BACKGROUNDER
ON THE
CANADIAN TOBACCO INDUSTRY
AND ITS MARKET

IMPERIAL TOBACCO CANADA

Rothmans Inc.

JTI-Macdonald Corp.

2007/08 Edition

March 2008

Non-Smoker's Rights Association
Smoking and Health Action Foundation

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JTI-MACDONALD CORPORATION

OTHER CANADIAN TOBACCO COMPANIES

PURPOSE

This backgrounder is the fifth edition of the Non-Smokers' Rights Association's (NSRA) backgrounder containing the most current information on the Canadian tobacco industry and its market in a user-friendly format. Indeed, 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 comes from reliable sources such as Health Canada and Statistics Canada. Information on the tobacco companies comes mostly from their own annual shareholder reports or 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 17 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. 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 and can be accessed on the NSRA website.

QUICK OVERVIEW

Without an extensive analysis of each graph, some might wonder why the Canadian tobacco market has fluctuated as much as it has over the last 17 years. This section offers a brief overview of the main events that have contributed to these fluctuations.

At the beginning of the 1990s, in response to federal and provincial tobacco tax policies, a major tobacco smuggling crisis took place, allegedly instigated by the tobacco industry. Indeed, domestic sales of cigarettes dropped dramatically as Canadian tobacco exports to the United States skyrocketed from 1990 to 1993. Evidence shows that tobacco exports were shipped to duty-free warehouses in the US for the purpose of supplying smugglers, who smuggled the cigarettes back into Canada. During that period many smokers favoured the lower-taxed but legal fine-cut (roll-your-own) tobacco products but sales nonetheless followed the same trend as cigarettes.

The 1994 decision by the federal government and five provinces to drastically cut tobacco taxes led to a complete reversal of tobacco shipments to 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 earned by lowered smoking prevalence in the adult population during the 1980s ground to a halt. Teenage smoking increased, a major concern since the great majority of smokers get hooked 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 required tobacco companies to print picture-based health warnings on their packages. Provincial and municipal governments have also introduced smoking restrictions in public places and workplaces. Tobacco taxes were also gradually increased, 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 adult and teenage populations. Domestic cigarette sales have followed the same downward trend since 1996. However, in 2006 tax-free contraband tobacco sales in Canada increased, and they continue to increase despite the efforts of the public health community and various law enforcement authorities to stop it. This rise in cheap, tax-free tobacco sales could lead to a dramatic increase in consumption if it is not stopped as quickly as possible.

Regarding legal sales of tobacco, it is disturbing to note that although smoking prevalence rates have decreased in the last 10 years, the big three tobacco manufacturers have generally been able to increase their profits, even in the face of declining sales (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* and *Macdonald Special*, selling at $10-$12 less per carton ($1.25-$1.50 per pack) than 'premium' brands (*du Maurier*, *Export 'A'* and *Benson & Hedges*), now make up about half of Canada's cigarette market. From 2003 to 2006, the domestic market share for discount cigarettes (including roll-your-own) increased from 10% to 49.6%. The year 2007 saw further increases in competition in this product category with Imperial Tobacco launching its new *Viceroy* brand in October. This was intended to compete with RBH's *Accord* brand at the lowest end of the discount cigarette market category. JTI-Macdonald continues to sell its *Macdonald Special* brand in this category. Imperial introduced a *John Player Standard* brand into the discount category in early 2008. It appears as though discount brands are here to stay.

Although price is perhaps the number one determining factor for how much people smoke, especially youth, public health advocates should not necessarily be alarmed by the growing market dominance of discount cigarettes in Canada. The rise in popularity of discount brands may help efforts to curb cigarette consumption, if governments enact 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.

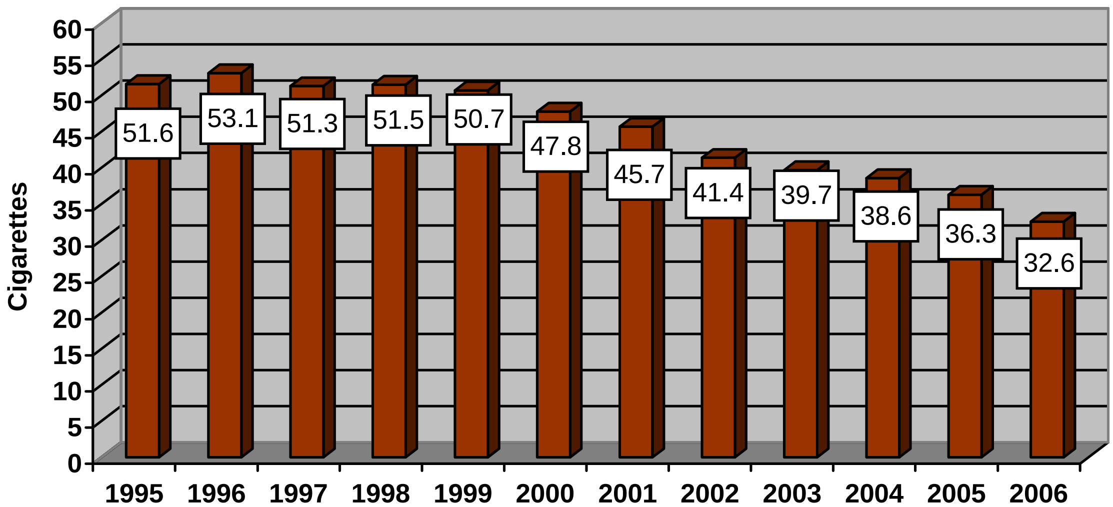
The 'discount' segment of the market will be watched closely. For a more detailed analysis, please refer to "*Discount cigarettes and other cheap tobacco products*," available on our website.

Introduction of new products

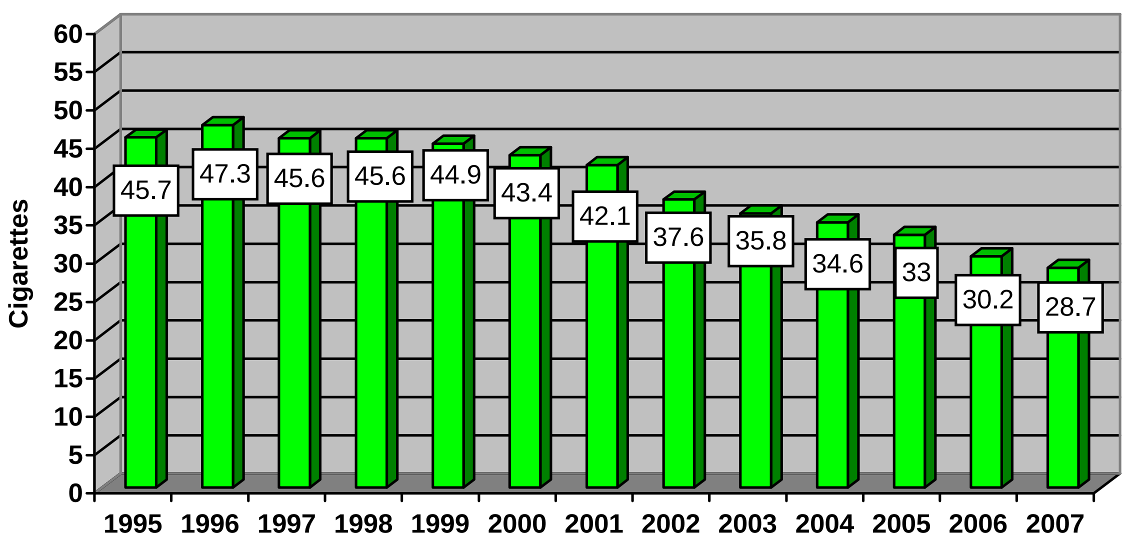
The past year has been marked by new products and package designs. As many provinces eliminated powerwalls, manufacturers launched new brands on the market before it went 'dark'. JTI-Macdonald's *Mirage*, *Fusion*, *Ultra Slims Aria* and *XS* cigarettes are examples. Rothmans, Benson & Hedges responded with *Benson & Hedges Superslims* and its *Quebec Classique* discount brand. Imperial Tobacco Canada meanwhile has *Viceroy* and *John Player Standard* discount cigarettes, and *du Maurier snus*.

TOBACCO MARKET

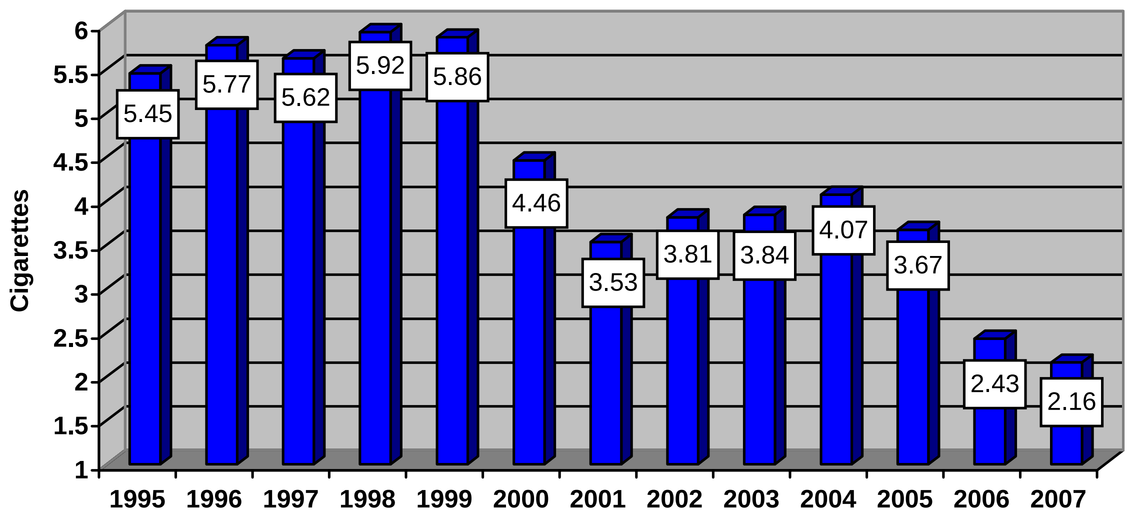
Total domestic cigarette and fine-cut tobacco sales
(in billions of cigarette equivalents)
(Health Canada data: Weight measurement used to calculate fine cut "Units of Cigarette Equivalents": 1992-93, 0.77 g.; 1994-2003, 0.7 g.; 2004-2006, 0.6 g.)



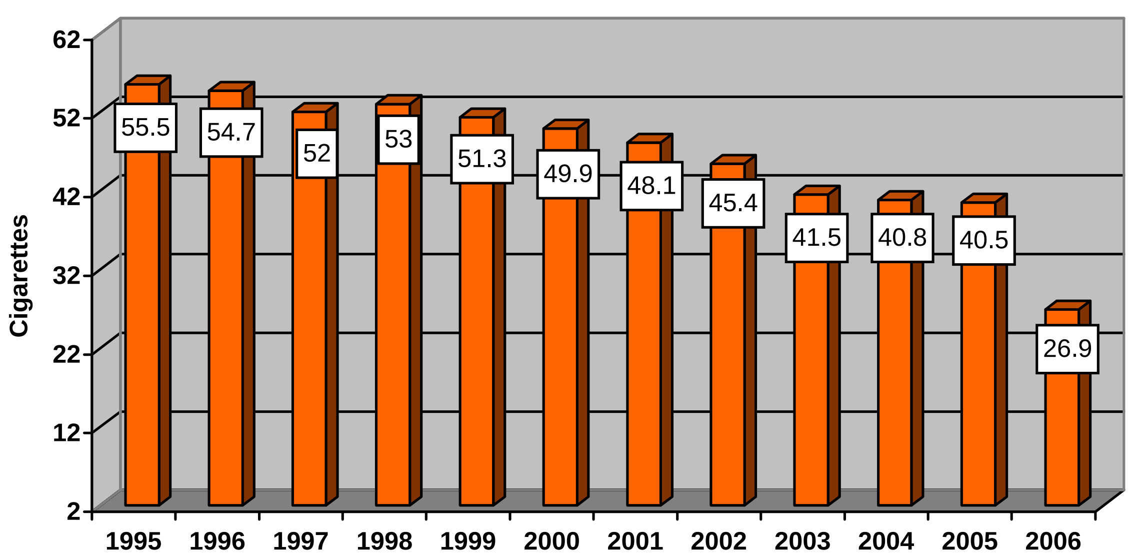
Total domestic cigarette sales
(in billions of cigarettes)
(Health Canada data)



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.)

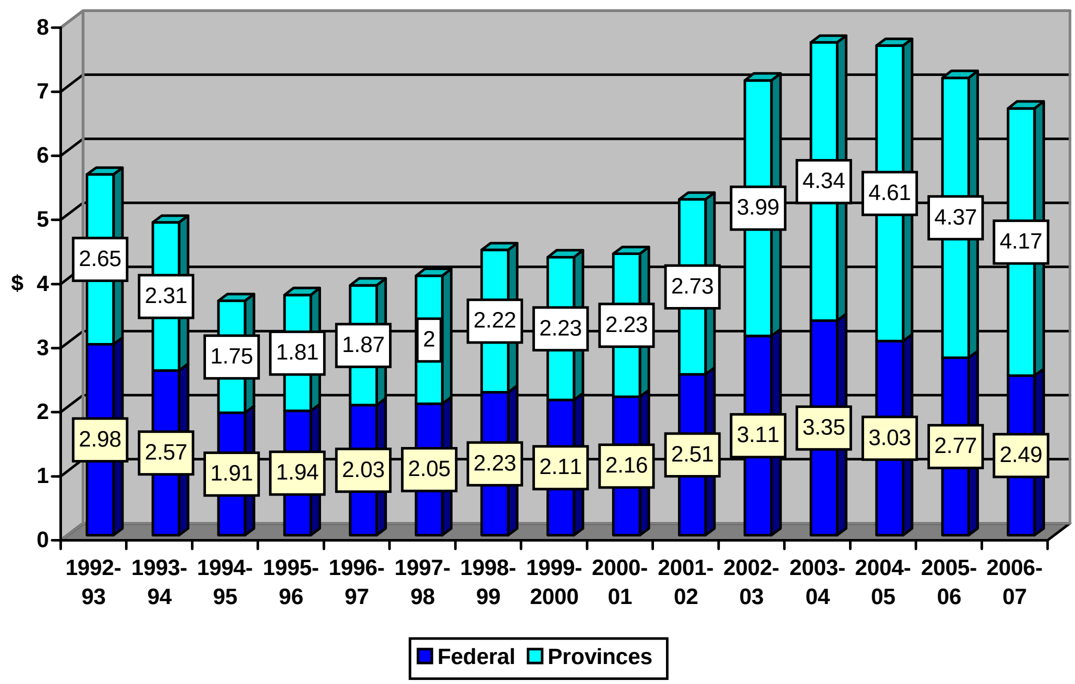


Cigarette and equivalent production in Canada
(A large portion of the recent decline is due to Imperial Tobacco Canada's decision to transfer its production of Canadian brands to Mexico)



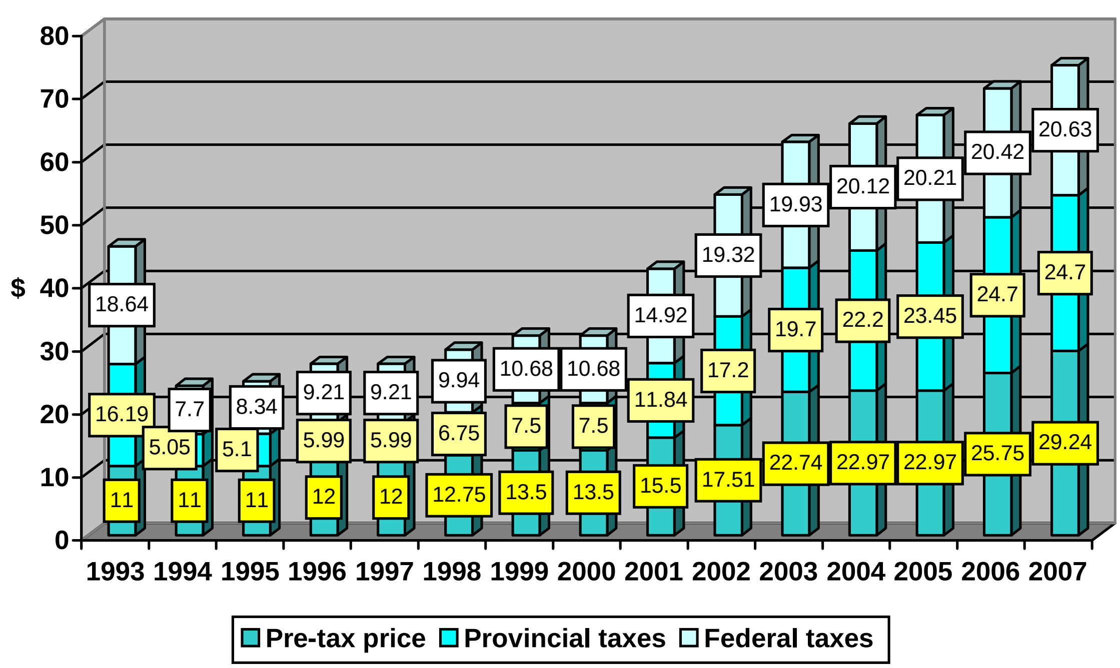
Federal and provincial tax revenues (in billions of dollars)

(This graph does not include GST and provincial sales taxes)

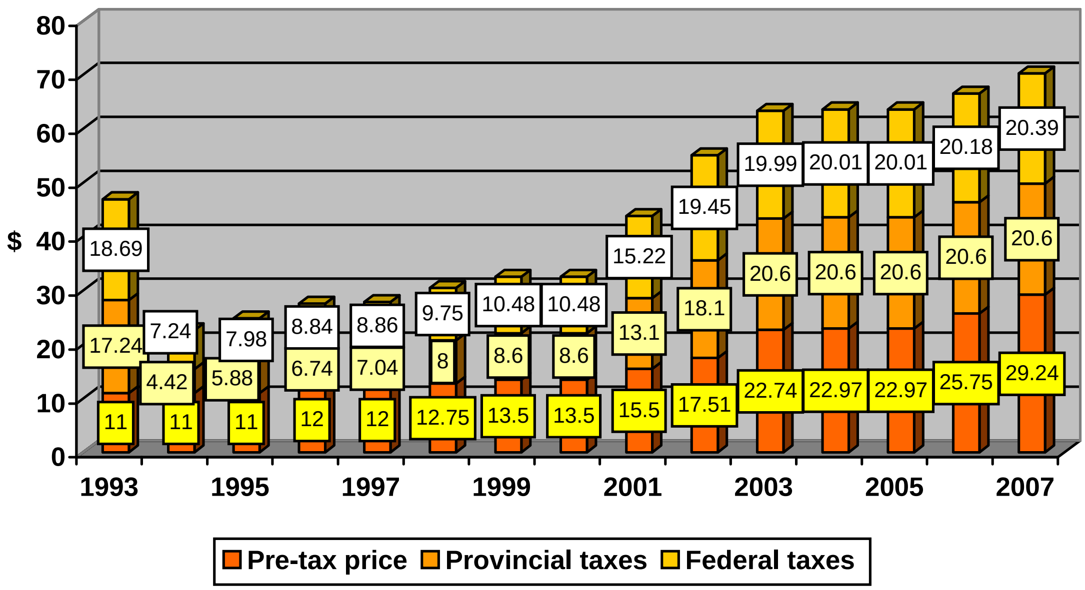


Taxes per carton of 200 premium cigs. in Ontario (PST & GST included)

(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)



Taxes per carton of 200 premium cigs. in Quebec (PST & GST included)
(Note: Recent price data does not seem to 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?

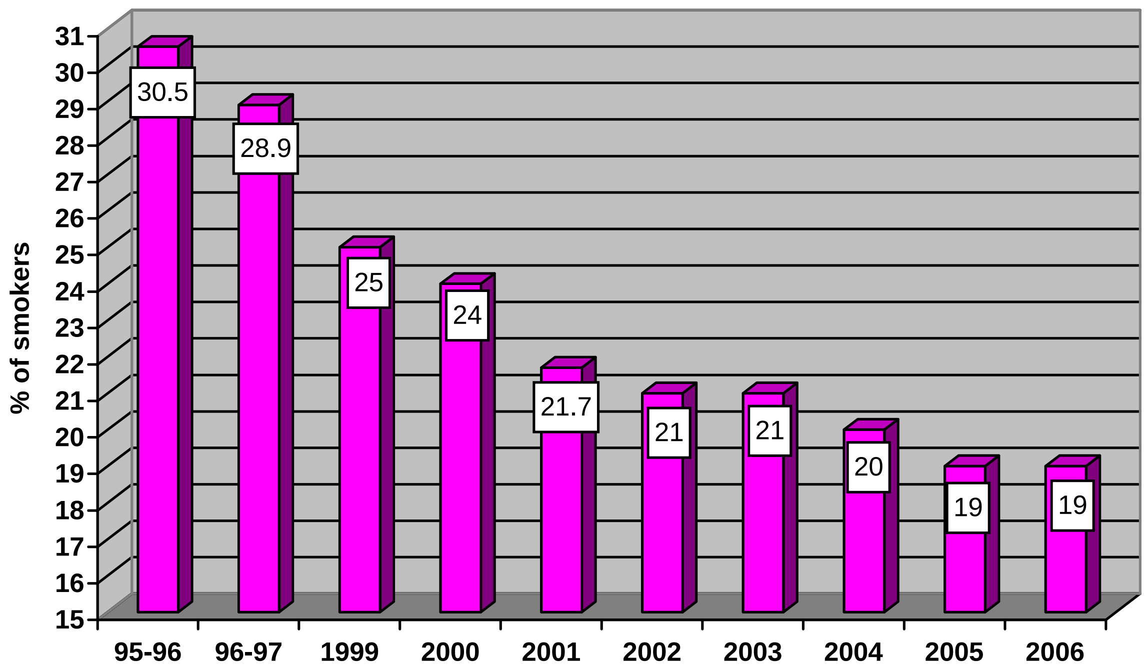
Some have suggested that governments are addicted to the revenue generated by tobacco taxes. In fact, tobacco companies have perpetuated this myth, recognizing that it is a common belief and one that they can benefit from exploiting/promoting. The suggestion, however, is dishonest and inaccurate. Nonetheless, 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. Research on the total cost of smoking in Canada indicates that:

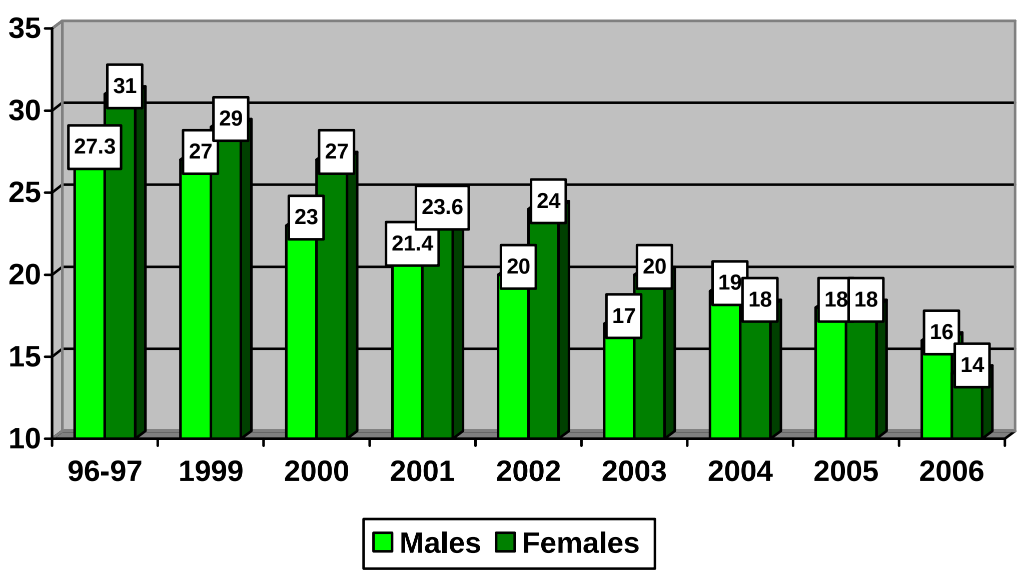
> In 1991, smoking-attributable health care costs in Canada were $2.5 billion (CAN). Additional smoking-attributable costs included $1.5 billion for residential care, $2 billion due to workers' absenteeism, $80 million due to fires and $10.5 billion due to lost future income caused by premature death. Adjustments for future costs if smoking had not occurred and smokers had not died were estimated to be $1.5 billion. According to this analysis, smokers cost society about $15 billion while contributing roughly $7.8 billion in taxes.

A March 2006 study on tobacco's toll showed that the total economic costs of tobacco use in Canada were estimated at $17 million a year (2002 data). However, these numbers and figures fail to adequately assign monetary "value" to the intangible costs of tobacco. When the pain and suffering of those dying from tobacco industry products is considered together with the misery inflicted upon their loved ones, the costs increase exponentially.

Smoking prevalence in Canada, 15 years and older (current)

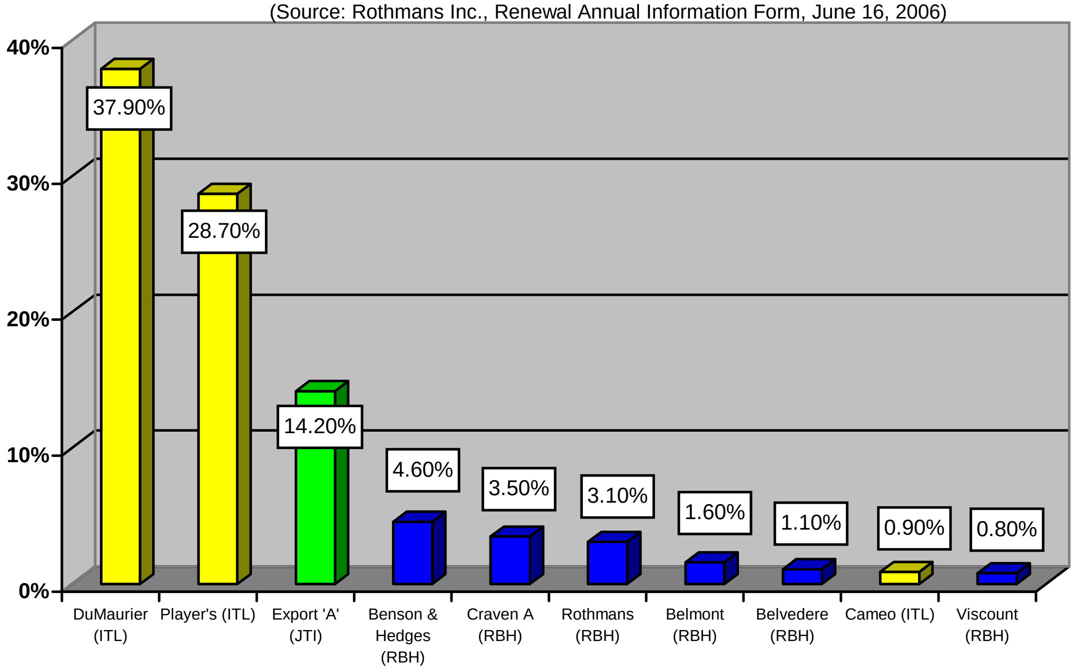


Smoking prevalence in Canada, 15 to 19 years old (current)



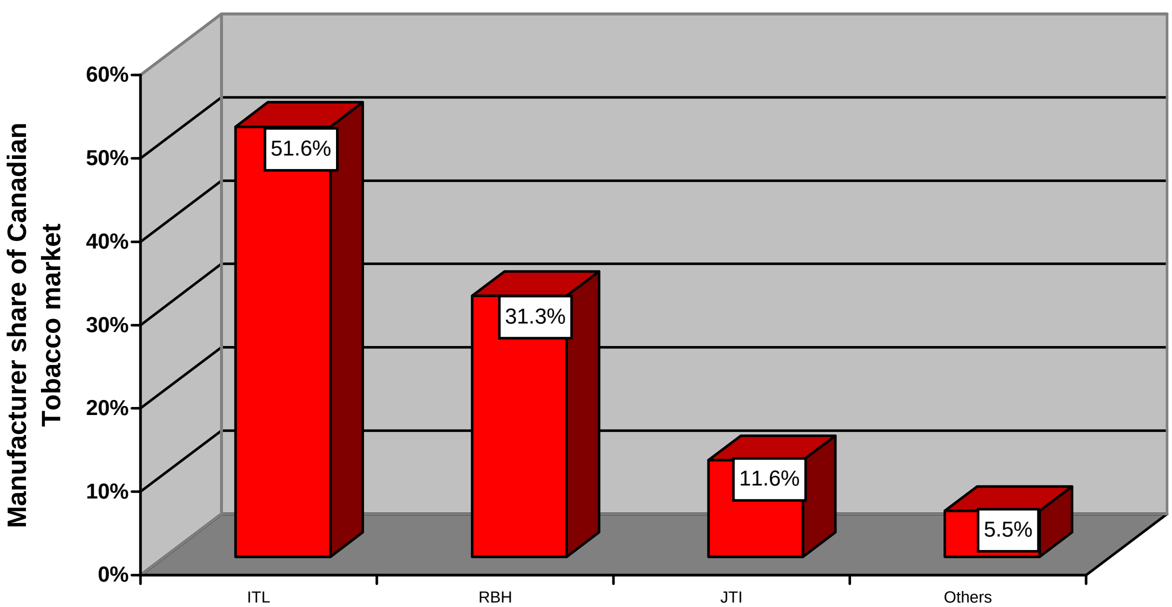
Top 10 premium cigarette brands in Canada that account for over 96% of domestic premium cigarette shipments by Canadian manufacturers in the 12 months ending March 31, 2006

(Source: Rothmans Inc., Renewal Annual Information Form, June 16, 2006)



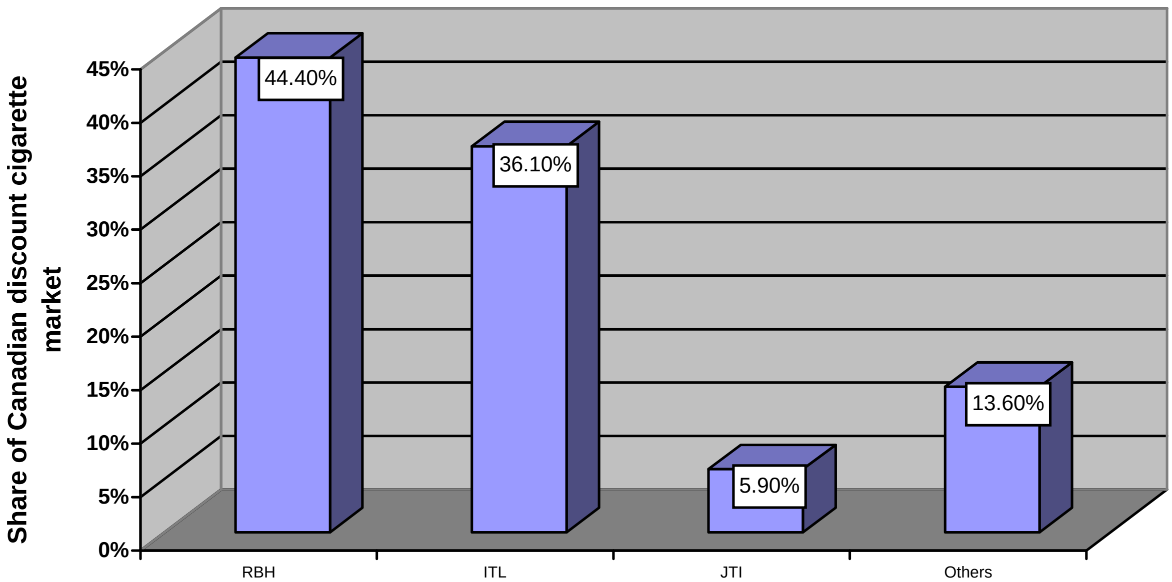
Overall manufacturer share of Canadian tobacco market for 12 months ending March 31, 2006

(Includes shipments of cigarettes, roll-your-own, and tobacco sticks)



Manufacturer share of domestic discount cigarette market for 12 months ending March 31, 2006

(Rothmans Inc. Annual Information Form, 16 June 2006. Based upon Statistics Canada data and data compiled through the CTMC)



The 'discount' cigarette market in Canada

Until a couple of years ago, virtually all cigarette brands in Canada were sold at the same price. There were variations among provinces, but that was only because tax rates were different from province to province.

In the last couple of years, a large number of 'discount' or 'value-for-money' brands have been launched. At first these were all brands manufactured by small, upstart companies — often cottage operations using second-hand equipment. By the end of 2002, these small companies had almost 8% of the Canadian market. In early 2003, major manufacturers decided to move into the discount sector, led by Rothmans, Benson & Hedges (*Number 7*, *Canadian Classics*) and followed quickly by Imperial Tobacco (*Peter Jackson*). In May 2004, Imperial Tobacco slashed prices on its third largest brand, *Matinée*, effectively making it a discount brand, too.

As a result of these trends, approximately 45% of the Canadian market is now made up of discount cigarette brands, selling at $10-12 less per carton ($1.25-$1.50 less per pack of 25) than premium brands. As a result, 'power walls' and retail outlets across the country are now covered with price signs.

Of all the discount brands sold by Canada's Big 3 manufacturers, RBH's *Accord*, Imperial Tobacco's *Viceroy* and *John Player Standard*, and JTI-Macdonald's *Macdonald Special* are among the cheapest on the legal market.

Discount cigarettes and the increase in small, upstart companies has created more price competition in the Canadian tobacco industry, which had for decades operated as an oligopoly.

Other medium-sized competitors in the discount cigarette market include Grand River Enterprises, Tabac A.D.L. Tobacco, and Bastos du Canada Limitée (*Smoking* brand). There are also several smaller competitors that produce low-cost cigarette brands, such as Lanwest Manufacturing Technologies, Dynasty Tobacco, Tabac Lépine and Les Tabacs Tabec.

It is worth noting that Grand River Enterprises, located on the Six Nations Reserve near Brantford, Ontario, is now the third or fourth largest cigarette manufacturer in Canada. It produces about as many cigarettes as JTI-Macdonald, which reported having 12.2% of the Canadian domestic tobacco market in 2006. However, since the vast majority of Grand River Enterprises' cigarettes are exported to the U.S. market, and because the company is not traded publicly, it is very difficult to find data on its financial performance and production levels.

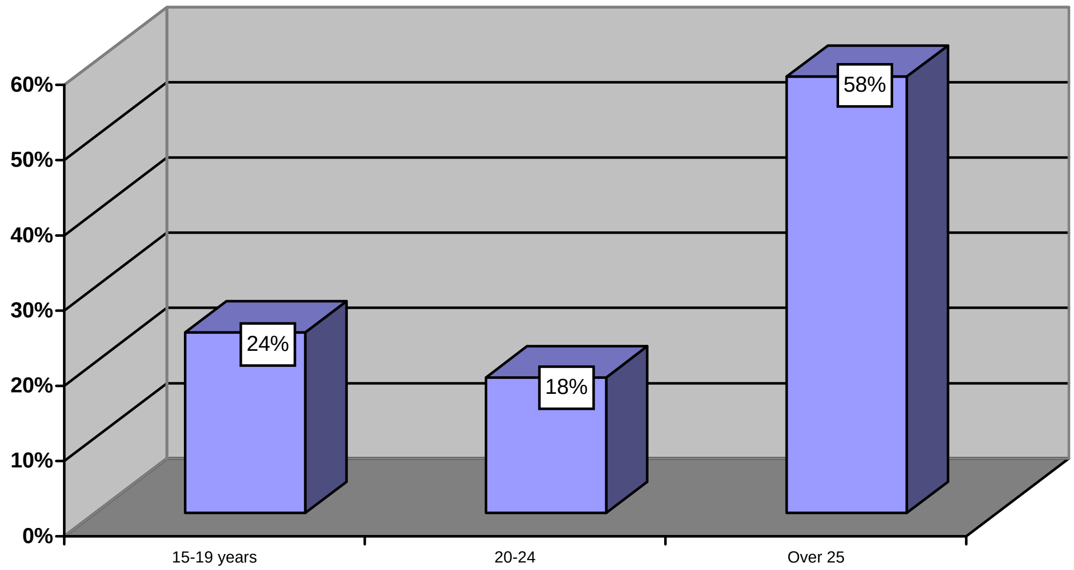
Popular discount brands

Imperial Tobacco Canada: *Peter Jackson, Viceroy, Matinée, John Player Standard*

Rothmans, Benson and Hedges: *Number 7, Accord, Canadian Classics, Mark Ten*

JTI-Macdonald: *Macdonald Special, Vantage*

Proportion of Canadians reporting past 30 day use of cigarillos, by age
(See footnote below for source information)



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, increasingly amongst 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 "kiddie 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.

[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.

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. Two of the American Tobacco Company's holdings, D. Ritchie & Co. and the American Cigarette Co., became the basis of operations for Imperial Tobacco Canada. It is a 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*.

LOCATION

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Fax: (514) 932-2695
Website: www.imperialtobaccocanada.com

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Laval, Quebec
Richmond Hill, Ontario
Calgary, Alberta

Manufacturing plant
Monterrey, Mexico

OFFICERS

Benjamin Kemball
President and CEO

Luis Andres Barros,Vice-President, Operations
Sunil Panray, Vice-President and Chief Financial Officer
Pierre Fortier, Vice-President, Corporate Affairs
Jeffrey I. Guiler, Vice-President, Marketing
Alan Himmer, Vice-President, Human Resources
Donald R. McCarty, Vice-President Law, General Counsel
Christian Trépanier, Controller
Harry Steinbrenner, Assistant Controller
Caroline Ferland, Assistant Secretary

BOARD OF DIRECTORS

Name	Principal occupation
R. Donald Brown, Québec	Non-Executive Chairman of the Board
Benjamin Kemball, Québec	President and Chief Executive Officer
Sunril Panray, Québec	Vice-president and Chief Financial Officer
Nick Brookes, England	Corporate Director
Michael Courtney	Corporate Director
Thomas Gillespie, Québec	President, Tyringham Investments Limited
Barbara J. McDougall	Advisor, Aird & Berlis (law firm)

NEWS

In 2007, Imperial Tobacco Canada continued its *Let's Talk* initiative, in an attempt to engage stakeholders on three issues: illicit trade, youth smoking prevention and harm reduction in the context of tobacco use. Imperial used the dialogue to form the basis of its first independently audited *Social Report 2006-2007*. The company claims the *Let's Talk* initiative and the Social Report are just two recent examples of its commitment to corporate social responsibility (CSR). Public health advocates should remain extremely sceptical of these initiatives as they are the latest in a long line of public relations exercises used by the company to portray itself as a socially responsible and trustworthy business.

In late 2007 and early 2008, Imperial starting selling Swedish-style snus, a low-nitrosamine smokeless, spitless tobacco, in two test markets, Edmonton and Ottawa, respectively. In November 2007, Imperial provided funding for a forum on contraband tobacco, hosted by the Canadian Convenience Stores Association (CCSA). CCSA launched an age verification programme in 2007/08 called *'We Expect ID'*. It is also suspected Imperial provided funding to this project too. The *'We Expect ID'* programme has raised some concerns about privacy, however, and media reports have indicated that the Canadian Privacy Commissioner is investigating the project, based on those concerns. CCSA's website maintains that the only information "lifted" from the ID swipes is the customer's age.

In 2006, Imperial discontinued providing sales data information to the Canadian Tobacco Manufacturer's Council (CTMC). Historically, Canada's three major tobacco manufacturers shared volumetric shipment information through the CTMC. Previously, sales volume information disclosed by Imperial through the CTMC and its financial statements filed with the securities commissions provided tobacco control advocates with the opportunity to study overall industry volumes, cigarette category market share and various other useful pieces of information about tobacco companies. The end of this information sharing makes the job of tracking the business operations of these companies difficult.

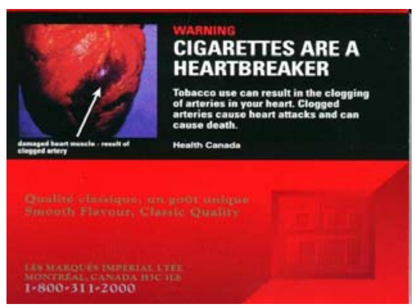
According to British American Tobacco (BAT), Imperial's parent company, Imperial's profit in Canada was down £4 million (roughly $8.6 million CAD), to £276 million (roughly $593 million

CAD) in 2007.[2] The company says its total market share in Canada was down one point to 52.6% per cent. Nonetheless, BAT saw its profits rise seven per cent in 2007. BAT's stock price has nearly tripled in the past five years as the company has expanded aggressively in Russia, Nigeria and Malaysia. It is the world's third-largest tobacco company, selling cigarettes in more than 180 countries. The China National Tobacco Corporation is the world's largest tobacco company, selling 2.03 trillion cigarettes in 2006 in China, home to 350,000,000 smokers.

When considered together, the two Philip Morris companies (International and U.S.) constitute the world's second-largest tobacco company, selling tobacco in 160 countries worldwide. But, in early 2008, the International and U.S. companies were split, and Philip Morris International is now the world's largest publicly traded tobacco company.

In October 2005, faced with shrinking sales and profit margins, Imperial Tobacco Canada announced that it was closing its Canadian manufacturing facilities. Imperial is now manufacturing all of its tobacco products in Monterrey, Mexico. The only workers who remain in Canada are promotional, sales and head office staff. Its Guelph, Ontario manufacturing plant was closed in 2006. In 2007, ITC also closed its tobacco processing facility and its manufacturing plant (fine cut / roll-your-own), both in Aylmer, Ontario.

MAJOR BRANDS



Cigarettes	Fine cut	Tubes	Sticks	Cigarette papers
Avanti	Caméo	Embassy	Player's Light Insta Kit	Hi-Dro
Cameo	Matinée	Matinée		Player's
du Maurier	Player's	Player's		Vogue
JPS				Zig Zag
John Player				
Standard				
Kool				
Marlboro Canadian				
Matinée			**snus**	
Medallion			du Maurier Freshmint	
Peter Jackson			du Maurier Original	
Player's				
Sweet Caporal				
Viceroy				

[2] Bank of Canada. Exchange rate of 2.14865378. 2007. Average of 251 days. www.bankofcanada.ca/pdf/nraa07.pdf. Accessed March 2008.

MARKET POSITIONING

The release of confidential marketing documents through litigation and the testimony of tobacco industry executives have, over the past decade, offered a rare view into the marketing practices of the tobacco industry. Excerpts from this valuable material appear below to give a general idea of what seems to be the key market for the company and how it positions its most popular cigarette brands.

General market

"I.T.L. has always focused its efforts on new smokers believing that early perceptions tend to stay with them throughout their lives. I.T.L. clearly dominates the young adult market today and stands to prosper as these smokers age and as it maintains its highly favourable youthful preference." (Imperial Tobacco, 1989)

"Marketing activities have historically been and continue to be targeted at younger smokers due to their greater propensity to change brands." (Imperial Tobacco, 1995)

"When we talk about a switcher we are talking about someone who has been smoking his usual brand for less than 12 months. This definition includes starters (did not smoke before)." (Imperial Tobacco, 1991)

Player's

"Freedom and independence are at the core of *Player's* positioning. Self-reliance is indicated by consumers as an added dimension that provides a logical extension of freedom or independence and makes the two more relevant." (Imperial Tobacco, 1985)

"As seen in the 1993 Sponsorship Image research as the best overall fit with the target group, and as the highest form of racing in North America, Indy is best positioned to carry the *Player's Ltd.* attributes of masculinity, youthfulness, freedom and independence." (Imperial Tobacco, 1994)

du Maurier

"... that it is a modern brand, that it is a very high quality, that it is for both men and women and that *du Maurier's* quality is defined as essentially, again, desirable, attainable, aspirational quality." (Ed Ricard, Director, Market Strategy and Development Group, Imperial Tobacco, 2002)

Matinée

"So, in the case of *Matinee* where we talk about a trademark as youthful, popular and offering the mild brands for women, with *Matinee* we knew that we had the positioning of being mild and being for women. Consumers told us that that's what *Matinee* is, they're mild cigarettes and they're for women." (Ed Ricard, Director, Market Strategy and Development Group, Imperial Tobacco, 2002)

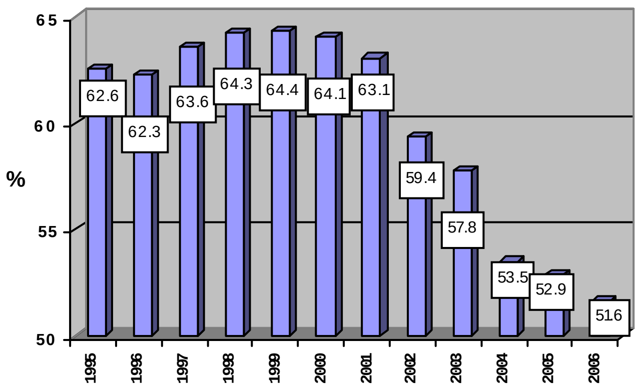
Medallion

"The other group is one which wants to quit but cannot, and feels guilty about this. It chooses the lowest tar option because it is the least bad for it (in line with the *Medallion* strategy)." (Imperial Tobacco, 1988)

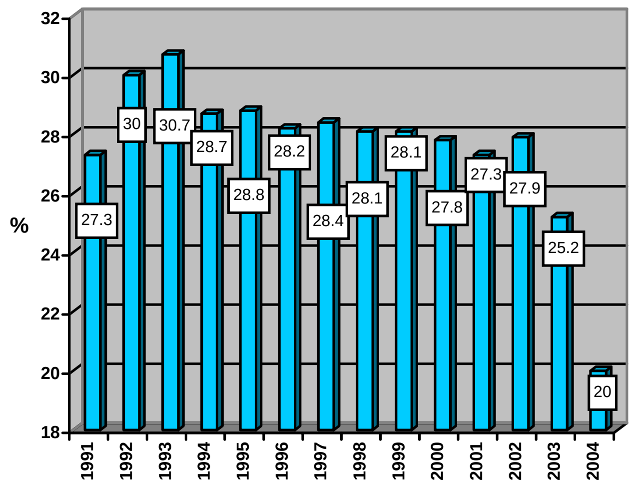
CANADIAN MARKET SHARE

Cdn. Domestic tobacco market share, for 12 months ending March 31, 2006

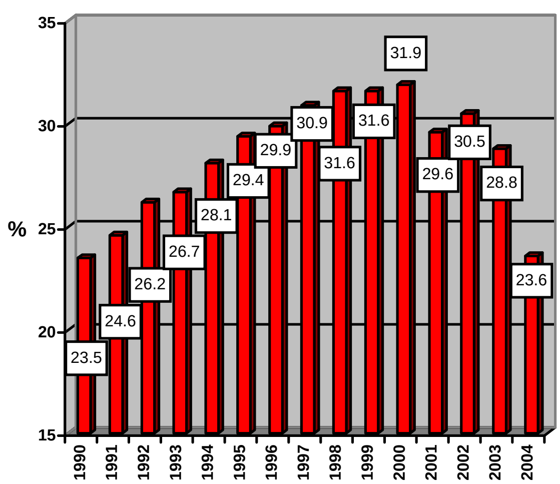
Source: Rothmans Inc., Renewal Annual Information Form, June 16, 2006



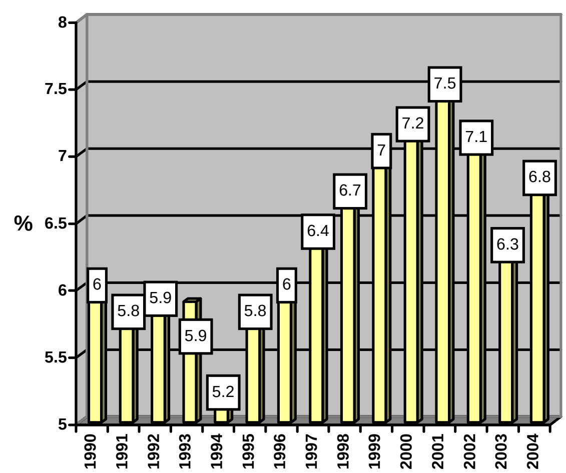
Player's market share



du Maurier market share

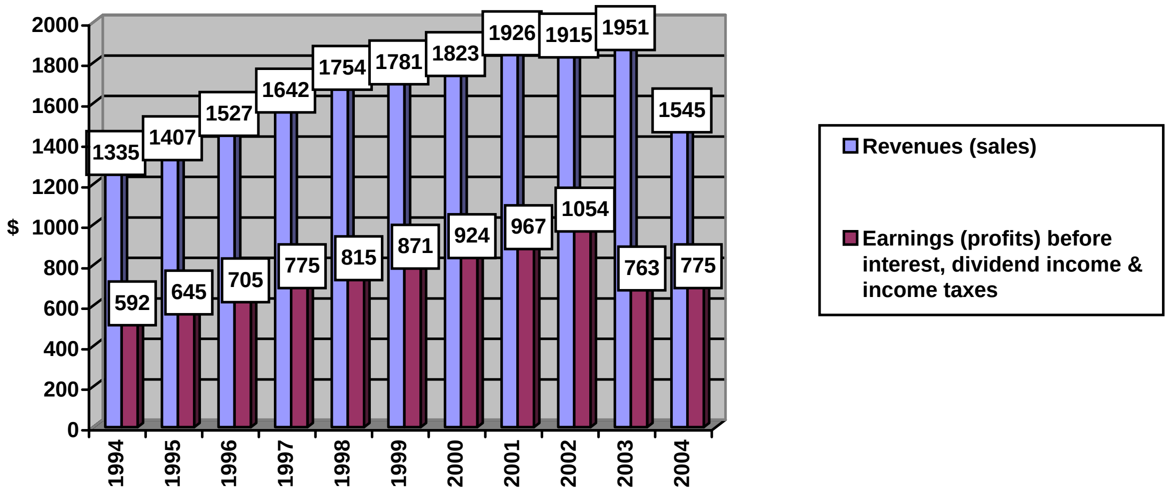


Matinée market share



REVENUES AND EARNINGS

In millions of dollars (fiscal year ends December 31)



EMPLOYMENT

Since Imperial Tobacco moved all its manufacturing to Mexico in 2007, it now employs 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.

BRITISH AMERICAN TOBACCO

DUNHILL

KENT

LUCKY STRIKE

IT'S TOASTED

PALL MALL

Rothmans Inc. controls the second largest Canadian tobacco company Rothmans, Benson & Hedges. The company 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*.

LOCATION

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Saskatoon, Saskatchewan
Winnipeg, Manitoba
Toronto and London, Ontario
Montreal and Sainte-Foy, Quebec
Dartmouth, Nova Scotia
St. John's, Newfoundland

OFFICERS

John R. Barnett
President and CEO

Robert J. Carew
Executive Vice President
Michael E. Frater
Vice President Finance and Chief Financial Officer
Dean J. Blain
Secretary
Brenda J. Moher
Assistant Secretary

BOARD OF DIRECTORS

Joe Hefferman
Chairman of the Board,
Rothmans Inc.

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

Robert J. Carew
Executive Vice President
Rothmans Inc.,
Executive Vice President
Regulatory and Legal Affairs,
RBH Inc.

Douglas G. Bassett, O.C., O. Ont.
Chairman
Windward Investments

Pierre Des Marais II, O.C.
President
Gestion PDM Inc.

The Hon. Paule Gauthier P.C. O.C. O.Q. Q.C.
Partner
Desjardins Ducharme Stein Monast,
Barristers and Solicitors

The Hon. Pierre Gravelle, Q.C.
CEO Centre for the Financial Services Ombuds Network

Richard H. McCoy
Corporate Director

Photo not available

John E Caldwell
Corporate Director

ROTHMANS, BENSON & HEDGES MANAGEMENT TEAM

John R. Barnett, President and Chief Executive Officer
Robert J. Carew, Executive Vice President Regulatory and Legal Affairs
Warren H. Finlay, Vice President Operations, Leaf and Research and Development
Ronald F. Funk, Vice Corporate Affairs
Donald J. Guile, Vice President Sales
Faryl Hausman, Vice President Regulatory Affairs and Human Resources
Leonard G. Hruszowy, Vice-président, Division des produits du tabac
Paul Jewer, Vice President Finance and Administration
Rhonda Yarin, Vice President General Counsel

NEWS

Since Rothmans, Benson & Hedges (RBH) is Canada's only publicly-traded tobacco company more detailed information is available about its operations. The company increased its sales figures in the first nine months of its 2008 fiscal year (April to December, 2007) by $46 million. This was achieved by price increases in all its product categories and a slight increase in discount cigarette sales volumes, compared to the first nine months of its fiscal year 2007. Rothmans shipped 8.4 billion equivalent sticks in the first nine months of its 2008 fiscal, compared to 8.3 billion equivalent sticks in the comparable period of the prior year.

Sales at Rothmans, Benson & Hedges, minus excise duty and taxes, increased to $170.8 million in the third quarter of fiscal year 2008 compared with $153.4 million in the third quarter of fiscal year 2007. Between October and December 2007, RBH decreased the per carton price charged to Ontario and Quebec wholesalers for its *Accord* brand discount cigarettes by $1.98. This reduction helped solidify the company's strong positioning in the highly price sensitive discount market in Canada. RBH's *Canadian Classics* discount brand is a strong seller for the company, earning just under 10% of the overall Canadian cigarette market share, based on the percentage of units sold.

During the 3rd quarter, Rothmans increased the price on *Mark Ten* and *Canadian Classics* brands (both considered to be discount brands) by $1.00 a carton in Quebec and Ontario, respectively. In the 1st quarter it also increased prices to wholesalers by $1.00 a carton for the *Carreras*, *Davidoff* and *ROOFTOP* premium brands. The *ROOFTOP* brand is RBH's version of *Marlboro*, but it cannot market it as *Marlboro* in Canada because Imperial Tobacco has the Canadian license to the *Marlboro* trademark here.

In the 1st quarter of fiscal year 2008, RBH also increased prices by $1.50 per carton for all of its other premium brands and $1.00 per carton on all its discount brands, besides *Accord*. In the 3rd quarter, RBH began selling the internationally recognized *Parliament* brand cigarette in Canada. Philip Morris International, which owns 40% of Rothmans, sells the *Parliament* brand around the world.

MAJOR BRANDS

Cigarettes
Accord
Belmont
Belvedere
Benson & Hedges
Black Cat
Canadian Classics
Craven A
Dunhill
Mark Ten
Number 7
Oxford
Peter Stuyvesant
Rothmans
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.

MARKET POSITIONING

The release of confidential marketing documents through litigation and the testimony of tobacco industry executives have, over the past 15 years, offered a rare view into the marketing practices of the tobacco industry. Excerpts from these valuable sources of material appear below and provide a general idea of what seems to be the key market for each company and how it positions its most popular cigarette brands.

General market

"A strong regular length business is key to attracting younger users and ensuring a healthy future franchise." (Rothmans, Benson & Hedges, 1993)

"Although the key 15-19 age group is a must for RBH there are other bigger volume groups that we cannot ignore." (Rothmans, Benson & Hedges, 1997)

"In the cigarette category brand image is everything. The brand of cigarettes a person smokes is their identity. Cigarettes tell others who they are as a person. There is a strong emotional connection to the brand, the image it projects about the smoker, not only to themselves but to others." (Rothmans, Benson & Hedges, 1996)

Craven A

"*Craven's* conservative, unpretentious heritage appeals to consumers who seek substance, quality and a truer reflection of today's basic, core values." (Rothmans, Benson & Hedges, 1995)

Rothmans

"*Rothmans* is the premium quality, full-flavoured King Size specialist with a unique international image. *Rothmans'* aspirational image stems from a sense of heritage balanced with a modern, dynamic outlook." (Rothmans, Benson & Hedges, 1996)

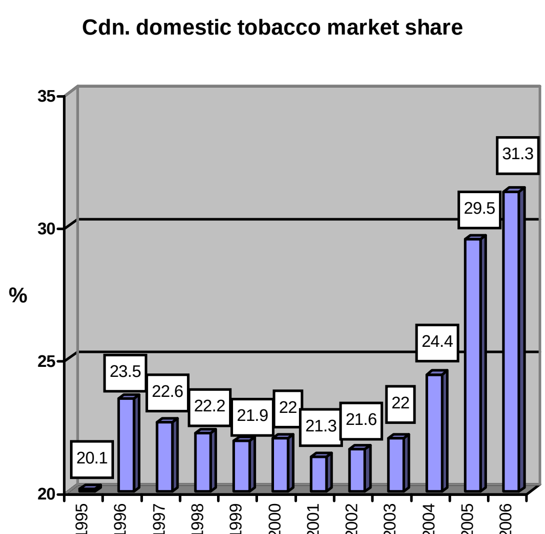
Benson & Hedges

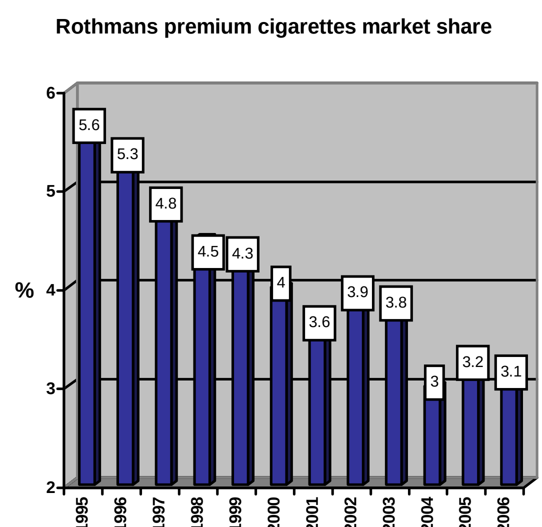
"*Benson & Hedges* is a high quality, both in product and image, classy but attainable brand. It is a smooth, rich flavour cigarette." (Rothmans, Benson & Hedges, 1995)

Belvedere

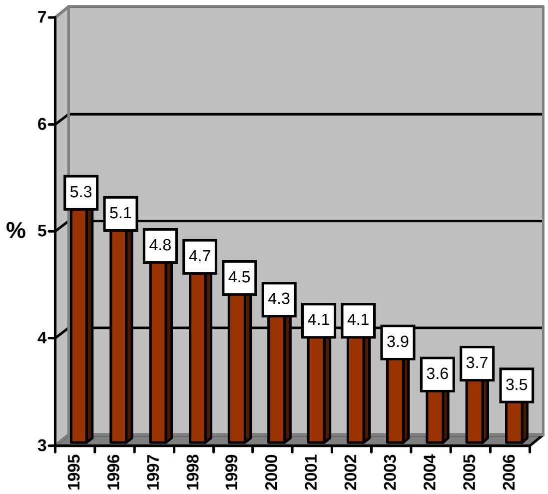
"*Belvedere* is the young, fun and sociable brand that offers smooth, full flavoured smoking satisfaction to contemporary young men and women.... I am active, energetic and enjoy socializing with others but I am not a leader. Unpretentious and down to earth, I follow the trends but don't want to be labelled. Part of the young crowd, I'm not rebellious but resist being told what I am and what I want." (Rothmans, Benson & Hedges, 1995-96)

CANADIAN MARKET SHARE

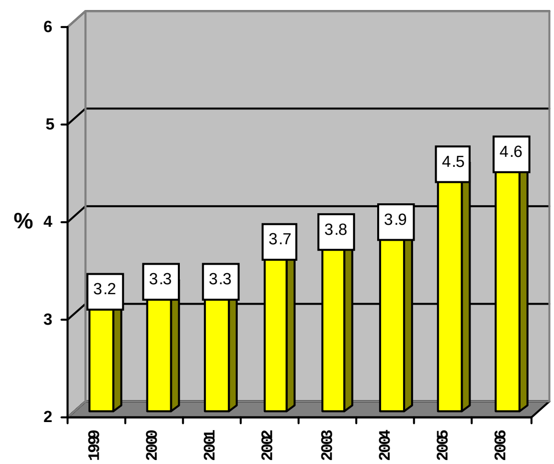




Craven A premium cigarettes market share

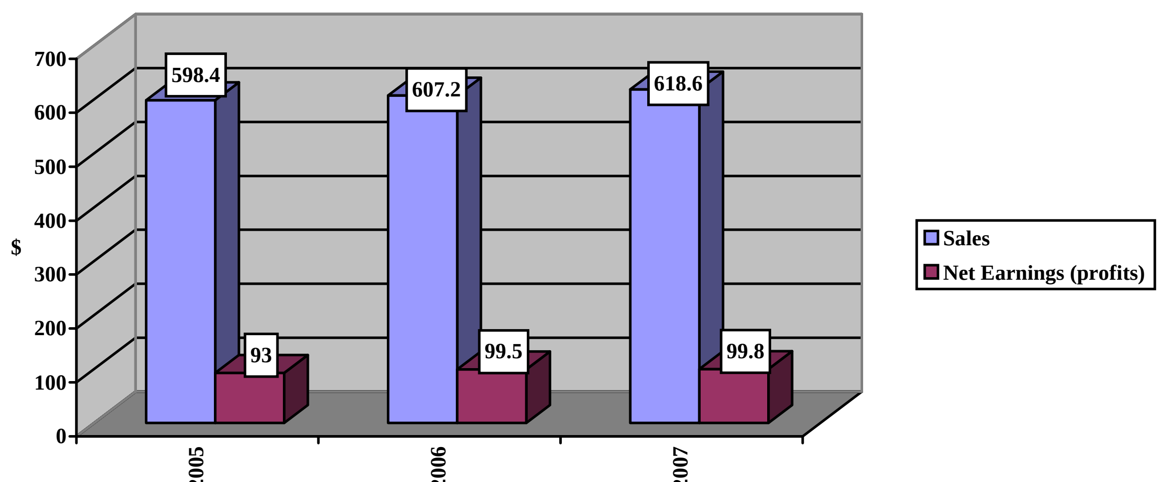


Benson & Hedges premium cigarettes market share



REVENUES AND EARNINGS

In millions of dollars, fiscal year ends March 31
(from Rothmans Inc. Annual Report 2007)



EMPLOYMENT

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

OWNERSHIP

Rothmans Inc. is a Canadian holding company which owns 60% of Rothmans, Benson & Hedges, the cigarette manufacturing company. The remaining 40% belongs to FTR Holding SA of Switzerland, which is owned by Philip Morris International Inc. (PMI). Philip Morris International used to be owned by Altria Group Inc., which also owns Philip Morris USA. However, Altria split its domestic and international divisions March 28, 2008.

Altria shareholders received one share of PMI stock for every share of Altria they held. PMI reported having 15.6% of the global tobacco market share in 2007. The company's main brands include *Marlboro*, *L&M*, *Philip Morris*, *Bond Street*, *Chesterfield* and *Parliament*.

Altria Group Inc. owns many other subsidiaries, and up to March 2007, held 89% of Kraft Foods. Altria spun off Kraft in March 2007. Altria shareholders received about 0.69 of a Kraft share for each Altria share held. Altria Group also has a 28.6% economic and voting interest in SABMiller, the world's second-largest brewer.

JTI-Macdonald Corp.

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

Robert Annis, Controller
J. Edward Pollen, Treasurer
Bruno Duguay, VP, General Counsel, Secretary
John Wildgust, VP -- Corporate Affairs
George Lulham, Director, Scientific & Regulatory Affairs
Robert McMaster, Assistant Treasurer
Sandra La Voie, Assistant Secretary
Bruce A. Marchand, Recognized Agent
Patrick A Murphy, Director
Christian Guay, VP -- Marketing
Allen Breeding, VP -- Finance and Chief Financial Officer
Anne Duncan, Director, Human Resources
Nelson Medeiros, Vice President, Sales

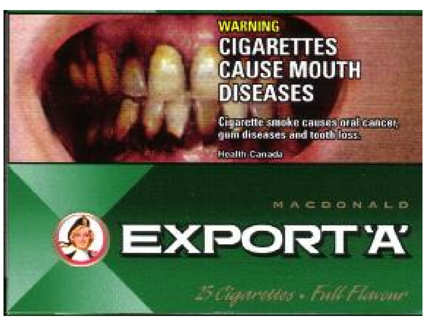
NEWS

JTI-Macdonald (JTI), 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 has failed to fully capitalize on the switch smokers are making from premium cigarettes to discount or value-for-money brands. In 2005, JTI launched its *Macdonald Special* discount brand, featuring a red maple leaf on packages sold outside of Quebec and a blue fleur-de-lys on packs sold inside 'La Belle Province'. Originally the *Macdonald Special* brand was the cheapest offering in the discount market of all three of Canada's largest manufacturers, but Imperial Tobacco Canada and Rothmans, Benson & Hedges have since adjusted. Imperial's *John Player STANDARD* and RBH's *Accord* brands are now the cheapest discount brands on the market. JTI's *Macdonald Special* is priced competitively in the segment.

JTI-Macdonald claims that its most popular cigarette, *Export 'A'*, has solidified its position as the No. 3 premium brand in the Canadian market (behind *du Maurier* and *Player's*). However, since the premium segment has been shrinking, that is not necessarily positive news for the company. JTI reports that its total share of the Canadian market increased 0.6% in 2006 to 12.2% as of March 31, 2007.

MAJOR BRANDS



Cigarettes

Camel
Canadian Classics
Export 'A'
Macdonald
Macdonald Select
Macdonald Special
More
Select
Vantage
Winston

Fine cut

British Consols
Daily Mail
Export A
Zig Zag

Cigars

El Producto
Tueros

MARKET POSITIONING

The release of confidential marketing documents through litigation and the testimony of tobacco industry executives have, over the past decade, offered a rare view into the marketing practices of the tobacco industry. Excerpts from these valuable sources of material appear below to give us a general idea of what seems to be the key market for the company and how it positions its most popular cigarette brands.

General market

"The younger segment represents the most critical source of business to maintain volume and grow share in a declining market. They're recent smokers and show a greater propensity to switch than the older segment. Export has shown an ability to attract this younger group since 1987 to present." (RJR Macdonald, 1989)

"In order to make further inroads into the younger segment, we must continue to project an image that is consistent with the needs and values of today's younger smokers." (RJR Macdonald, 1989)

Export 'A'

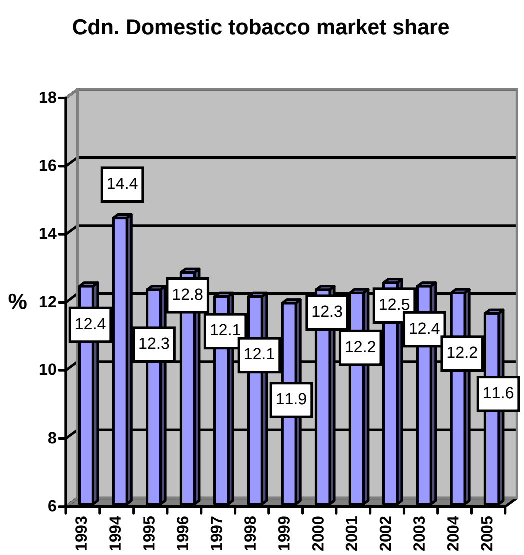
"The *Export* imagery will dimensionalize the breed of men who are masculine, independent, adventurous and possess the qualities of natural leadership... Women are attracted to these men because of their youthful virility, independence and spirit of adventure." (RJR Macdonald, 1982)

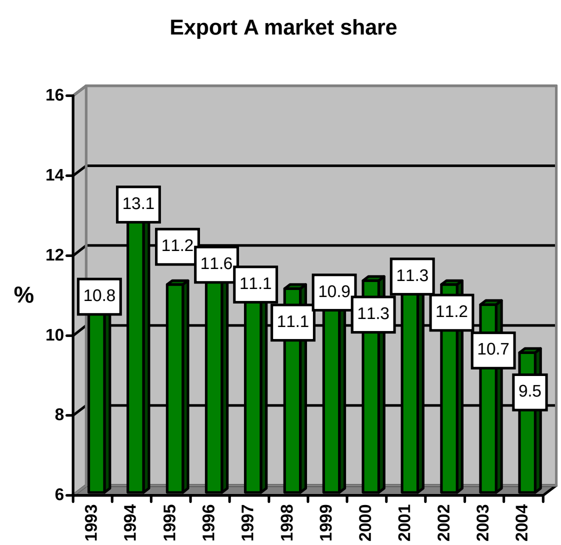
"*Export 'A'* allows Quebecois smokers who fit our prospect profile to express their difference as a unique people. The objective is to link the brand to Quebecers' strong feelings of being 'different' from their English speaking neighbours."

Vantage

"A market segmentation study conducted in 1990 indicated that *Vantage* was heavily overdeveloped in the Potential Quitter segment (index 200) and hence the brand of choice for smokers who were considering exiting the market." (RJR Macdonald, 1996)

CANADIAN MARKET SHARE



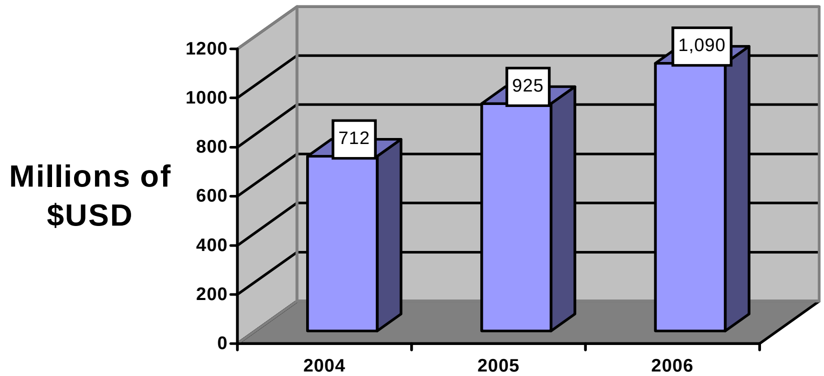


REVENUES AND EARNINGS

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

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

JTI EBITDA before royalty payment to Japan Tobacco
(The consolidated accounting period for JTI is January through December)



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.

OWNERSHIP

In May 1999, Japan Tobacco International 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.

OTHER CANADIAN TOBACCO COMPANIES

The Canadian tobacco market is mostly dominated by the Big 3 cigarette manufacturers: Imperial Tobacco Canada, Rothmans, Benson & Hedges and JTI-Macdonald. In 2004, their sales accounted for 94.1% of the Canadian market. The remaining 6% is divided among smaller manufacturers. The three largest of the smaller manufacturers are Grand River Enterprises (GRE), Tabac ADL Tobacco (GRE and ADL are both owned by First Nations people) and Bastos du Canada Ltee. Unfortunately, information on these smaller companies is not as abundant as for the Big 3 manufacturers. Smokeless tobacco sales in Canada have been increasing, so we've added a new section on that topic to 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's tobacco 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 United States. 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 cigarette manufacturing plant in Reitz, Germany. The 60,000 square foot facility is situated about an hour's drive from Berlin, in the east German state of Brandenburg. GRE in Canada exports about 80% of its production. It produces "private label" brands such as *Seneca*.

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 be reasonably smoked by status Indians on reserves and some observers suspect 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 imagery and dressing First Nations people up 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."

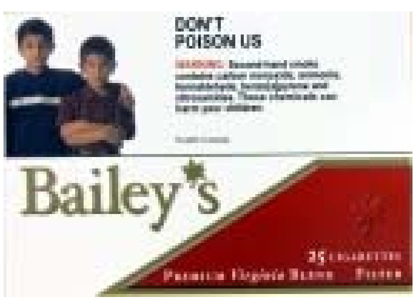
LOCATION

Head office address
1665 Nishk Street
Mashteuiatsh, Québec
G0W 2H0
Telephone: (418) 275-6161
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 BRAND

In 2005, *The Guardian* newspaper on Prince Edward Island reported that Choice Tobacco was sold to a Québec company, following a federal acreage buyout on Prince Edward Island. Choice Tobacco was founded in 1986 by former tobacco growers Joe Spriet, Frank Lava and Lucien Viaene, as a small tobacco manufacturing enterprise.

The new owner, Abenaki Enterprises, maintains two manufacturing facilities — one in PEI, and the other in Odanak, in a First Nations community in Québec. The company also has distribution and stocking warehouses in Vermont and Florida. Abenaki Enterprises / Choice Tobacco manufactures "private label" 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

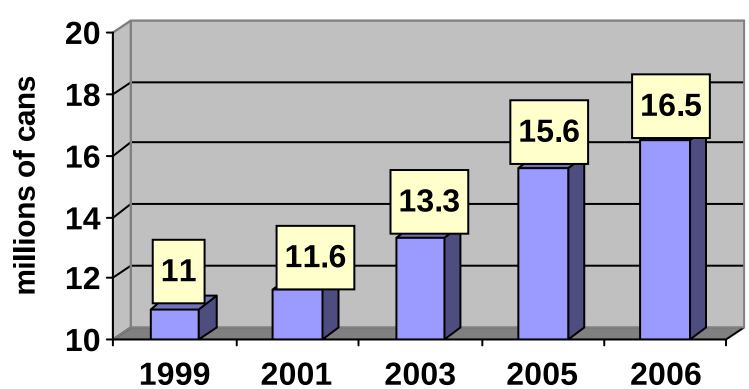
Edward G. Koban
President

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 annual sales grew by 5.5 million cans), very few people in Canada use smokeless tobacco. Health Canada reports that about 19% of Canadians over age 15 were smokers in 2005, while only one per cent used smokeless tobacco.

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 Québec 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 UST Inc. (UST), a holding company which also owns Ste. Michelle Wine Estates.

UST

USSTC has a 90% share of the premium smokeless tobacco market in the U.S. However, it will face increasingly stiff competition from Philip Morris (PM), if PM does a general launch of its *Taboka* smokeless, spit-free product, which it test-marketed in 2006.

U.S. Smokeless TOBACCO CO.

Prime Time International Company (PTIC) used to be known as Single Stick, Inc. and was founded in 1993. The name was created because it was in the business of selling singly packaged cigarettes, a practise which is now a smaller percentage of its overall revenue. The majority of its sales now come from its speciality cigar products, such as cigarillos, many of which are candy-flavoured. Together with its fully owned subsidiary, USA Tobacco Company, it manufactures and distributes 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

Corporate Headquarters:
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:

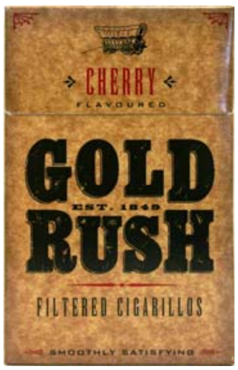
275 Stinson, Suite 200
St-Laurent, QC
H4N 2E1
Telephone: 514-737-0066 and 1 (877) 606-1806
Fax : (514) 737-5211 and 1 (877) 228-2262

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 employs effective marketing techniques at points of sale, often featuring its products in transparent cases on retail countertops or prominently behind the counter as part of tobacco product powerwalls.

MAJOR BRANDS



EMPLOYMENT

Because neither PTIC nor Casa Cubana are 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, QC 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
Toll Free: 1-800-387-0378

Les Entreprises Steve Lépine
1970 Notre-Dame
Lavaltrie, Quebec
J0K 1H0

Les Produits de Tabac Tremblay Inc.
640 boul Langelier
Québec, QC
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-Smoker's 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