BACKGROUNDER ON THE CANADIAN TOBACCO INDUSTRY AND ITS MARKET

Imperial Tobacco Canada

Rothmans Inc.

JTI-MACDONALD

2008-09 Edition

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Non-Smokers' Rights Association
Smoking and Health Action Foundation

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Backgrounder on the Canadian Tobacco Industry and its Market

PURPOSE

This is the sixth edition of the backgrounder produced by the Non-Smokers' Rights Association (NSRA) containing the most current information on the Canadian tobacco industry and its market in a user-friendly format. Instead of relying mostly on text, this document contains graphs, tables and pictures to make it easier for users to locate the appropriate information. It is not meant to be a scientific review of all the available information on the subject, but rather a practical reference tool. The information on the tobacco market comes from reliable sources such as Health Canada and Statistics Canada. Information on the tobacco companies comes mostly from their own annual shareholder reports and websites.

The document is divided into two main sections. The first section gives a general idea of the evolution of the Canadian tobacco market over the past 12 years, mostly in terms of cigarettes sold and smoking prevalence, taking into consideration the dramatic increase in 'discount' or 'value-for-money' cigarette market share as well as contraband cigarettes. The second section offers a description of the main tobacco companies in Canada and the brands they sell. Previous versions of this report featured a section which offered examples of front groups that the tobacco industry has set up over the years to influence public policy. Information on front groups is now contained in a separate document, *Exposing recent tobacco industry front groups and alliances*, which can be accessed on the NSRA website.

BRIEF OVERVIEW

Without extensive analysis some might wonder why the Canadian tobacco market has fluctuated as much as it has over the last two decades. This section offers a brief overview of the main events that have contributed to these fluctuations.

At the beginning of the 1990s, federal and provincial high tobacco tax policies increased tobacco prices, giving rise to a substantial decrease in demand for tobacco products. In response, the tobacco industry instigated a major tobacco smuggling crisis. Evidence shows that tobacco exports were shipped to duty free warehouses in the U.S. for the purpose of supplying smugglers, who then smuggled the cigarettes back into Canada. Indeed, as Canadian tobacco exports to the United States skyrocketed from 1990 to 1993, domestic sales of cigarettes dropped dramatically. During that period many smokers switched to the lower-taxed but legal fine-cut (roll-your-own) tobacco products as an alternative to the higher priced fully manufactured cigarettes, but sales for roll-your-own nonetheless followed the same declining trend as cigarettes.

The 1994 decision by the federal government and five provinces to implement a drastic cut in tobacco taxes led to a complete reversal of tobacco shipments between the domestic and export markets. Domestic shipments rose while exports dropped sharply. Ontario and Quebec, with more than 60% of the Canadian population, were the provinces hardest hit by the tax rollback, with prices slashed by half.

The smuggling market and subsequent tax reduction led to a substantive decrease in federal and provincial government revenues. Public health gains from reductions in smoking prevalence in the adult population (age 15+) ground to a halt from 1991 to 1996. Teenage smoking increased during the same period, a major concern since the great majority of smokers become addicted when they are teens. In 1995, tobacco control experienced another setback when the Supreme Court of Canada struck down key provisions of the *Tobacco Products Control Act*, which banned tobacco advertising.

The health community then fought for the passage of the *Tobacco Act* (1997), which restricts tobacco advertising and banned sponsorship advertising as of 2003. In 2000, new regulations were introduced that require tobacco companies to print picture-based health warnings on their packages. Provincial and municipal governments have also introduced bans on smoking in public places and workplaces. Tobacco taxes have also gradually increased since the 1994 rollback, with some governments becoming far more willing to increase taxes significantly to benefit public health. More substantial funding has also been dedicated to tobacco control (although a substantial portion of federal funding announced in April 2001 has been eliminated and redirected to other government priorities).

The combined effect of all these new measures has contributed to a decline in smoking prevalence among both adult and teenage populations. Domestic cigarette sales have followed the same downward trend since 1996. However, since 2004 tax-free contraband tobacco sales in Canada have increased, and they continue to increase despite the efforts of the public health community and various law enforcement authorities to stop them. Indeed, for the past three years smoking prevalence has flat-lined, clearly affected by contraband tobacco consumption. This rise in cheap, tax-free tobacco sales can be expected to result in an increase in prevalence if it is not soon stopped.

Regarding legal sales of tobacco, it is disturbing to note that the big three tobacco manufacturers have generally been able to increase their profits, even in the face of declining sales over the past 10 years (see sections on the companies). Although the rise of discount brands has begun to cut into profit margins, tobacco manufacturing is still incredibly profitable. This trend of producing record profits was achieved by regular manufacturer price increases. Many of these increases occurred at the same time as governments increased taxes so that consumers would not be aware of the industry's strategy. By doing so, the tobacco companies knew that they could generate more profits even though their market continues to shrink. This is a strategy the big three tobacco companies continue to utilize to this day.

The growth of the ‘discount’ cigarette market

From 2002 to the present day, the market share of ‘discount’ or ‘value-for-money’ cigarette brands has steadily increased in Canada. Discount brands such as *Number 7, Peter Jackson, Canadian Classics* and *Macdonald Special*, selling at $10-$15 less per carton ($1.25-$1.50 per pack) than ‘premium’ brands (*du Maurier*, *Player’s, Export ‘A’*, *Benson & Hedges*), now make up 58% of Canada’s legal cigarette market (measured in volume), up from only 10% in 2003.

Because price is arguably the number one determining factor for how much people smoke, especially youth, public health advocates should be concerned by the growing market dominance of discount cigarettes in Canada. However, governments could curb the rise in popularity of discount brands, by enacting tax increases to occupy the price room that has opened up. It may be difficult to convince governments to increase taxes, however, until the contraband tobacco market has been effectively shut down.

Cigars and Cigarillos

Although the cigar market in Canada seems to be following the same downward trend seen with other combustible tobacco products, there is some evidence to suggest that candy-flavoured cigarillos are gaining in popularity, primarily among young people. Recent research suggests that young Canadians were as likely to have tried smoking cigarillos as they were to have tried cigarettes.[1]

In fact, among boys aged 15 to 19, 37% indicated that they had experimented with smoking cigarillos, while only 33% self-identified as doing the same with cigarettes. The figures with girls aged 15 to 19 were 26% (cigarillos) and 30% (cigarettes).

Candy-flavoured tobacco products have a history of being popular with young people, and the market is increasingly being flooded with new products designed to appeal to new or experimenting smokers. Candy-flavoured cigarillos are currently being sold individually across Canada, or in "kiddy packs", making them appealing to and affordable for young people. Cigarettes, on the other hand, cannot be sold in packages of less than 20, specifically to make them less affordable. Since marketers have once again outpaced legislators, federal tobacco control laws in Canada do not currently require tobacco manufacturers to put any kind of health warning label on these products when they are sold singly.

Introduction of new products and packaging

The past few years have been marked by new products and package designs. As many provinces were in the process of eliminating powerwalls through legislation, manufacturers rushed to introduce new brands to the market before these laws took effect. In 2007, JTI-Macdonald launched *Mirage*, *Fusion*, *Aria* and *XS* cigarettes. Rothmans, Benson & Hedges responded with *Benson & Hedges Superslims* and its *Québec Classique* discount brand. Imperial has *Viceroy* and *John Player Standard* discount cigarettes, and is pilot-testing *du Maurier snus* (20 pouch pack size) in Edmonton and Ottawa. In early 2009, it introduced a 10 pouch size package of snus to the Ottawa market. As well, Imperial has been using its *du Maurier* packs to promote other members of the *du Maurier* brand family. For example, in 2008, it began advertising its *Smooth Taste* and *Fine Taste du Maurier* cigarettes on other versions of its *du Maurier* packs. The *Smooth* and *Fine Taste* cigarettes are described as "charcoal filtered for a super smooth taste". Imperial also advertised new packages, such as its *Player's Slide-Pack*, in newspapers.

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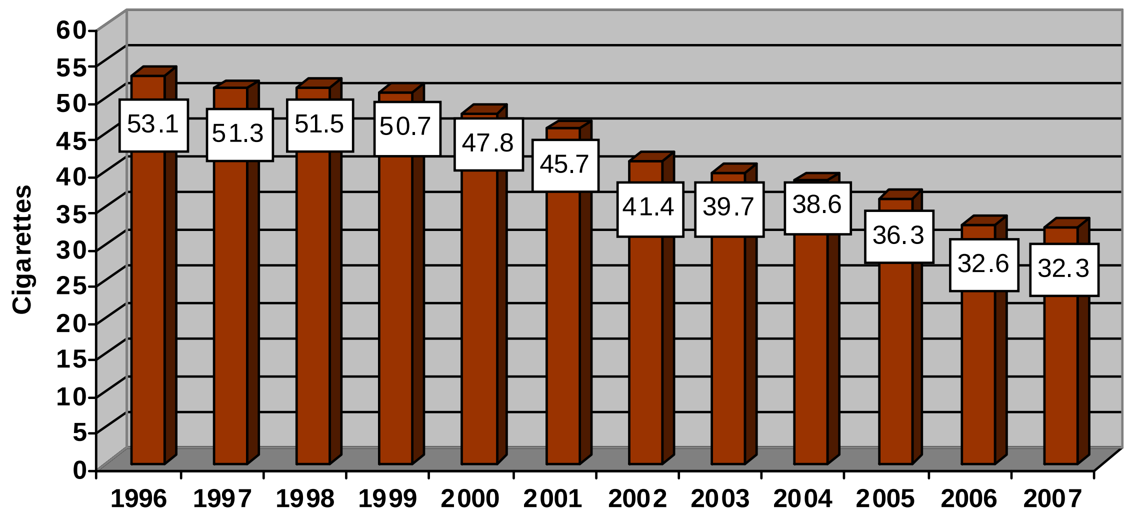
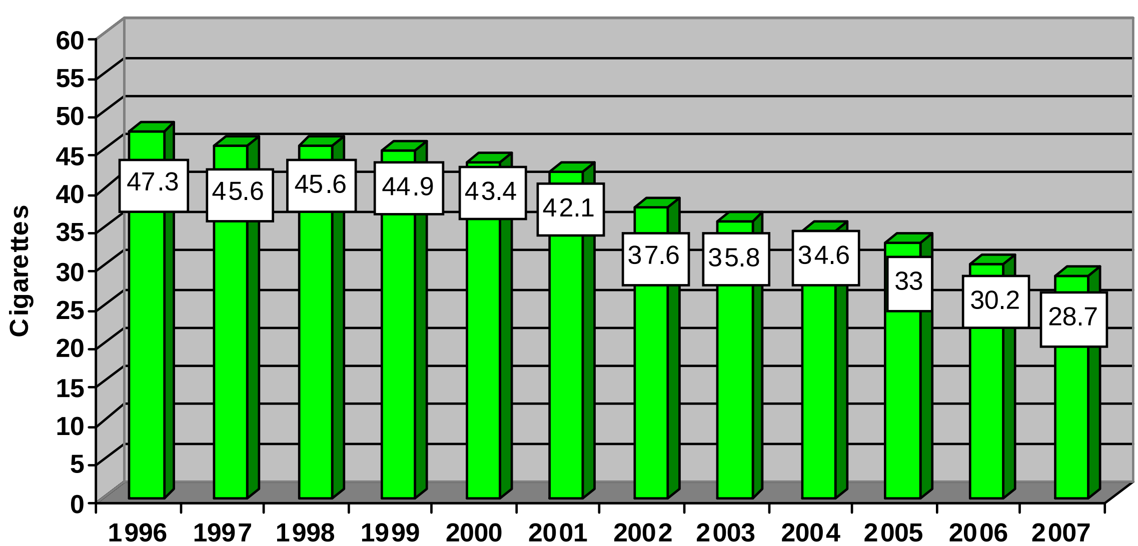
[1] Analysis of raw data from Health Canada, Wave 1 – 2007, Canadian Tobacco Use Monitoring Survey, by Physicians for a Smoke-free Canada. "*Cigarillo Smoking in Canada: A review of results from CTUMS, Wave 1 – 2007.*" February 2008. Fact Sheet. www.smoke-free.ca/pdf_1/cigarillos-2008.pdf. Accessed 14 April 2008.

TOBACCO MARKET

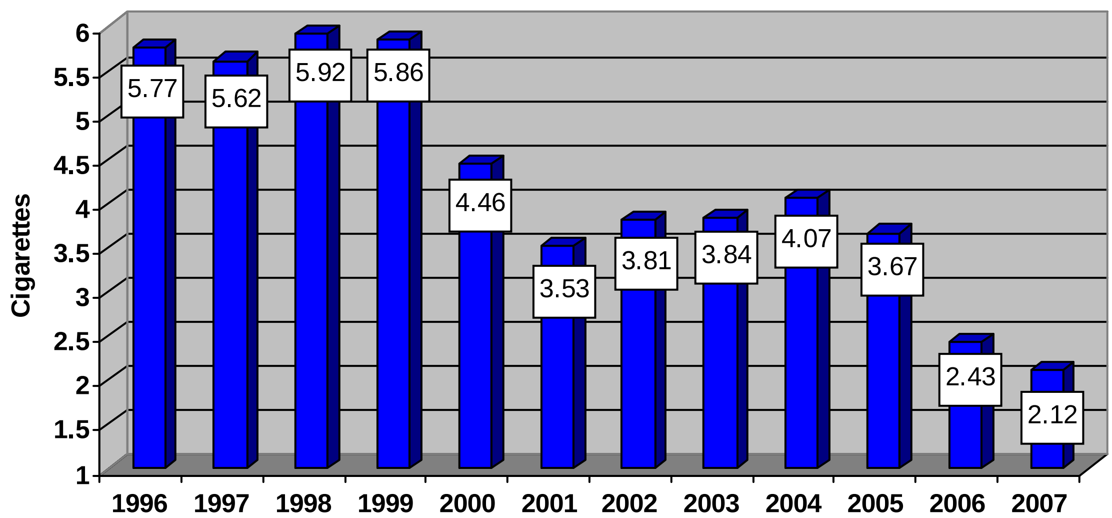
Total Domestic Cigarette and Fine-cut Tobacco Sales
(In billions of Cigarette Equivalents)
(Health Canada data: Weight measurement used to calculate fine cut "Units of Cigarette Equivalents":
1992-93, 0.77 g.; 1994-2003, 0.7 g.; 2004-2006, 0.6 g.)



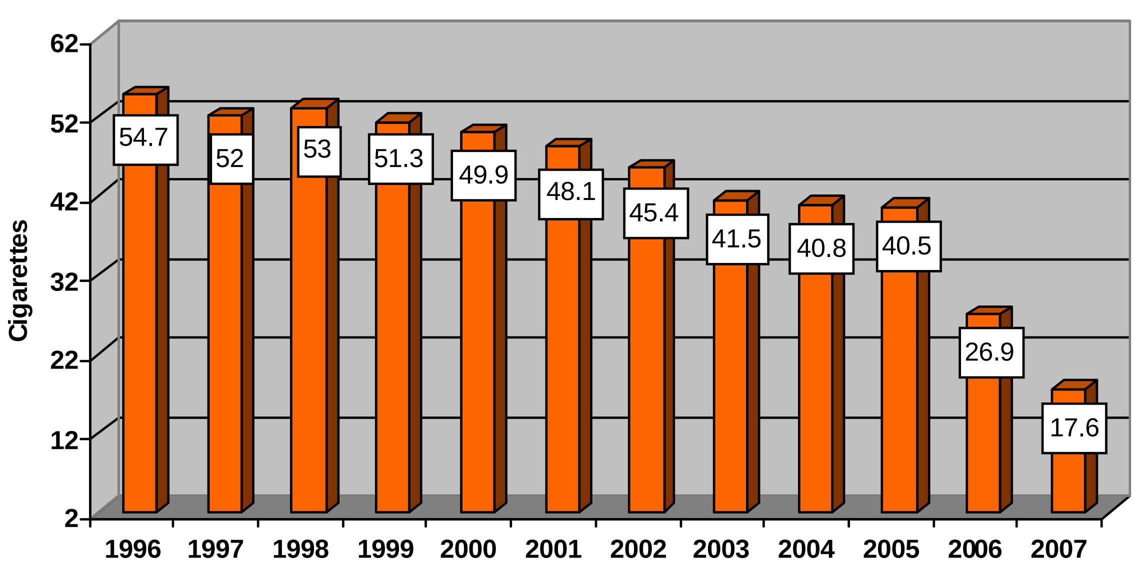
Total Domestic Cigarette Sales
(In Billions of Cigarettes)
(Source: Health Canada Wholesale Sales Data)



Domestic Fine-cut Cigarette Equivalent Sales
(In Billions of Cigarette Equivalents)
(Health Canada data: Weight measurement used to calculate fine cut "Units of Cigarette Equivalents": 1992-93, 0.77 g.; 1994-2003, 0.7 g.; 2004-2006, 0.6 g.)

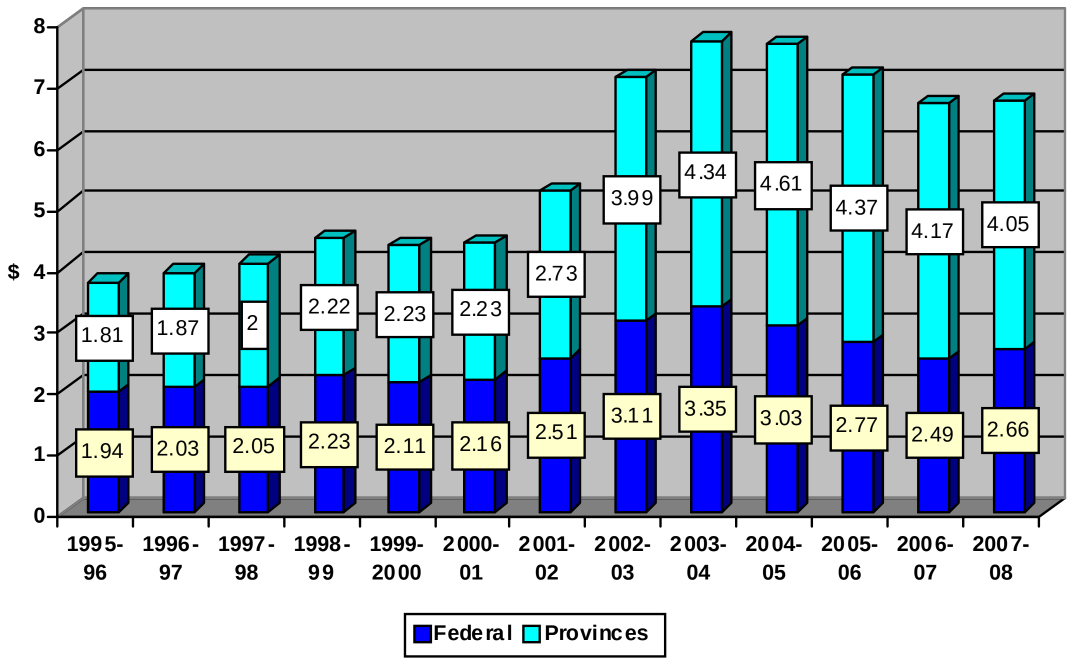


Cigarette and Equivalent Production in Canada
(Health Canada Wholesale Sales Data: A large portion of the recent decline is due to Imperial Tobacco Canada's transfer of its production of Canadian brands to Mexico in 2006)



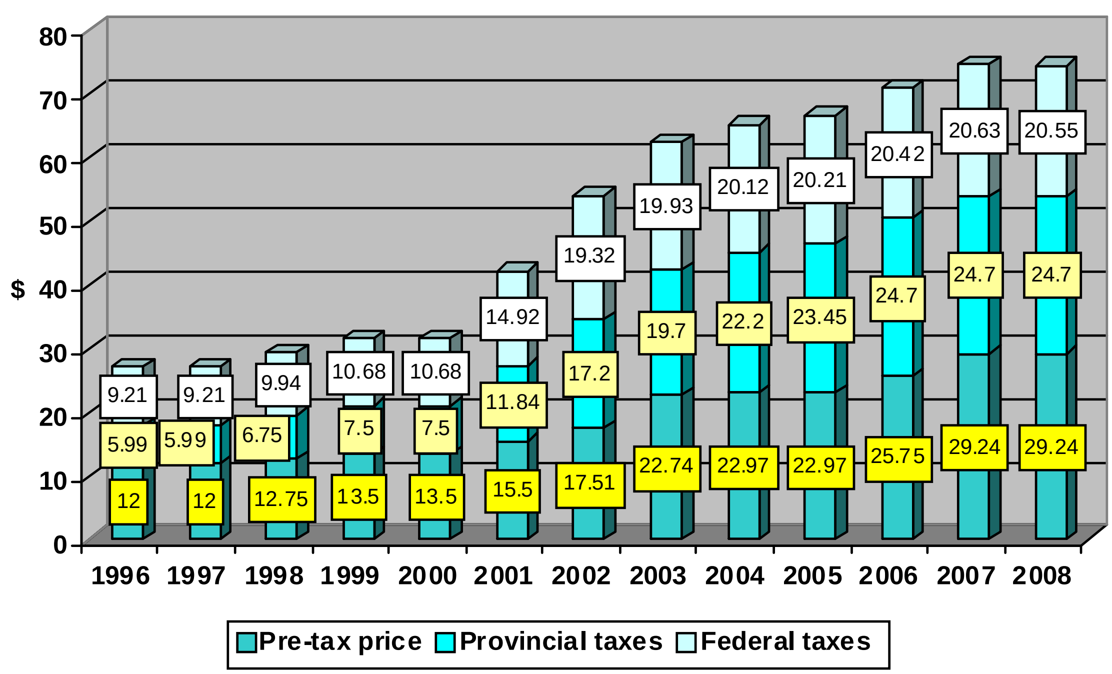
Federal and Provincial Tobacco Tax Revenues (in Billions of Dollars)

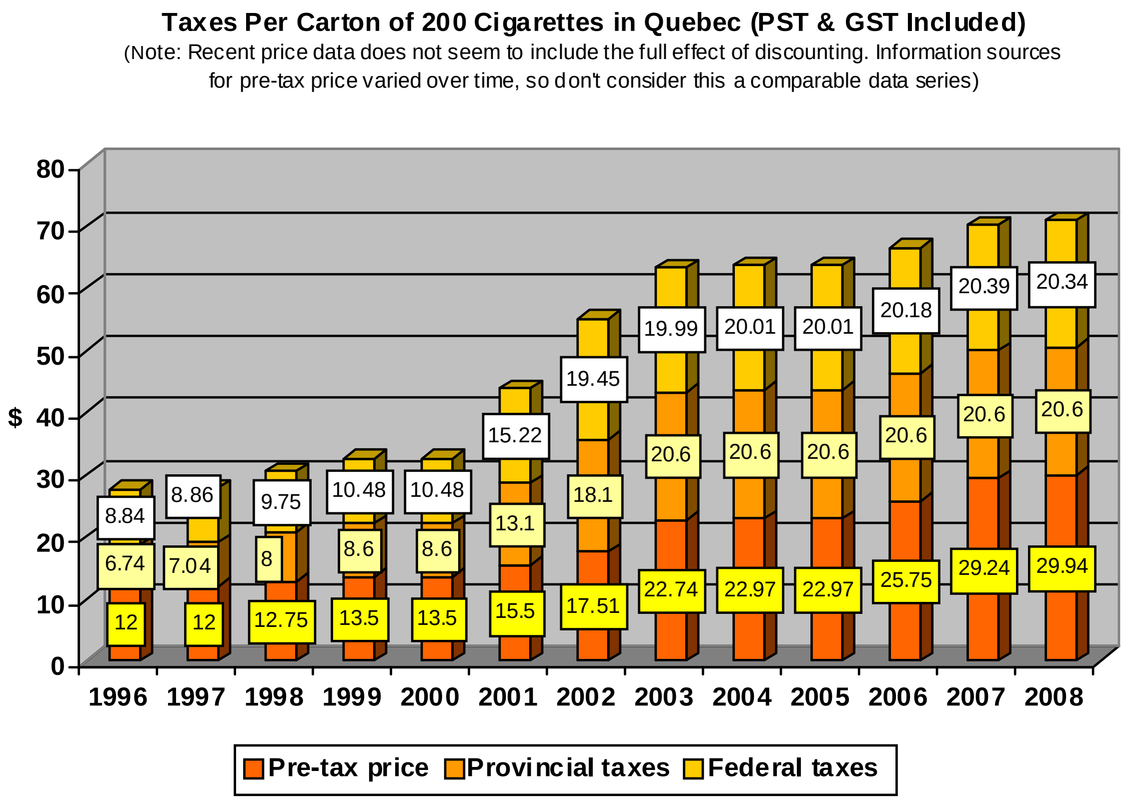
(Sources for Tax Graphs: Public Accounts, Budget documents, Receiver General of Canada. Note: This graph does not include GST and provincial sales taxes)



Taxes Per Carton of 200 Cigarettes in Ontario (PST & GST Included)

(Note: Recent price data does not include the full effect of discounting. Information sources for pre-tax price varied over time, so don't consider this a comparable data series)





Are governments addicted to tobacco tax revenue?

Some have suggested that governments are addicted to the revenue generated by tobacco taxes. In fact, tobacco companies have perpetuated this myth, recognizing that it is a common belief and one that they can benefit from exploiting. The suggestion, however, is dishonest and inaccurate. Nonetheless, tobacco companies continue to advance it because they know it will serve their self-interest.

The reality is that tobacco use and the diseases and premature death that result from it (as well as other costs, such as lost productivity) all add up to making tobacco a net drain on the Canadian economy. A study released in 2006 on tobacco's toll showed that the total economic costs of tobacco use in Canada were estimated at $17 billion a year (2002 data).[2]

These figures, however, cannot adequately assign monetary "value" to the intangible costs of tobacco. When the pain and suffering of those living with a tobacco-caused disease and those dying from tobacco industry products are considered together with the misery inflicted upon their loved ones, the costs increase exponentially.

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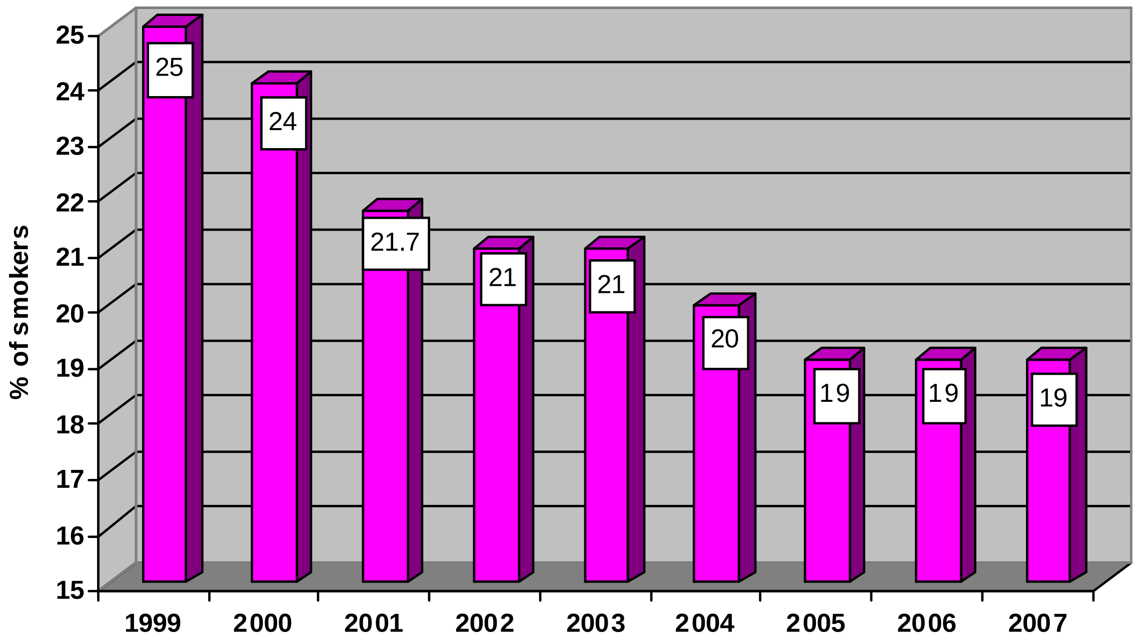
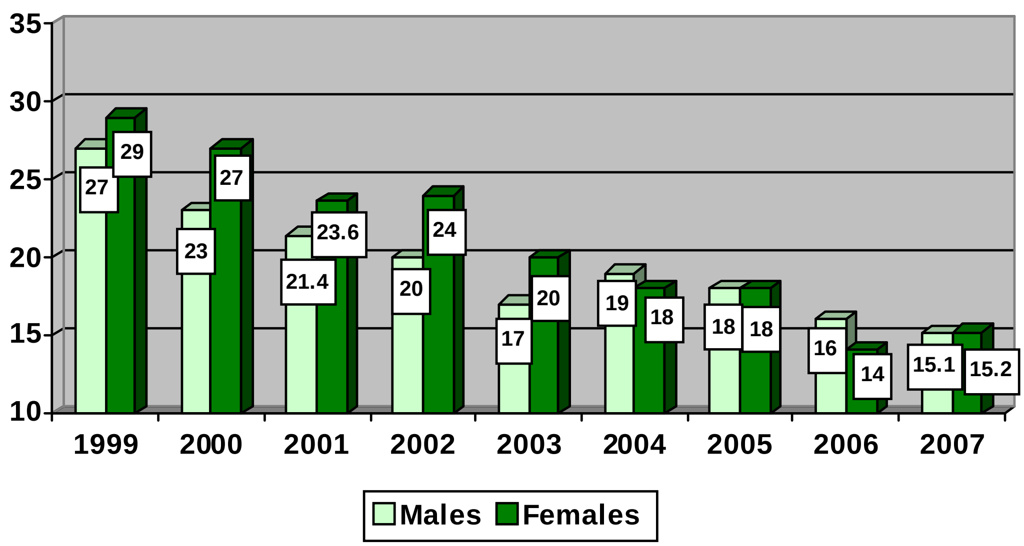
[2] Rehm et al. The Costs of Substance Abuse in Canada 2002. March 2006. www.ccsa.ca/2006%20CCSA%20Documents/ccsa-011332-2006.pdf. Accessed March 2009.

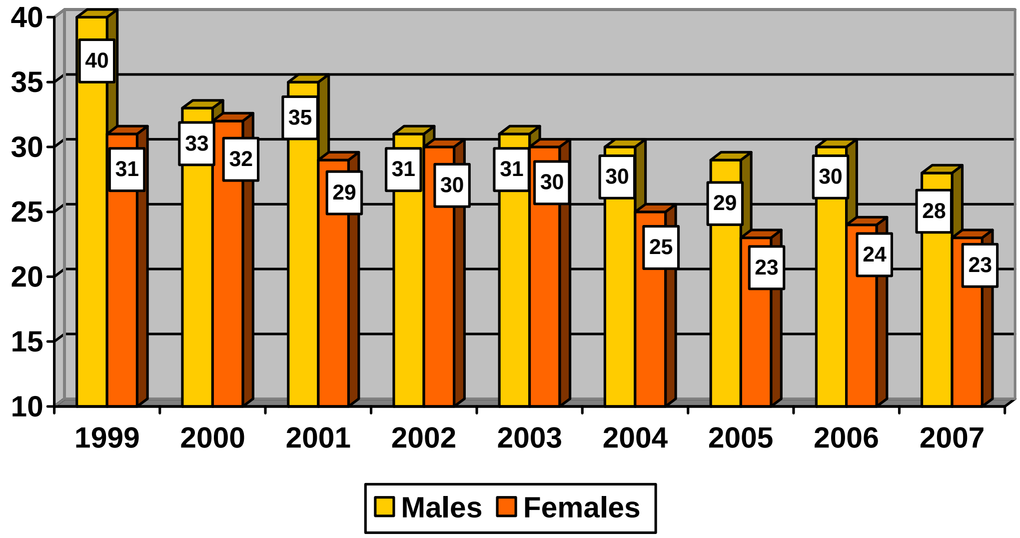
Smoking Prevalence in Canada, 15 Years and Older (Current Smokers)
(Source: Health Canada's Canadian Tobacco Use Monitoring Surveys)



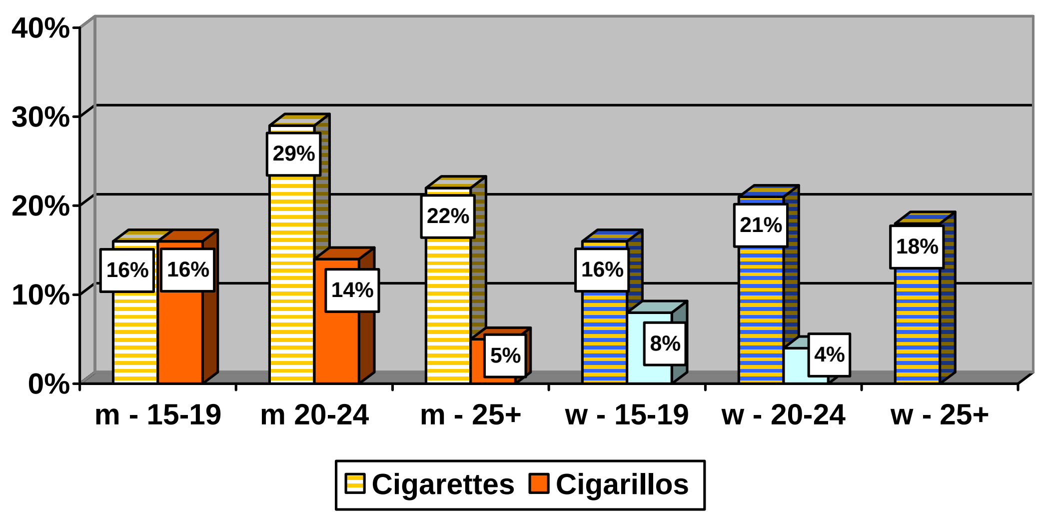
Smoking Prevalence in Canada, 15 to 19 Years Old (Current Smokers)
(Source: Health Canada's Canadian Tobacco Use Monitoring Surveys)



Smoking Prevalence in Canada, 20 to 24 Years Old (Current Smokers)
(Source: Health Canada's Canadian Tobacco Use Monitoring Surveys)



Percentage of Men and Women Who Report Using Cigarettes or Cigarillos in the Past Month
(Source: See Footnote on page 7)



Imperial Tobacco Canada is the largest Canadian tobacco company. It was founded in June 1908 following the acquisition of the American Tobacco Company of Canada. It is a wholly-owned subsidiary of British American Tobacco, the world's third largest tobacco company. Imperial's most popular cigarette brands on the Canadian market are *du Maurier*, *Player's* and *Matinée*.

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Barbara McDougall
Benjamin Kemball
Richard Hodgson

Benjamin Kemball
President and CEO

NEWS

Imperial Tobacco Canada's (ITC) market share shrank slightly from 52.6% in 2007 to 52% in 2008, due to lower sales of its premium brand cigarettes, which was not offset by growth in the discount cigarette category. Its profits were down 2%, but were still quite substantial at $533 million. British American Tobacco (BAT), which owns ITC, says its Canadian company performed well due to higher pricing, lower distribution costs and a stronger exchange rate.

In December 2008, **ITC began a fairly aggressive advertising campaign** for its newly packaged *Smooth Taste* and *Fine Taste* versions of its *du Maurier* brand cigarettes and its Swedish-style smokeless tobacco product, *du Maurier snus*. The cigarette ads were published in major magazines, including *Time* and *People*. The snus ads were published numerous times in the *Edmonton Journal* and the *Ottawa Citizen*, the daily newspapers in the two markets where the product is being test marketed. The cigarette ads were particularly worrisome to public health professionals because many high school libraries subscribe to *Time* magazine. Therefore, it is possible that hundreds of thousands of Canadian youth under the age of 18 will have seen the ads. Imperial also recently launched a new marketing strategy, creating a website exclusively for its *du Maurier* brand and promoting the website on *du Maurier* packs. The site includes stringent controls to ensure that visitors are over 18 years.

Efforts by Member of Parliament Judy Wasylycia-Leis (NDP-Winnipeg North) to table a **Private Member's Bill in the House of Commons** that would crack down on the marketing of novelty tobacco products designed to attract young smokers (such as flavoured mini cigars, also known as cigarillos) had Imperial worried in 2008. The legislation would ban flavouring agents other than sugar, tobacco, tobacco extracts or reconstituted tobacco in all tobacco products. Therefore, Imperial's menthol cigarettes would be banned if the legislation is enacted. Imperial stated that it does not produce cigarillos or flavoured cigarettes, except mentholated products. In April 2008, Imperial also said in a press release that "it does not target minors through direct or indirect marketing." In fact, menthol is added to tobacco products to make the smoke seem 'milder' or 'cooler', which makes it easier for new smokers to start smoking without experiencing coughing and throat irritation. Imperial says on its website that menthol "is applied to the inner foil wrapping of mentholated cigarette packages, and it is the menthol vapour that permeates the tobacco in a matter of hours." Not many Canadians currently smoke menthol cigarettes. Imperial's website indicates that mentholated cigarettes make up only two per cent of its production and sales.

In July 2008, **ITC admitted its involvement in the cigarette smuggling crisis** which occurred between 1989 and 1994. The company reached a civil settlement with the federal government and the provinces requiring it to pay $350 million over the next 15 years, and a further $50 million in 2008. The company was also fined $200 million upon pleading guilty to a violation of the federal *Excise Act*. As part of the settlement, which was uniformly criticized by public health groups as being too lenient, ITC obtained full immunity from any further legal action by the federal and 10 provincial governments.

Last year, **Imperial continued to publicize its "Corporate Social Responsibility" activities**. Efforts designed to portray itself as a good corporate citizen included funding a youth smoking prevention program, providing monetary awards in the visual and performing arts, launching harm-reduced tobacco products and fighting the spread of contraband cigarettes.

Imperial helped fund a new age verification program called "We Expect ID," that was designed by the Canadian Convenience Store Association and implemented across much of Canada in 2008. ITC claims the program helps train retailers in upholding laws which prohibit the sale of tobacco to youth. Under the program, products such as tobacco, alcohol/beer, lottery tickets, adult magazines/videos and fireworks are only available for sale to customers who show proper identification verifying they are old enough to make the purchase.

The **Imperial Tobacco Canada Foundation**, which is funded by ITC, announced in November 2008 that it was cutting its funding for the arts by more than 60% and reducing its funding for post-secondary institutions as well as teaching hospitals and research into care for the aged even more. The changes will redirect funding from a myriad of small grants to a few large ones and may be designed to garner more media attention for Imperial, since a few large donations might be considered more newsworthy than dozens of small ones. Ten annual awards of $50,000 each will be doled out to help create "new works in the performing, visual and new media arts." Starting in 2009, the Foundation will give $75,000 annually to a single "arts organization in recognition of extraordinary and sustained contributions to arts and culture in Canada."

In 2008, Imperial ramped up its **campaign to convince the federal government to take action on contraband cigarettes**. In December the company ran full-page ads in *The Hill Times*, a weekly newspaper read widely by politicians and staff on Parliament Hill. The ads ask "What is the Government doing to stop the sale of illegal tobacco?" and show photographs of two identical looking cigarettes side by side. On the first page of the ad, readers are asked what the difference is between the two identical looking cigarettes. On the second page ITC answers the question stating that the legal cigarette "is subject to over 200 federal and provincial regulations," while the contraband cigarette is "produced in an illegal factory with no regulatory oversight, no safety testing, no quality control, and no content monitoring." The ad implies that contraband cigarettes are less safe than legal cigarettes since the former do not comply with various federal and provincial regulations. ITC regularly emphasizes that contraband cigarettes are not as safe as their brands in their communications on the issue. ITC's real concern, of course, is its loss of market share to the contraband market.

One area where contraband cigarettes are potentially more dangerous than legal cigarettes is with regard to **fire safety standards**. Since October 2005, Health Canada regulations have required that all cigarettes manufactured in or imported for sale into Canada be fire safe. These requirements are expected to reduce the number of deaths caused by cigarette-related fires. Prior to the regulations being enacted, cigarettes were the leading cause of fire-related deaths in Canada. It is important to note, however, that 28 brands of legal cigarettes tested by Health Canada in 2007, that are sold by ITC and JTI-Macdonald, did not meet the ignition propensity standards.

ITC has also produced three editions of a newsletter, called the *Illegal Tobacco INFORMER*. Imperial says the document, which is available on its website and is e-mailed across Canada to journalists, columnists and editorial writers, will be published six times a year in English and French.

In testimony before the **Standing Committee on Public Safety and National Security** in May 2008, Imperial CEO Benjamin Kemball told the committee that governments in Canada are being defrauded of $1.6 billion in foregone revenue annually by illegal tobacco sales. Kemball claimed that ten billion illegal cigarettes were sold in Canada in 2007 and said that “indications since then are that it [the market] has continued to grow rapidly.” According to Kemball, this makes the illegal tobacco trade the second largest supplier of cigarettes in the country, overtaking Rothmans, Benson & Hedges, and JTI-Macdonald in market share.

MAJOR BRANDS

Cigarettes	Fine cut	Tubes	Insta-kits	Cigarette papers
Avanti	Cameo	Matinée	Peter Jackson Blue	Player’s
Cameo	Matinée	Peter Jackson		Vogue
du Maurier	Peter Jackson	Player’s		Zig Zag
JPS	Player’s			
John Player Standard	John Player Standard			
Kool				
Marlboro Canadian				
Matinée				
Medallion	**snus**			
Pall Mall	du Maurier Freshmint			
Peter Jackson	du Maurier Original			
Player’s				
Sterling				
Sweet Caporal				
Viceroy				

EMPLOYMENT

Since Imperial Tobacco moved all its manufacturing to Mexico in 2007, it now employs only about 450 workers in Canada.

OWNERSHIP

On February 1, 2000, BAT (maker of *Dunhill*, *Kent* and *Pall Mall* cigarettes), became the sole owner of Imperial Tobacco Canada when it conducted a friendly takeover of Imperial. BAT acquired from the previous owner, Imasco (a former Montreal-based conglomerate), all of the outstanding common shares that it did not already own.

BAT employs 53,000 employees worldwide.

In 2008, Philip Morris International Inc. (PMI) purchased Rothmans Inc., which until the sale had controlled the second largest Canadian tobacco company, Rothmans, Benson & Hedges (RBH). RBH has existed for over 100 years. One of its predecessors, the Rock City Tobacco Co., started doing business in 1899 in Quebec City. Its most popular cigarette brands are *Number 7*, *Canadian Classics*, *Benson & Hedges* and *Mark Ten*.

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Saskatoon, Saskatchewan
Winnipeg, Manitoba
Brampton and London, Ontario
Montreal and Quebec City, Quebec
Dartmouth, Nova Scotia

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President and CEO

Robert J. Carew
Executive Vice President, Regulatory and Legal Affairs
Michael E. Frater
Vice President, Finance and Chief Financial Officer

BOARD OF DIRECTORS

Miroslav Zielinski
President, Latin America & Canada Region, Philip Morris International Inc.

John R. Barnett
President and Chief Executive Officer, Rothmans, Benson & Hedges Inc.

Richard McCoy

Hon. Pierre Gravelle, Q.C.

Joe Hefferman

Vincent Murphy

William Giff

Bert Van Gossum

Andreas Kurali

NEWS

Philip Morris International (PMI), the world's largest tobacco company outside of China, **purchased Canada's second largest manufacturer, Rothmans, Benson & Hedges** (RBH), in the fall of 2008. The $2 billion friendly takeover was not surprising since PMI had owned 40% of Rothmans Inc. since 1986. The resolution of the smuggling settlement was a condition of the sale. The completed takeover means the world's three largest publicly-traded companies (PMI, British American Tobacco, and Japan Tobacco) now all own businesses in Canada. Now that the sale of RBH to PMI is complete, some analysts suspect PMI will streamline operations by closing one of the two RBH cigarette manufacturing plants in Canada, with cigarette production shifting to PMI's Mexican facilities.

Since the purchase of RBH by PMI, detailed information about RBH has become more difficult to obtain. RBH is now a small part of a much larger company and PMI does not release much information about its subsidiaries. For example, in its 2008 Annual Report, PMI did not mention anything about RBH's most popular brands, changes to product prices or its general position in the Canadian market. However, some information is available from other sources, including the Rothmans Inc. 2008 Annual Report, which was released in August 2008.

In its Annual Report, PMI said **RBH's share of the Canadian market increased** slightly in 2008 to 33.8%. PMI's net earnings in its Latin America & Canada Region were $349 million. The company's earnings in Canada would have been significantly higher had it not been for the smuggling settlement reached with various provinces and the federal government. RBH was forced to pay a criminal fine of $100 million in October 2008 as well as $50 million, paid in December 2008, towards the Government of Canada's Contraband Tobacco Enforcement Strategy. As part of the civil settlement RBH must pay $400 million over the next 10 years to the federal government and various provinces.

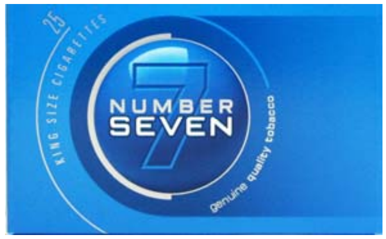
The **growth of the discount cigarette category** has been good to RBH, which reacted quickly to a shift in consumer preference to lower-priced cigarettes. RBH was the first major manufacturer in Canada to reduce the price of some of its popular brands and to develop new brands for the category. Now that discount cigarettes account for 58% of the Canadian market in terms of volume, and many of the people smoking discount cigarettes are RBH customers, the company is well-positioned to continue to grow its overall market share. It currently has three different pricing levels for its discount cigarettes. *Accord* (sold Canada-wide) and *Québec Classique* (sold in Quebec) are the lowest-priced; *Mark Ten* and *Canadian Classics* are in the mid-priced tier; *Number 7* is its highest priced offering in the discount segment.

In its **report for the fiscal quarter which ended June 30, 2008**, Rothmans Inc. indicated that it had implemented a number of price changes across various product categories. It increased the price of all its cigarettes, except its *Québec Classique* brand, for which it reduced the price by $5.97 per carton. The price of its premium *Dunhill* brand was increased by $5.20 per carton. Nationally, wholesale prices for all its cigarette categories were increased by $1.00 per carton, except for the *Accord* and *Canadian Classics* brands in the Atlantic region.

RBH brought a new premium-priced product to Canada in 2008 when it launched its ***Benson & Hedges Superslims* menthol and regular cigarettes**. The cigarettes are considerably thinner than regular cigarettes, and may be designed to exploit concerns many women have about their weight. Nicknamed the "purse pack," the superslims packages (containing 20 cigarettes) are rectangular with square ends (measuring only 2.3 by 2.9 centimetres) and are only marginally larger than the kiddy packs of 5 or 10 cigarettes that were banned in Canada in 1994. Not only are they discreet and attractive but also the packages have the effect of greatly reducing the impact and readability of Health Canada's health warnings. In March 2009, RBH began advertising this new brand of cigarette in free entertainment weekly newspapers in Toronto and Ottawa.

In 2008, RBH introduced a series of 5 designer 'collector' packs for its premium brand *Rothmans of Pall Mall*.

MAJOR BRANDS



Cigarettes

Accord
Belmont
Belvedere
Benson & Hedges
Benson & Hedges Superslims
Black Cat
Canadian Classics
Carreras
Craven A
Davidoff
Dunhill
Gauloises Blondes
Gitanes
Mark Ten
Rooftop (Marlboro)
Number 7
Oxford
Parliament
Peter Stuyvesant
Québec Classique
Rothmans
Rothmans of Pall Mall
Sportsman
Viscount

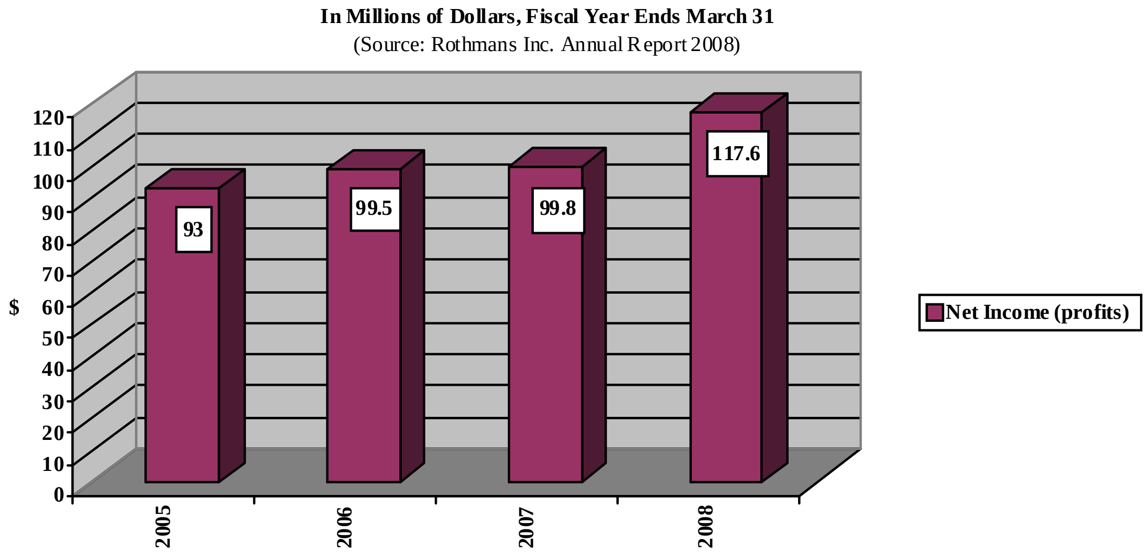
Fine cut

Fine cut products represent approximately 32% of RBH's sales and are sold using the company's cigarette brand names.

Other tobacco products

RBH sells imported pipe tobacco, such as Captain Black, and small cigars that represent less than 1% of its total sales.

REVENUES AND EARNINGS



EMPLOYMENT

RBH has more than 750 employees that make up its head office staff, marketing department, sales force and manufacturing employees.

OWNERSHIP

Rothmans, Benson & Hedges is 100% owned by Philip Morris International Inc. (PMI). PMI used to be owned by Altria Group Inc., which also owns Philip Morris USA. However, Altria split its domestic and international divisions on March 28, 2008.

PHILIP MORRIS INTERNATIONAL

PMI had 15.6% of the global cigarette market share in 2008 outside of the U.S. Its main brands include *Marlboro*, *L&M*, *Philip Morris*, *Bond Street*, *Chesterfield* and *Parliament*. It employs 75,000 people and sells products in 160 countries.

JTI-MACDONALD

JTI-Macdonald Corp. is the third largest Canadian tobacco company. The founder, Sir William Macdonald, started in the tobacco business with his brother in 1858 under the name of "MacDonald Brothers and Co. Tobacco Manufacturers." In 1974 RJ Reynolds Industries purchased the company. In 1999 that U.S.-based company then sold its international operations, including RJR-Macdonald, to Japan Tobacco Inc. The company's most popular cigarette brand on the Canadian market is *Export ‘A’*.

LOCATION

Head office address
1 Robert Speck Parkway
Suite 1601
Mississauga, Ontario
L4Z 0A2
Telephone: (905) 804-7300
Fax: (905) 804-7301
Website: www.jti.co.jp

Sales offices
Canada's major cities

Manufacturing plant
Montreal, Quebec

OFFICERS

Michel A. Poirier
President, CEO
and Chairman

J. Edward Pollen, Treasurer
Bruno Duguay, VP, General Counsel, Secretary
André Benoit, VP, Corporate Affairs
Paisley Cameron, Director, Scientific & Regulatory Affairs
Christian Guay, VP, Marketing
Allen Breeding, VP, Finance and Chief Financial Officer
Nelson Medeiros, VP, Sales

NEWS

JTI-Macdonald (JTI-MC), Canada's third largest tobacco company, has recently been struggling in Canada, despite the high profitability of the Canadian market. This is largely because of actions taken by the Quebec government to recoup hundreds of millions of dollars it claims is owed by JTI-Macdonald due to alleged smuggling of cigarettes and tax evasion in the early 1990s.

Compounding its problems, JTI-MC has failed to fully capitalize on the shift smokers are making from premium cigarettes to discount brands. In 2007, JTI-MC launched a variety of new cigarette brands, mostly in the premium price category and of the 'slim', 'extra slim' and 'ultra slim' varieties. Its *XS* and *Aria* brands are considerably thinner than regular cigarettes and may be designed to exploit concerns many women have about their weight.

JTI-MC claims that its most popular cigarette, *Export 'A'*, has solidified its position as the No. 3 premium brand in the Canadian market (behind Imperial Tobacco Canada's *du Maurier* and *Player's* brands). However, since the premium segment has been shrinking, the overall situation may not be positive for JTI-MC. The company reports that its total share of the Canadian market was 13% in 2007, which was a slight increase above its 2006 market share of 12.6%. Information about its 2008 market share was not yet available at the time this document was published.

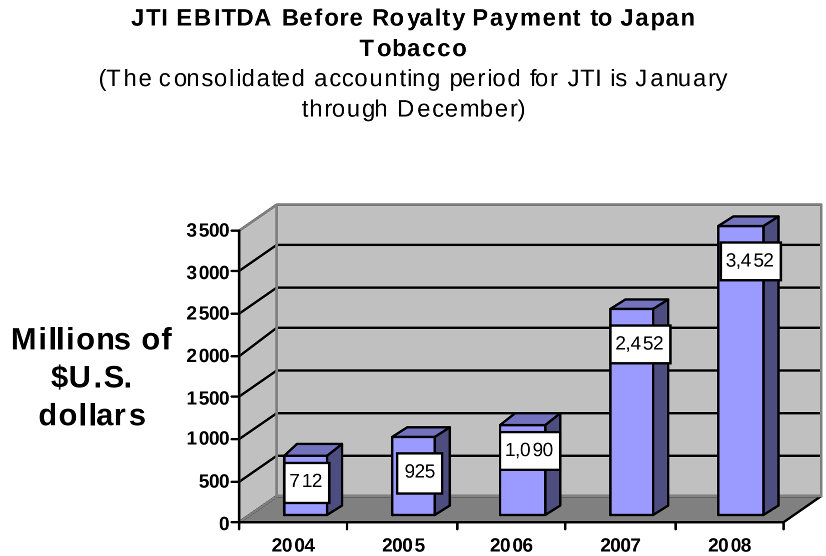
MAJOR BRANDS

Cigarettes	**Fine cut**	**Cigars**
Aria	British Consols	Century Sam
Camel	Daily Mail	El Producto
Export 'A'	Export 'A'	Muriel
Fusion		Tueros
Legend		
Macdonald		
Macdonald Select		
Macdonald Special		
Mirage		
More		
Select		
Studio		
Vantage		
Winston		
XS		

REVENUES AND EARNINGS

JTI-Macdonald Corp. is not a publicly traded company, and therefore information is not available on its financial performance. Instead, this graph shows Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) of the parent company (Japan Tobacco International).

JTI makes most of its profits through sales of its global flagship brands *Winston*, *Camel*, *Mild Seven* and *Salem*.



EMPLOYMENT

An August 2006 press release indicated that the company employs a total of 480 people across Canada, with manufacturing operations in Montreal, leaf operations in Tillsonburg, Ontario and the head office in Mississauga, Ontario.

OWNERSHIP

In May 1999, Japan Tobacco International (JTI) purchased from the U.S. tobacco manufacturer RJ Reynolds its international subsidiary RJ Reynolds International, which included Canada's RJR-Macdonald. The acquisition prompted the company's name change to JTI-Macdonald. Already the owner of *Mild Seven*, one of the most popular international cigarette brands, Japan Tobacco gained control over the non-U.S. sales of *Camel*, *Winston* and *Salem* brands of cigarettes. Japan Tobacco also owns food and pharmaceutical companies.

JT
JAPAN TOBACCO INC.

OTHER CANADIAN TOBACCO COMPANIES

The Canadian tobacco market is mostly dominated by the big three cigarette manufacturers: Imperial Tobacco Canada, Rothmans, Benson & Hedges and JTI-Macdonald. In 2004, their sales accounted for 94.1% of the legal Canadian market. The remaining 6% of the legal market is divided among smaller manufacturers. The three largest of the smaller manufacturers are Grand River Enterprises (GRE) and Tabac ADL Tobacco, both owned by First Nations people, and Bastos du Canada Ltee. Unfortunately, information on these smaller companies is not as abundant as for the major manufacturers.

Because sales of smokeless tobacco in Canada have been increasing, we continue to include a section on that topic in this report.

Grand River Enterprises Six Nations, Ltd.

LOCATION

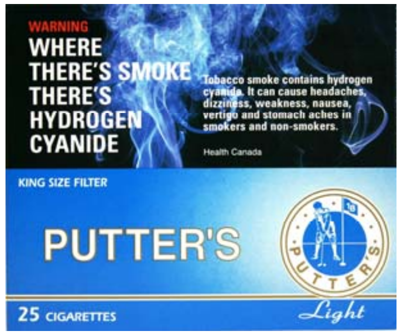
Head office address
PO Box 750, 2176 Chiefswood Road
Ohsweken, Ontario
N0A 1M0
Tel: (519) 445-0919
Fax: (519) 445-0257
Website: www.mohawkgre.com

OFFICERS

Jerry Montour
Chief Executive Officer

Kenneth Hill
Senior Marketing Officer

MAJOR BRANDS



NEWS

Grand River Enterprises (GRE), situated on the Six Nations Reserve near Brantford, Ontario, is now the third or fourth largest tobacco company in Canada, producing about as many cigarettes as JTI-Macdonald, which has 12.2% of the Canadian tobacco market. However, since the vast majority of GRE's cigarettes are exported to the U.S., and, because the company is not traded publicly, data on its financial performance and production levels is not readily available.

GRE in Canada exports about 80% of its production. It produces brands such as *Seneca* for export. GRE's products are usually sent by truck to free trade zones in California, Florida, Idaho, Nebraska, Nevada, New York and Oklahoma. Importers pay duty and then the cigarettes are resold in the U.S. Besides the U.S., GRE has done business in South Africa, the Middle East and Europe and has exported its products to China, Jamaica and Uruguay. In 2006, GRE opened a 60,000 square foot cigarette manufacturing plant in Germany.

GRE brands sold in Canada include *Sago*, *Putter's* and *DK's*. GRE has permission to sell its cigarettes to non-natives through convenience stores in every province east of Ontario. Its cigarettes can be sold on reserves to status Indians tax-free. However, the company ships more cigarettes than could reasonably be smoked by status Indians on reserves, leading some observers to suspect that GRE cigarettes are being sold to non-natives tax-free on a large scale. Part of GRE's sales strategy appears to include exploiting sacred native imagery and dressing up people in ceremonial and traditional outfits to market its products (see photos below). *Mohawk* brand cigarettes are being marketed in Germany as "real quality cigarettes from real Indians."

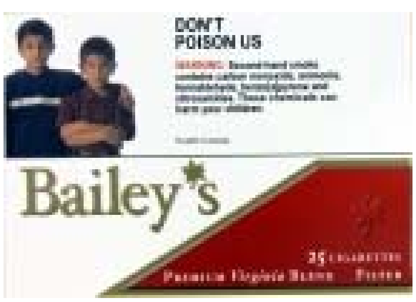
LOCATION

Head office address
1665 Nishk Street
Mashteuiatsh, Québec
G0W 2H0
Telephone: (418) 275-6161 and 1-800-265-8855
Fax: (418) 275-6188
Email: adl@adltobacco.com
Website: www.adltobacco.com

OFFICERS

Alain Paul, President and CEO
Donald Paul, Vice-President
Martin Audet, Operations Manager

MAJOR BRANDS



LOCATION

Head office address
Abenaki Enterprises / Choice Tobacco
c/o Administration
2425 Asban Rd.
Odanak, Quebec
Canada J0G 1H0
Tel: (450) 568-1001
Fax: (450) 568-0303
Website: www.choicetobacco.com and www.abenakienterprise.com

OFFICER

Richard O'Bomsawin, President

MAJOR BRANDS

Choice Tobacco was founded in 1986 by three former tobacco growers as a small tobacco manufacturing enterprise. In 2005 Choice Tobacco was sold to a Quebec company, following a federal acreage buyout on Prince Edward Island.

The new owner, Abenaki Enterprises, maintains two manufacturing facilities, one in PEI and the other in Odanak, a First Nations community in Quebec. The company also has distribution and stocking warehouses in Vermont and Florida. Abenaki Enterprises / Choice Tobacco manufactures cigarettes, as well fine cut tobacco for the roll-your-own market. It sells its products across North America and Europe.

National Smokeless TOBACCO CO.

LOCATION

Head office address
1000 St. Jean Blvd., Suite 319
Point-Claire, Québec
H9R 5P1
Telephone: 514-697-5577 and 1 (800) 361-6041
Fax: 514-697-6122
Website: www.ustinc.com

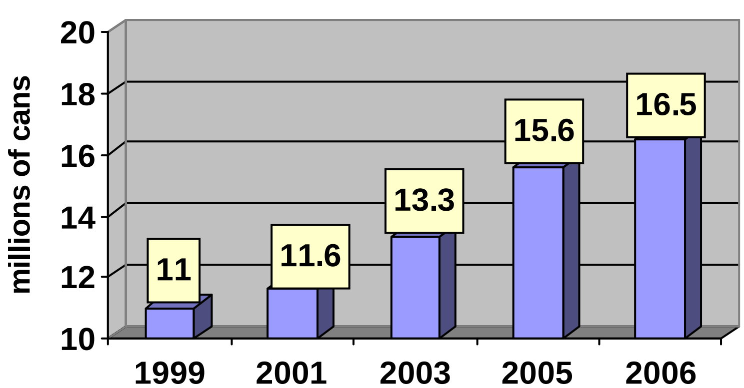
OFFICERS

Jean François Turcotte
President

NEWS

National Smokeless Tobacco Company Limited (NSTC) sells the most smokeless tobacco products in Canada. It imports and distributes the two top-selling brands of smokeless in Canada, *Copenhagen* and *Skoal*. Although sales of NSTC products have increased steadily (from 1999 to 2006 total sales grew by 5.5 million cans or 50%), very few people in Canada use smokeless tobacco. In the latest data available regarding use of smokeless tobacco, Health Canada reported that the prevalence of *recent* use (use in the last 30 days) was low, at 0.6% among those aged 15 or older, and 1.4% among youth aged 15-24 across Canada in 2005.

National Smokeless Tobacco sales to distributors 1999 to 2006



MAJOR BRANDS

2006 brand share of smokeless tobacco market in Canada*

Copenhagen Fine Cut	48.2%	Skoal Long Cut Cherry	5.4%
Skoal Long Cut Straight	9.9%	Skoal Long Cut Apple	4.2%
Skoal Long Cut Mint	7.0%	Skoal Long Cut Berry	3.1%
Skoal Long Cut Peach	5.9%	Skoal Long Cut Wintergreen	2.7%
Copenhagen Long Cut	5.9%	Skoal Long Cut Classic	1.8%

* Top 10 selling products make up 94% of the smokeless tobacco market in Canada

EMPLOYMENT

The Quebec Better Business Bureau reports that National Smokeless Tobacco employs 13 people.

OWNERSHIP

NSTC imports and distributes the products of U.S. Smokeless Tobacco Company (USSTC). Both companies are 100% owned by Altria, which also owns Philip Morris USA and the John Middleton cigar company. Altria bought UST Inc. (which had owed USSTC) for $10.4 billion plus the assumption of $1.3 billion in debt. The sale took effect on January 6, 2009. With USSTC, Altria now controls a 50% share of the overall U.S. tobacco market, with products in each segment. USSTC has a 90% share of the premium smokeless tobacco market in the U.S.

U.S. Smokeless TOBACCO CO. an Altria Company

Altria

Founded in 1993, Prime Time International Company (PTIC) used to be known as Single Stick, because it was in the business of selling singly packaged cigarettes. Although the practice is now a smaller percentage of its overall revenue, its sales in Canada of individual flavoured cigarillos have been instrumental in prompting calls for regulation of cigarillos and other flavoured tobacco products. The majority of its sales now come from its speciality cigar products, such as cigarillos. Together with its fully-owned subsidiary, USA Tobacco Company, Prime Time manufactures its products in two locations, Phoenix, Arizona, and Stantonsburg, North Carolina. The company is trying to expand internationally and has a strong foothold in the Canadian market. Casa Cubana is the exclusive importer and distributor of PTIC products (including cigarillos) in Canada.

LOCATION

Head office address
2019 W. Lone Cactus Dr.
Phoenix, AZ 85027
Telephone: (623) 780-8600 and 1 (800) 959-9880
Fax: (623) 869-0701
Website: http://www.ptic.com/

OFFICERS

It is not clear who the owners or officers of PITC are.

PTIC lists a Quebec company, Casa Cubana (www.casacubana.ca) as a contact under the International Sales section of its website. It appears as though Casa Cubana is the exclusive importer and distributor of Prime Time International tobacco products. **Glen Stewart**, of Casa Cubana, is listed as the company's Sales Director. The address for Casa Cubana is:

275 Stinson, Suite 200
St-Laurent, QC
H4N 2E1
Telephone: (514) 737-0066 and 1 (877) 606-1806
Fax : (514) 737-5211 and 1 (877) 228-2262

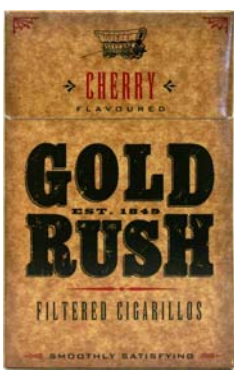
NEWS

In the past couple of years in Canada, Prime Time International has been getting its products into more and more retail outlets. Its website indicates that it has a "very strong presence in the Canadian convenience store market."

The company has been actively lobbying against proposed legislation at both the federal and provincial levels in Canada which would ban flavourings in tobacco products. In March 2009, Member of Parliament Judy Wasylycia-Leis (NDP-Winnipeg North) tabled a Private Member's Bill in the House of Commons that would crack down on the marketing of novelty tobacco products designed to attract young smokers (such as flavoured mini cigars, also known as cigarillos). The legislation would ban flavouring agents other than sugar, tobacco, tobacco extracts or reconstituted tobacco in all tobacco products.

Since Prime Time International and Casa Cubana sell the majority of flavoured cigarillos sold in Canada, the legislation would significantly impact their business.

MAJOR BRANDS



EMPLOYMENT

Because neither PTIC nor Casa Cubana is publicly-owned or traded, not much is known about how many people the two companies employ.

OWNERSHIP

It is not clear who owns PTIC or Casa Cubana.

OTHER COMPANIES

Bastos du Canada Limited
371 Saint-Marc Street, Box 68
Louiseville, Quebec
J5V 2L9
Telephone: (819) 228-5531
Fax: (819) 228-2437

Compagnie de Tabac Dynasty Inc.
130, Montée de Liesse,
Saint-Laurent, Quebec
H4T 1N4
Telephone: (514) 733-2000

Frank Correnti Cigars
606 King Street West
Toronto, Ontario
M5V 1M6
Telephone: (416) 504-4108
Fax: (416) 504-8380
Website: www.correnticigars.com

House of Horvath
77 Ossington Avenue
Toronto, Ontario
M6J 2Z2
Telephone: (416) 534-4254

Les Produits de Tabac Tremblay Inc.
640 boul Langelier
Québec, Québec
G1K 5R3
Telephone: (418) 522-0211
Fax: (418) 522-3940
Products: Cigarette making equipment; Tobacco processing; Tobacco products.

Les Tabacs Tabec Inc.
175 Sutton Street
Delson, Quebec
J0L 1G0
Telephone: (450) 638-2475
Fax: (450) 632-8866

Non-Smokers' Rights Association
Smoking and Health Action Foundation

Suite 221 – 720 Spadina Avenue, Toronto, Ontario M5S2T9
Suite 1903 – 130 Albert Street, Ottawa, Ontario K1P 5G4
833 rue Roy Est, Montreal, Quebec H2L 1E4

www.nsra-adnf.ca