NSRA'S BACKGROUNDER
ON THE
CANADIAN TOBACCO INDUSTRY
AND ITS MARKET

Rothmans Inc.

IMPERIAL TOBACCO CANADA

JTI-Macdonald Corp.

2006/07 Edition

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JTI-MACDONALD CORPORATION

PURPOSE

This backgrounder is the fourth effort by the Non-Smokers' Rights Association (NSRA) to assemble the most current and sought-after 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. It is mostly designed as a practical reference tool. The information comes however 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 for the past 15 years, mostly in terms of cigarettes sold and smoking prevalence, taking into consideration the dramatic increase in discount or value-for-money 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 set up over the years to influence public policy. Starting this year, we will instead produce that section as a separate document.

We recognize that valuable pieces of information might be missing from this Backgrounder on the Canadian Tobacco Industry and Its Market. However, we intend to publish an updated version of the backgrounder every year. Therefore, we will have the opportunity, with the help of our colleagues from the health community, to come up with the most complete and practical backgrounder every year.

QUICK OVERVIEW

This document has been designed to be as user-friendly as possible. However, without extensive analysis of each graph, some might wonder why the Canadian tobacco market has fluctuated as much as it has over the last 15 years. For this reason, this section offers a brief overview of the main events that have contributed, in our opinion, to these fluctuations.

The last 15 years have been marked by a major tobacco smuggling crisis which was instigated by the tobacco industry in the beginning of the 1990s in response to federal and provincial tobacco tax policies. Indeed, domestic sales of cigarettes dropped dramatically as Canadian tobacco exports to the United States skyrocketed from 1990 to 1993. During that period, many smokers favoured the lower-taxed but legal fine-cut tobacco products, but sales nonetheless followed the same trend as cigarettes. 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.

The 1994 decision by the federal and five provincial governments 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 an substantive decrease in federal and provincial government revenues. Public health gains earned by lowering smoking prevalence in the adult population during the 1980s ground to a halt while teenage smoking increased, a major concern since the great majority of smokers start when they are teens. The situation was exacerbated when the Supreme Court of Canada struck down, in 1995, key provisions of the *Tobacco Products Control Act*, the previous federal tobacco legislation, which banned tobacco advertising.

Since then the health community 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 more effective smoking restrictions. Tobacco taxes were also gradually increased, with some governments becoming far more aggressive. More substantial funding has also been dedicated lately to tobacco control, although a substantial portion of the federal funding that was announced in April 2001 has been cut.

In our opinion, 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, it is disturbing to note that, although smoking prevalence rates have fluctuated in the last 15 years, the big three tobacco manufacturers have generally been able to increase their profits, even in the face of the decline in sales (see sections on the companies). The rise of discount brands has begun to cut into profit margins, but 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.

The growth of the 'discount' cigarette market

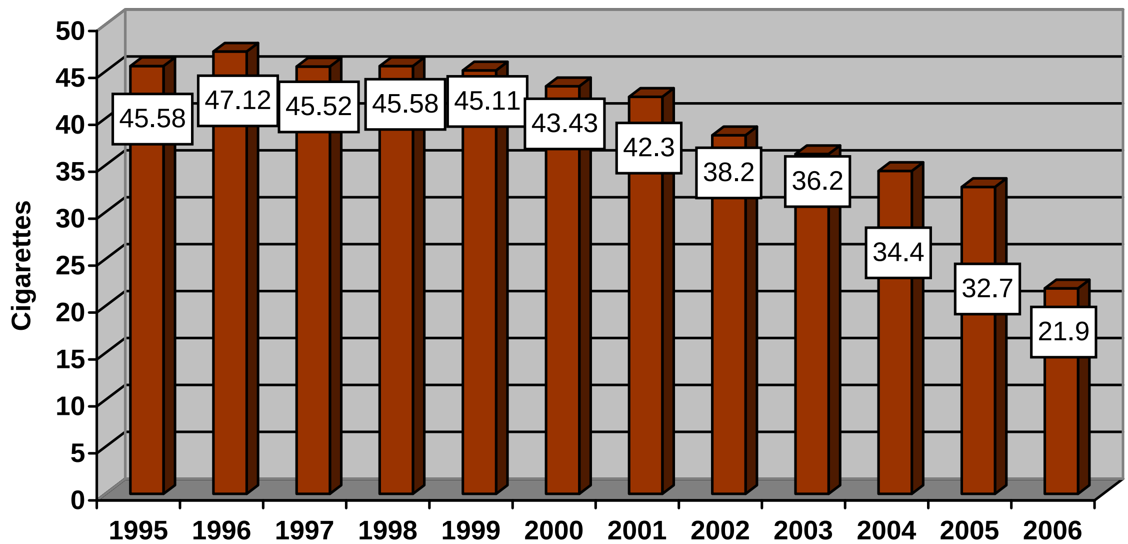
From 2002 to the present day, 'discount' or 'value-for-money' cigarette brands have steadily increased in market share in Canada. Discount brands such as Number 7, Peter Jackson and Macdonald Special, selling at $10-$12 less per carton ($1.25-$1.50 per pack) than 'premium' brands – du Maurier, Export '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 increased from 10% to 49.6%. It appears as though discount brands are here to stay. The year 2006 saw increased competition in this product category with Imperial Tobacco pricing its Peter Jackson brand family lower than JTI-Macdonald's Macdonald Special brand. RBH responded in January 2007 by launching a new discount brand called Accord, pricing it at the same low rate as Peter Jackson. Accord and Peter Jackson are now the cheapest cigarettes on the market offered by Canada's three largest tobacco companies.

Although price is perhaps the number one determining factor for how much people smoke, tobacco control professionals should not necessarily be alarmed by the growing market dominance of discount cigarettes in Canada. The rise in popularity of discount brands may in fact help in our efforts to curb cigarette consumption, so long as governments through tax increases occupy the price room that has opened up.

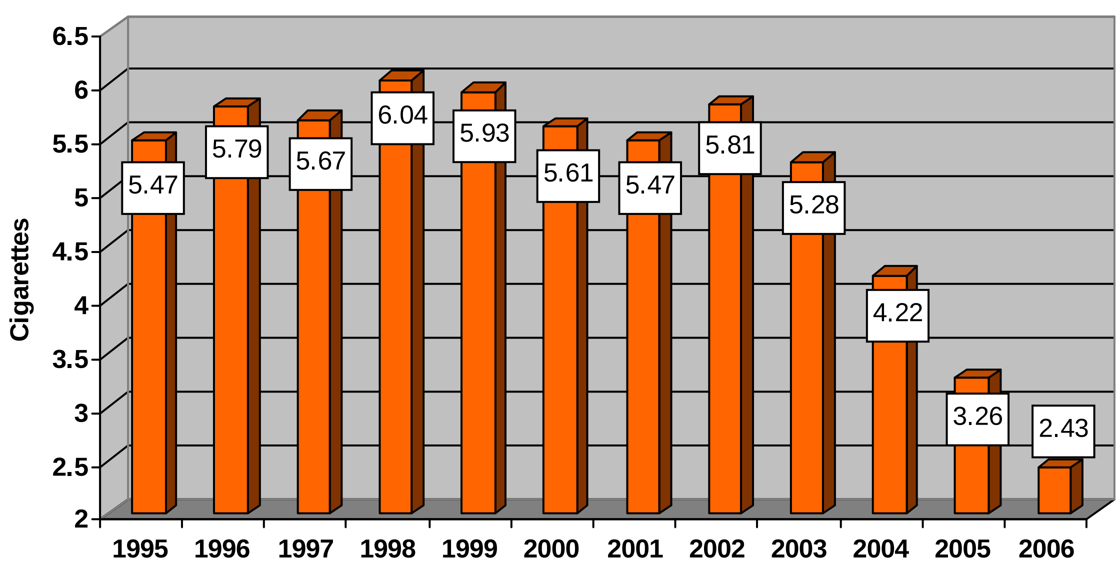
Because of the increasing market share of cheap tobacco products in Canada, we've added a new section on discount cigarettes in this report (page 11). We will continue to watch this new segment of the market closely. For more detailed analysis, please refer to "Discount cigarettes and other cheap tobacco products" available on our website: www.nsra-adnf.ca

TOBACCO MARKET

Canadian sales of Canadian-made cigarettes (in billions of cigarettes)
(a large portion of the recent decline is due to Imperial Tobacco Canada's decision to transfer a large portion of its production of Canadian brands to Mexico)

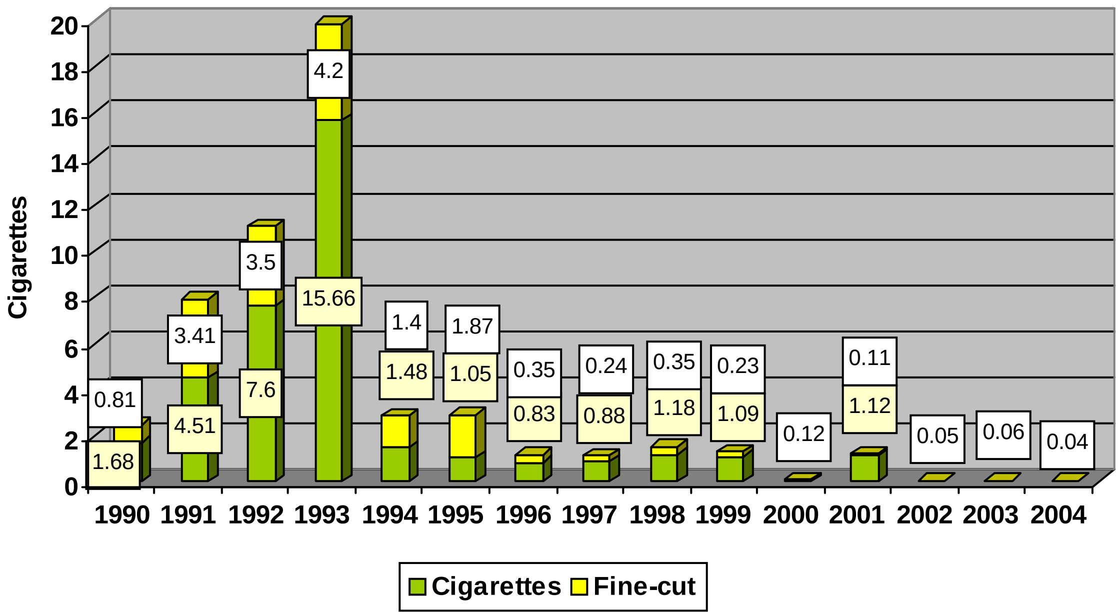


Domestic fine-cut sales
(in billions of cigarette equivalents: 0.7 gr = 1 cigarette)

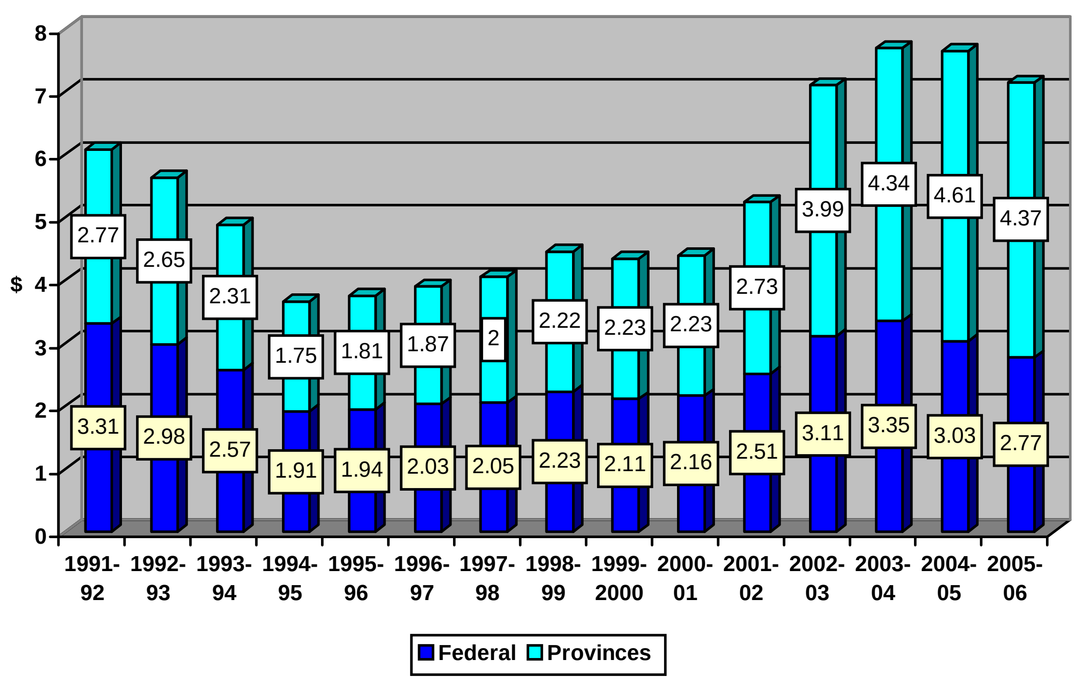


Cigarette and fine-cut* exports (in billions of cigarettes: 0.7 g = 1 cigarette)

*since only one or two companies export cigarettes and fine cut en masse, Statistics Canada has stopped releasing data for the time being, citing confidentiality reasons

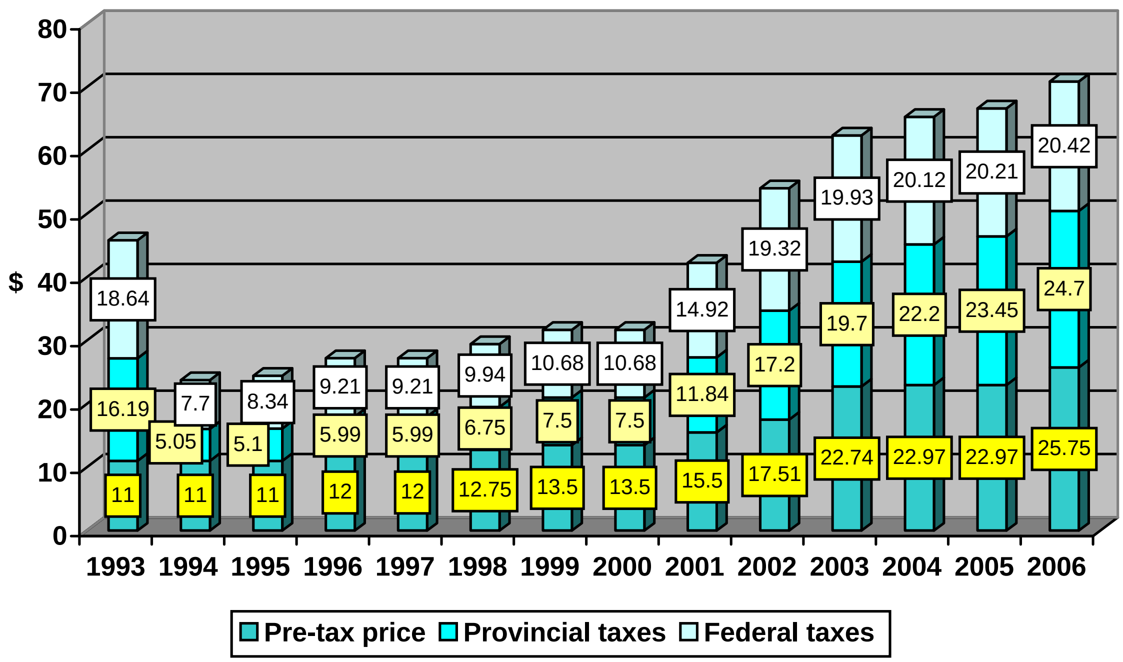


Federal and provincial tax revenues (in billions of dollars)
(This graph does not include GST and provincial sales taxes)



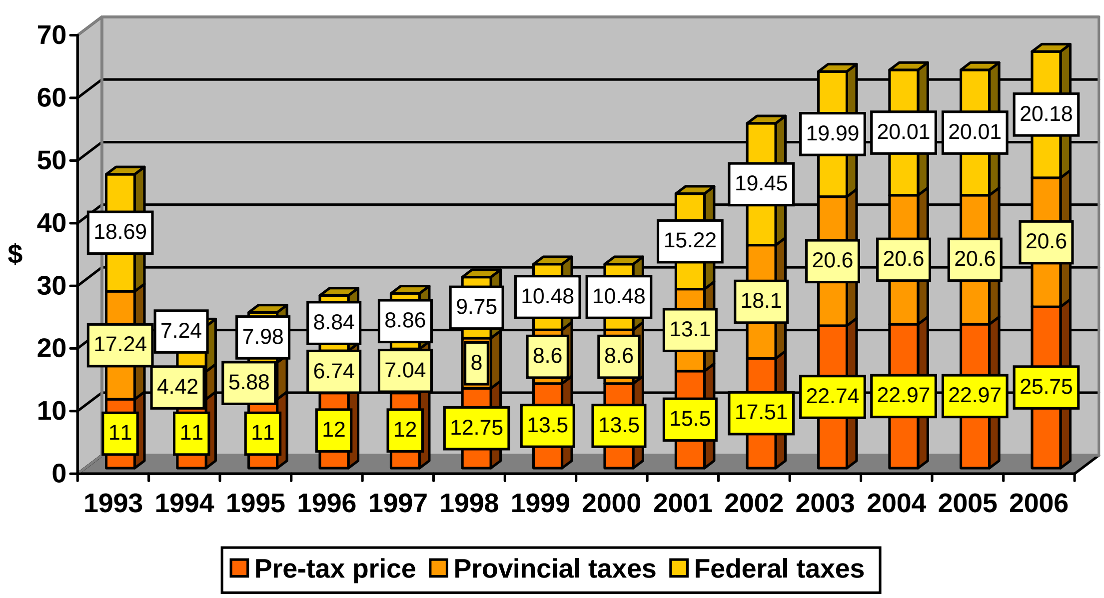
Taxes per carton of 200 cigarettes in Ontario (includes PST & GST)

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.

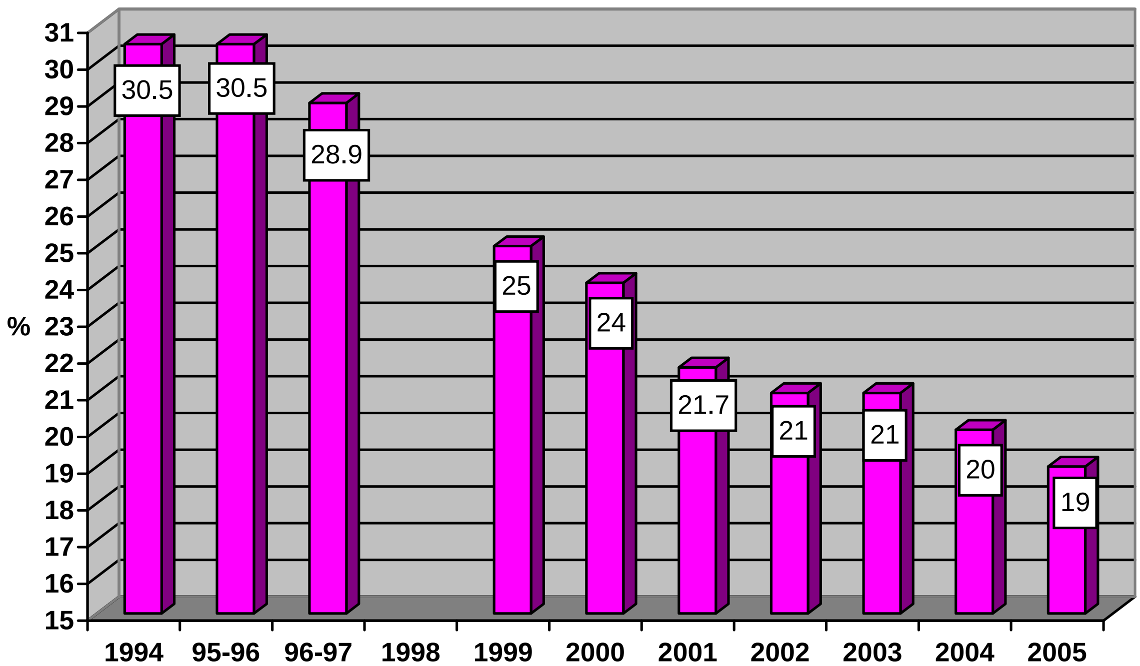


Taxes for a carton of 200 cigarettes in Quebec (includes PST & GST)

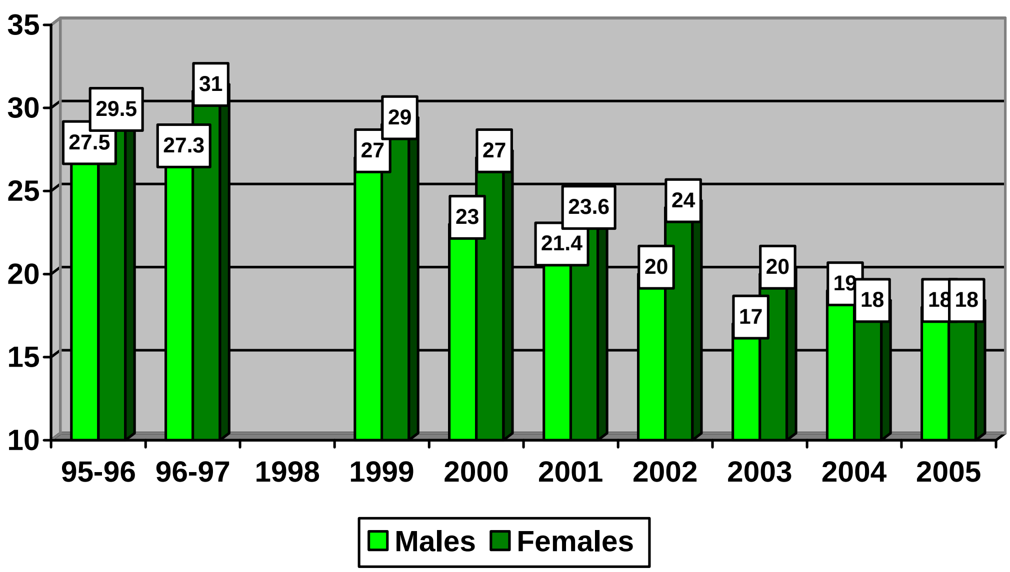
Note: Recent price data does not seem to include the full effect of discounting. Information sources for pre-tax price varied over time, so don't consider this a comparable data series.



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

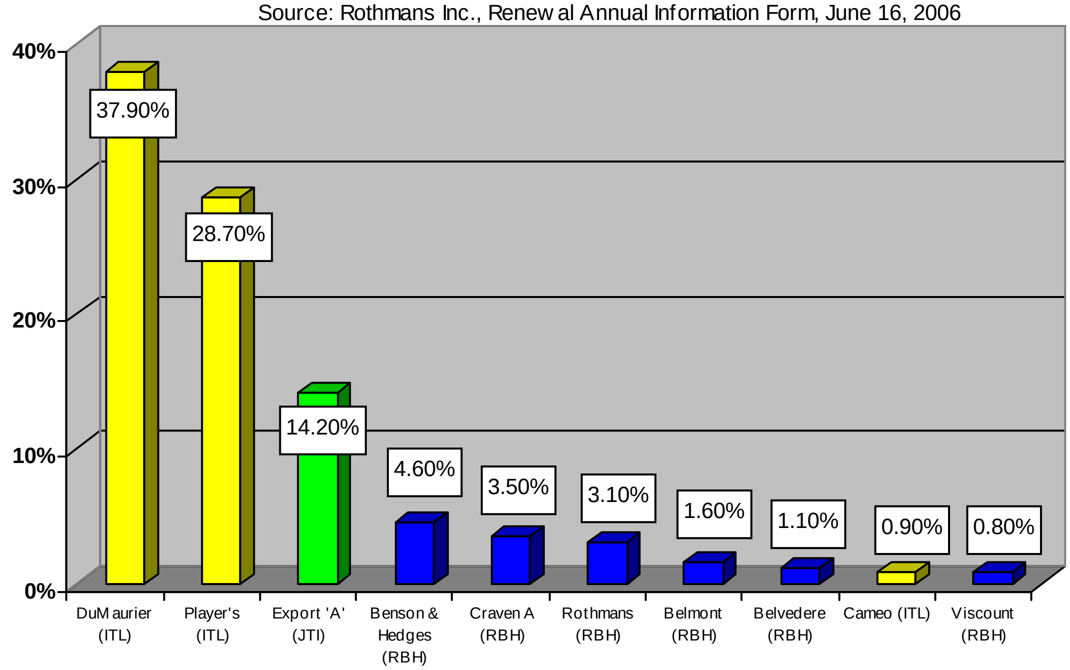


Smoking prevalence in Canada, 15 to 19 years old (current)



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

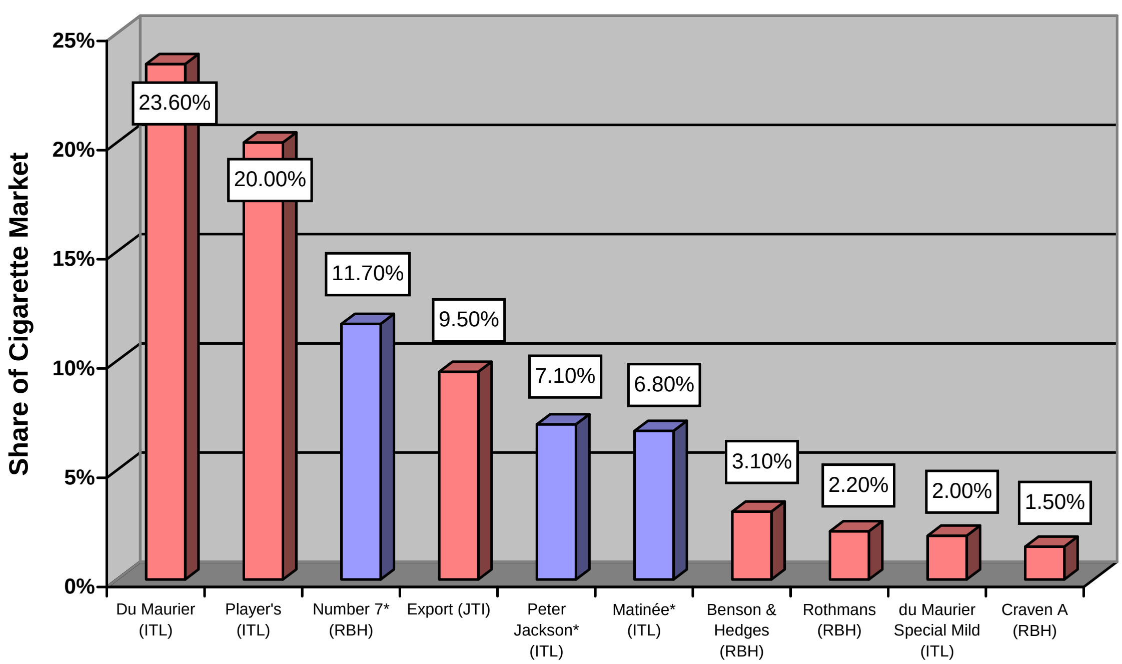
Source: Rothmans Inc., Renewal Annual Information Form, June 16, 2006



Top 10 cigarette brands in Canada in the year ending Dec. 31, 2004

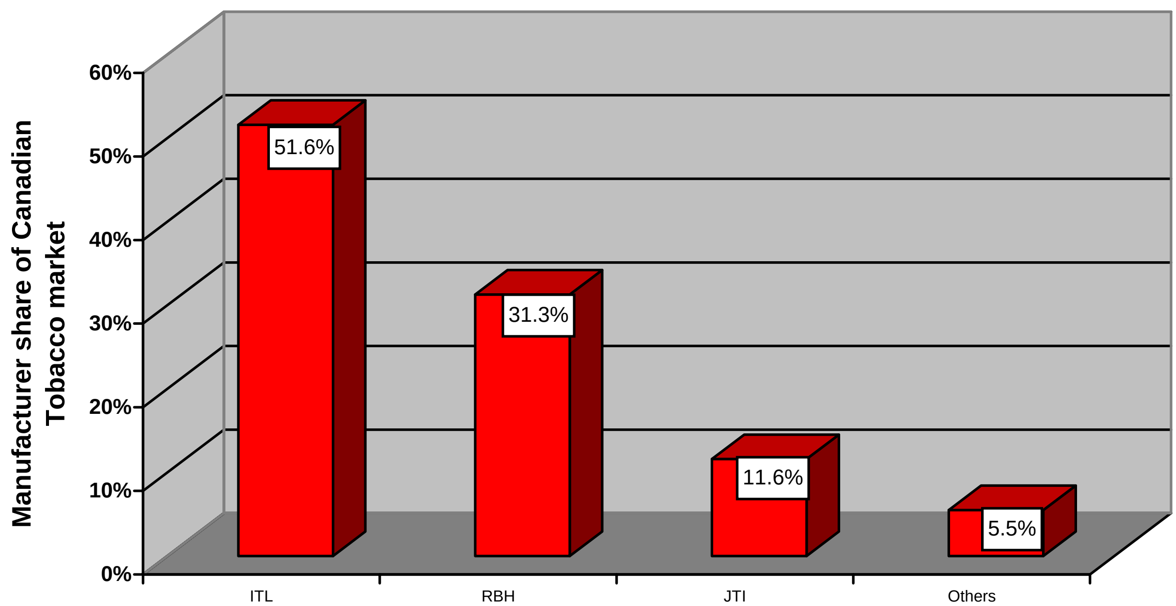
* symbol and blue colour indicates a discount or value-for-money brand

Note: data not available past 2004 due to Imperial Tobacco Canada no longer reporting

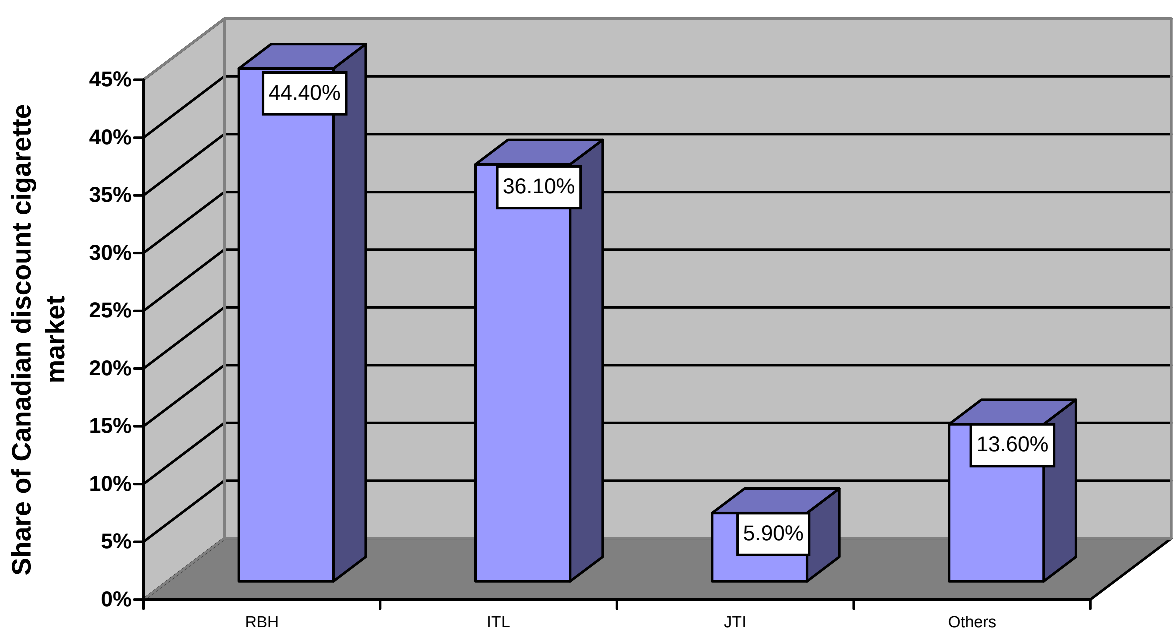


Overall manufacturer share of Canadian tobacco market for 12 months ending March 31, 2006

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



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



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 (brands: Number 7, Canadian Classics), followed quickly by Imperial Tobacco (brand: Peter Jackson). In May 2004, Imperial Tobacco slashed prices on its third-largest brand, Matinée, effectively making it a discount brand also. Amongst all the discount brands sold by Canada’s Big 3 manufacturers, RBH’s Accord and Imperial Tobacco’s Peter Jackson are currently the cheapest on the market.

As a result of these trends, a substantial part of the Canadian market (49.6% from April 1, 2005 thru March 31, 2006) is now made up of fine cut tobacco and discount cigarette brands, selling at $10-12 less per carton ($1.25-$1.50 per pack of 25) than premium brands. Product display ‘power walls’ across the country are now covered with price signs.

In fiscal year 2006, the Big 3 manufacturers’ most popular discount cigarettes were:

RBH: Number 7 (29.2% [*]), Canadian Classics (19.9%), Mark Ten (6.1%)

ITL: Matinée, Peter Jackson, Medallion

JTI: Macdonald Special, Vantage

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.

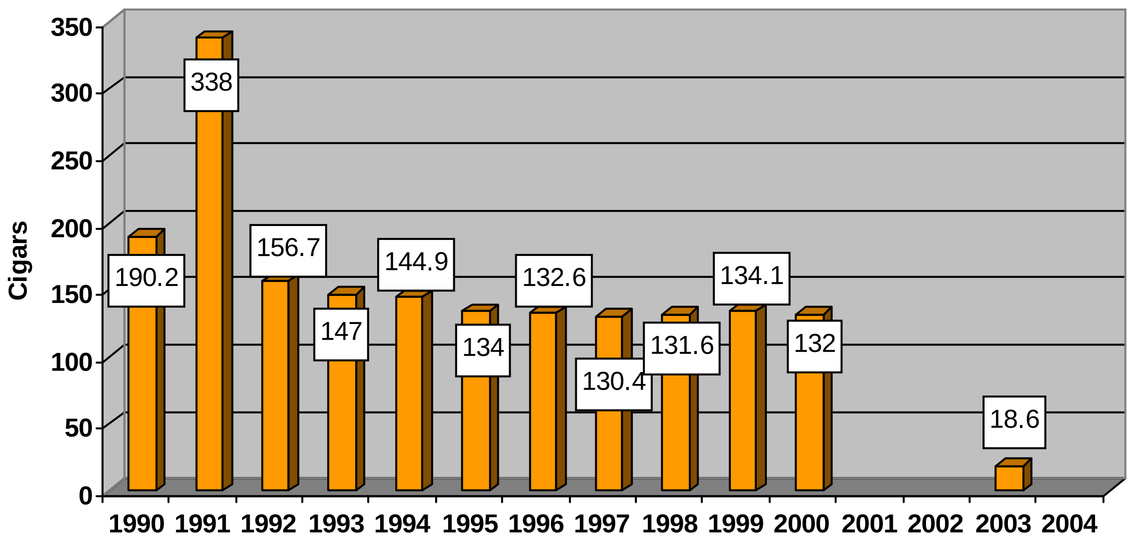
Other medium-sized competitors in the discount cigarette market include Grand River Enterprises, Tabac A.D.L. Tobacco, and Bastos du Canada Limitée (brand: Smoking). There are also several smaller competitors that produce low-cost cigarette brands, such as Lanwest Manufacturing, Dynasty Tobacco, Tabac 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, producing about as many cigarettes as JTI-Macdonald, which has 11.6% of the Canadian domestic tobacco market. 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 hard to get a precise grasp on its financial performance and production levels.

[*] per cent of company’s total sales volume

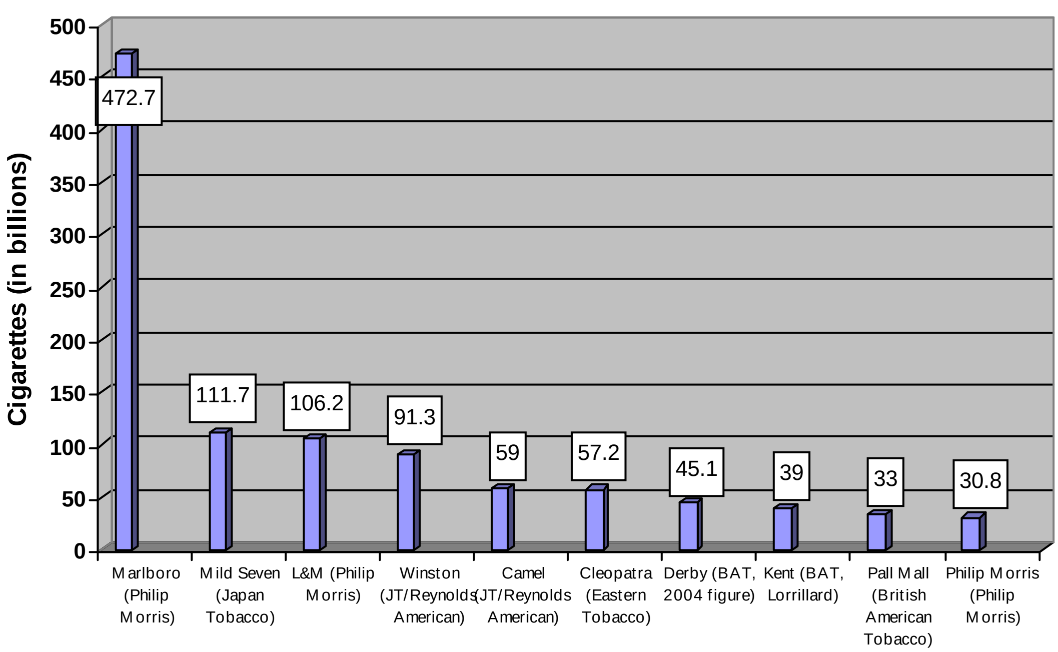
Domestic cigar sales (in millions of cigars)

*because only one or tw o companies are selling cigars en masse, Statistics Canada has stopped releasing data for the time being, citing confidentiality reasons



Top 10 cigarette brands worldwide (2005)

Sources: Japan Tobacco Annual Report 2006, British American Tobacco Annual Review 2005



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 operation 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 market are du Maurier, Player's and Matinée.

LOCATION

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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 October 2006, Imperial Tobacco Canada launched its *Let's Talk* initiative, an attempt to dialogue with stakeholders on three issues: illicit trade, youth smoking prevention and harm reduction in the context of tobacco use. Imperial says the results of the initiative "will form the basis for the company's first independently audited Social Report in 2007." The company claims that *Let's Talk* is just another example of its commitment to corporate social responsibility (CSR). Public health professionals should remain extremely skeptical of this initiative as it is 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 2006, Imperial implemented Direct to Store Delivery (DSD) to retailers across Canada, a system its parent company, British American Tobacco (BAT), has been running for years in Brazil. Imperial said the move would create about 1,000 new jobs for Canadians through positions at Imperial and through the company's association with transportation, information technology and warehousing partners. It is the first Canadian tobacco company to implement this delivery system at a national scale. Previously, Imperial's tobacco products were sold to retailers through licensed wholesalers. It claims that by cutting out wholesalers, it is able to pass along savings of up to $4 per carton to retailers. In response, Costco Wholesale Canada filed a $135 million lawsuit against Imperial, demanding $50 million from Imperial for allegedly engaging in illegal trade practices, another $50 million for breach of confidence and misuse of confidential information, and a further $35 million for breach of contract. Costco, Canada's largest wholesaler, asked the Ontario Superior Court to declare illegal Imperial's plan to sell products to retailers at a lower price than to Costco.

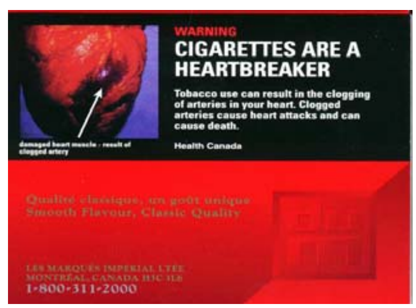
Concurrent with its implementation of DSD, Imperial discontinued providing sales data information to the Canadian Tobacco Manufacturer's Council (CTMC). Historically, Canada's three major tobacco manufacturers shared volumetric shipment information through the CTMC.

Imperial also applied for a release from its financial reporting obligations in Canada. The various securities commissions across Canada granted the release since the company had repaid its outstanding debts and the company's shares are entirely privately held. Previously, the sales volume information disclosed by Imperial through the CTMC and its financial statements filed with the securities commissions provided tobacco control professionals with the opportunity to study overall industry volumes, cigarette category market share and various other useful tidbits of information about tobacco companies. The end of this information sharing makes the job of tracking the business operations of these companies more difficult. But according to British American Tobacco (BAT), Imperial's parent company, Imperial's profit in Canada was down £39 million (roughly $81 million CAN$), to £280 million (roughly $584 million CAN$) in 2006.[1] Its total cigarette market share was down one point to 53 per cent.

British American Tobacco, saw its profits rise seven per cent in 2006. 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. It sold 2.03 trillion cigarettes in 2006 in the massive Chinese market. Philip Morris International is the world's second-largest, selling tobacco in 160 countries worldwide. BAT has begun selling a snus-style, semi-moist smokeless tobacco product in test markets in South Africa and Sweden.

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

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
Kool				
Marlboro				
Matinée				
Medallion				
Peter Jackson				
Player's				
Sweet Caporal				

[1] Exchange rate of 2.08858760, Bank of Canada, 2006 Average of 250 days. www.bankofcanada.ca/pdf/nraa06.pdf

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
"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)

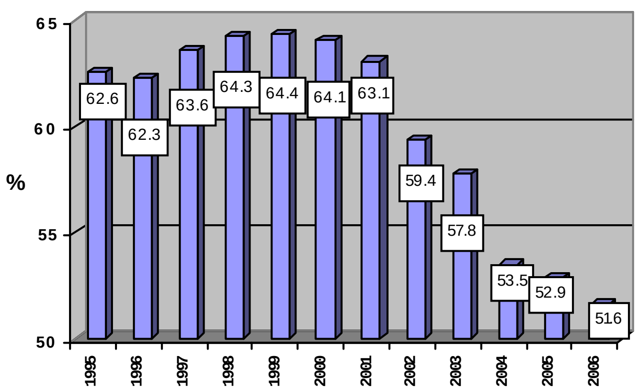
Matinée
"So, in the case of Matinee where we talk about a trademark as youthful, popular and offering the mild brands for women, with Matinee we knew that we had the positioning of being mild and being for women. Consumers told us that that's what Matinee is, they're mild cigarettes and they're for women." (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)

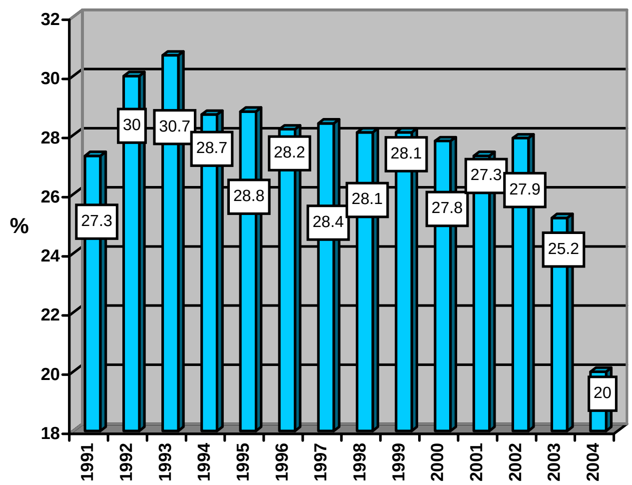
CANADIAN MARKET SHARE

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

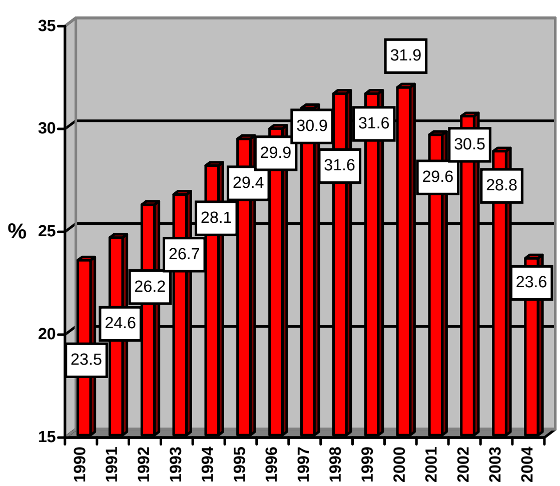
Source: Rothmans Inc., Renewal Annual Information Form, June 16, 2006



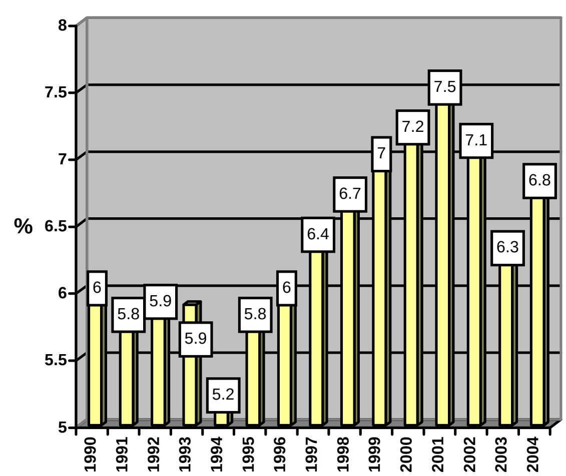
Player's market share



du Maurier market share

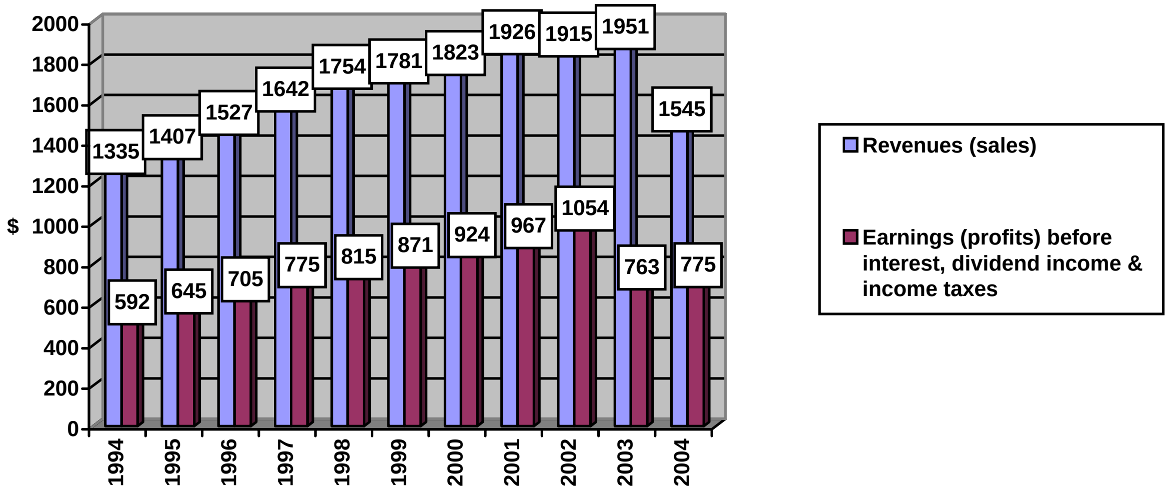


Matinée market share



REVENUES AND EARNINGS

In millions of dollars (fiscal year ends December 31)



EMPLOYMENT

After it moves all its manufacturing to Mexico in 2007, Imperial Tobacco will employ about 450 workers in Canada.

OWNERSHIP

On February 1, 2000, British American Tobacco, the 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.

BRITISH AMERICAN TOBACCO

KENT

PALL MALL

DUNHILL

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

Although its sales volumes have been shrinking, Rothmans recently claimed that it may be taking market share away from industry leader Imperial Tobacco Canada. In reporting its financial results for the nine months ended December 31, 2006, Rothmans said its sales volumes continue to shrink, but the speed of this decline has slowed. Domestic sales volumes for the Canadian industry as a whole shrank 10 per cent in the first two quarters of the 2007 fiscal year. In a significant departure from that industry trend, Rothmans sales were down only 3.1 per cent in the third quarter. However, since Imperial has stopped reporting sales volumes to the Canadian Tobacco Manufacturer's Council, Rothmans admitted that it is impossible to accurately determine its relative performance. Another contributing factor could be the warm weather Canadians experienced this past fall. Canadians tend to smoke less during the cold winters, but because of the unseasonably warm weather between October and December, the seasonal drop in consumption did not occur.

Sales at Rothmans, Benson & Hedges, minus excise duty and taxes, increased to $153.6 million in the third quarter of fiscal year 2007 compared with $145 million in the third quarter of fiscal year 2006.

In trying to explain these numbers, Rothmans suggested it could be capitalizing on volatility in the market caused by Imperial's new Direct-to-Store distribution model.

Rothmans remains the industry leader in the discount market, and moved to solidify its No. 1 position further at the end of the third quarter by launching its new Accord brand nationally. It is the lowest-priced RBH offering in the discount cigarette category, and is designed to compete with Imperial Tobacco's Peter Jackson brand. Accord and Peter Jackson are the cheapest discount brands on the market offered by the big three tobacco companies in Canada.

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 to give us 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)

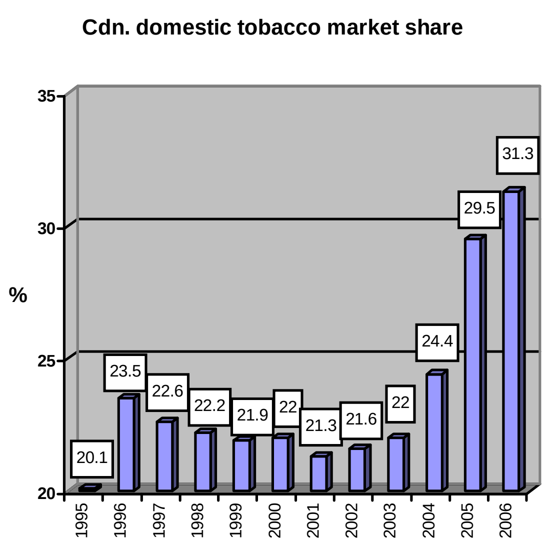
Craven A
"Craven's conservative, unpretentious heritage appeals to consumers who seek substance, quality and a truer reflection of today's basic, core values." (Rothmans, Benson & Hedges, 1995)

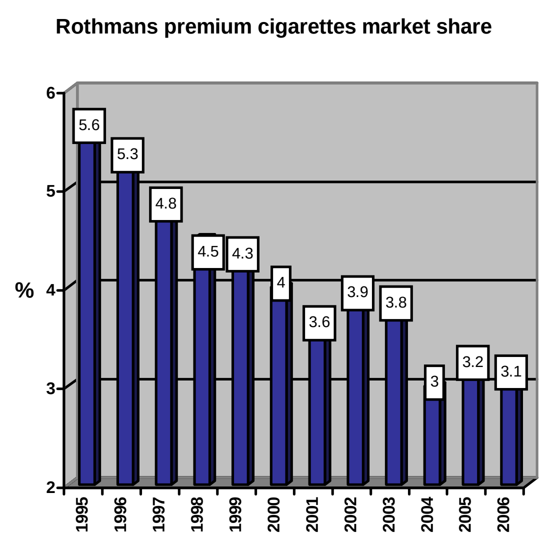
Rothmans
"Rothmans is the premium quality, full-flavoured King Size specialist with a unique international image. Rothmans' aspirational image stems from a sense of heritage balanced with a modern, dynamic outlook." (Rothmans, Benson & Hedges, 1996)

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)

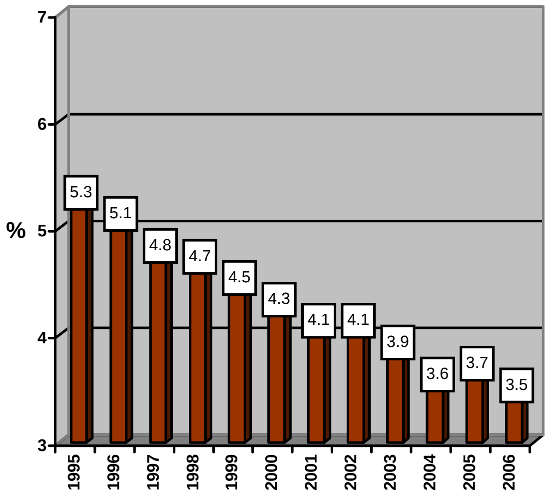
Belvedere
"Belvedere is the young, fun and sociable brand that offers smooth, full flavoured smoking satisfaction to contemporary young men and women.... I am active, energetic and enjoy socializing with others but I am not a leader. Unpretentious and down to earth, I follow the trends but don't want 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

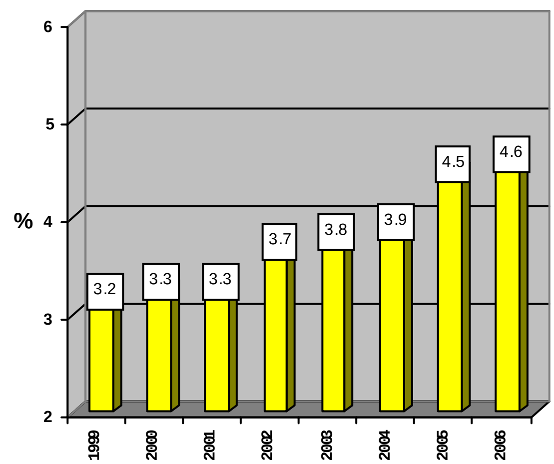




Craven A premium cigarettes market share

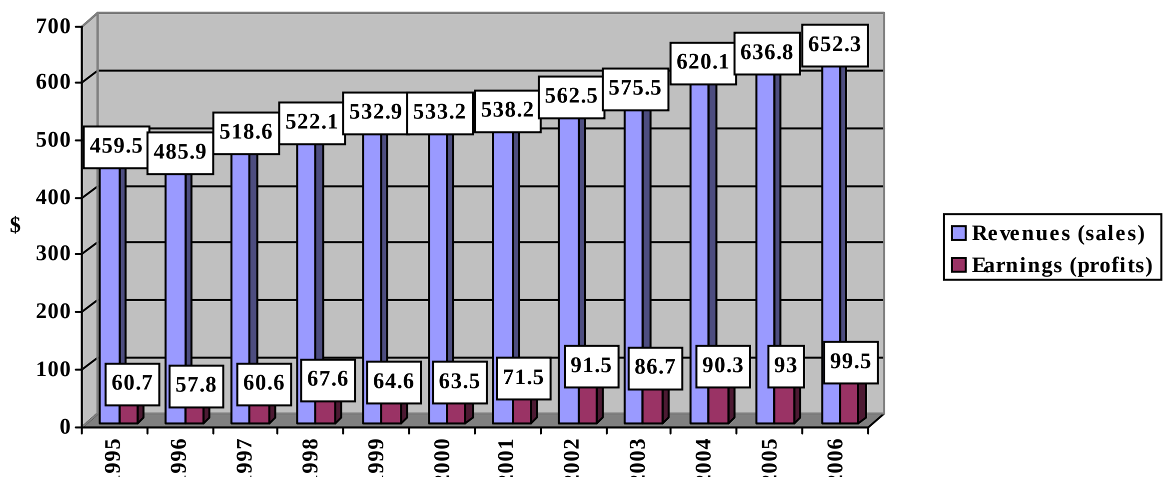


Benson & Hedges premium cigarettes market share



REVENUES AND EARNINGS

In millions of dollars (fiscal year ends March 31)



EMPLOYMENT

As of March 31, 2006, RBH had 745 full time and part-time 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, which in turn is owned by Altria Group Inc.

Philip Morris is the world's leading manufacturer of cigarettes. The company's main brands include Marlboro, Virginia Slims and L & M. Altria Group Inc. owns many other subsidiaries, including, up until March 2007, 89% of Kraft Foods. Altria spun off Kraft Foods at close of trading on Friday, March 30, 2007. Altria shareholders received about 0.69 of a Kraft share for each Altria share. Altria said the split will help Kraft's ability to make acquisitions, while allowing managers to focus on their respective businesses and give both companies greater debt capacity.

Analysts say New York-based Philip Morris could split its domestic and international tobacco divisions later this year.

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 "McDonald Brothers and Co. Tobacco Manufacturers" In 1974, RJ Reynolds Industries purchased the company. That U.S.-based company then sold its international operations, including RJR-Macdonald, to Japan Tobacco Incorporated in 1999. 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

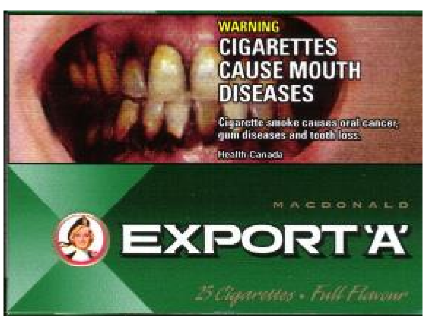
JTI-Macdonald has been struggling in Canada, despite the high profitability of the Canadian market. This is largely because of actions taken by the Quebec government to recoup hundreds of millions of dollars it claims it is owed by JTI-Macdonald due to the alleged smuggling of cigarettes and tax evasion that the Big 3 tobacco manufacturers engaged in in the early 1990s.

JTI, Canada's third largest tobacco company, has failed to capitalize on the growing 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 segment of all three of Canada's largest manufacturers, but Imperial Tobacco Canada and Rothmans, Benson and Hedges have since adjusted. ITL's Peter Jackson and RBH's Accord brands are now the cheapest discount brands on the market.

JTI-Macdonald claims that its most popular cigarette, Export 'A', has solidified its position as the No. 3 premium brand in the Canadian market. However, since the premium segment has been shrinking, that's not necessarily positive. JTI's total share of the Canadian market was only 11.6% in 2005.

In July 2006, JTI-Macdonald moved its Canadian and Americas regional corporate headquarters to Mississauga, after 15 years at First Canadian Place in downtown Toronto.

MAJOR BRANDS



Cigarettes
Camel
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)

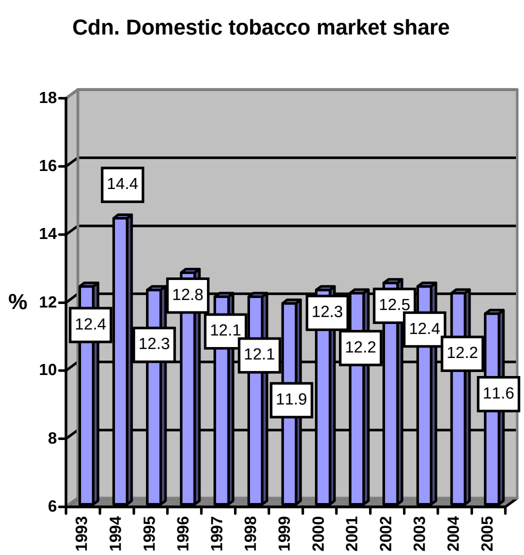
"In order to make further inroads into the younger segment, we must continue to project an image that is consistent with the needs and values of today's younger smokers." (RJR Macdonald, 1989)

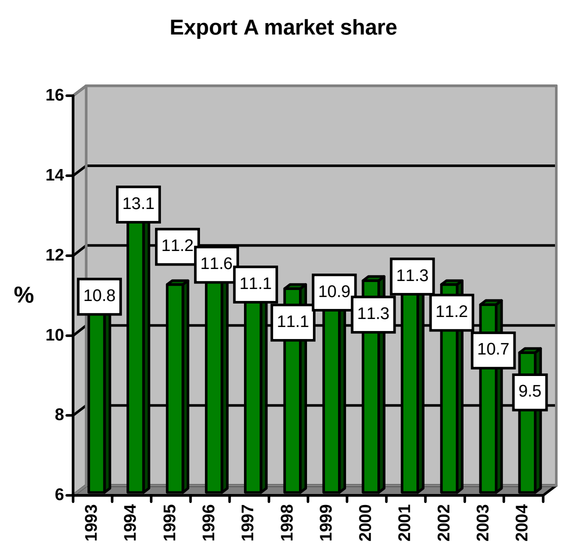
Export 'A'
"The Export imagery will dimensionalize the breed of men who are masculine, independent, adventurous and possess the qualities of natural leadership... Women are attracted to these men because of their youthful virility, independence and spirit of adventure." (RJR Macdonald, 1982)

"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

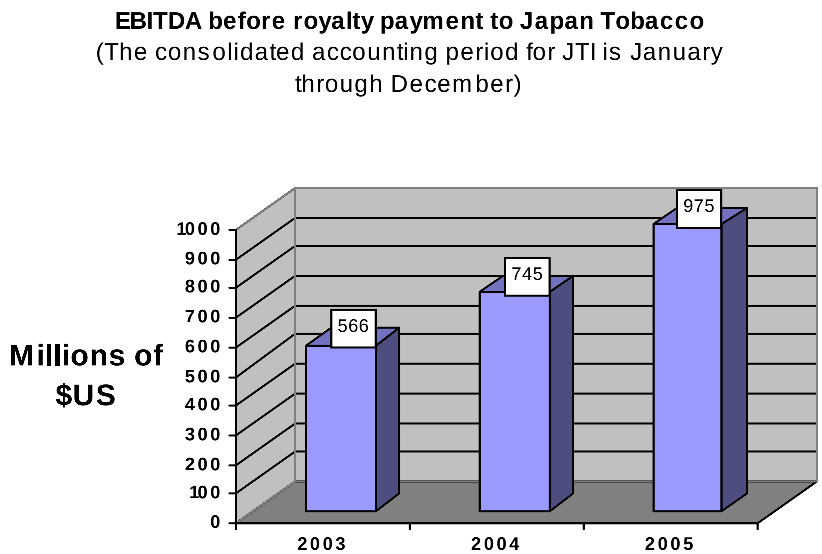




REVENUES AND EARNINGS

JTI-Macdonald Corp. is not a publicly traded company. Information is therefore 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.



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.

JT
JAPAN TOBACCO INC.

OTHER CANADIAN TOBACCO COMPANIES

The Canadian tobacco market is mostly dominated by the Big 3 cigarettes 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

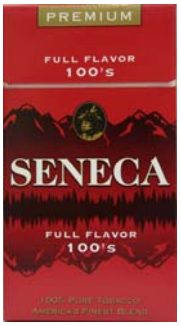
Head office address:
PO Box 750, 2176 Chiefswood Road
Ohsweken, Ontario
N0A 1M0
Tel: (519) 445-0919
Fax: (519) 445-0257
Website: www.mohawkgre.com

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 11.6% 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, it is hard to get a precise grasp on its financial performance and production levels.

GRE's tobacco products are usually sent by truck to free trade zones in California, Florida, Idaho, Nebraska, Nevada, New York and Oklahoma. The 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 brands (such as Seneca).

GRE brands sold in Canada include Sago and Putter'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, it ships more cigarettes in Canada 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/or traditional outfits to market its products (as indicated in the photos below). Mohawk brand cigarettes are being marketed in Germany as "real quality cigarettes from real Indians."

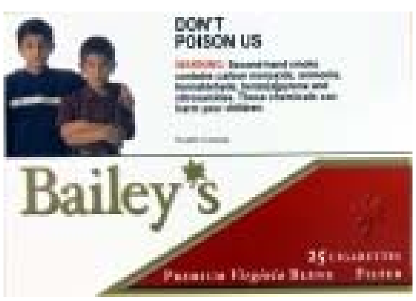
LOCATION

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

As reported in September, 2005 in Prince Edward Island's (PEI) The Guardian newspaper, Choice Tobacco was sold to a Québec company. Choice was founded in 1986 by former tobacco growers Joe Spriet, Frank Lava and Lucien Viaene, as a small tobacco manufacturing enterprise following a federal government acreage buyout of the tobacco industry on the island.

The new owner, Abenaki Enterprises, maintains two manufacturing facilities, one in PEI, and the other in Odanak, Québec, a First Nations reserve. 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 and sells its products across North America and Europe.

LOCATION

Head office address
1000 Boul. St. Jean Ste. 319
Point-Claire, Québec
H9R 5P1
Telephone: 514-697-5577
Fax: 514-697-6122
Website: www.ustinc.com

OFFICERS

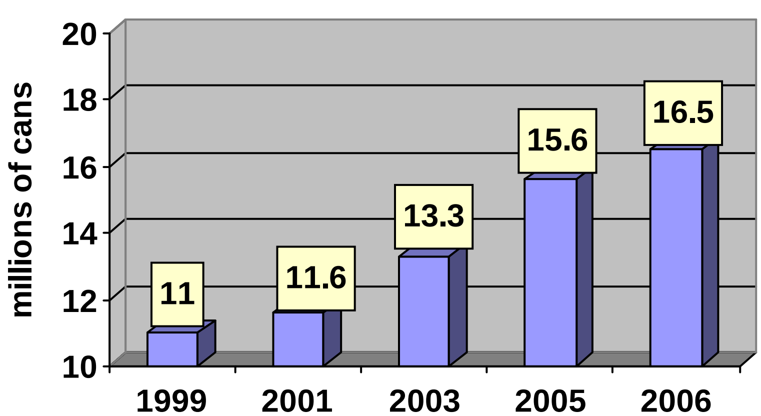
Edward Koban
President

NEWS

National Smokeless Tobacco Company, Limited (NSTC) is the largest company selling smokeless tobacco products in Canada. It imports and distributes the two top-selling brands of smokeless in Canada, Copenhagen and Skoal.

Although sales have increased steadily for NSTC, 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 International Wine & Spirits Ltd.

USSTC has a 90% share of the premium smokeless tobacco market in the United States, but will face increasingly stiff competition from Philip Morris, if it does a general launch of its Taboka smokeless, spit-free product, which it test-marketed in 2006.

UST

U.S. Smokeless TOBACCO CO.

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