tr>
<tr>
<td>Japan Tobacco Inc</td>
<td>22.8</td>
<td>23.3</td>
<td>23.7</td>
<td>22.1</td>
<td>20.2</td>
</tr>
<tr>
<td>British American Tobacco Plc</td>
<td>10.2</td>
<td>10.8</td>
<td>10.6</td>
<td>9.7</td>
<td>10.6</td>
</tr>
<tr>
<td>Reynolds American Inc</td>
<td>-</td>
<td>9.8</td>
<td>8.7</td>
<td>7.7</td>
<td>8.1</td>
</tr>
<tr>
<td>Fortune Tobacco Corp</td>
<td>5.2</td>
<td>5.3</td>
<td>5.4</td>
<td>5.1</td>
<td>6.2</td>
</tr>
<tr>
<td>Mighty Corp</td>
<td>3.7</td>
<td>4</td>
<td>4.8</td>
<td>4.2</td>
<td>4.7</td>
</tr>
<tr>
<td>La Suerte Cigar &amp; Cigarette Factory</td>
<td>7.2</td>
<td>4.3</td>
<td>1.6</td>
<td>1.1</td>
<td>2.4</td>
</tr>
<tr>
<td>Imperial Tobacco Group Plc</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.6</td>
</tr>
<tr>
<td>Gallaher Group Plc</td>
<td>4</td>
<td>2.1</td>
<td>0.5</td>
<td>0.6</td>
<td>-</td>
</tr>
<tr>
<td>RJ Reynolds Tobacco Holdings Inc</td>
<td>10.1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Reemtsma Cigarettenfabriken GmbH</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Others</td>
<td>3.2</td>
<td>5.3</td>
<td>10.1</td>
<td>15.3</td>
<td>12.9</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Sources:
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*Marlboro’s market share in 2007 was 32.8%

Changes in the Cigarette Market

• Since 2003, PMI has achieved a 12.4% increase in sales by volume from 24 billion sticks in 2003 to 27.3 billion sticks in 2007.

Table 2: PMI Volume Growth in Philippines, 2003-2007

<table>
<thead>
<tr>
<th>PMI Cigarettes (Retail Volume, billion sticks)</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>24.0</td>
<td>25.3</td>
<td>25.3</td>
<td>25.9</td>
<td>27.3</td>
<td></td>
</tr>
</tbody>
</table>

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Market Targets

• As tobacco prices increase in the Philippines, PMI targets Filipinos with cheap cigarettes in 5-10 stick packs.
  o In the Philippines, 70% of cigarette sales are in single stick sales.16
  o Chris Nelson, managing director of Philip Morris Philippines Manufacturing Inc. (PMPMI) stated, "If you want to be competitive in the Philippines, you should be on the lookout for the changes in consumer patterns." To compete with lower-priced brands, PMPMI launched sachet-like packs with 5 and 10 sticks to make its premium brands more affordable.17

• Menthol cigarettes constituted 55% of the cigarette market in 2007.18
  o Menthol cigarettes are generally considered feminine but with such a large market share, menthols have become the cigarette of choice for Filipinos due to their taste appeal.

April 2009
- Menthols appeal to young professionals because they are associated with “fresher” breath, eliminating one of the perceived drawbacks of smoking.\(^{19}\)
  - PMI competes in this sector with *Marlboro Menthol Lights* and is expected to launch new products to remain competitive in the menthol sector.

- **Examples of Advertising, Promotion and Sponsorship** (preliminary list: country teams and grantees need to complete)
  - **Concert:** Eraserheads August 2008 (Filipino band)\(^{20}\)
    - People had to sign up on Marlboro’s “Red List” (a mailing list) to get tickets to the reunion concert
    - Promotion was in violation of the 2008 tobacco regulation law
  - **A Marlboro airport smoking lounge in Boracay**\(^{21}\)
  - **Point of Sales display in a Filipino supermarket**\(^{22}\)

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**Industry Interference**

- **Corporate Charitable Donations**
  - In 2008, PMI donated over $1.5 million USD to charity groups in Philippines.\(^{23}\)
    - Over $670 thousand USD went to Philippine Band of Mercy, an organization that provides services and health care to children with cleft palates.\(^{24}\)
Table 3: PMI Charitable giving in Philippines

<table>
<thead>
<tr>
<th>Organization</th>
<th>Project Name</th>
<th>US$</th>
<th>Giving Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philippine Band of Mercy</td>
<td>Cigarette Butt Litter Campaign</td>
<td>49,201</td>
<td>Rural Sustainability</td>
</tr>
<tr>
<td>Philippine Band of Mercy</td>
<td>Sustaining the National Social Development Fund Y5</td>
<td>196,802</td>
<td>Human/Social Services</td>
</tr>
<tr>
<td>Philippine Band of Mercy</td>
<td>Support to Capacity Building Programs of RHRDC</td>
<td>49,200</td>
<td>Human/Social Services</td>
</tr>
<tr>
<td>Philippine National Red Cross</td>
<td>Disaster relief for Typhoon Mina</td>
<td>7,541</td>
<td>Disaster Relief</td>
</tr>
<tr>
<td>Philippine National Red Cross</td>
<td>Disaster relief for Typhoon Fran</td>
<td>45,310</td>
<td>Disaster Relief</td>
</tr>
<tr>
<td>Jamie V Ongpin Foundation</td>
<td>Cooperative Organizing &amp; Capability Program</td>
<td>34,632</td>
<td>Hunger and Extreme Poverty</td>
</tr>
<tr>
<td>Philippine Band of Mercy</td>
<td>Support for the poor</td>
<td>375,940</td>
<td>Hunger and Extreme Poverty</td>
</tr>
<tr>
<td>Knowledge Channel Foundation Inc</td>
<td>Proficiency measures for quality education 2008</td>
<td>733,191</td>
<td>Education</td>
</tr>
<tr>
<td>American Chamber Foundation Philippines Inc</td>
<td>Additional development fund for child labor study</td>
<td>15,000</td>
<td>Rural Sustainability</td>
</tr>
</tbody>
</table>

Total 1,506,817


- Other Corporate Social Responsibility (CSR)
  - PMPMI was honored by the Philippine Business for Social Progress (PBSP) group that celebrates CSR in the Philippines.  
  - PMPMI sponsors Brightleaf Agriculture Journalism Awards.  

- There is no indication on awards’ website that it is sponsored by PMPMI except for a photo in the “About The Awards” section that shows the banners with award logo with “Philip Morris” above it and the PMI logo.  
- Among the categories for submissions are, “Tobacco Story of the Year” and “Tobacco Photo of the Year.”

April 2009
In Country Management
Matteo Pellegrini- PMI President, Asia Region

Chris Nelson, Managing Director PMPIM
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5 CDC, 2008.
7 PMI Philippines homepage
8 PMI Philippines homepage
9 PMI Philippines homepage
10 PMI Philippines homepage
12 Euromonitor Local Company Report, 2008
21 Taken by Yul Dorotheo
22 Taken by Yul Dorotheo

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