

Domestic Tailor-Made:

The decline in the domestic tailor-made industry continues. On a twelve month basis to October, the CTMC domestic tailor-made industry consists of 30.7 billion cigarettes, a decline of 13.6% from October 1992. This portion of the industry represents 60.3% of the total CTMC tobacco industry on a twelve month basis to September. Three month figures show this contribution has fallen to 55.6% of the total market. It is estimated that since March of 1993, domestic tailor-made has lost approximately 1.4 billion cigarettes in volume to the DFX tailor-made portion of the market.

Performance within this portion of the market is as follows:

DOMESTIC TAILOR-MADE MARKET (CTMC)			
	12 Months October 1992	12 Months October 1993	Change
Total Volume	35.5 bln.	30.7 bln.	-13.6%
I.T.L. Share	65.7	67.5	+1.8
R.B.H. Share	21.1	20.3	-.8
R.J.R. Share	13.3	12.2	-1.1

As volume moves out of domestic tailor-made, I.T.L. continues to enjoy slight share growth within the category, although at slower rates now that its products are more widely available at "cheaper" prices through alternative channels. R.J.R. and R.B.H. are both experiencing a slowing in the decline of their shares in the short term. The launch of three "smooth" options by R.J.R. under the Export A trademark is now national in scope. Early indications show levels of awareness among smokers at about 25% (vs. approximately 35% for Player's Light Smooth at a similar point in its launch). Most awareness is obtained in-store (40%) and has been aided by availability of the products in a flat tin. Currently I.T.L. is launching collectible tins for the Player's trademark family at a slight premium in price. Early indications are the tins are being fairly well received and are perceived to be of a higher quality compared to the Export A tins by consumers. We will continue to monitor both activities closely.

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DFX Tailor-Made

I.T.L.'s decision to re-enter the "general trading" portion of this market has resulted in dramatic growth in DFX tailor-made volumes since March of 1993. We estimate this portion of the market has expanded by approximately 3 billion cigarettes, since I.T.L. re-entered, drawing volume from both the domestic tailor-made and fine cut markets.

Currently performance in the DFX tailor-made portion of the industry is as follows:

DFX TAILOR-MADE MARKET (CTMC)			
	12 Months Oct. '92	12 Months Oct. '93	Change
Total Volume	8.0 bln.	12.8 bln.	+60%
I.T.L. Share	37.0%	39.3%	+2.3
R.B.H. Share	41.0%	31.0%	-10.0
R.J.R. Share	22.0%	29.7%	+7.7

In the short-term I.T.L.'s share growth is picking up. Share on a three month basis to October is 47.3%. Since re-entering this portion of the market, I.T.L.'s volume in DFX tailor-made has grown 78% on a twelve month basis. Improved availability of Player's products and increased distribution of all I.T.L. products is driving this growth.

R.B.H. is being particularly hard hit in this portion of the industry due to the presence of du Maurier against trademarks such as Rothmans. On a three month basis to October, R.B.H.'s share stands at 26.4%. R.B.H.'s share has declined over 20%, on a twelve month basis, since I.T.L. re-entered this portion of the industry.

By comparison R.J.R.'s share on a three month basis is also 26.4%. R.J.R. is also experiencing share declines due to the availability of I.T.L. products, but it has been able to hold share better than R.B.H. due to the strength of the Export trademark and its highly competitive pricing. However, as Player's becomes increasingly available, we are witnessing a slow but steady decline in R.J.R.'s share of DFX tailor-made

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Consumer tracking studies continue to indicate availability and purchase of smuggled tailor-made products is increasing. It is estimated 1 in 4 cigarettes smoked in Canada in 1993 will be smuggled (vs. 1 in 178 in 1988). The price of smuggled tailor-made is also declining. To date consumers' average purchase price of a carton of 200 cigarettes based on those claiming to purchase through alternative channels, is \$26.25 vs. \$27.80 in 1992. In addition, an increasing number of consumers (approximately 40%) claim to be able to purchase a carton of cigarettes for between \$22.00-\$25.00.

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Domestic Fine Cut:

As the legitimate domestic low cost alternative for Canadian smokers, the domestic fine cut market continues to experience extensive competitive activity. All major Canadian companies as well as a large number of smaller producers continue to compete in the price/value portions of the fine cut market (i.e. bonus, low-weight).

I.T.L. continues to make share gains in this portion of the industry. Although the launch of Export A in the bonus category has cut I.T.L.'s share from 100% to 88% in the category on a twelve month basis, strong share performance in the traditional 200 gram category (87.7% on a three month basis) and slow steady growth in the low-weight category (20.6% on a three month basis) have allowed for slight gains on a twelve month basis. Growth has been difficult due to the poor performance of the Matinee trademark in fine cut. Growth experienced, in particular in the low-weight category, is almost exclusively coming from Player's, although it is also underperforming. Currently work is underway to address our trademarks in fine cut and develop strategies for expanding our share.

DOMESTIC FINE CUT MARKET (CTMC)			
	12 Months Oct. '92	12 Months Oct. '93	Change
Total Volume	5.5 bln.	4.5 bln.	-18.2%
I.T.L. Share	41.4%	44.5%	+3.4
R.B.H. Share	33.9%	34.1%	+ .2
R.J.R. Share	25.0%	21.4%	-3.6

The domestic fine cut portion of the industry continues to decline in volume as "cheaper" priced tailor-made continues to expand in availability. Hardest hit has been traditional weight fine cut, which are the most expensive fine cut products. In October 1992, it accounted for 60% of domestic fine cut, as of October 1993, it accounted for only 43%; by comparison low-weight fine cut currently accounts for 47% and bonus weight fine cut 10%.

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R.B.H. continues to enjoy solid performance in this portion of the market due to its strong share in the growing low-weight category. R.B.H.'s share on a three month basis in low-weight stands at 64.2%. R.J.R. by comparison, has been unable to sustain its share in both the traditional and low-weight categories over the short-term and therefore continues to experience significant share declines in this portion of the industry (three month share has fallen to 19.8%).

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DFX Fine Cut:

Despite the availability of "cheaper" priced tailor-made through alternative channels, DFX fine cut continues to grow, albeit at a rate much slower than DFX tailor-made.

DFX FINE CUT MARKET (CTMC)			
	12 Months Oct. '92	12 Months Oct. '93	Change
Total Volume	2.0 bln.	2.5 bln.	+25%
I.T.L. Share	17.9%	18.8%	+ .9
R.B.H. Share	12.8%	23.8%	+11.0
R.J.R. Share	69.3%	57.4%	-11.9

R.J.R. continues to dominate this market due to full distribution and very competitive pricing. However, R.B.H. on the strength of the availability of Superoll in "general trading" and I.T.L. due to improved availability and distribution through Philip Morris, are both gaining share. I.T.L. is currently working to address the issue of price competitiveness compared to R.J.R., while ensuring distribution of a full range of our fine cut products, specifically our low-weight and bonus options.

Summary:

Coping with price continues to drive consumer behaviour. The tobacco industry in Canada has undergone quite a transformation during 1993 as companies work to ensure their trademarks/products are competing in all relevant sectors of the market. As long as the cost of tobacco products remain high, consumers will continue to seek out price/value options and competitor activity will undertake to provide consumers these options.

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