

Equity Research

Philip Morris International Inc.

Asia Segment Profit Could Double To Nearly \$10 Billion By 2020

Outperform

Sector: Tobacco

Market Weight

- **PM's Asia Segment Presents Underappreciated Value**--We performed an in-depth analysis of PM's Asian business, including a detailed market-level forecast, to better understand the potential value of this significant growth opportunity. Our analysis indicates the full extent of favorable Asian market dynamics and that PM's brand strength is materially underappreciated based on current valuation. As a result of our in-depth Asian Market analysis, we have reiterated our Outperform rating on the shares, added PM to the Wells Fargo Securities Priority Stock List, and increased our valuation range by \$4, to \$81-83. In addition, we increased our 2011 and 2012 EPS estimates by \$0.03 and \$0.06, to \$4.85 and \$5.26, respectively.
- **PM's Asia Business Is Potentially Worth \$75 Billion**--Our detailed market-level forecast for PM's Asian operations suggests that segment profit could double, to about \$10 billion by 2020. On a discounted cash flow basis, we estimate that this earnings power translates to a \$75 billion valuation, or \$42 per share, and implies that the Asia segment accounts for about 50% of total company value. We think PM's current stock price is implying an Asia segment value of approximately \$36, or 15% below our valuation.
- **Indonesia Will Likely Drive The Majority Of PM's Asian Growth**--Our analysis suggests Indonesia is PM's top market opportunity, as a combination of favorable demographics, economic fundamentals and competitive dynamics should allow PM's profits in Indonesia to almost quadruple to \$5.2 billion, representing more than 50% of PM's total Asia segment profit by 2020. We believe Indonesia's potential earnings power is misunderstood by the market.
- **Japan Is Highly Profitable, But Has Limited Growth Prospects**--Japan has long been among the most profitable cigarette markets in the world. We estimate that Japan will represent about 45% of PM's Asia segment profit in 2011, with approximately 57% margin. Comps will likely be challenging in 2012, but this should be more than offset by continued growth in Indonesia.
- **The Philippines, South Korea, And Australia Are Important Markets.** Opportunity in the Philippines and South Korea stems from the movement toward premium products. Australia is a challenging, but profitable market.

Valuation Range: \$81.00 to \$83.00

Our \$81-83 valuation range for PM is based on a 10.5x forward EV-to-EBITDA multiple and a 15.6x forward P/E multiple, representing a premium of approx. 14% to the respective 3-year average multiples. Our valuation range is supported by our ten-year sum-of-the-parts DCF valuation of \$81. Risks to our valuation range include currency fluctuations and a broad-based pullback in consumer spending.

Investment Thesis:

We expect PM to outperform over the long term given its (1) superior and re-energized Marlboro brand franchise, (2) its industry-leading, diverse brand portfolio, and (3) its impressive ROIC and improving economic profit. PM has emerged in a class of its own, and we believe the it is poised for further growth and margin expansion given that it is a much more nimble, less risk averse, more innovative, and more performance-driven company than in the past.

Please see page 29 for rating definitions, important disclosures and required analyst certifications

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Company Research Report

EPS	2010A	2011E		2012E	
		Curr.	Prior	Curr.	Prior
Q1 (Mar.)	\$0.90	\$1.06 A	NC	\$1.14	1.16
Q2 (June)	1.00	1.34 A	NC	1.40	1.41
Q3 (Sep.)	1.00	1.37 A	NC	1.47	1.42
Q4 (Dec.)	0.97	1.08	1.04	1.26	1.22
FY	\$3.87	\$4.85	4.82	\$5.26	5.20
CY	\$3.87	\$4.85		\$5.26	
FY P/E	19.7x	15.7x		14.5x	
Rev.(MM)	\$27,208	\$30,745		\$31,668	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, ♥ = Company is on the Priority Stock List

Ticker	PM
Price (12/15/2011)	\$76.10
52-Week Range:	\$55-78
Shares Outstanding: (MM)	1,749.0
Market Cap.: (MM)	\$133,099.0
S&P 500:	1,218.61
Avg. Daily Vol.:	6,078,150
Dividend/Yield:	\$3.08/4.0%
LT Debt: (MM)	\$12,870.0
LT Debt/Total Cap.:	51.0%
ROE:	181.0%
3-5 Yr. Est. Growth Rate:	12.0%
CY 2011 Est. P/E-to-Growth:	1.3x
Last Reporting Date:	10/20/2011
	Before Open

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

Bonnie Herzog, Senior Analyst

(212) 214-5051

bonnie.herzog@wellsfargo.com

Brendan Metrano, CFA, Associate Analyst

(212) 214-8064

brendan.metrano@wellsfargo.com

Jessica Gerberi, CFA, Associate Analyst

(212) 214-5029

jessica.gerberi@wellsfargo.com

Together we'll go far



Company Description:

Philip Morris International is engaged in the manufacturing and marketing of cigarettes and other tobacco products outside of the United States. Headquartered in New York, the company has a wide range of premium, mid-price, and low-price brands, and its portfolio consists of both international and local brands. Philip Morris' leading brand Marlboro is the world's best-selling international cigarette.

Asia--The Land Of Opportunity

Asia, the home to more than 50% of the world's population (or approximately 36% ex-China), represents a tremendous opportunity for PM, with about 3.6 trillion cigarettes consumed each year (or about 1.2 trillion units ex-China). The expansive and growing population presents an immense potential customer base, and economic fundamentals in Asia have been strong and resilient. These include relatively higher gross domestic product (GDP) growth and improving consumer indicators such as unemployment, consumer confidence, and disposable income. Other market dynamics including a relatively more favorable environment toward tobacco, generally speaking, both culturally and regulation-wise, combined with favorable economic and consumer conditions lead us to believe that the stars truly are aligned in Asia and PM is ideally positioned across many countries in Asia to leverage this extraordinary growth opportunity.

A key element of our Philip Morris International investment thesis has been that Asia would be "the engine of growth" for years to come. To better comprehend the potential earnings power and value of this large-scale opportunity, we performed an in-depth analysis of PM's Asian business and the overall Asian cigarette market. Our analysis focused on PM's five key markets in its Asia Segment, which are Indonesia, Japan, Philippines, South Korea, and Australia. We analyzed key fundamental drivers for each market, including demographics, economic growth, regulatory trends, cigarette price and consumption trends, and social attitudes toward cigarette consumption. We factored these drivers into market-specific, long-term forecasts. The key conclusions we have drawn from our analysis are as follows:

- PM's Asia segment operating income could double, to almost \$10 billion by 2020, making Asia the most valuable asset for PM, worth approximately \$75 billion today (or approximately 50% of current value).
- Indonesia will be the key driver of PM's growth over the next decade and could represent more than half of its total operating income in Asia by 2020. We believe operating income in Indonesia could nearly quadruple by 2020, to \$5.2 billion. Therefore, incremental profit generated in Indonesia by 2020 could total \$3.8 billion, representing approximately 75% of total incremental segment profit.
- Based on the results of our in-depth, bottom-up analysis on PM's business in Asia, **we conclude that there is a tremendous opportunity for PM in Asia, above and beyond what the market expects or what is implied in the current stock price.**
- China could be a game changer for Philip Morris. Although this optionality is not reflected in our valuation, we believe there is tremendous upside potential for PM in this market, given that PM has methodically cultivated its relationship with China National Tobacco Corp. (CNTC), becoming its preferred strategic partner. Therefore, we believe that if CNTC decides to expand and/or open the market, PM would likely be the primary beneficiary.

We reiterated our Outperform rating on PM and raised our valuation range on the stock to \$81-83. We also increased our EPS estimates for both 2011 and 2012 by \$0.03 and 0.06, to \$4.85 and \$5.26, respectively, primarily reflecting higher growth and margin expansion in PM's Asia segment. Our new EPS estimates are in line with management's higher EPS guidance of at least \$4.85 for 2011 and 10-12% currency neutral growth for 2012. We continue to expect PM to finish 2011 on a high note and expect this momentum to carry forward throughout next year and beyond. PM is our top stock pick for 2012 and should be a core holding next year and beyond.

Exhibit 1. Key Financial Data For PM's Asia Segment

Summary of Asia Segment - 2011E								
Countries	% of Total Asia Volume	Market Share	Volume (in millions of sticks)	Net Revenue (USD)	Operating Income (OCI) (USD)	Operating Margin	% of Total Asia Revenue	% of Total Asia Operating Income
Indonesia	30.0%	31.2%	91,080	\$2,778	\$1,417	51.0%	26.7%	29.9%
Japan	17.9%	28.5%	54,276	\$3,774	\$2,151	57.0%	36.3%	45.4%
Philippines	32.3%	92.8%	97,960	\$1,376	\$454	33.0%	13.2%	9.6%
South Korea	6.4%	21.1%	19,286	\$534	\$230	43.0%	5.1%	4.8%
Australia	2.5%	38.0%	7,627	\$783	\$430	55.0%	7.5%	9.1%
Other Countries	11.0%	n/a	33,487	\$1,160	\$56	4.9%	11.1%	1.2%
Total	100.0%	n/a	303,717	\$10,405	\$4,739	45.5%	100.0%	100.0%

Source: Wells Fargo Securities, LLC estimates.

Summary of Asia Segment - 2020E								
Countries	% of Total Asia Volume	Market Share	Volume (in millions of sticks)	Net Revenue (USD)	Operating Income (OCI) (USD)	Operating Margin	% of Total Asia Revenue	% of Total Asia Operating Income
Indonesia	43.1%	37.1%	184,638	\$8,989	\$5,249	58.4%	48.2%	53.5%
Japan	10.0%	32.6%	42,996	\$3,962	\$2,437	61.5%	21.2%	24.8%
Philippines	26.8%	94.5%	114,612	\$2,194	\$843	38.4%	11.8%	8.6%
South Korea	6.6%	29.6%	28,157	\$1,017	\$474	46.6%	5.5%	4.8%
Australia	1.6%	44.1%	6,869	\$1,104	\$667	60.4%	5.9%	6.8%
Other Countries	11.9%	n/a	51,059	\$1,386	\$141	10.2%	7.4%	1.4%
Total	100.0%	n/a	428,330	\$18,652	\$9,811	52.6%	100.0%	100.0%

Source: Wells Fargo Securities, LLC estimates.

Indonesia--The Stars Are Aligned for Stellar Results

Indonesia is PM's top opportunity market, in our view, due to its vast growth potential in volume, pricing, and overall profitability. The stars are aligned in Indonesia in terms of a resilient economy fueling increasing purchasing power, limited inflation, higher consumer confidence, declining unemployment, robust pricing, and a simplified tax structure. Furthermore, Indonesia is attractive considering its tobacco-friendly environment and very favorable demographics including a young, growing population. We estimate that PM's revenue in Indonesia is currently around \$2.8 billion (or 27% of PM's revenue in Asia) and its operating income is around \$1.4 billion (or 30% of PM's operating income in Asia). By 2020, we believe Indonesia will be PM's most important market in Asia in terms of both total revenue and income, and that it could represent more than half of PM's total operating income generated in Asia. By 2020, we estimate that PM's annual revenue in Indonesia could reach approximately \$9 billion (or 48% of PM's revenue in Asia) and its operating income could almost quadruple, reaching \$5.2 billion (or 53.5% of PM's operating income in Asia). Also, we estimate that PM's margin will expand to 58.4% in 2020, up from 51% currently.

- **Favorable Demographics** - The population of Indonesia is projected to grow by approximately 0.8% from 2011 to 2020, with a burgeoning middle class that should benefit from increasing disposable income. Indonesia is one of PM's youngest Asian markets, with 27.3% of the population age 0-14 years.
- **Strong Economic Fundamentals** - GDP growth rate is expected to be a robust 8.5% through 2016, the highest projected GDP growth rate of PM's top five countries in its Asia segment.
- **Benign Regulatory Environment** - The Indonesian tobacco market benefits from a relatively benign regulatory environment and widespread cultural acceptance of cigarette smoking, evidenced by a 32% smoking prevalence rate.
- **A Large And Growing Market** - Indonesia is currently Asia's largest tobacco market (ex. China) with projected cigarette consumption of approximately 292 billion sticks in 2011. We project consumption may increase to approximately 500 billion sticks by 2020.
- **Leading Market Share** - Philip Morris is the market leader in Indonesia with a market share of approximately 31.6% share, which we estimate may increase to 37% by 2020.

Japan--PM's Most Profitable Market In Asia, Despite Challenges

Japan has long been among the most profitable cigarette markets in the world and a key market for PM, due to strong pricing fundamentals. We estimate that Japan will account for 36% and 45% of PM's 2011 Asia segment revenue and operating income, respectively. In the near term, PM should continue to benefit from stickier-than-anticipated share gains resulting from the 2011 tsunami supply disruptions. Although the market is mature and faces challenging demographic and economic trends, it should remain one of the most profitable markets in Asia. By 2020, we estimate PM's annual revenue in Japan will be slightly higher, around \$4.0 billion (or 21% of PM's revenue in Asia), and its operating income will rise to \$2.4 billion (or 25% of PM's operating income in Asia). Also, we believe PM's margin will expand in Japan to 61.5% in 2020, up from 57% currently. Therefore, although there may be more limited growth in Japan due to declining market dynamics, Japan should remain an important market for Philip Morris due to very attractive margin.

- **A Large and profitable market with limited growth prospects.** Japan is the second-largest market among PM's top five Asian markets, with approximately 190 billion sticks consumed annually. However, volume has declined by 5.2% per year over the past five years. We estimate that PM's operating margin in Japan will be 57% for 2011, the highest among its core Asian markets, due to strong underlying pricing fundamentals.
- **Challenging demographics.** The Japanese population is aging and declining, with population growth projected to be negative 0.3% through 2020.
- **Innovation is critical.** Japan is a very competitive market and each year a vast number of new brands are launched. The market is very dynamic and there is a necessity to develop a strong innovation pipeline to continually meet the rapidly changing preferences of adult smokers. We believe PM has done a good job of bringing several new products to the market and that Japan is one of the best examples showcasing the success of Marlboro's new architecture.
- **Stable but tough competitive environment.** PM should finish the year with a 28.5% market share, second to Japan Tobacco's 58.9% share. Japan Tobacco is 50% owned by the Japanese government, and its brands have strong loyalty among Japanese consumers. Still, PM's Marlboro brand has steadily increased its share to 12% in 3Q11 from 7% in 2000.

Philippines--Dominant Market Share And Shift To Premium Brands Should Drive Continued Growth

The Philippines is a very lucrative market for PM, due the company's nearly 93% market share of the 106 billion stick market (the largest market in terms of volume for PM in Asia) and its highly favorable demographic and economic trends. These strong fundamentals and a growing premium market should drive incremental profitability for years to come, making the Philippines a key strategic market for PM. We estimate that PM's revenue in the Philippines is currently around \$1.4 billion (or 13.2% of PM's revenue in Asia) and its operating income is around \$454 million (or 9.6% of PM's operating income in Asia). By 2020, we estimate that PM's annual revenue in the Philippines could reach approximately \$2.2 billion (or 11.8% of PM's revenue in Asia) and its operating income could reach \$843 million (or 8.6% of PM's operating income in Asia). Also, we estimate that PM's margin will expand to 38.4% in 2020, up from 33% currently. Some of the key drivers of profitability over the next few years should be continued momentum in Marlboro in the Philippines' growing premium segment (the Philippines is PM's second-largest Marlboro sales market globally), as well as further synergies to be realized from PM's merger with Fortune Tobacco last year.

- **Among The Best Demographics In Asia** - The Philippines has a population of approximately 100 million people, currently twelfth-largest in the world, which is projected to grow by approximately 1.6% through 2020. The population is young, with 55% of the population age 20 or older, which bodes well for tobacco consumption.
- **Strong Economic Fundamentals** - Philippines GDP is expected to grow 6.6% per year through 2016.
- **Dominant Market Share** - PM virtually controls the cigarette market in the Philippines, with a market share of more than 90%. PM's most popular brand in the Philippines is low-priced brand Fortune, which makes up 40% of the market. Marlboro has a 21.9% share, the highest among PM's top five Asian countries.

- **Increasing Profitability** - We estimate Philippines' 2011 operating margin to be approximately 33% and think margin could expand to 38.4% by 2020. Up-trading has been a key margin driver, as the "premium and above" grew to 34.3% in 2010 from 26.1% of the market in 2007.
- **Regulatory Environment Is Reasonable But Tightening** - Tobacco regulation in the Philippines tends to be more restrictive than other emerging economies such as Indonesia. Over the past decade, laws have placed some restrictions on tobacco advertising and public smoking. A recent law passed in July 2011 in the Metro Manila area bans smoking in all public places, including restaurants and bars.

South Korea--Demand For International Brands Should Sustain PM's Momentum

PM has been the fastest-growing tobacco company in the South Korean market, due to the strength of its brands, with share more than doubling, to a record 21.1% in Q3 2011 from 8.6% five years ago. We characterize South Korea as a stable market for PM, as the South Korean market has been growing at a 2% annualized rate over the past five years. Premium or super-premium products resonate well in Korea, making it a market of continuing high potential for PM, especially with its Marlboro and Parliament brands. We estimate that South Korea will account for 5.1% of revenue and 4.8% of operating income in 2011 and could reach 5.5% and 4.8% by 2020.

- **Strong Economic Fundamentals** – South Korea GDP growth is projected to be a robust 5.7% through 2016, which should support continued up-trading to premium priced cigarettes, benefitting PM by virtue of its Marlboro brand.
- **Competitive Environment Remains Favorable** – PM has strong momentum in South Korea, increasing its share to 21.1% in Q3 2011 from 8.6% in 2006. PM now ranks second in the market, behind domestic-based KT&G, which has a 60.5% share. In terms of brands, there has been a shifting trend in Korea toward international brands and PM caters well to this demand. Marlboro and Parliament have driven very strong growth in Korea.
- **Consistent Performance** - We forecast the South Korean market to grow at a 0.4% CAGR through 2020, driven by similar per capita growth. We project PM will grow volume by 4.3% per year and pricing by 3.0% through 2020, and that operating margin will increase to 46.6% from 43.0% over that period.

Australia--Highly Restrictive Market, But Remains Very Profitable

Australia is a small but highly profitable market for PM that benefits from very strong current pricing and economic fundamentals, as we estimate 2011 operating margin was approximately 55%. We think Australia will continue to be one of PM's most profitable markets in terms of margin, but are somewhat concerned that future regulation could become overly oppressive and affect profitability. Australian policies toward tobacco companies are among the most restrictive in the world. Recently, Australia passed the first known plain packaging law, which, if enacted, could be damaging to branded cigarette companies like PM. We estimate that Australia made up 7.5% and 9.1% of PM's 2011 Asia segment revenue and operating income, respectively, which we think will decline to 5.9% of its total Asia segment revenue and 6.8% of its operating income by 2020.

- **Solid Economic Fundamentals** – Australia has been the fastest-growing developed economy for the past six years, and GDP is projected to grow at 5.7% per year through 2016. Population trends are also favorable, with population expected to grow by 1% per year through 2020.
- **Superior Pricing Fundamentals** – We estimate that PM's average retail price for pack of cigarettes is the highest in PM's Asia segment, at \$12.74 (U.S. dollars) per pack.
- **Favorable Competitive Position** - PM has the No. 2 market share position in Australia, approximately 39%, behind BAT (approximately 42%) and ahead of IMT (approximately 20%). PM's key brands are medium-priced Longbeach (16.0% share) and premium-priced Peter Jackson (13.3% share); other brands include choice (4.6% share), Marlboro (2.4% share), and Alpine (2.0% share). We think Marlboro's low market share in Australia could present a significant long-term opportunity for PM.

Philip Morris International Inc.

- **Very Challenging Regulatory Environment** - The Australian government's has a stated goal of reducing the smoking prevalence rate to 10% by 2018 (currently 16.6%), and has implemented tax increases, advertising restrictions, anti-smoking campaigns, and plain packaging regulations in pursuit of this goal.
- **Plain Packaging Regulations Could Impact Branded Cigarette Players** – The recently passed plain packaging regulations that are slated to take effect in December 2012 could very likely diminish the value of branded products and potentially compromise the competitive position of all branded tobacco companies. The initiative has been met with fierce resistance from the tobacco industry. Hong Kong-based PM Asia Limited, owner of PM's Australian affiliate, filed a lawsuit in response to the passage of plain packaging legislation seeking suspension of the legislation, as well as compensation for the loss of the company's trademarks and investments in Australia under the country's Bilateral Investment Treaty with Hong Kong.

China--Could Be A Game Changer

China is the largest cigarette market in the world, representing 44% of the 5.5 trillion global cigarette volume, or 2.4 trillion cigarettes consumed annually. However, the sole manufacturer for the Chinese market is the state-owned China National Tobacco Corp. (CNTC). Philip Morris has methodically cultivated its relationship with CNTC over a number of years and strives to be the only preferred strategic partner.

Philip Morris has a 50/50 joint venture with CNTC, which allows the company to (1) license the production and selling of Marlboro in China, and (2) sell CNTC's heritage brands globally (currently in ten markets). Currently, Philip Morris has a license agreement to produce Marlboro Red and Marlboro Lights in two of CNTC's factories and its production volume was approximately 1.5 billion sticks last year. Essentially Philip Morris sells the blended tobacco and receives a royalty. So far, PM's joint venture with CNTC appears to be a strong and trusting partnership that can be further leveraged in the future. Philip Morris is the only international manufacturer that has a partnership with CNTC currently, which we think makes PM the front runner for any future strategic partnerships. Also, we think PM's next generation (reduced risk) tobacco product capabilities may provide an opportunity for the company to further penetrate the Chinese market considering CNTC does not have this capability.

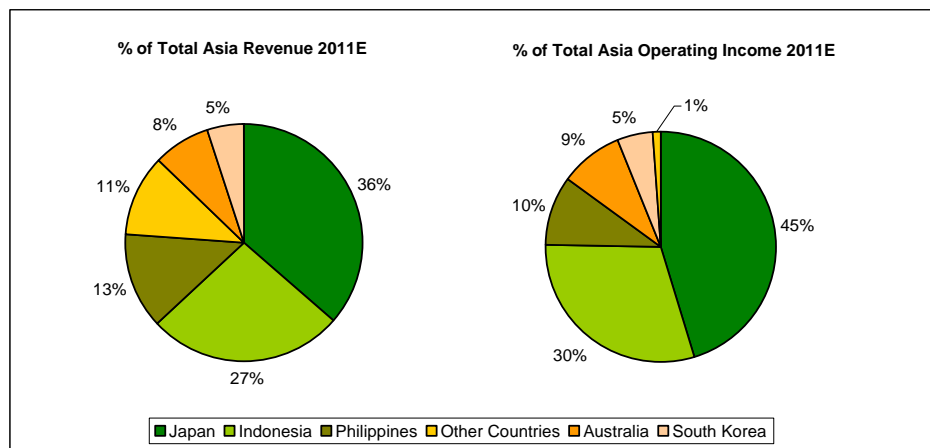
Although this market is incredibly important and is a tremendous long-term potential for the company, PM's business in China is still relatively immaterial to its earnings. The real upside potential for PM in China lies in the company's opportunity to exploit potential strategic alternatives for CNTC. While we are not predicting the probability or timing of potential strategic actions on the part of CNTC, we envision two scenarios in which PM could potentially benefit:

- (1) CNTC decides to expand beyond the Chinese market and compete in international markets. In this scenario, we believe that CNTC would need to acquire a portfolio of brands to effectively compete.
- (2) The Chinese government opens the market to international competition and splits CNTC into a few smaller companies. If foreign competitors were allowed to compete in China or acquire domestic companies, we believe that PM would be perceived favorably by the Chinese government or local companies, due to its joint venture with CNTC. Essentially, we think PM may have the inside track to the largest cigarette market in the world.

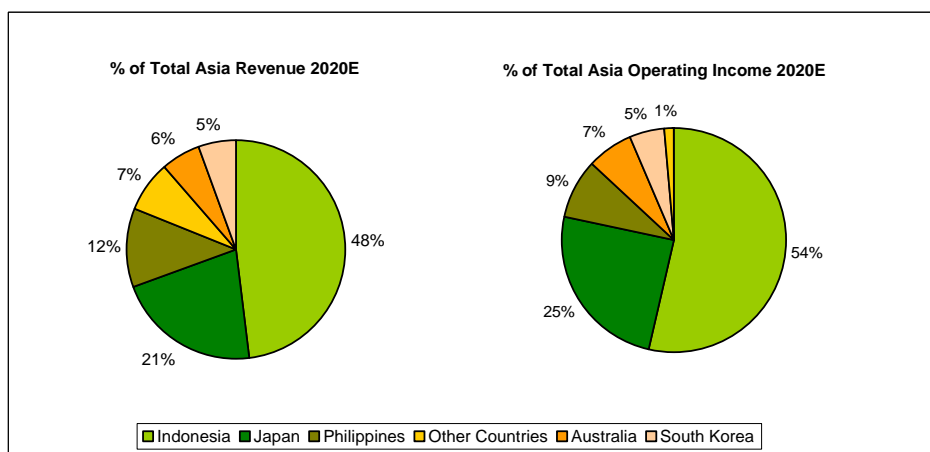
Other Key Markets In Asia

Other markets of opportunity in Asia for PM include India, Vietnam, Thailand, and Pakistan, in our view. **India's** large population and favorable demographics make it very attractive and the structures are in place for PM to pursue organic growth; however, the operating environment for consumer products, particularly tobacco, is challenging. In **Vietnam**, PM has restructured its relationship with its partner and this should enable it to launch its other international brands in addition to Marlboro in the Vietnamese market, and continue to grow organically, though off a relatively low base. PM has a 21% market share in **Thailand** and has opportunity to further pursue organic growth and launch additional international brands. **Pakistan** is a large market population-wise, although the smoking prevalence rate is low and illicit trade is high, with nearly 20% of consumption non-tax paid. We believe these four markets and others in the Asia segment will account for \$1.2 billion in revenue (or 11.1% of PM's revenue in Asia) and \$56 million in operating income (or 1.2% of PM's operating income in Asia) in 2011. By 2020, we estimate that these countries could account for \$1.4 billion in revenue (or 7.4% of PM's revenue in Asia) and \$141 million in operating income (or 1.4% of PM's operating income in Asia) while margins could expand to 10.2% from 4.9% currently.

Exhibit 2. Breakdown of Revenue and Operating Income by Country



Source: Company reports, Wells Fargo Securities, LLC estimates



Source: Company reports, Wells Fargo Securities, LLC estimates

Exhibit 3. Summary Table Of Key Statistics

Key Countries	GDP PPP ¹	GDP Projected 10 Year CAGR ²	Population Size ¹	Population Projected 10 Year CAGR ³	% Population Aged 20+ ³	Current Cigarette Market Size (in millions of sticks)	Cigarette Market Projected 10 Year CAGR	Per Capita Stick Consumption	Smoking Prevalence Rate	Current Market Share	Volume (in millions of sticks)	% of PM's Revenue in Asia	% of PM's Operating Income in Asia
Indonesia	\$1,118	8.5%	247.6	0.8%	63%	291,924	6.1%	1,179	32%	31.2%	91,080	27%	30%
Japan	\$4,444	3.1%	126.5	-0.3%	82%	190,443	-4.0%	1,506	22%	28.5%	54,276	36%	45%
Philippines	\$375	6.6%	101.8	1.6%	55%	105,560	1.6%	1,037	28%	92.8%	97,960	13%	10%
South Korea	\$1,542	5.7%	48.7	0.1%	77%	91,405	0.4%	1,877	40%	21.1%	19,286	5%	5%
Australia	\$933	5.7%	21.8	1.0%	75%	20,072	-2.8%	922	16.6%	38.0%	7,627	8%	9%
Other						428,014					33,487	11%	1%
Total						1,127,418					303,717		

Source: Company reports, Wells Fargo Securities, LLC estimates

¹ CIA FactBook: GDP figures in billions, population in millions

² IMF - projections through 2016

³ U.S. Census Bureau (census.gov)

Exhibit 4. Current Pricing Chart (Figures In U.S. Dollars Per Pack Of 20 Cigarettes)

Key Countries	Avg. Industry Retail Price	Avg. Marlboro Retail Price	Taxes	Taxes as a % of Retail Price	Avg. Trade Mark-up	PM's Wholesale Price	PM's Net Revenue/1,000 Sticks	PM's Operating Income/1,000 Sticks	PM's Market Share	Marlboro Market Share
Indonesia	\$1.42	\$1.41	\$0.60	42.0%	\$0.18	\$0.61	\$30.50	\$15.56	31.2%	4.2%
Japan	\$5.18	\$5.73	\$3.34	64.5%	\$0.53	\$1.39	\$69.54	\$39.64	28.5%	12.0%
Philippines	\$0.51	\$0.73	\$0.26	50.0%	\$0.03	\$0.28	\$14.05	\$4.64	92.8%	21.9%
South Korea	\$2.25	\$2.14	\$1.35	60.0%	\$0.27	\$0.55	\$27.68	\$11.90	21.1%	6.9%
Australia	\$12.74	\$14.03	\$7.64	60.0%	\$2.31	\$2.05	\$102.60	\$56.43	38.0%	2.5%

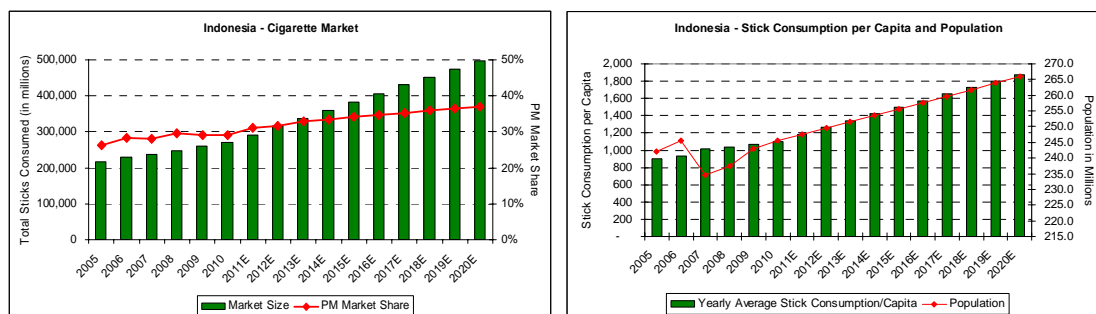
Source: Company reports, Wells Fargo Securities, LLC Estimates

Indonesia--The Stars Are Aligned For Stellar Results

Indonesia is Philip Morris' second-largest tobacco market globally and its largest market in Asia, excluding China, where approximately 292 billion cigarettes will likely be consumed this year. It is PM's top opportunity market, in our view, due to its vast growth potential in volume, pricing, and overall profitability. The stars are aligned in Indonesia in terms of a resilient economy fueling increasing purchasing power, limited inflation, higher consumer confidence, declining unemployment, robust pricing, and a simplified tax structure. Furthermore, Indonesia is attractive considering its tobacco-friendly environment and very favorable demographics, including a young, growing population. The cigarette market in Indonesia has been growing at an annualized 4.5% rate over the past five years, with stick consumption per capita up 4.2% during that time frame. The smoking prevalence rate in Indonesia is 32%, the second highest of PM's five key markets in We forecast the cigarette market's ten-year compound annual growth rate (CAGR) in Indonesia will be approximately 6%. We estimate that PM's revenue in Indonesia is currently around \$2.8 billion (or 27% of PM's revenue in Asia) and its operating income is around \$1.4 billion (or 30% of PM's operating income in Asia). By 2020, we believe Indonesia will be PM's most important market in Asia in terms of both total revenue and income, and that it could represent more than half of PM's total operating income generated in Asia. By 2020, we estimate PM's annual revenue in Indonesia could reach approximately \$9 billion (or 48% of PM's revenue in Asia) and its operating income could reach \$5.2 billion (or 53.5% of PM's operating income in Asia). Asia. We estimate Indonesia currently represents 30% of PM's Asia volume with 91 billion sticks sold in 2011 and that, in 2020, Indonesia will represent 43% of PM's Asia volume with 185 billion sticks sold. Also, we estimate that PM's margin will expand to 58.4% in 2020, up from 51% currently.

Indonesia's strong demographics include projected population and GDP growth of 0.8% and 8.5%, respectively, over the next several years, as well as a burgeoning middle class and increasing consumer confidence, aided by a relatively benign environment toward tobacco use. The attractive tobacco market in Indonesia is evidenced by two main factors: (1) the government, with its relatively less strict regulatory stance toward the tobacco industry and (2) cultural norms, where smoking tends to be highly socially acceptable and widespread (the smoking prevalence rate is approximately 32%). Furthermore, Indonesia's GDP growth rate is expected to be a robust 8.5% through 2016 (the highest projected GDP growth rate of PM's five key markets in Asia). Smoking in Indonesian culture goes way back to the late 1800s, when the kretek, a clove-flavored tobacco cigarette, was developed in the Central Java region, and it is estimated that kreteks currently make up about 90% of Indonesia's cigarette market. PM participates in the kretek cigarette market via its Sampoerna brand, from its acquisition of Sampoerna in May 2005, and also in the "white" cigarette market through other brands such as Marlboro. Overall, PM is the market leader in Indonesia and enjoys a market share of 31.6%, which we anticipate could reach approximately 37.1% by 2020. Key competitors in Indonesia include Gudang Garam, with 20.6% share, Djarum, with 20.3% share, and BAT/Bentoel, with 7.9% share.

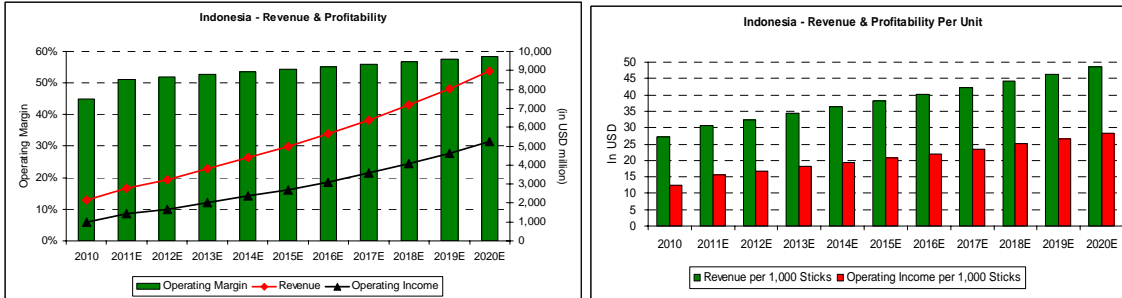
Exhibit 5. Indonesia Market Snapshot



Source: U.S. Census Bureau, company reports, and Wells Fargo Securities, LLC estimates

Local Cigarette Market Forecast - Due to a confluence of favorable factors, we expect PM's cigarette volume to increase high single digits with roughly 5.3% annualized pricing in Indonesia through 2020. Our volume projections stem from our belief that the projected growth in population and the tobacco-friendly environment will cause the market size and per capita stick consumption to accelerate more rapidly over the next several years versus historical five-year CAGRs (approximately 4.5%). Also, Indonesia's relatively young population, with 63% aged 20+ years, is favorable for tobacco consumption. We believe PM will be able to realize pricing as a result of a healthy economy overall in Indonesia, with strong projected GDP growth of 8.5% over the next few years, as well as favorable demographic trends including an emerging middle class, which should drive up-trading, both in the kreteks and "white" cigarette market segments. We estimate PM's current operating margin in Indonesia is approximately 51% and we forecast margin could expand to roughly 58.4% by 2020.

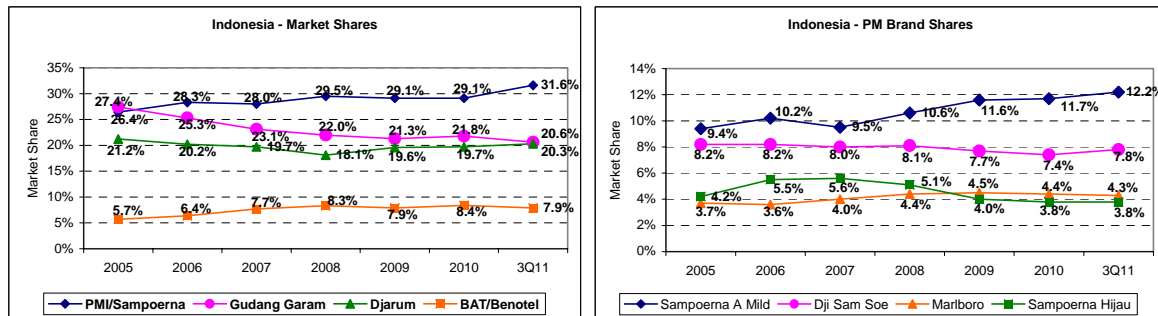
Exhibit 6. Projected Indonesia Margin, Revenue and Operating Income Growth



Source: Company reports and Wells Fargo Securities, LLC estimates

Competitive Dynamics--Volume And Brand Share--We estimate Indonesia's cigarette market size is approximately 292 billion sticks, the second-largest market globally behind Russia and the highest-volume market of PM's top five Asian markets (ex-China). Philip Morris is the market leader in Indonesia with around 31.6% share. Key competitors include Gudang Garam, 20.6%; Djarum, 20.3%; and BAT/Bentoel, 7.9%. As mentioned, PM's brands in aggregate make up more than 31% of the total market and leading brand Sampoerna A Mild (the top light-taste brand) is leading PM's growth with double-digit market share (a 12.2% share). Other top brands include Dji Sam Soe (aka 234 and the leading premium kretek brand, with a 7.8% share), Marlboro (with a 4.3% share) and Hijau (with a 3.8% share). The low-priced segment in Indonesia has been on a growth trajectory in recent years and has a higher share of the market than both the premium and mid-priced segments. The "high"-priced segment (second-highest-priced segment after the "premium" segment) is the largest segment of the market, with approximately 30% share, but has been declining. The mid- and premium-priced segments have been flattish over the past few years. PM has successfully reinvigorated its core Marlboro brand franchise and has extended it to take advantage of evolving segments. For instance, PM introduced Dji Sam Soe Gold and Marlboro Black Menthol in the premium segment a couple of years ago, as well as L&M in a kretek, slims format.

Exhibit 7. Indonesia – Market Shares And PM's Brand Shares



Source: Company reports, Wells Fargo Securities, LLC estimates

Tobacco Demographic Trends - The smoking culture in Indonesia is dominated by men, with smoking rates estimated at more than 60% for men, but around 5% for women. Indonesia's population, currently the fourth-largest in the world with slightly less than 250 million people, is estimated to grow around 0.8% through 2020. Population distribution shows that 27.3% of the population is 0-14 years, while 66.5% are 15-64 years and there is an even split between men and women. There is an emerging middle class that is rapidly

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growing and this should result in up-trading to high-priced or premium brands and allow PM to more easily take pricing as the consumers' level of disposable income rises. Indonesia's GDP is projected to grow at an annualized rate of 8.5% through 2016.

Pricing and Taxation - The pricing environment is healthy, with opportunity to rationally take pricing, as PM did this year in the Indonesian market. An average pack of 20 cigarettes in Indonesia currently costs \$1.42 at retail and average taxes represent approximately 42% of the retail price of a pack of cigarettes, which is below the WHO's recommended 65-80% tax-to-retail price ratio per pack. The current average retail price for a pack of Marlboro is \$1.41. Indonesia utilizes a rather complex "tiered specific" excise tax system for cigarettes and differentiates between types of cigarettes: machine-made kreteks (a clove-flavored cigarette popular in Indonesia), hand-rolled kreteks, and "white" cigarettes, and volume levels produced when imposing taxes. As such, hand-rolled kreteks are taxed at a lower rate than machine-made kreteks, or "white" cigarettes. This taxation system is in the process of undergoing a multiyear reform/simplification as laid out by the government's Tobacco Industry Roadmap. A simplified tax structure will likely benefit premium brands as they pay a tax rate more aligned with the average brands. Furthermore, a loophole that is commonly exploited at the low end of the market is expected to be closed, which bodes well for potential up-trading. The government recently decided to raise excise taxes by 12% in 2012, with continued differentiation between machine-made and hand-rolled cigarettes. Based on our analysis, we estimate PM's wholesale price per pack in Indonesia is \$0.61.

Regulatory Landscape - For a country with a 30+% smoking prevalence rate, it is notoriously absent from the WHO list of parties to the Framework Convention on Tobacco Control. It was reported in July 2010 that Indonesia agreed to ratify the agreement, however, as of October 24, 2011, Indonesia was not on WHO's list of parties or signatories to the FCTC. Smoking is banned in educational and health care facilities and on buses and trains; however, there may be smoking-designated areas. Select cities have enacted stricter tobacco control rules; for example, in Jakarta, there is a smoking ban in "enclosed" public places, with a provision requiring smoking-designated areas. Fines and/or jail sentences can be levied for individuals violating the smoking ban. Indonesia's Tobacco Industry Roadmap sets production targets and priorities for the tobacco industry through 2020, first focusing on employment (2007-2010), then excise revenue (2010-15) and finally, public health (2015-2020). The targeted production for 2010 was 240 billion sticks (which was below consumption in 2010 of 270 billion sticks) and the 2015 targeted production is 260 billion sticks.

Labeling and Packaging - Indonesia has a relatively lenient approach to regulation of tobacco product labeling and packaging. Although health warning labels are required, the percentage of the covered area on both the front and back sides of the package is not mandated. The warnings are comprised of text only (photos may be used); however, the government does not mandate the font size, color, or style. The government does levy fines for violations to the tobacco labeling laws.

Advertising - Cigarette advertising is allowed in Indonesia in print and electronic media, as well as on billboards. Electronic ads are restricted to play only between the hours of 9:30 pm and 5:00 am. Restrictions on ads dictate that they may not encourage people to start smoking nor depict smoking as healthy or non-hazardous; also, they may not depict or address individuals that are pregnant or under the age of 16. In November 2010, there was talk of Indonesia's Health Ministry drafting a ban on all tobacco advertising. After a year of being debated, this idea has been reduced to a stage-by-stage implementation of banning cigarette ads but, as no government regulation has been formally enacted yet, we do not expect this to go into effect in the near future.

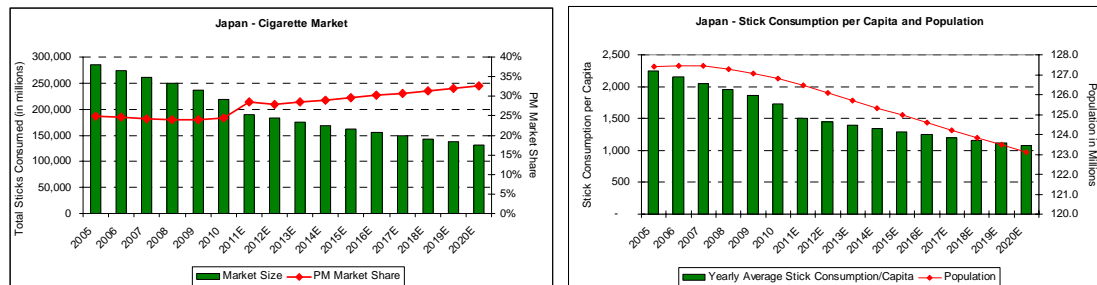
Japan--PM's Most Profitable Market In Asia, Despite Challenges

Japan is the second-largest market in Asia in terms of market size, with 190 billion sticks expected to be consumed in 2011. However, Japan is PM's largest market in terms of revenue and operating income contribution, as well as its highest margin (approximately 57%) in Asia. The Japanese cigarette market is highly profitable for PM, due to relatively high cigarette prices, and we estimate Japan will account for 36% revenue and 45% of operating income of PM's business in Asia in 2011. One of the key drivers of profitability over the next few years will likely be PM's retention of share gains post the 2011 earthquake and tsunami (FY2011 ending share is expected to be 28.5%, from a recent average of approximately 25% and we are encouraged that PM is holding this incremental market share) and ability to continue to grow share organically. Heading into 2012, PM's baseline in Japan is higher and this should be an advantage. PM's increase in market share in Japan has added an incremental \$0.15 to EPS through Q3 2011.

In the long term, we think PM's strategy in Japan will be profit perseverance, given the mature nature of the market, unfavorable demographics, and a challenging competitive environment. The smoking prevalence rate in Japan is 21.7%, made up of 33.7% of Japanese men and 10.6% of women. Cigarette volume in Japan has been declining at an annualized 5.2% rate over the past five years, with stick consumption per capita down 5.1% during that time frame. This has been primarily driven by unfavorable demographics of an aging population, as well as by declines in smoking incidence and daily consumption levels, reflecting societal trends, increased smoking restrictions and slightly higher real prices. Therefore, we project the cigarette market's ten-year CAGR in Japan to be approximately negative 4.0%. We estimate that PM's revenue in Japan is currently around \$3.8 billion (or 36% of PM's revenue in Asia) and its operating income is around \$2.2 billion (or 45% of PM's operating income in Asia). By 2020, we estimate PM's annual revenue in Japan will be slightly higher, around \$3.9 billion (or 21% of PM's revenue in Asia) and its operating income will rise to \$2.4 billion (or 25% of PM's operating income in Asia). We estimate that Japan will comprise 18% of PM's Asia volume in 2011 with 54 billion sticks sold and that, by 2020, Japan may decline to 10% of PM's Asia volume with 43 billion sticks sold. Also, we believe PM's margin will expand in Japan to 61.5% in 2020, up from 57% currently. Therefore, although there should be more limited growth in Japan, due to declining market dynamics, Japan should remain an important market for Philip Morris due to its very attractive margin.

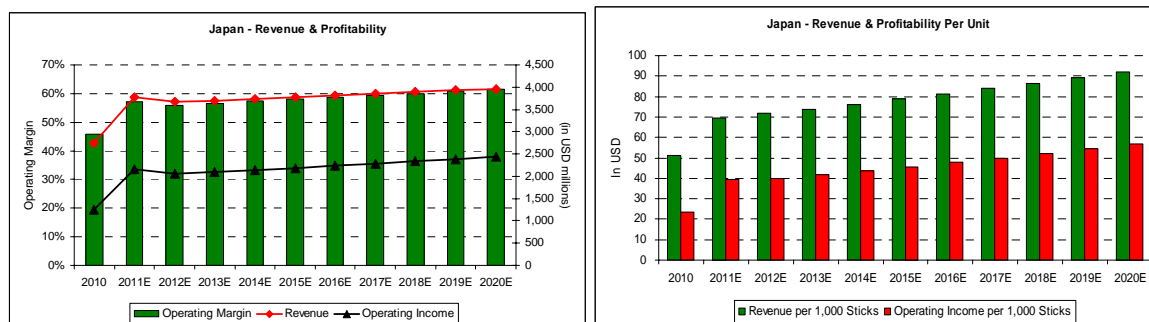
Japan is a very competitive market and each year a vast number of new brands are launched. The market is very dynamic and there is a necessity to develop a strong innovation pipeline to continually meet the rapidly changing preferences of adult smokers. We believe PM has done a good job of bringing several new products to the market and that Japan is one of the best examples showcasing the success of Marlboro's new architecture. The three main competitors in Japan's cigarette market are Japan Tobacco, PM, and BAT. Japan Tobacco, which controls approximately 60% of the cigarette market, is 50% owned by the Japanese government, although there has been talk of JT selling part of its stake to fund rebuilding efforts after the recent disaster. Regardless, this ownership structure results in a delicate balance between the government's own financial interests and public health. PM's market share has historically been in the mid 20s, driven by its Marlboro brand, although the company has gained share this year due to supply disruptions from the tsunami. Currently the latest reported quarterly market share was just above 30%, aided by the stability of Marlboro; however, PM indicated that it expects to end FY2011 with a national share in Japan of 28.5%. We anticipate PM's share in Japan will grow slightly and reach approximately 32.6% by 2020. BAT is the third-largest player, with a 12.1% market share.

Exhibit 8. Japan Market Snapshot



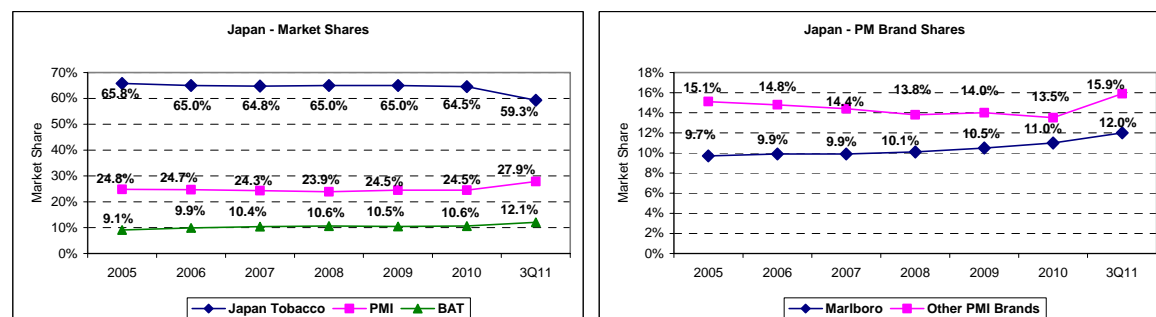
Source: U.S. Census Bureau, company reports, and Wells Fargo Securities, LLC estimates

Local Cigarette Market Forecast – The cigarette market in Japan has declined at an annualized rate of 5.2% over the past five years. We expect 2011's market decline to be steeper due to the supply disruption, but next year and beyond we expect the market to moderate and steadily decline at a longer-term rate of approximately 4% per year. The market decline, as well as the estimated population decline of 0.3% per year and relatively more mature demographics (with 82% of the population aged 20+), result in our volume projection for PM to steadily decline to an annualized negative 2.6% rate over time. This is less than the overall industry rate of decline, due to our belief that PM will be able to incrementally gain share points over the long term, especially given the resilient stability and strength of the Marlboro brand. However, we are less enthusiastic on pricing power as the consumer in Japan tends to not be accepting of price increases on consumer products in general (including cigarettes), although cigarettes are relatively inexpensive in Japan. Therefore, we are modeling 3.2% annualized pricing power through 2020 in Japan. Despite the decline in the Japanese tobacco market, we expect it to remain a very profitable market, with estimated 57% operating margin, which could expand to 61.5% by 2020.

Exhibit 9. Projected Japan Margin, Revenue and Operating Income Growth

Source: Company reports and Wells Fargo Securities, LLC estimates

Competitive Dynamics--Volume and Brand Share--We estimate Japan's cigarette market size will be 190.4 billion sticks in 2011. PM's market share at the end of 2011 is expected to be 28.5% in Japan, the second-highest market share behind Japan Tobacco, with a current share of around 58.9%. JT's share has been fairly steady in the mid-60s area over the past several years until the recent earthquake and tsunami-related supply disruptions earlier this year. BAT, the No. 3 company in terms of market share, currently has 12.1% share, up from 10.6% at the end of FY2010. Historically, BAT's share had been in the 10% area over the past several years. In terms of brands, PM's aspirational Marlboro brand has been experiencing strong growth momentum and it is the fastest-growing brand in the country. Marlboro's share has been steadily growing every year since 2000, at 12% share in Q3 2011, up from 7% share in 2000. Japanese consumers have responded particularly well to the Marlboro brand line extensions, including Marlboro Ice Blast and Marlboro Black Menthol, and these innovative products have been driving incremental share gains in Marlboro. The more "traditional," Lark brand (8.7% share) has also been performing well. Other PM brands sold in Japan include Philip Morris (a 2.5% share), Parliament (a 2.2% share), and Virginia Slims (a 2.1% share).

Exhibit 10. Japan – Market Shares And PM's Brand Shares

Source: Company reports, Wells Fargo Securities, LLC estimates

Tobacco Demographic Trends--Similar to other Asian cultures, the smoking culture in the Japan is dominated by men, with smoking rates estimated at 33.7% for men and 10.6% for women. Population in Japan is aging and declining, with decline projected at negative 0.3% through 2020, which is unfavorable for tobacco consumption. However, the relative affordability of tobacco products in Japan should bode well for volume trends despite the unfavorable demographic trends.

Pricing and Taxation--An average pack of cigarettes in Japan costs approximately ¥410, or about \$5.18 at prevailing exchange rates, while the price for a pack of Marlboro is around \$5.73. This price is fixed by the government (Ministry of Finance must approve) and promotions are not allowed. The price gap between Marlboro and the average brand has widened over the past year due to price hikes by competitor Japan Tobacco, particularly on its Mild 7 brand. Taxes per pack are ¥245, making taxes 65% of the average price, the only country within PM's top five markets to be within WHO's recommended tax-to-retail price ratio per pack of 65-80%. There are currently discussions taking place around a possible tobacco tax increase, which could increase the tax by 1-2 yen per stick. This would be incremental to the 3.5 yen per stick tax (a 40% increase) that went into effect in October 2010 and drove the price per pack of cigarettes in Japan to 410 yen from 320 yen. We estimate that the retail markup for cigarettes in Japan is approximately 10%. Based on our analysis, we estimate that PM's wholesale price per pack in Japan is \$1.39.

Regulatory Landscape – Japan signed the WHO’s Framework Convention on Tobacco Control (FCTC) in March 2004 and ratified it in June 2004. In contrast to the smoking bans common in the United States and increasingly in Europe, smoking in Japan is more socially acceptable and smoking bans are not as widespread. The law dictates that smoking-designated areas must be provided in most workplaces. Owners of public facilities such as hospitals, theaters, department stores, and restaurants must protect non-smokers from exposure to cigarette smoke. The legal smoking age is 20. Japan has a unique system whereby smokers can obtain a smart card called Taspo, which enables them to buy cigarettes at vending machines upon “flashing” of the smart card.

Labeling and Packaging – Japan requires at least one health warning from two separate lists of health warnings to be displayed on cigarette packaging, which must cover 30% of the largest surface. Low-tar, light, or mild cigarette packages must warn that those characteristics do not make a cigarette less harmful.

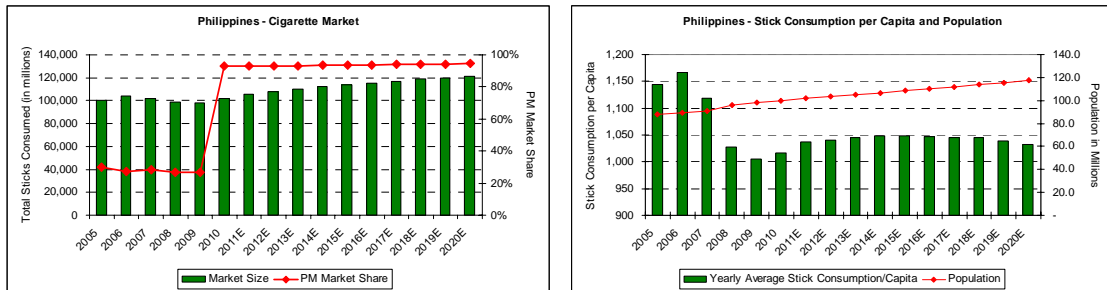
Advertising – Japan is very restrictive in cigarette advertising. Tobacco advertising is banned on TV, radio, online, and in cinemas. Outdoor advertising, including billboards and on public transportation, as well as advertising in entertainment, are prohibited. Tobacco companies are not allowed to give out samples to the general public.

Philippines--Dominant Market Share And Shift To Premium Brands Should Drive Continued Growth

The Philippines are a very lucrative market for PM, due to their nearly 93% market share in a 106 billion stick market, making it PM’s largest volume market globally. Also, the Philippines are an attractive market given their incredibly favorable demographic and economic trends, which include a young adult and quickly growing population, as well as robust projected GDP growth of 6.6%. We estimate that PM’s revenue in the Philippines is currently around \$1.4 billion (or 13.2% of PM’s revenue in Asia), and its operating income is around \$454 million (or 9.6% of PM’s operating income in Asia). By 2020, we estimate PM’s annual revenue in the Philippines could reach approximately \$2.2 billion (or 11.8% of PM’s revenue in Asia) and its operating income could reach \$843 million (or 8.6% of PM’s operating income in Asia). We estimate that the Philippines will comprise 32% of PM’s Asia volume in 2011 with 98 billion sticks sold and that, by 2020, the Philippines may comprise 27% of PM’s Asia volume with 115 billion sticks sold. Also, we believe PM’s margin will expand to 38.4% in 2020, up from 33% currently. Some of the key drivers of profitability over the next few years, in our view, will be continued momentum in Marlboro in the Philippines’ growing premium segment (the Philippines is PM’s second-largest Marlboro sales market globally), as well as further synergies to be realized from PM’s merger with Fortune Tobacco last year. In the long term, we are confident that PM will continue to leverage its dominant market share, the growing economy and population, and shifting consumer tastes to premium brands. We believe population growth and high smoking prevalence of 28% will drive market volume to grow at a 1.6% CAGR through 2020, compared to 4.5% volume growth over the past five years, with stick consumption per capita up 1.8% during that time frame.

Population in the Philippines is the youngest of PM’s top five markets with only 55% of the population age 20 and above. The population is expected to grow at a rapid rate of 1.6% over the next few years while GDP growth is projected at 6.6%. This market is attractive for PM as it controls more than 90% share across its multiple brands with 34.3% market share in the well-established and growing premium segment.

Exhibit 11. Philippines Market Snapshot

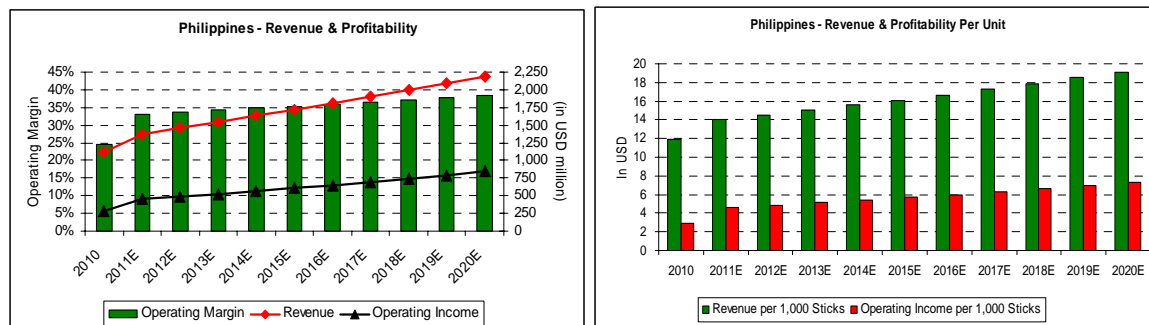


Source: U.S. Census Bureau, company reports, and Wells Fargo Securities, LLC estimates

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Local Cigarette Market Forecast--We are projecting 1.6% annualized volume growth and 3.5% annualized pricing in the Philippines through 2020. Our volume projections stem from our belief that Philippines' relatively young population, with only 55% age 20 years and up, is favorable to the tobacco market and the population is expected to grow at a robust rate of 1.6% through 2020 (the highest population growth rate of PM's top five Asia segment countries). Further, we believe PM will be able to realize pricing as a result of a healthy economy overall in Philippines, with projected GDP growth of 6.6% over the next few years, as well as the favorable demographic trends and movement toward the premium segment. The "premium and above" segment grew to 34.3% of the overall market in 2010 from 26.1% in 2007; clearly, this bodes well for PM's revenue and profitability in the Philippines. We estimate PM's current operating margin in the Philippines to be 33% and we estimate that this could expand to 38.4% by 2020.

Exhibit 12. Projected Philippines Margin, Revenue and Operating Income Growth



Source: Company reports and Wells Fargo Securities, LLC estimates

Competitive Dynamics – Volume and Brand Share - The Philippines' projected cigarette market size is 105.6 billion sticks in 2011. PM owns the cigarette market in the Philippines, with its brands in aggregate currently making up approximately 93% of the total market after its purchase of Fortune Tobacco in 2010; prior to that its share had hovered in the high 20s. Other key competitors include Japan Tobacco (a 4% share), Mighty Corp (a 2% share) and La Fuente (a 1% share). The low-priced segment is the largest in the Philippines at 55% of the total, followed by the premium segment at 34% and the mid-priced segment at 11%. PM's portfolio of brands spans the pricing spectrum and includes low-priced brands such as Fortune and premium-priced brands such as Marlboro. PM's most popular brand in the Philippines is low-priced brand Fortune, which makes up approximately 40% of the market. Premium brand Marlboro also enjoys double-digit share of 21.9%, the highest Marlboro share of PM Asia's top five countries. Other top brands include low-priced Champion, mid-priced Hope Luxury, and premium brand Philip Morris. Winston is a key competitor brand in the mid-priced segment.

Tobacco Demographic Trends--The smoking culture in the Philippines is dominated by men, with smoking rates estimated at nearly 40% for men, but less than 10% for women. The Philippines' population, currently the twelfth-largest in the world with approximately 100 million people, is estimated to grow around 1.6% through 2020. Population distribution shows that 55% of the population is age 20 or older, and this relatively young population bodes well for tobacco consumption.

Pricing and Taxation--An average pack of 20 cigarettes in the Philippines costs \$0.51 at retail, while Marlboro's average retail price is \$0.73. Average taxes approximate 50% of the average retail price, below WHO's recommended 65-80% tax-to-retail price ratio per pack. The Philippines utilizes a "tiered specific" excise tax system for cigarettes and differentiates between types of cigarettes (hand- or machine-rolled) when assessing taxes. As such, hand-rolled cigarettes carry a flat tax, while machine-rolled carry a tiered tax, which increases with retail price. It has been reported that the Philippines' government continues to support the unification of tax on "sin" products including alcohol and tobacco and an inflation-adjusted system by which to raise taxes on these products accordingly. We estimate that the retail markup for cigarettes in the Philippines could be in the low single digits, the lowest of PM Asia's top five countries. Based on our analysis, we estimate PM's wholesale price per pack in the Philippines is approximately \$0.28.

Regulatory Landscape--The Philippines signed the WHO's Framework Convention on Tobacco Control (FCTC) in September 2003 and ratified it in June 2005. Tobacco regulation in the Philippines tends to be more restrictive than other emerging economies such as Indonesia. Laws over the past decade have placed restrictions on tobacco companies' freedom to advertise, as well as on smokers' ability to light up in public places. Smoking is prohibited in areas such as centers of youth activities including public schools, public

facilities such as airports and train and bus stations, and restaurants (although separate smoking areas are O.K.). A recent law passed in July 2011 in the Metro Manila area bans smoking in all public places, including restaurants and bars. No license is needed to sell tobacco products; however, retailers are prohibited from selling tobacco to minors less than 18 years of age. Cigarette packs must contain at least 20 units.

Labeling and Packaging--The Philippines places relatively strict regulation on tobacco product labeling and packaging. Starting in May 2010, a new labeling order went into effect mandating graphic health warnings on cigarette packaging. The warnings must occupy the upper portion of the packs and cover at least 30% of the front panel and 60% of the back. Descriptors such as "low-tar" and "light," as well as colors and images are prohibited. However, conflicting rulings on the labeling order have resulted in confusion on whether or not the order needs to be followed.

Advertising--Similar to the labeling and packaging environment, advertising regulations in the Philippines are relatively stricter than other countries in the region. The 'Tobacco Regulation Act of 2003' prohibits all television (cable and non-cable) and radio advertising from 7am to 7 pm, as well as advertising on the cover of any periodical, and it is banned anywhere in a publication that caters to minors. Starting in July 2008, the Philippines banned "all forms of tobacco advertising in mass media," with the exception of ads at point-of-sale locations. Tobacco vending machines are not permitted unless they have an age-verification mechanism. Tobacco companies may not sponsor events unless they specifically cater to individuals 18 years and older. Outdoor billboards or other advertising are allowed as long as size constraints are followed and the ad is greater than 100 meters from a school or other facilities catering to children. Finally, these ads must not feature people smoking, nor can they feature a celebrity or anything that particularly caters to minors.

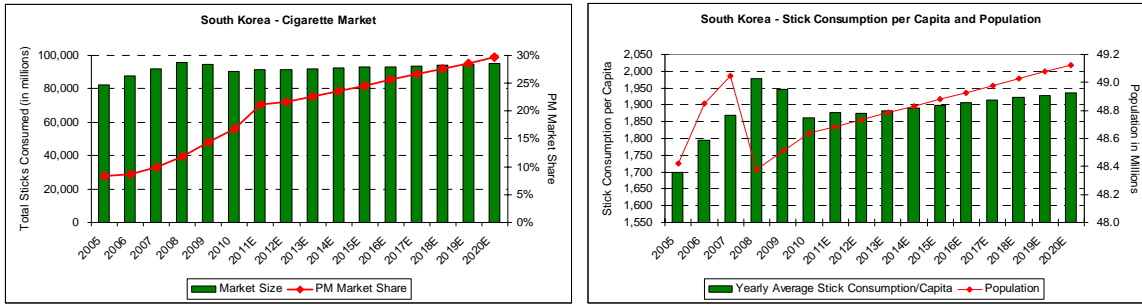
South Korea--Demand For International Brands Should Sustain PM's Momentum

South Korea is the fourth-largest market in PM Asia's top five countries in terms of volume, with 91.4 billion sticks consumed annually and PM has been the fastest-growing tobacco company in the South Korean market, due to the strength of its brands. Impressively, PM's market share has more than doubled, to a record 21.1% in Q3 2011 from 8.3% five years ago. Although South Korea is a modestly growing market with a relatively smaller population size compared to others in the Asia segment, it has a high smoking prevalence rate of almost 40% and it is a market characterized by up-trading to premium, international brands which bodes well for the continuation of PM's momentum in the country.

The cigarette market in South Korea has been growing at a 2% annualized rate over the past five years, and we expect volume to grow at a 0.4% CAGR through 2020, with similar trends in stick consumption per capita growth. We estimate that PM's revenue in the South Korea is currently around \$534 million (or 5.1% of PM's revenue in Asia) and its operating income is around \$230 million (or 4.8% of PM's operating income in Asia). By 2020, we estimate PM's annual revenue in South Korea could reach more than \$1 billion (or 5.5% of PM's revenue in Asia) and its operating income could reach \$474 million (or 4.8% of PM's operating income in Asia). We estimate that South Korea will comprise 6% of PM's Asia volume in 2011 with 19 billion sticks sold and that, by 2020, South Korea may comprise 7% of PM's Asia volume with 28 billion sticks sold. Also, we believe PM's margin will expand to 46.6% in 2020, up from 43% currently.

Premium or super-premium products resonate well in South Korea, making it a market of continuing high potential for PM, especially with its Marlboro and Parliament brands. Similar to its counterparts in the segment, smoking in South Korea is deeply ingrained into the culture, especially among men. The overall smoking prevalence rate is almost 40%, with the percentage of adult males smoking estimated to be nearly 50%, and there has been speculation that the smoking rate has remained high due to people picking up the habit during their two-year mandatory military service.

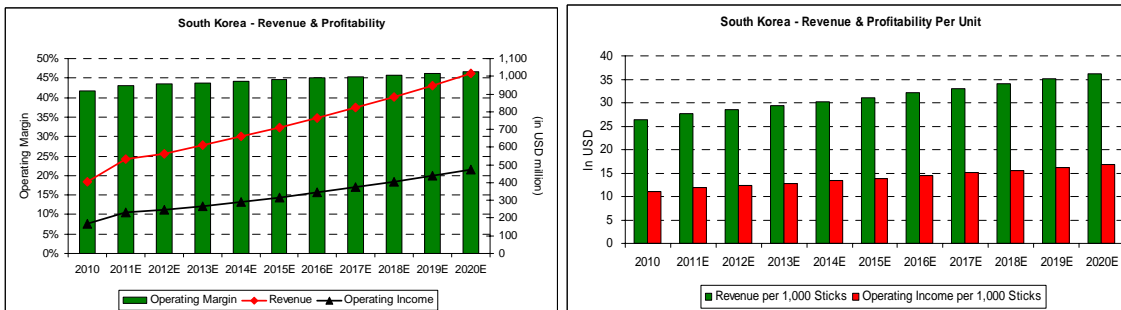
Exhibit 13. South Korea Market Snapshot



Source: U.S. Census Bureau, Company reports, Wells Fargo Securities, LLC estimates

Local Cigarette Market Forecast--We are projecting 4.3% annualized volume growth and 3.0% annualized pricing in South Korea through 2020. Our volume projections stem from our belief that PM will continue to take share, Marlboro and Parliament will maintain their strong momentum, and South Korea will experience modest growth in the cigarette market and per capita stick consumption. Although South Korea does have a relatively more mature population base with 77% aged 20 and above, its projected GDP growth rate through 2016 is expected to be a robust 5.7%, which bodes well for consumer spending power and continued momentum for premium brands. We estimate PM's current operating margin in South Korea is around 43% and we project that this could increase to 46.6% by 2020.

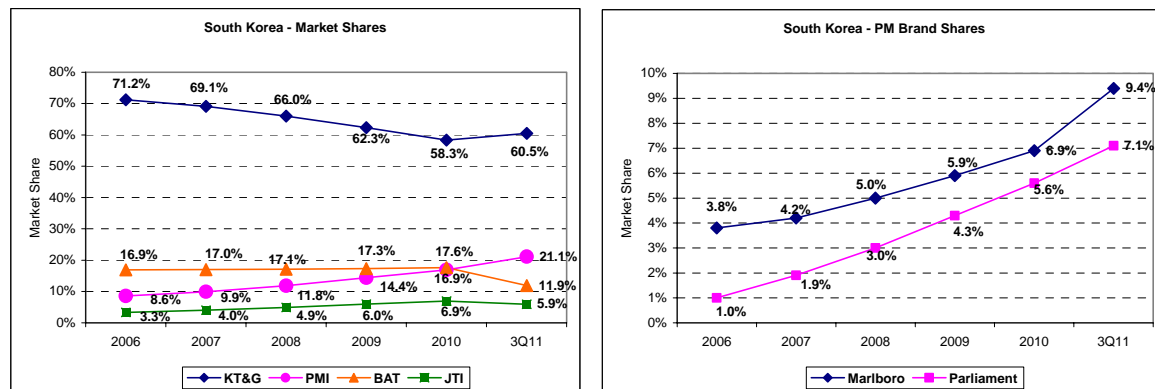
Exhibit 14. Projected South Korea Margin, Revenue and Operating Income Growth



Source: Company reports, Wells Fargo Securities, LLC estimates

Competitive Dynamics--Volume and Brand Share--South Korea's cigarette market size is projected to be 91.4 million sticks in 2011. In Q1 2010, PM overtook BAT to reach the No. 2 market-share position behind domestic-based KT&G. Since then, PM's strong growth momentum has continued and market share in Q3 2011 was 21.1%, compared to 8.6% in 2006. This share has been taken from KT&G, which currently dominates the market with a 60.5% share and BAT, with an 11.9% share. We note that KT&G's market share had fallen to 58.3% in 2010 from 71.2% in 2006, but the company has gained back some share and is currently at 60.5%. JTI is a small but growing player, as well, and its share is around 6%, from 3.3% in 2006. In terms of brands, there has been a shifting trend in South Korea toward international brands and PM caters very well to this demand. Marlboro has been performing very strongly and its share has tripled in the past ten years (currently at 9.4% share). Also, Parliament (currently at 7.1% share) has been another key driver behind the very strong growth and record market share in South Korea. Virginia Slims (3.5% share) and Lark (1.1% share) are also sold in South Korea.

Exhibit 15. South Korea--Market Shares And PM Brand Shares



Source: Company reports, Wells Fargo Securities, LLC estimates

Tobacco Demographic Trends--Similar to other Asian cultures, the smoking culture in the South Korea is dominated by men, with smoking rates estimated at around 50% for men, but much lower for women (in the mid single digits). The population in South Korea is expected to grow modestly, at around 0.1% a year through 2020. Further South Korea is a relatively more mature country, with 77% age 20 and up. Although these demographic trends are somewhat neutral to tobacco consumption, the strong cultural acceptance of tobacco, relative affordability and demand trends for international brands bode well for per capita stick consumption, which we expect to grow at an annualized rate of 0.3% through 2020.

Pricing and Taxation--An average pack of 20 cigarettes in South Korea costs 2,500 won, or approximately \$2.25 at prevailing exchange rates. The current average price for a pack of Marlboro is \$2.14. Taxes per pack make up about 60% of the retail price, below WHO's recommended tax-to-retail price ratio of 65-80%. Relatively speaking, cigarettes are very affordable in South Korea. PM has resisted taking price increases this year, choosing to focus instead on the need to secure excise tax reform over the long term. We estimate that average retail markup of cigarettes in South Korea is 12%. Based on our analysis, we estimate PM's wholesale price per pack in South Korea is \$0.55. PM has been vocal about its opinion that excise tax reform, specifically a multiyear system of regular, moderate tax increases is needed in South Korea.

Regulatory Landscape--South Korea signed the WHO's Framework Convention on Tobacco Control (FCTC) in July 2003 and ratified it in May 2005. Although smoking prevalence is high in South Korea and smoking is an ingrained part of the culture, there has been a movement toward restricting smoking in public over the past decade. Smoking is banned in locations such as hospitals, schools, and public facilities such as performance halls, academic institutions and government buildings. The capital city of Seoul has been particularly progressive as it has banned smoking in public parks, bus stations, and school zones (anywhere within a 50-meter radius from an elementary, middle, or high school). Tobacco retailers must be designated by the Ministry of Finance and the legal smoking age is 19. Cigarette vending machines exist, but only in locations where minors under the age of 19 cannot access them.

Labeling and Packaging--Non-graphic health warnings are required by law on cigarette packages. There have been discussions around graphic health labels that require up to 50% of the front and back of the pack, but they are currently not in use. The warnings disclose six carcinogens present in cigarettes.

Advertising--South Korea has banned cigarette advertising on TV or the radio, in newspapers, and in magazines directed at women or children. Tobacco companies are limited to 60 ads per year and advertisements must not feature anyone younger than 25 or any celebrities or sports figures, and must not suggest that smoking is beneficial to health.

Australia--Highly Restrictive Market, But Remains Very Profitable

Australia is PM's fifth-largest market in its Asia segment in terms of volume, but it ranks fourth in terms of revenue and operating income, due to relatively higher cigarette prices and attractive 55% operating margin. We think that Australia presents somewhat mixed prospects for PM over the long term. On one hand, Australia has strong pricing fundamentals, which is the key factor driving profitability and should be sustained by solid

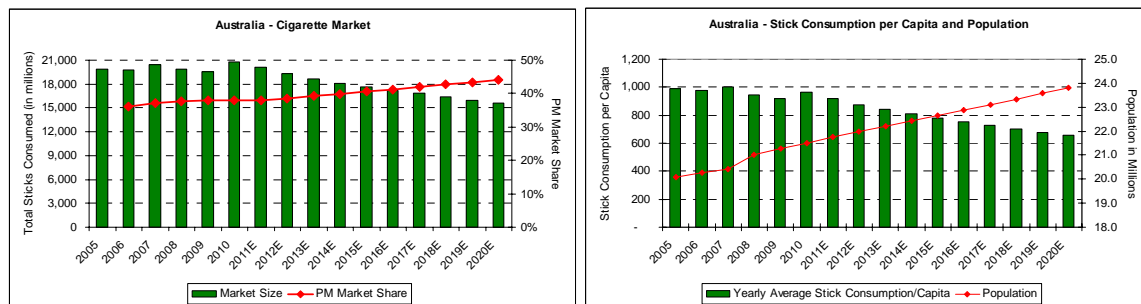
Philip Morris International Inc.

economic and demographic underpinnings; Australian GDP is projected to grow at 5.7% per year through 2016 and the population is expected to grow by 1% per year through 2020. On the other hand, Australian policies toward tobacco companies are among the most restrictive in the world, evidenced by the government's stated goal of reducing the smoking prevalence rate to 10% by 2018 (currently 16.6%) and the restrictions the government is implementing to accomplish this goal. The current governmental regime has actively pursued many initiatives to decrease tobacco consumption through tax increases, advertising restrictions, anti-smoking campaigns, and plain packaging.

PM's key brands in Australia are the legacy Australian brands Longbeach and Peter Jackson, while Marlboro has limited market share. The company's overall share of the Australia market has increased modestly in recent years to 38%. In the long term, we expect Australia to be a highly profitable but less significant market for PM, primarily due to declining rates of smoking prevalence and faster growth of emerging markets. We estimate that PM's revenue in Australia is currently around \$783 million (or 7.5% of PM's revenue in Asia) and its operating income is around \$430 million (or 9.1% of PM's operating income in Asia). By 2020, we estimate PM's annual revenue in Australia could reach more than \$1.1 billion (or 5.9% of PM's revenue in Asia) and its operating income could reach \$667 million (or 6.8% of PM's operating income in Asia). We estimate that Australia will comprise 3% of PM's Asia volume in 2011 with 8 billion sticks sold and that, by 2020, Australia may comprise 2% of PM's Asia volume with 7 billion sticks sold. Also, we believe PM's margin will expand to an attractive 60.4% in 2020, up from 55.0% currently.

Australia's restrictive tobacco policies are increasingly in the spotlight, as the country passed the first known plain packaging law. This law, slated to take effect in December 2012, requires cigarettes to be packaged in plain brown packs, mostly covered by graphic health labels, with the brand name and variety to be printed in a prescribed font and size. These types of packaging regulations could very likely diminish the value of branded products and potentially compromise the competitive position of all branded tobacco companies. In late November 2011, PM Asia Limited, the Hong-Kong-based owner of PM's Australian affiliate, filed a lawsuit in response to the passage of plain packaging legislation seeking suspension of the legislation, as well as compensation for the loss of the company's trademarks and investments in Australia under the country's Bilateral Investment Treaty with Hong Kong. PM Asia Limited is seeking suspension of the legislation and substantial compensation for the loss of the company's valuable trademarks and investments in Australia that will result from plain packaging. The company expects damages to amount to billions of dollars and the legal process to take 2-3 years. Aside from claiming violation under the Hong Kong Bilateral Treaty, there are two additional legal avenues PM can pursue: (1) initiating legal action in Australia's domestic courts (as competitors BAT and Imperial have done) under the grounds that the plain packaging law is unconstitutional and/or 2) urging a country or countries that trade with Australia to file a WTO action claim arguing that the plain packaging law would put Australia's trade partners at a disadvantage (this is not an action that PM can initiate).

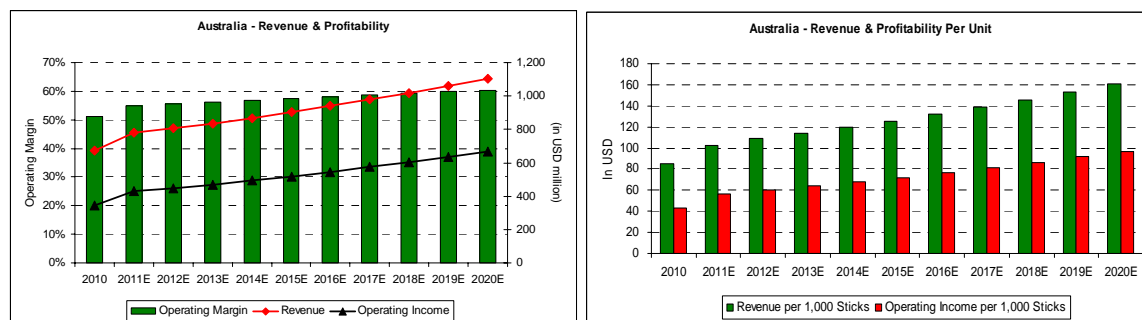
Exhibit 16. Australia Market Snapshot



Source: U.S. Census Bureau, company reports, and Wells Fargo Securities, LLC estimates

Local Cigarette Market Forecast – We are projecting annualized volume to decline 1.2% and annualized pricing growth of 5.1% in Australia from through 2020. Our volume projections assume ongoing, but diminishing, declines in per capita stick consumption through 2020. We also believe that PM will be able to steadily increase its share to 44.1% in time from 38% currently. We estimate PM's current operating margin in Australia to be 55% and we estimate that this could expand above 60% by 2020. Therefore, despite its small size, Australia should remain a very profitable market for PM.

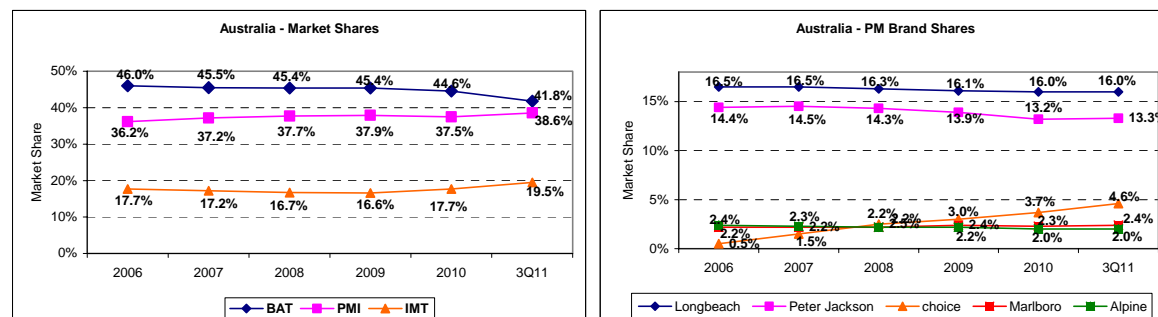
Exhibit 17. Projected Australia Margin, Revenue, And Operating Income Growth



Source: Company reports and Wells Fargo Securities, LLC estimates

Competitive Dynamics – Volume and Brand Share - We estimate that Australia's cigarette market size is approximately 20.1 billion sticks per year, representing 0.9% growth over the past five years. We project the market volume to decrease 2.8% on an annualized basis through 2020. PM has the No. 2 market-share position in Australia, approximately 38%, behind BAT (a 41.8% share) and ahead of IMT (a 19.5% share). PM's key brands are medium-priced Longbeach (a 16.0% share) and premium-priced Peter Jackson (a 13.3% share); other brands include choice (a 4.6% share), Marlboro (a 2.4% share), and Alpine (a 2.0% share). Marlboro has been growing market share over the past several years, though off a small base, with share moving to approximately 2.5% today from 2.2% in 2006. We think Marlboro's low market share in Australia could present a significant long-term opportunity for PM; however, this will likely be an uphill battle given the mature nature of the market and entrenched position of leading brands. Moreover, the Australian economy has been the best-performing developed economy in world for the past six years, and PM has registered only marginal share gains in an environment that should favor premium brands. Any weakening of the Australian economy could limit the trajectory of Marlboro. Of PM's stable of brands in Australia aside from Marlboro, choice has gained share (4.6% share currently from 0.5% in 2006), while bigger brands Longbeach and Peter Jackson have been slowly losing share over the past few years.

Exhibit 18. Australia--Market Shares And PM Brand Shares



Source: Company reports, Wells Fargo Securities, LLC estimates

Demographics--Australia currently has a population of nearly 22 million people, which is projected to grow 1.0% per year through 2020. Australia's population is relatively older than most markets in PM's Asia Segment, with 75% of the people age 20 or older. The smoking prevalence rate is around 16.6%.

Pricing and Taxation--Average pack of cigarettes in Australia currently costs \$12.74 (U.S. dollars) and an average pack of Marlboros costs \$14.03 (U.S. dollars). Average taxes per pack are 60% of the retail price, below WHO's recommended 65-80% tax-to-retail price ratio per pack. Australia utilizes an excise tax system for cigarettes whereby taxes are assessed on a per stick basis and taxes are increased on a regular, bi-annual basis (February and August), depending on the level of the CPI. Although the regularity and predictability of this system is favorable for the tobacco environment, the government has been known to implement tax increases outside of the bi-annual tax increase framework. For example, in April, 2010, the tobacco tax was abruptly increased by 25%, ostensibly to provide funding for hospitals and public health. We estimate that the retail markup in Australia is approximately 16%. Based on our analysis, we estimate PM's wholesale price per pack in Australia is \$2.05 (U.S. dollar).

Regulatory Landscape--Australia signed the WHO's Framework Convention on Tobacco Control (FCTC) in December 2003 and ratified it in October 2004. Generally speaking, smoking is prohibited in most public places and these restrictions tend to be strictly enforced. Tobacco retailers are required to have licenses. In most places, retail display of tobacco products is banned, and in some cases, even in tobacco shops. The legal age in Australia is 18. Australia recently passed plain packaging legislation, a discussion of which follows.

Labeling and Packaging--Australia mandates that graphic health warnings must occupy 30% of the front and 90% of the back of cigarette packages. The highly controversial plain packaging law is slated to take effect on December 1, 2012, and requires that cigarettes be packaged in plain brown packaging with the brand name and variety in a prescribed font and size. Not surprisingly, this initiative has been met with fierce resistance from the tobacco industry. Hong Kong-based PM Asia Limited, owner of PM's Australian affiliate, filed a lawsuit in response to the passage of plain packaging legislation seeking suspension of the legislation, as well as compensation for the loss of the company's trademarks and investments in Australia under the country's Bilateral Investment Treaty with Hong Kong.

Advertising--Tobacco advertising regulations are extremely strict in Australia. Ads in either print or broadcast (including online) format are not permitted. Cigarettes may not be publicly displayed at the point of sale. Sports or cultural events cannot include tobacco sponsors.

Other Key Markets in Asia

We believe these four markets and others in the Asia segment will account for \$1.2 billion in revenue (or 11.1% of PM's revenue in Asia) and \$56 million in operating income (or 1.2% of PM's operating income in Asia) in 2011. By 2020, we estimate that these countries could account for \$1.4 billion in revenue (or 7.4% of PM's revenue in Asia) and \$141 million in operating income (or 1.4% of PM's operating income in Asia) while margins could expand to 10.2% from 4.9% currently.

- **India** is the second most populated country in the world (after China), with almost 1.2 billion people, and has a projected population and GDP growth of 1.0% and 9.0%, respectively. The smoking prevalence in India has increased over the past several years to approximately 35%. Despite favorable demographics, PM has a minimal presence, with about 0.8% market share in the 100 billion units per year market. The Indian tobacco market faces several challenges, such as the ban on foreign investments in tobacco, and the widespread consumption of bidis and chewing tobacco versus cigarettes. We believe the growing urbanization and a burgeoning middle class should shift the consumption in favor of cigarettes. PM has entered into a joint venture with Godfrey Philips to penetrate deeper into the Indian market, and the structures are in place to foster organic growth. However, it may take some time for PM to really have a meaningful presence in India, in our view.
- **Vietnam** is another opportunity for PM with a high smoking prevalence rate of about 28% and a population of more than 90 million. A projected population growth of 0.8% and projected GDP growth of 8.9% further raise optimism on the future of the tobacco industry in Vietnam. However, PM's presence in the country remains limited, with only about 1.0% market share as of 2010. PM restructured its relationship with Vintaba in Vietnam, which was acquired during the acquisition of Sampoerna. We believe the new business structure should enable PM to launch its other international brands in addition to Marlboro in the Vietnamese market, and continue to grow organically, though off a relatively low base.
- **Thailand** is a promising country for PM, where the company has a significant penetration, with about a 21% market share. The company's growth in Thailand has mainly been organic and has been driven by the strong brand equity of Marlboro and L&M. Other factors driving growth in Thailand include favorable consumer demographics and the absence of strict legislation regarding consumption of tobacco products. Moreover, a healthy economy overall (with projected GDP growth of 6.4%) sets the stage for PM to launch additional international brands in the Thai market and pursue further organic growth. Also, British American Tobacco, which had a market share of about 3%, ceased its operations in Thailand in 2010, which could enable PM to expand its share in Thailand in the coming years, even as the profitability may remain limited.
- **Pakistan** is a more established market for PM, where PM is the second-largest tobacco company, with about a 42% market share, mainly due to its acquisition of Lakson in 2007. The country's projected population growth rate of 1.4% and large population of 187 million people makes it a market with further potential, despite a low smoking prevalence of about 16%. However, PM management remains concerned about the growth of illicit trade in Pakistan, due to significant excise tax increases (almost 20% of consumption is non-tax paid). Therefore, we believe that PM's volume may remain soft in Pakistan over the next few years, even as profitability may remain high due to higher unit prices.

Exhibit 19. Indonesia Country P&L

	2005	2006	2007	2008	2009	2010	5-year CAGR	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	10-year CAGR	
Volume																			
Gross Domestic Product (GDP) PPP in \$ billions ¹	\$ 869.7	\$ 948.3	\$ 843.7	\$ 914.6	\$ 960.2	\$ 1,030.0	7.3%	\$ 1,117.6	\$ 1,212.5	\$ 1,315.6	\$ 1,427.4	\$ 1,548.8	\$ 1,680.4	\$ 1,823.2	\$ 1,978.2	\$ 2,146.4	\$ 2,328.8	8.5%	
Growth rate ²		9.0%	-11.0%	8.4%	5.0%	7.3%	3.4%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	
Population (in millions) ³	242.0	245.5	234.7	237.5	243.0	245.6	0.3%	247.6	249.6	251.6	253.6	255.6	257.6	259.7	261.8	263.9	266.0	0.8%	
Growth rate ³		1.4%	-4.4%	1.2%	2.3%	1.1%	0.3%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	
Market Size - Total Sticks Consumed (in millions) ⁴	217,000	229,000	238,000	247,000	260,000	270,300	4.0%	291,924	315,278	337,347	360,982	382,619	405,577	429,911	451,407	473,977	497,676	6.1%	
Growth rate		5.5%	3.9%	3.8%	5.3%	4.0%	4.5%	8.0%	8.0%	7.0%	7.0%	6.0%	6.0%	6.0%	5.0%	5.0%	5.0%	5.0%	
Yearly Average Stick Consumption/Capita	897	933	1,014	1,040	1,070	1,101	2.8%	1,179	1,263	1,341	1,424	1,497	1,574	1,655	1,724	1,796	1,871	5.3%	
Growth rate		4.0%	8.7%	2.6%	2.9%	2.8%	4.2%	7.1%	7.1%	6.2%	6.2%	5.2%	5.2%	5.2%	4.2%	4.2%	4.2%	4.2%	
PM Market Share ⁵	26.4%	28.3%	28.0%	28.6%	29.1%	29.1%	31.2%	31.2%	31.7%	32.9%	33.5%	34.1%	34.7%	35.3%	35.9%	36.5%	37.1%	1.9%	
Change		1.9%	-0.3%	1.6%	-0.5%	0.0%	2.1%	0.5%	0.5%	1.2%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	
PM Sticks Consumed (in millions)	57,288	64,807	66,640	73,112	75,660	78,657	6.5%	91,080	99,943	110,987	120,922	130,473	140,735	151,759	162,055	173,002	184,638	8.2%	
Growth rate		13.1%	2.8%	9.7%	3.5%	4.0%	6.5%	15.8%	9.7%	11.1%	9.0%	7.9%	7.9%	7.8%	6.8%	6.8%	6.7%	6.7%	
Prices																			
Average Retail Price per Pack (in rupiah)						11,533		12,438	12,588	13,354	14,155	14,863	15,606	16,386	17,206	18,066	18,969		
Taxes per Pack (in rupiah)						4,844		5,224	5,291	5,609	5,945	6,242	6,555	6,882	7,228	7,598	7,967		
Taxes as a % of Retail						42%		42%	42%	42%	42%	42%	42%	42%	42%	42%	42%		
Estimated Retail Price Growth						7.8%		7.8%	1.3%	6.0%	6.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%		
Wholesale Price per Pack (in rupiah) ⁶						4,957		5,343	5,664	6,004	6,364	6,682	7,016	7,367	7,735	8,122	8,528		
Estimated Wholesale Price Increase						7.8%		7.8%	6.0%	6.0%	6.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%		
Net Revenue (rupiah in billions)						19,486.8		24,332.9	28,302.7	33,316.1	38,476.3	43,591.1	49,370.6	55,899.6	62,676.8	70,256.1	78,730.6	13.9%	
Average FX Rate (rupiah per \$)	9,713.1	9,166.8	9,140.1	9,652.0	10,372.4	9,079.9		8,759.0	8,759.0	8,759.0	8,759.0	8,759.0	8,759.0	8,759.0	8,759.0	8,759.0	8,759.0	0.0%	
Financials (in USD)																			
Net Revenue (net of excise taxes - USD in millions)						\$ 2,147.3		\$ 2,775.0	\$ 3,231.3	\$ 3,803.6	\$ 4,382.8	\$ 4,976.7	\$ 5,656.6	\$ 6,382.0	\$ 7,155.7	\$ 8,021.0	\$ 8,989.5	13.9%	
Growth rate						29.4%		29.4%	16.3%	17.7%	15.5%	13.3%	13.3%	13.2%	12.1%	12.1%	12.1%	12.1%	
Operating Income (USD in millions)						\$ 966.7		\$ 1,416.8	\$ 1,680.3	\$ 2,008.3	\$ 2,354.5	\$ 2,707.3	\$ 3,111.4	\$ 3,573.9	\$ 4,064.4	\$ 4,620.1	\$ 5,243.3	15.7%	
Growth rate						45.0%		46.6%	16.6%	19.5%	17.2%	15.0%	14.9%	14.9%	13.7%	13.7%	13.6%	13.6%	
Operating Margin						45.0%		51.0%	52.0%	52.8%	53.6%	54.4%	55.2%	56.0%	56.8%	57.6%	58.4%	58.4%	
% of Total Asia Market Size						24%		30%	32%	34%	36%	37%	39%	40%	41%	42%	43%		
% of Total Asia Volume						28%		30%	30%	33%	35%	37%	38%	40%	41%	42%	43%		
% of Total Asia Revenue						27%		27%	30%	33%	35%	37%	40%	42%	44%	46%	48%		
% of Total Asia Operating Income						31.5%		30%	34%	37%	40%	43%	45%	47%	49%	51%	54%		
Revenue per 1,000 Sticks						27.30		30.50	32.33	34.27	36.33	38.14	40.05	42.05	44.16	46.36	48.69		
Operating Income per 1,000 Sticks						12.29		15.56	16.81	18.10	19.47	20.75	22.11	23.55	25.08	26.71	28.43		

Sources: Company Reports, Wells Fargo Securities, LLC estimates

¹ CIA Factbook

² Forecasted growth through 2016 from IMF - thereafter our estimates.

³ Forecasted population growth - Census.gov

⁴ TMA and company data

⁵ Company data

⁶ Wholesale price per pack estimated from retail price less trade mark-up

Smoking prevalence in Indonesia was 31.5% in 2010.

Marlboro's share was 4.3% as of 3Q11

Pack size varies by units. All packs converted to 20 units per pack.

Exhibit 20. Japan Country P&L

	2005	2006	2007	2008	2009	2010	5-year CAGR	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	10-year CAGR
Volume																		
Gross Domestic Product (GDP) PPP in \$ billions ¹	\$ 4,025.0	\$ 4,218.0	\$ 4,272.0	\$ 4,329.0	\$ 4,149.0	\$ 4,310.0	3.9%	\$ 4,443.6	\$ 4,581.4	\$ 4,723.4	\$ 4,869.8	\$ 5,020.8	\$ 5,176.4	\$ 5,336.9	\$ 5,502.3	\$ 5,672.9	\$ 5,848.8	3.1%
Growth rate ²		4.8%	1.3%	1.3%	-4.2%	3.9%	1.4%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%
Population (in millions) ¹	127.4	127.5	127.4	127.3	127.1	126.8	0.2%	126.5	126.1	125.7	125.3	125.0	124.6	124.2	123.8	123.5	123.1	0.3%
Growth rate ³		0.0%	0.0%	-0.1%	-0.2%	-0.2%	-0.1%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%
Market Size - Total Sticks Consumed (in millions) ⁴	286,000	274,000	261,000	249,000	236,000	219,000	-7.2%	190,443	182,825	175,512	168,492	161,752	155,282	149,071	143,108	137,384	131,886	-4.0%
Growth rate		-4.2%	-4.7%	-4.6%	-5.2%	-5.2%	-5.2%	-13.0%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%
Yearly Average Stick Consumption/Capita	2,245	2,150	2,048	1,856	1,857	1,726	-7.0%	1,506	1,450	1,396	1,344	1,294	1,246	1,200	1,156	1,113	1,071	-3.7%
Growth rate		-4.2%	-4.7%	-4.5%	-5.1%	-7.0%	-5.1%	-12.8%	-3.7%	-3.7%	-3.7%	-3.7%	-3.7%	-3.7%	-3.7%	-3.7%	-3.7%	-3.7%
PM Market Share ⁵	24.8%	24.7%	24.3%	23.9%	24.0%	24.4%	0.4%	28.5%	28.0%	28.5%	29.0%	29.6%	30.2%	30.8%	31.4%	32.0%	32.6%	1.5%
Change		-0.1%	-0.4%	0.1%	0.1%	0.4%	0.4%	4.1%	-0.5%	0.5%	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
PM Sticks Consumed (in millions)	70,928	67,678	63,423	59,511	56,640	53,412	-5.7%	54,276	51,191	50,021	48,863	47,879	46,895	45,914	44,936	43,963	42,986	-2.6%
Growth rate		-4.6%	-6.3%	-6.2%	-4.8%	-5.7%	-5.5%	1.6%	-5.7%	-2.3%	-2.3%	-2.0%	-2.1%	-2.1%	-2.1%	-2.2%	-2.2%	-2.6%
Pricing																		
Average Retail Price per Pack (in Yen)						281.05		412.70	433.52	447.39	461.71	476.48	491.73	507.47	523.70	540.46	557.76	
Taxes per Pack (in Yen)						187.73		265.19	281.79	290.80	300.11	309.71	319.62	329.85	340.41	351.30	362.54	
Taxes as % of Retail						65%		65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	
Estimated Retail Price Growth						65%		41.8%	5.0%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	
Wholesale Price per Pack (in Yen) ⁶						90.02		110.81	114.13	117.78	121.55	125.44	129.46	133.60	137.87	142.29	146.84	
Estimated Wholesale Price Increase						90.02		23.1%	3.0%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	
Net Revenue (Yen in millions)						240,417.8		300,708.6	292,124.1	294,581.3	296,967.7	300,289.0	303,542.9	306,700.7	309,773.8	312,763.4	315,670.9	0.5%
Average FX Rate (Yen per \$)	110.1	116.3	117.8	103.4	93.6	87.7		79.7	79.7	79.7	79.7	79.7	79.7	79.7	79.7	79.7	79.7	0.0%
Financials (in USD)																		
Net Revenue (net of excise taxes - USD in millions)						\$ 2,740.4		\$ 3,774.3	\$ 3,666.6	\$ 3,697.4	\$ 3,727.4	\$ 3,763.2	\$ 3,809.9	\$ 3,849.5	\$ 3,888.1	\$ 3,925.6	\$ 3,962.1	0.5%
Growth rate						\$ 2,740.4		37.7%	-2.9%	0.8%	0.8%	1.1%	1.1%	1.0%	1.0%	1.0%	0.9%	0.5%
Operating Income (USD in millions)						\$ 1,258.3		\$ 2,151.4	\$ 2,053.3	\$ 2,092.7	\$ 2,135.8	\$ 2,186.1	\$ 2,236.4	\$ 2,286.6	\$ 2,336.7	\$ 2,386.8	\$ 2,436.7	1.4%
Growth rate						\$ 1,258.3		71.0%	-4.6%	1.9%	2.1%	2.4%	2.3%	2.2%	2.2%	2.1%	2.1%	1.4%
Operating Margin						45.9%		57.0%	56.0%	56.6%	57.3%	58.0%	58.7%	59.4%	60.1%	60.8%	61.5%	
% of Total Asia Market Size						19%		18%	17%	15%	15%	14%	13%	12%	11%	11%	10%	
% of Total Asia Volume						19%		36%	34%	32%	30%	28%	27%	25%	24%	23%	21%	
% of Total Asia Revenue						35%		45%	41%	39%	36%	34%	32%	30%	28%	27%	25%	
% of Total Asia Operating Income						41%		69.54	71.62	73.92	76.28	78.72	81.24	83.84	86.53	89.29	92.15	
Revenue per 1,000 Sticks						51.31		39.64	40.11	41.84	43.71	45.66	47.69	49.80	52.00	54.29	56.67	
Operating Income per 1,000 Sticks						23.56												

Source: Company Reports, Wells Fargo Securities, LLC estimates

Sources & Notes

- 1 CIA Factbook
 - 2 Forecasted growth through 2016 from IMF - thereafter our estimates.
 - 3 Forecasted population growth - Census.gov
 - 4 Tobacco Institute of Japan and company data
 - 5 Company data
 - 6 Wholesale price per pack estimated from retail price less trade mark-up
- Smoking prevalence in Japan was 29% in 2010. Marlboro's share was 12% as of 3Q11. Pack size varies by units. All packs converted to 20 units per pack.

Exhibit 21. Philippines Country P&L

	2005	2006	2007	2008	2009	2010	5-year CAGR					10-year CAGR					
Volume																	
Gross Domestic Product (GDP) PPP in \$ billions ¹	\$ 412.5	\$ 449.8	\$ 300.1	\$ 317.5	\$ 324.3	\$ 351.4											
Growth rate ²	9.0%	-33.3%	5.8%	2.1%	8.4%	-3.2%											
Population (in millions) ¹	87.9	89.5	91.1	96.1	98.0	99.9											
Growth rate ³	1.8%	1.6%	5.5%	2.0%	2.0%	2.6%											
Market Size - Total Sticks Consumed (in millions) ⁴	81,600	83,000	85,500	92,100	93,600	101,500											
Growth rate	3.7%	-2.5%	-3.2%	3.0%	4.5%												
Yearly Average Stick Consumption/Capita	929	1,039	959	959	955	1,016											
Growth rate	11.9%	-9.7%	2.1%	2.1%	-0.4%	6.8%											
PM Market Share ⁵	29.8%	27.2%	28.3%	27.0%	27.0%	92.8%											
Change	-2.6%	1.1%	-1.3%	0.0%	65.8%												
PM Sticks Consumed (in millions)	24,317	25,296	24,197	24,867	25,272	94,192											
Growth rate	4%	-4%	3%	2%	2.73%												
Pricing																	
Average Retail Price per Pack (in peso)						20.59											
Taxes per Pack (in peso)						10.30											
Taxes as a % of Retail						50%											
Estimated Retail Price Growth						7.2%											
Wholesale Price per Pack (in peso) ⁶						10.76											
Estimated Wholesale Price Increase						13.0%											
Net Revenue (peso in millions)						59,542.1											
Average FX Rate (peso per \$)	55.1	51.3	46.1	44.5	47.6	45.1											
Financials (in USD)																	
Net Revenue (net of excise taxes - USD in millions)						\$ 1,123.6											
Growth rate						22.5%											
Operating Income (USD in millions)						\$ 454.1											
Growth rate						64.4%											
Operating Margin						33.0%											
% of Total Asia Market Size						9%											
% of Total Asia Volume						33%											
% of Total Asia Revenue						14%											
% of Total Asia Operating Income						9%											
Revenue per 1,000 Sticks						11.93											
Operating Income per 1,000 Sticks						2.93											

Source: Company Reports, Wells Fargo Securities, LLC estimates

Sources & Notes

- ¹ CIA Facebook
 - ² Forecasted growth through 2016 from IMF - thereafter our estimates.
 - ³ Forecasted population growth - Census.gov
 - ⁴ TNA and company data
 - ⁵ Company data
 - ⁶ Wholesale price per pack estimated from retail price less trade mark-up
- Smoking prevalence in the Philippines was 28% in 2010. Marlboro's market share was 31.3%. Pack size varies by units. All packs converted to 20 units per pack.

Exhibit 22. South Korea Country P&L

Volume	2005	2006	2007	2008	2009	2010	5-year CAGR	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	10-year CAGR
Gross Domestic Product (GDP) PPP in \$ billions ¹	\$ 1,101.0	\$ 1,196.0	\$ 1,206.0	\$ 1,335.0	\$ 1,362.0	\$ 1,459.0	5.8%	\$ 1,542.2	\$ 1,630.1	\$ 1,723.0	\$ 1,821.2	\$ 1,925.0	\$ 2,034.7	\$ 2,150.7	\$ 2,273.3	\$ 2,402.9	\$ 2,539.8	5.7%
Growth rate ²		8.6%	0.6%	10.7%	2.0%	7.1%		5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%
Population (in millions) ³	48.4	48.8	49.0	48.4	48.5	48.6	0.1%	48.7	48.7	48.8	48.8	48.9	48.9	49.0	49.0	49.1	49.1	0.1%
Growth rate ³		0.9%	0.4%	-1.4%	0.3%	0.3%		0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Market Size - Total Sticks Consumed (in millions) ⁴	82,300	87,700	91,734	95,763	94,444	90,500	1.9%	91,405	91,405	91,862	92,321	92,783	93,247	93,713	94,182	94,653	95,126	0.4%
Growth rate		6.6%	4.6%	4.4%	-1.4%	-4.2%		1.0%	0.0%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%
Yearly Average Stick Consumption/Capita	1,700	1,795	1,870	1,979	1,947	1,861	1.8%	1,877	1,876	1,883	1,891	1,898	1,906	1,913	1,921	1,929	1,936	0.3%
Growth rate		5.6%	4.2%	5.6%	-1.6%	-4.4%		0.9%	-0.1%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.3%
PM Market Share ⁵	8.3%	8.6%	9.9%	11.8%	14.4%	16.9%		21.1%	21.6%	22.6%	23.6%	24.6%	25.6%	26.6%	27.6%	28.6%	29.6%	3.6%
Change		0.3%	1.3%	1.9%	2.6%	2.5%		4.2%	0.5%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
PM Sticks Consumed (in millions)	6,831	7,542	9,082	11,300	13,600	15,295	17.5%	19,286	19,743	20,761	21,788	22,825	23,871	24,928	25,984	27,071	28,157	4.3%
Growth rate		10.4%	20.4%	24.4%	20.4%	12.5%		26.1%	2.4%	5.2%	4.9%	4.8%	4.6%	4.4%	4.3%	4.1%	4.0%	4.3%
Pricing																		
Average Retail Price per Pack (in won)						2,300		2,489	2,289	2,358	2,429	2,501	2,576	2,654	2,733	2,815	2,900	
Taxes per Pack (in won)						1,380		1,484	1,374	1,415	1,457	1,501	1,546	1,592	1,640	1,689	1,740	
Taxes as a % of Retail						60%		60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	
Estimated Retail Price Growth						60%		8.2%	-8.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	
Wholesale Price per Pack (in won) ⁶						610.47		612.35	630.72	649.64	669.13	689.20	709.88	731.18	753.11	775.71	798.98	3.0%
Estimated Wholesale Price Increase						0.3%		0.3%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	
Net Revenue (won in millions)						466.840		590.502	622.630	674.354	728.945	786.541	847.285	911.327	978.825	1,049.942	1,124.849	7.4%
Average FX Rate (won per \$)	1,024.2	954.9	929.1	1,100.4	1,276.0	1,156.1		1,106.3	1,106.3	1,106.3	1,106.3	1,106.3	1,106.3	1,106.3	1,106.3	1,106.3	1,106.3	0.0%
Financials (in USD)																		
Net Revenue (net of excise taxes - USD in millions)						\$ 403.8		\$ 533.8	\$ 562.8	\$ 609.6	\$ 656.9	\$ 711.0	\$ 765.9	\$ 823.8	\$ 884.8	\$ 948.1	\$ 1,016.8	
Growth rate						32.2%		32.2%	5.4%	8.3%	8.1%	7.9%	7.7%	7.6%	7.4%	7.3%	7.1%	
Operating Income (USD in millions)						\$ 168.8		\$ 229.5	\$ 244.3	\$ 267.0	\$ 291.2	\$ 317.1	\$ 344.6	\$ 374.0	\$ 405.2	\$ 435.5	\$ 473.8	
Growth rate						41.8%		36.0%	6.4%	9.3%	9.1%	8.9%	8.7%	8.5%	8.4%	8.2%	8.1%	
Operating Margin						41.8%		43.0%	43.4%	43.8%	44.2%	44.6%	45.0%	45.4%	45.8%	46.2%	46.6%	
% of Total Asia Market Size						8%		6%	6%	6%	6%	7%	7%	7%	7%	7%	7%	
% of Total Asia Volume						5%		5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	
% of Total Asia Revenue						6%		5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	
% of Total Asia Operating Income						26.40		27.68	28.51	29.36	30.24	31.15	32.08	33.05	34.04	35.06	36.11	
Revenue per 1,000 Sticks						11.04		11.90	12.37	12.86	13.37	13.89	14.44	15.00	15.59	16.20	16.83	
Operating Income per 1,000 Sticks						11.04		11.90	12.37	12.86	13.37	13.89	14.44	15.00	15.59	16.20	16.83	

Source: Company Reports, Wells Fargo Securities, LLC estimates

Sources & Notes

¹ CIA Factbook² Forecasted growth through 2016 from IMF - the realtor our estimates.³ Forecasted population growth - Census.gov⁴ TMA and company data⁵ Company data⁶ Wholesale price per pack estimated from retail price less trade mark-up

Smoking prevalence in South Korea was 39.6% in 2010. Marlboro's market share was 9.4% as of 3Q11

Pack size varies by units. All packs converted to 20 units

per pack.

Exhibit 23. Australia Country P&L

Volume	5-year CAGR										10-year CAGR					
	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E		2015E	2016E	2017E	2018E	2019E
Gross Domestic Product (GDP) PPP in \$ billions ¹	636	675	773	800	848	882	933	986	1,042	1,101	1,164	1,231	1,301	1,375	1,463	1,536
Growth rate ²		6.2%	14.6%	3.5%	6.0%	4.0%	6.8%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%
Population (in millions) ¹	20.1	20.3	20.4	21.0	21.3	21.5	21.8	22.0	22.2	22.4	22.7	22.9	23.1	23.3	23.6	23.8
Growth rate ³		0.9%	0.8%	2.8%	1.2%	1.2%	1.4%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Market Size - Total Sticks Consumed (in millions) ⁴	19,923	19,770	20,460	19,900	19,500	20,800	20,072	19,269	18,691	18,130	17,677	17,235	16,804	16,384	15,975	15,575
Growth rate		-0.8%	3.5%	-2.7%	-2.0%	6.7%	0.9%	-4.0%	-3.0%	-3.0%	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%	-2.8%
Yearly Average Stick Consumption/Capita	982	976	1,001	947	917	957	922	876	842	808	780	753	727	702	678	654
Growth rate		-1.6%	2.6%	-5.4%	-3.2%	5.4%	-4.6%	-5.0%	-4.0%	-4.0%	-3.5%	-3.5%	-3.5%	-3.5%	-3.5%	-3.7%
PM Market Share ⁵		36.2%	37.2%	37.7%	37.9%	38.0%	38.0%	38.5%	39.2%	39.9%	40.6%	41.3%	42.0%	42.7%	43.4%	44.1%
Change		1.0%	1.0%	0.5%	0.2%	0.1%	0.0%	0.5%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
PM Sticks Consumed (in millions)	7,157	7,611	7,502	7,391	7,904	7,904	7,627	7,419	7,327	7,234	7,177	7,118	7,058	6,996	6,933	6,869
Growth rate		6.3%	-1.4%	-1.5%	6.9%	6.9%	-3.5%	-2.7%	-1.2%	-1.3%	-0.8%	-0.8%	-0.8%	-0.9%	-0.9%	-0.9%
Pricing																
Average Retail Price per Pack (in AUD)						9.81	12.34	8.72	9.15	9.61	10.09	10.60	11.13	11.68	12.27	12.88
Taxes per Pack (in AUD)						5.89	7.40	5.23	5.49	5.77	6.06	6.36	6.68	7.01	7.36	7.73
Taxes as a % of Retail						60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
Estimated Retail Price Growth						1.85	25.7%	-29.3%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Wholesale Price per Pack (in AUD) ⁶						1.85	1.99	2.11	2.21	2.32	2.44	2.56	2.69	2.82	2.96	3.11
Estimated Wholesale Price Increase						7.5%	7.5%	6.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Net Revenue (AUD in millions)	1.31	1.33	1.19	1.20	1.28	730.5	757.9	781.4	810.3	840.0	875.0	911.3	948.7	987.4	1,027.5	1,068.8
Average FX Rate (AUD per \$)						1.09	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.97
Financials (in USD)																
Net Revenue (net of excise taxes - USD in millions)						670.7	782.6	806.8	836.7	867.4	903.6	941.0	979.6	1,019.6	1,060.9	1,103.7
Growth rate						16.7%	16.7%	3.1%	3.7%	3.7%	4.2%	4.1%	4.1%	4.1%	4.1%	4.0%
Operating Income (USD in millions)						343.7	430.4	448.6	470.2	492.7	518.6	545.8	574.1	603.6	634.4	665.6
Growth rate						51.3%	25.2%	4.2%	4.8%	4.8%	5.3%	5.2%	5.2%	5.1%	5.1%	5.0%
Operating Margin						51.3%	55.0%	55.6%	56.2%	56.8%	57.4%	58.0%	58.6%	59.2%	59.8%	60.4%
% of Total Asia Market Size						2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
% of Total Asia Volume						3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
% of Total Asia Revenue						8%	8%	7%	7%	7%	7%	7%	7%	7%	7%	6%
% of Total Asia Operating Income						11%	9%	9%	9%	8%	8%	8%	8%	7%	7%	6%
Revenue per 1,000 Sticks						84.85	102.80	108.75	114.19	119.90	125.90	132.19	138.80	145.74	153.03	160.68
Operating Income per 1,000 Sticks						43.49	56.43	60.47	64.18	68.10	72.27	76.67	81.34	86.28	91.51	97.05

Source: Company Reports, Wells Fargo Securities, LLC estimates

Sources & Notes

- ¹ CIA Factbook
 - ² Forecasted growth through 2016 from IMF - thereafter our estimates.
 - ³ Forecasted population growth - Census.gov
 - ⁴ TMA and company data
 - ⁵ Company data
 - ⁶ Wholesale price per pack estimated from retail price less trade mark-up
- Smoking prevalence in Australia was 16.6% in 2010 (abhaust.org.au). Marlboro's market share was 2.4% as of 3Q11
Pack size varies by units. All packs converted to 20 units per pack.

Exhibit 24. Consolidated Country P&L

	2005	2006	2007	2008	2009	2010	5-year CAGR	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	10-year CAGR	
Market Size - Total Sticks Consumed in PM's Asia Region (in millions)	686,823	703,470	696,694	703,763	703,544	702,000													
PM's 5 Top Markets in Asia	458,630	465,406	472,237	480,770	427,160	427,160													
PM's Other Markets in Asia	1,162,100	1,162,100	1,176,000	1,184,314	1,129,160	1,129,160	0.4%												1.6%
Total																			
Growth rate		16.7%	18.3%	19.0%	19.1%	25.0%		26.9%	27.1%	27.8%	28.5%	29.1%	29.9%	30.7%	31.5%	32.2%	33.0%		3.9%
PM's Market Share in Asia Region																			
PM Sticks Consumed (in millions)	159,364	172,480	170,952	176,292	178,563	249,459													
PM's 5 Top Markets in Asia	13,936	22,120	42,193	47,432	32,831	32,831													
PM's Other Markets in Asia	173,300	194,600	213,145	223,724	226,204	282,290	10.3%												
Total																			
Growth rate		12.3%	9.5%	5.0%	1.1%	24.6%		7.6%	2.1%	4.3%	4.0%	3.9%	4.3%	4.4%	4.1%	4.0%	4.1%		3.9%
Net Revenue (net of excise taxes - in USD millions)																			
PM's 5 Top Markets in Asia	4,391	5,172	5,648	6,165	6,528	7,935	12.6%												
PM's Other Markets in Asia	1,809	1,888	1,831	2,071	2,436	3,069													
Total																			
Growth rate		17.8%	9.2%	9.5%	5.5%	21.6%		31.1%	4.8%	7.2%	6.9%	6.6%	6.6%	7.0%	6.8%	6.9%	7.1%		6.7%
Operating Income (in USD millions)																			
PM's 5 Top Markets in Asia																			
PM's Other Markets in Asia																			
Total																			
Growth rate		4.4%	-3.0%	13.1%	17.6%	20.0%	11.2%	54.4%	5.0%	9.1%	8.6%	8.4%	8.7%	9.0%	8.6%	8.9%	9.1%		8.4%
Operating Margin																			
PM's 5 Top Markets in Asia																			
PM's Other Markets in Asia																			
Total																			
Growth rate		41.2%	36.5%	32.4%	33.5%	37.3%		50.6%	50.6%	51.2%	51.8%	52.5%	53.2%	53.9%	54.5%	55.3%	56.0%		4.9%
Revenue per 1,000 Sticks																			
PM's 5 Top Markets in Asia																			
PM's Other Markets in Asia																			
Total																			
Growth rate		25.34	26.58	26.50	27.65	28.86		34.21	34.92	35.98	37.16	38.37	39.65	41.02	42.48	44.07	45.76		3.3%
Operating Income per 1,000 Sticks																			
PM's 5 Top Markets in Asia																			
PM's Other Markets in Asia																			
Total																			
Growth rate		10.44	9.70	8.59	9.26	10.77		17.33	17.65	18.41	19.25	20.13	21.08	22.09	23.17	24.36	25.63		4.4%
Discounted Cash Flow Analysis																			
Adjusted OCI	\$1,809	\$1,888	\$1,831	\$2,071	\$2,436	\$3,069		\$4,739	\$4,974	\$5,425	\$5,903	\$6,401	\$6,960	\$7,587	\$8,252	\$8,990	\$9,811		8.4%
Less: Amortization ¹	(7)	(11)	(7)	(11)	(19)	(26)		(33)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)		
Less: General Corporate Exp. ¹	(31)	(34)	(31)	(34)	(41)	(52)		(61)	(65)	(78)	(92)	(109)	(104)	(114)	(124)	(135)	(147)		
EBIT	1,793	2,026	2,376	2,376	2,992	2,992		4,645	4,880	5,318	5,782	6,283	6,827	7,445	8,100	8,826	9,635		8.4%
Less: Cash Taxes	527	598	598	696	696	858		1,378	1,440	1,569	1,706	1,848	1,980	2,159	2,349	2,560	2,794		8.2%
NOPAT	1,266	1,429	1,680	1,680	2,134	2,134		3,267	3,441	3,749	4,076	4,416	4,847	5,286	5,751	6,267	6,841		8.6%
Add: Depreciation	194	244	194	244	286	332		364	382	410	441	477	516	557	601	650	701		7.6%
Add: Amortization	7	11	7	11	19	26		33	29	29	29	29	29	29	29	29	29		-1.6%
Less: Capital Expenditures	(236)	(173)	(236)	(173)	(116)	(161)		(145)	(149)	(157)	(166)	(176)	(187)	(198)	(210)	(222)	(236)		
+/- Changes in working capital ¹	(396)	(32)	(396)	(32)	144	366		(157)	424	(152)	2	1	(20)	(20)	(20)	(20)	(20)		
Unlevered Free Cash Flow	835	1,478	2,013	2,013	2,697	2,697		3,362	4,127	3,879	4,382	4,747	5,185	5,653	6,151	6,702	7,315		9.0%
Unlevered Free Cash Flow Growth Rate								25%	23%	-6%	13%	6%	9%	9%	9%	9%	9%		
Year								1,00	1,00	2,00	3,00	4,00	5,00	6,00	7,00	8,00	9,00		
Present Value Discount Factor								0.9081	0.8246	0.7488	0.6800	0.6200	0.5667	0.5192	0.4777	0.4399	0.4059		
Present Value of Free Cash Flow								3,747	3,198	3,281	3,228	3,202	3,170	3,132	3,099	3,072	3,072		
Terminal Value Forecast																			
Total PV of Unlevered Free Cash Flow																			
Terminal Value																			
Total Enterprise Value																			
Shares Outstanding																			
Current Fair Value for PM's Asia Business																			

¹Source: Company reports, Wells Fargo Securities, LLC estimates

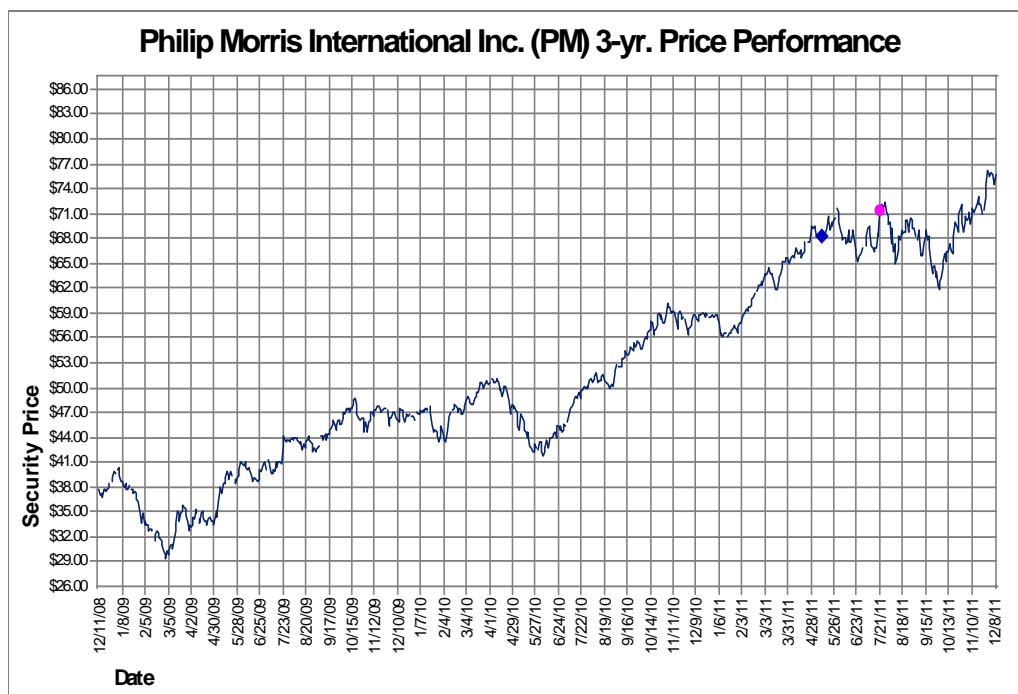
Philip Morris International (PM) - Quarterly Earnings Model

	2010	1Q11	2Q11	3Q11	4Q11E	2011E	1Q12E	2Q12E	3Q12E	4Q12E	2012E	2013E	2014E	2015E
Gross Revenue	67,713	16,530	20,234	20,706	18,893	76,363	17,892	20,668	21,017	20,028	79,605	82,568	86,012	90,061
Excise Taxes on Products	40,505	9,739	11,961	12,344	11,574	45,618	10,841	12,478	12,599	12,018	47,937	49,249	50,772	52,646
Net Revenue (net of excise taxes)	27,208	6,791	8,273	8,362	7,319	30,745	7,051	8,189	8,417	8,010	31,668	33,319	35,240	37,414
Cost of Sales	9,713	2,295	2,844	2,847	2,613	10,599	2,348	2,774	2,824	2,820	10,765	11,862	12,475	13,170
% of Net Revenue	35.7%	33.8%	34.4%	34.0%	35.7%	34.5%	33.3%	33.9%	33.5%	35.2%	34.0%	35.6%	35.4%	35.2%
Gross profit	17,495	4,496	5,429	5,515	4,706	20,146	4,703	5,415	5,594	5,191	20,903	21,458	22,765	24,244
gross margin	64.3%	66.2%	65.6%	66.0%	64.3%	65.5%	66.7%	66.1%	66.5%	64.8%	66.0%	64.4%	64.6%	64.8%
SG&A	5,983	1,408	1,647	1,721	1,672	6,448	1,527	1,634	1,668	1,817	6,645	6,180	6,392	6,608
% of Net Revenue	22.0%	20.7%	19.9%	20.6%	22.8%	21.0%	21.7%	20.0%	19.8%	22.7%	21.0%	18.5%	18.1%	17.7%
Operating profit (OCI)	11,512	3,088	3,782	3,794	3,034	13,698	3,177	3,781	3,926	3,374	14,257	15,277	16,373	17,637
OCI margin	42.3%	45.5%	45.7%	45.4%	41.5%	44.6%	45.1%	46.2%	46.6%	42.1%	45.0%	45.9%	46.5%	47.1%
Amortization	88.0	24.0	24.0	25.0	25.0	98.0	24.5	24.5	24.5	24.5	98.0	98.0	98.0	98.0
General corporate expenses	177	41	45	49	44	179	49	57	59	56	222	267	317	374
% of Net Revenue	0.7%	0.6%	0.5%	0.6%	0.6%	0.6%	0.7%	0.7%	0.7%	0.7%	0.7%	0.8%	0.9%	1.0%
EBIT (incl. minority interest)	11,247	3,023	3,713	3,720	2,965	13,421	3,103	3,699	3,843	3,293	13,938	14,913	15,958	17,164
EBIT Margin	41.3%	44.5%	44.9%	44.5%	40.5%	43.7%	44.0%	45.2%	45.7%	41.1%	44.0%	44.8%	45.3%	45.9%
Interest expenses, net	876	213	208	192	195	808	204	204	204	204	815	845	873	866
Pretax Income	10,371	2,810	3,505	3,528	2,770	12,613	2,899	3,496	3,639	3,089	13,123	14,068	15,085	16,298
Income taxes	2,973	839	1,047	1,042	814	3,743	855	1,031	1,073	911	3,871	4,150	4,450	4,808
Minority interest in earnings, net of income tax	239	68	76	84	70	298	71	80	88	74	313	296	305	314
Earnings attributable to share-based payments	33	10	-	14	8	32	9	9	9	9	35	35	35	35
Net Income	7,126	1,893	2,382	2,388	1,877	8,540	1,964	2,376	2,468	2,096	8,904	9,587	10,295	11,141
Basic shares outstanding	1,839	1,793	1,772	1,749	1,722	1,759	1,714	1,697	1,681	1,666	1,690	1,630	1,581	1,541
Diluted shares outstanding	1,842	1,794	1,772	1,749	1,732	1,762	1,717	1,700	1,684	1,669	1,693	1,633	1,584	1,544
Recurring Diluted EPS	3.87	1.06	1.34	1.37	1.08	4.85	1.14	1.40	1.47	1.26	5.26	5.87	6.50	7.22
First Call Consensus	3.87	1.06	1.34	1.10	1.10	4.87	1.17	1.38	1.43	1.26	5.22	5.75	6.23	6.96
Dividend per share	\$2.44	\$0.64	\$0.64	\$0.77	\$0.77	\$2.82	\$0.77	\$0.77	\$0.81	\$0.81	\$3.15	\$3.52	\$4.06	\$4.69
Effective tax rate	28.7%	29.9%	29.9%	29.5%	29.4%	29.7%	29.5%	29.5%	29.5%	29.5%	29.5%	29.5%	29.5%	29.5%

	2010	1Q11	2Q11	3Q11	4Q11E	2011E	1Q12E	2Q12E	3Q12E	4Q12E	2012E	2013E	2014E	2015E
YOY Growth														
Total Volume	4.1%	1.6%	0.1%	4.5%	-1.9%	1.1%	-0.1%	0.1%	1.0%	4.3%	1.3%	1.7%	2.1%	2.8%
Gross Revenue	9.1%	6.0%	16.4%	22.3%	6.1%	12.8%	8.2%	2.1%	1.5%	6.0%	4.2%	3.7%	4.2%	4.7%
Excise Taxes	9.3%	7.1%	15.9%	19.6%	7.5%	12.6%	11.3%	4.3%	2.1%	3.8%	5.1%	2.7%	3.1%	3.7%
Net Revenue	8.7%	4.5%	17.2%	26.4%	4.0%	13.0%	3.8%	-1.0%	0.7%	9.4%	3.0%	5.2%	5.8%	6.2%
Net Revenue Excluding Currency & Acquisitions	3.4%	2.7%	10.1%	15.7%	4.0%	13.0%	3.8%	-1.0%	0.7%	9.4%	3.0%	5.2%	5.8%	6.2%
Cost of Sales	7.7%	-3.2%	11.5%	24.3%	4.5%	9.1%	2.3%	-2.5%	-0.8%	7.9%	1.6%	10.2%	5.2%	5.6%
Gross Profit	9.3%	9.0%	20.4%	27.5%	3.7%	15.2%	4.6%	-0.3%	1.4%	10.3%	3.8%	2.7%	6.1%	6.5%
SG&A Expense	7.3%	4.2%	7.2%	22.8%	-1.3%	7.8%	8.4%	-0.8%	-3.1%	8.6%	3.1%	-7.0%	3.4%	3.4%
Operating Profit - OCI	10.3%	11.4%	27.2%	29.8%	6.7%	19.0%	2.9%	0.0%	3.5%	11.2%	4.1%	7.2%	7.2%	7.7%
OCI Excluding Currency & Acquisitions	5.8%	8.0%	16.5%	23.7%	4.7%	13.6%	6.1%	4.0%	5.6%	12.5%	6.8%	7.2%	7.2%	7.7%
Net Income	11.0%	11.6%	29.2%	30.5%	6.8%	19.8%	3.8%	-0.3%	3.4%	11.6%	4.3%	7.7%	7.4%	8.2%
EPS	17.5%	16.9%	34.8%	36.6%	11.7%	25.3%	8.4%	3.9%	7.3%	15.8%	8.5%	11.6%	10.7%	11.0%
EPS Excluding Currency	13.5%	13.8%	22.2%	29.4%	9.3%	18.9%	12.3%	8.7%	9.8%	17.4%	11.7%	11.6%	10.7%	11.0%
YOY Growth per Stick														
Gross Revenue	4.7%	4.4%	16.3%	17.0%	8.2%	11.6%	8.4%	2.1%	0.5%	1.7%	2.9%	2.0%	2.0%	1.9%
Excise Taxes	5.0%	5.5%	15.8%	14.4%	9.6%	11.5%	11.5%	4.3%	1.1%	-0.4%	3.8%	1.0%	1.0%	0.9%
Net Revenue	4.4%	2.9%	17.1%	21.0%	6.0%	11.8%	4.0%	-1.1%	-0.3%	5.0%	1.7%	3.4%	3.6%	3.3%
Cost of Sales	3.4%	-4.7%	11.4%	19.0%	6.5%	8.0%	2.4%	-2.5%	-1.8%	3.5%	0.3%	8.3%	3.0%	2.7%
Gross Profit	4.9%	7.4%	20.2%	22.0%	5.8%	14.0%	4.7%	-0.3%	0.4%	5.8%	2.4%	0.9%	3.9%	3.6%
SG&A Expense	3.0%	2.6%	7.1%	17.5%	0.6%	6.7%	8.6%	-0.8%	-4.1%	4.2%	1.7%	-8.6%	1.3%	0.6%
Operating Profit	5.9%	9.7%	27.1%	24.2%	8.8%	17.7%	3.0%	-0.1%	2.5%	6.7%	2.8%	5.3%	5.0%	4.8%
Net Income	6.6%	9.9%	29.1%	24.9%	8.9%	18.6%	3.9%	-0.3%	2.4%	7.1%	2.9%	5.8%	5.2%	5.3%
Margins														
Gross Profit Margin	64.3%	66.2%	65.6%	66.0%	64.3%	65.5%	66.7%	66.1%	66.5%	64.8%	66.0%	64.4%	64.6%	64.8%
Operating Profit (OCI) Margin	42.3%	45.5%	45.7%	45.4%	41.5%	44.6%	45.1%	46.2%	46.6%	42.1%	45.0%	45.9%	46.5%	47.1%
Operating Profit (OCI) Margin Excluding Currency	42.6%	44.9%	44.6%	47.3%	40.7%	42.5%	46.5%	48.1%	47.6%	42.6%	46.2%	45.9%	46.5%	47.1%
Net Margin	26.2%	27.9%	28.8%	28.6%	25.7%	27.8%	27.8%	29.0%	29.3%	26.2%	28.1%	28.8%	29.2%	29.8%

Source: Company reports and Wells Fargo Securities, LLC estimates

Required Disclosures



	Date	Publication Price (\$)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price (\$)
◆	5/12/2011		Herzog			
◆	5/12/2011	68.10	1	74.00	76.00	68.21
●	7/21/2011	71.49	1	77.00	79.00	71.49

Source: Wells Fargo Securities, LLC estimates and Reuters data

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▼	Rating Downgrade	◆	Initiation, Resumption, Drop or Suspend
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●	Valuation Range Change	□	Split Adjustment

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1	Outperform/Buy	SR	Suspended
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**WELLS FARGO SECURITIES, LLC
EQUITY RESEARCH DEPARTMENT**

Wells Fargo Securities, LLC Institutional Sales Offices

Wells Fargo Securities, LLC
7 Saint Paul Street
1st Floor, R1230-01J
Baltimore, MD 21202
(877) 893-5681

Wells Fargo Securities, LLC
One Boston Place
Suite 2700
Boston, MA 02108
(877) 238-4491

Wells Fargo Securities, LLC
230 W. Monroe
24th Floor
Chicago, IL 60606
(866) 284-7658

Wells Fargo Securities, LLC
375 Park Avenue
New York, NY 10152-0005
(800) 876-5670

Wells Fargo Securities, LLC
45 Fremont Street, 34th Floor
San Francisco, CA 94105

Wells Fargo Securities International Limited
1 Plantation Place
30 Fenchurch Street
London, EC3M 3BD
44-207-962-2879

Sam J. Pearlstein
Co-Head of Equity Research (212) 214-5054
sam.pearlstein@wellsfargo.com

Paul Jeanne, CFA
Associate Director of Research
(443) 263-6534 / (212) 214-8054
paul.jeanne@wellsfargo.com

Todd M. Wickwire
Co-Head of Equity Research (410) 625-6393
todd.wickwire@wellsfargo.com

Lisa Hausner
Global Head of Publishing
(443) 263-6522
lisa.hausner@wellsfargo.com

CONSUMER

Beverage & Tobacco

Bonnie Herzog (212) 214-5051
Brendan Metrano, CFA (212) 214-8064
Jessica Gerberi, CFA (212) 214-5029

Food

Eric Serotta, CFA (212) 214-8035
Dennis Geiger (212) 214-5028

Homebuilding/Building Products

Adam Rudiger, CFA (415) 396-3194

Household and Personal Care/Leisure

Timothy Conder, CPA (314) 955-5743
Joe Lachky, CFA (314) 955-2061
Michael Walsh, CFA, CPA (314) 955-6277

Restaurants & Foodservice

Jeffrey F. Omohundro, CFA (804) 697-7354
Katie H. Willett (804) 697-7356
Jason Belcher (804) 697-7352

Retail

Matt Nemer (415) 396-3938
Trisha Dill, CFA (312) 920-3594
Joshua Dolin (212) 214-8053
Kate Wendt (415) 396-3977
Evren Kopelman, CFA (212) 214-8024
Maren Kasper (212) 214-5016
Connie Wang (212) 214-5024

HEALTH CARE

Biotechnology

Brian Abrahams, M.D. (212) 214-8060
Matthew J. Andrews (617) 603-4218
Shin Kang, Ph.D. (212) 214-5036

Healthcare Facilities

Gary Lieberman, CFA (212) 214-8013
Tim Evans (212) 214-8010
Ryan Halsted (212) 214-8022

Managed Care

Peter Costa (617) 603-4222
Jay Donnelly (617) 603-4207
Polly Sung, CFA (617) 603-4324

Medical Technology

Larry Biegelsen (212) 214-8015
Lei Huang (212) 214-8039
Craig W. Bijou (212) 214-8038

Pharmaceuticals

Michael K. Tong, CFA, PhD (212) 214-8020
Brian E. Jeep (212) 214-8069
David Gu (212) 214-8057

REAL ESTATE, GAMING & LODGING

Gaming

Cameron McKnight (212) 214-5046
Barry Jonas (212) 214-8066

Healthcare/Manufactured Housing/Self Storage

Todd Stender (212) 214-8067
Philip DeFelice, CFA (443) 263-6442

Lodging/Multifamily/Retail

Jeffrey J. Donnelly, CFA (617) 603-4262
Dori Kesten (617) 603-4233
Robert LaQuaglia, CFA, CMT (617) 603-4263
Tamara Figue (443) 263-6568

Office/Industrial/Infrastructure

Brendan Maiorana, CFA (443) 263-6516
Young Ku, CFA (443) 263-6564
Blaine Heck, CFA (443) 263-6529

ENERGY

Alternative Energy

Sam Dubinsky (212) 214-5043
Amir Chaudhri (212) 214-5045

Exploration & Production

David R. Tameron (303) 863-6891
GordOn Douthat (303) 863-6920
Trevor Seelye (303) 863-6880
Kevin Berents (303) 863-6816

Master Limited Partnerships

Michael Blum (212) 214-5037
Sharon Lui, CPA (212) 214-5035
Eric Shiu (212) 214-5038
Praneeth Satish (212) 214-8056
Ronald Londe (314) 955-3829
Jeff Morgan, CFA (314) 955-6558

Utilities

Michael Bolte (212) 214-8061
Neil Kalton, CFA (314) 955-5239
Sarah Akers, CFA (314) 955-6209
Jonathan Reeder (314) 955-2462

Oilfield Services and Drilling

Matthew D. Conlan, CFA (212) 214-5044
Christopher Wicklund, CFA (212) 214-8028
Tom Curran, CFA (212) 214-5048
Tom W. Rhee (212) 214-8012

INDUSTRIAL

Aerospace & Defense

Sam J. Pearlstein (212) 214-5054
Gary S. Liebowitz, CFA (212) 214-5055
Michael D. Conlon (212) 214-5056

Automotive/Industrial and Electrical Products

Rich Kwas, CFA (410) 625-6370
David H. Lim (443) 263-6565

Chemicals

Frank J. Mitsch (212) 214-5022
Sabina Chatterjee (212) 214-8049
Maggie Cheung (212) 214-8011

Diversified Industrials

Allison Poliniak-Cusic, CFA (212) 214-5062

Machinery

Andrew Casey (617) 603-4265
Justin Ward (617) 603-4268
Sara Magers, CFA (617) 603-4270

Ocean Shipping

Michael Webber, CFA (212) 214-8019
Ross Briggs (212) 214-8040

Steel

Sam Dubinsky (212) 214-5043
Amir Chaudhri (212) 214-5045

Transportation

Anthony P. Gallo, CFA (410) 625-6319
Michael Busche (704) 715-6406

RETAIL RESEARCH MARKETING

Retail Research Marketing
Colleen Hansen (410) 625-6378

FINANCIAL SERVICES

Asset Management

James P. Shanahan (314) 955-1026
Nathan Burk, CFA (314) 955-2083

Brokers/Exchanges

Christopher Harris, CFA (443) 263-6513
Andrew Bond (443) 263-6526

Insurance

John Hall (212) 214-8032
Elyse Greenspan, CFA (212) 214-8031

Specialty Finance

Joel Houck, CFA (443) 263-6521
Jonathan Bock, CFA (443) 263-6410
Vivek Agrawal (443) 263-6563

U.S. Banks

Matt Burnell (212) 214-5030
Herman Chan (212) 214-8037
Jason Harbes, CFA (212) 214-8068

MEDIA & TELECOMMUNICATIONS

Advertising

Peter Stabler (415) 396-4478
Ignatius Njoku (415) 396-4064

Broadcasting & Cable

Marci Ryvicker, CFA, CPA (212) 214-5010
Stephan Bisson (212) 214-8033
Eric Katz (212) 214-5011

Telecommunication

Wireless/Wireline
Jennifer M. Fritzsche (312) 920-3548
Andrew Spinola (212) 214-5012
Brian Davis (212) 214-8036

Services

TECHNOLOGY & SERVICES

Communication Technology

Jess Lubert, CFA (212) 214-5013
Michael Kerlan (212) 214-8052
Gray Powell, CFA (212) 214-8048
Brian Davis (212) 214-8036

Information Technology (IT) Services

Edward S. Caso, Jr., CFA (443) 263-6524
Richard Eskelsen, CFA (410) 625-6381
Eric J. Boyer (443) 263-6559

Semiconductors

David Wong, CFA, PhD (212) 214-5007
Amit Chanda (314) 955-3326
Parker Paulin (212) 214-5066

Software

Philip Rueppel (617) 603-4260
Priya Parasuraman (617) 603-4269
Samson Lee (617) 603-4266

Technology

Jason Maynard (310) 597-4081
Karen Russillo (415) 396-3505

Transaction Processing

Timothy Willi (314) 955-4404
Robert Hammel (314) 955-4638
Daniel Moisio (314) 955-0646

STRATEGY

Equity Strategy

Gina Martin Adams, CFA, CMT (212) 214-8043
Peter Chung (212) 214-8063

Strategic Indexing

Daniel A. Forth (704) 383-4097