



THE MARKET

Canadians love their chocolate. The Canadian chocolate market is \$1.3 billion strong, with more than 5 percent compound growth over the last several years. Canadians love their chocolate so much that they consume an average of 5,410 grams annually.* That's the equivalent of everybody eating a chocolate bar every three days. And that's just the tip of the iceberg. The bagged chocolate pieces category has been outpacing the total chocolate market growth for several years. Canadians aren't just buying chocolate for their own consumption; they are buying large-pack chocolate piece candy that they can share with others.

ACHIEVEMENTS

And it's no surprise what brand is leading the pack. The M&M's brand is the largest piece chocolate brand in Canada, with a compounded annual growth rate (42 percent) that outpaces all the top 10 chocolate brands in the country.

The M&M's Brand is sold in more than 100 countries and is the most popular confectionery brand in the world. In North America, retail sales of M&M's candies have topped \$1 billion. The famous M&M's spokescandies have been integral to establishing the M&M's Brand as one of the greatest product icons ever. In fact, *Advertising Week* in New York recently crowned M&M's North America's favourite product icons and slogans of all time.

The M&M's Brand has maintained its leadership in the category through an unwavering commitment to making the essence of "colourful chocolate fun" fresh and relevant to its millions of loyal and new consumers.

HISTORY

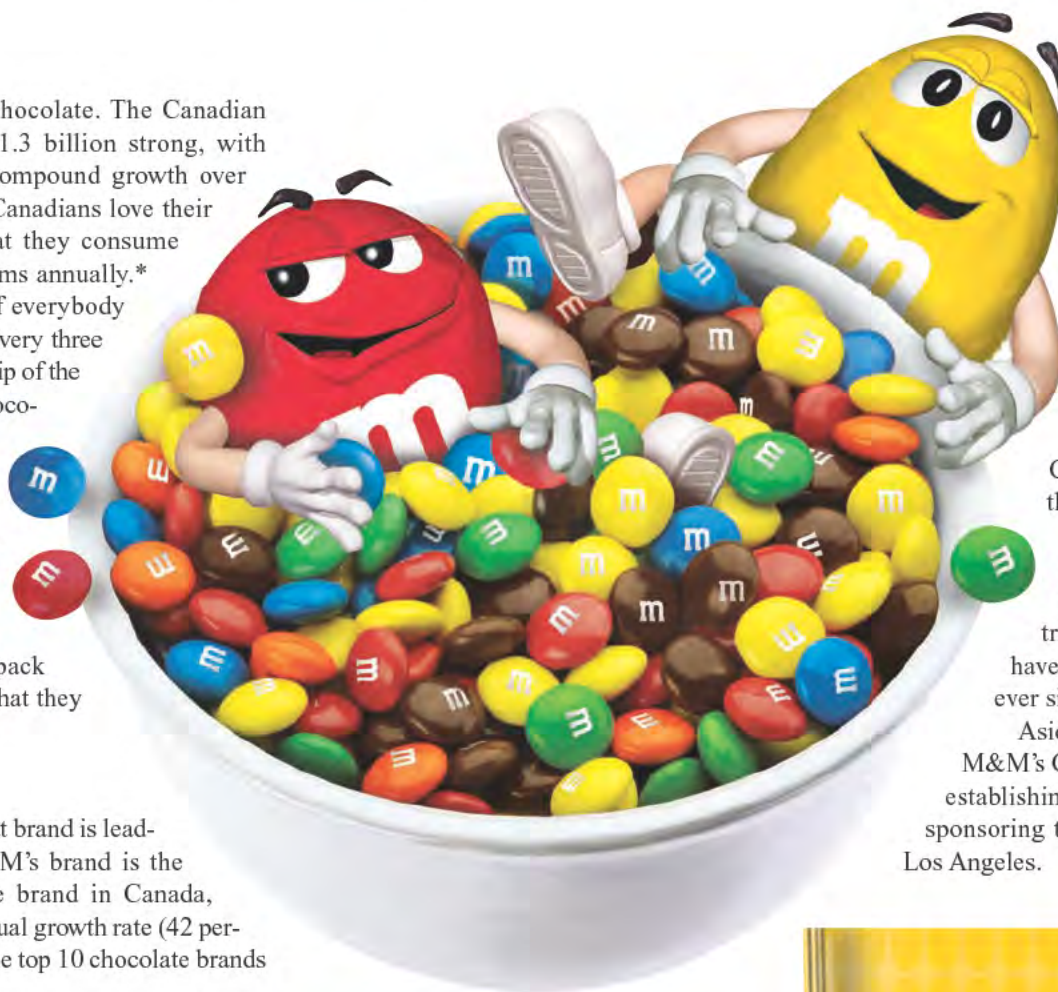
M&M's Chocolate Candies started in one man's kitchen and grew into an international brand. As the story goes, Forrest Mars Sr. was visiting Spain during the Spanish Civil War and encountered soldiers who were eating pellets of chocolate in a hard, sugary coating which kept the chocolate from melting. Inspired by the idea, Mr. Mars went back to his kitchen in America and invented the recipe for M&M's Plain Chocolate Candies. They were introduced in 1941 and immediately became

part of American GI's rations during World War II.

During the 1950s, M&M's Chocolate Candies quickly became a North American household staple, with the help of the now famous advertising slogan "The Milk Chocolate Melts in Your Mouth — Not in Your Hand."

In the 1980s, M&M's Chocolate Candies broadened their horizons by becoming part of the American space program. In 1984, M&M's Candies made their first trip on the space shuttle and have been part of shuttle missions ever since.

Aside from venturing into space, M&M's Chocolate Candies also began establishing an international presence, sponsoring the 1984 Olympic Games in Los Angeles.



As the twentieth century came to an end, the M&M's Brand characters proclaimed themselves the official candy of the new millennium.

THE PRODUCT

M&M's Chocolate Candies are a unique blend of the highest quality milk chocolate with a flavour that is not too sweet or satiating. Individual candies are covered with a thin, crisp, colourful sugar shell that imparts the M&M's Candies texture. The shell colours are bright, shiny and lustrous. The milk chocolate inside and the crisp outside sugar shells provide all the taste; the colour is actually flavourless.

M&M's currently come in five permanent varieties: Milk Chocolate Candies, Peanut Chocolate Candies, Peanut Butter Candies, Almond Chocolate Candies and MINIS Milk Chocolate Candies.

RECENT DEVELOPMENTS

Over the years, M&M's Brand has grown into an icon, while continually adapting to changing times. New developments keep the brand fresh and fun for chocolate lovers.

In Canada, sharing M&M's colourful, chocolate fun is a big part of its success. In 2004, Canada led the North American market by launching M&M's in an innovative Stand up Pouch, making it even easier to share M&M's with a crowd. This step change in the Canadian piece chocolate market yielded 70 percent growth in the first year alone.

Sharing is a big part of every holiday season, and M&M's have helped fuel this sentiment through the seasonal launch of Red and Green Holiday M&M's each Christmas, and the pastel colours of the Easter/Spring special editions.



PROMOTION

The M&M's Brand began its television advertising in 1945, and the M&M's Brand Characters were also introduced that year. Over the decades, Red and Yellow



continued to evolve, eventually becoming one of the most recognized cartoon characters in North America. Green (the first female character) was introduced in 1997, and Orange arrived in 1999.

In 2005, M&M's Brand began an ongoing promotion with the Canadian Breast Cancer Foundation. Special M&M's Chocolate Candies in two shades of pink help further the Foundation's cause; a donation from the sale of the product goes towards the Foundation's goal of realizing a future without breast cancer. Green, the only female character, will act as "spokescandy" for the cause in 2006, which is greatly anticipated by consumers and retail customers across the country.

The characters have also lent their star power to movie promotions. In 2004, *Shrek 2* was celebrated in M&M's "style" with the introduction of swamp-coloured "ogre-sized" M&M's. In 2005, M&M's capitalized on the dark chocolate trend by launching special-edition dark chocolate M&M's in conjunction with the last installment of the Star Wars series, *Revenge of the Sith*. M&M's challenged consumers to "go to the dark side" with the latest variety of M&M's. In 2006, M&M's followed up with the *Pirates of the Caribbean* limited edition, with Pirates Gold (yellow Peanut M&M's) and Jack's Gems (Milk Chocolate).

Exciting product news continued in 2006 with the launch of "Mega" M&M's available in Peanut and Milk Chocolate varieties. The new, richer colours are, on average

55 percent bigger in size, delivering against consumers' desire for "Bigger M&M's, Bigger chocolate taste!"

BRAND VALUES

The M&M's Brand has represented superior quality and enjoyment to customers

since Mr. Mars developed the brand in 1940. The appeal of M&M's Chocolate Candies is universal, crossing age, gender, national and cultural boundaries, bringing colourful chocolate fun to everyone.

* Quote cited from The International Cocoa Organization — 1996.

THINGS YOU DIDN'T KNOW ABOUT M&M'S CHOCOLATE CANDIES

- The original M&M's Brand colour mix contained brown, yellow, red, orange, green and violet candies.
- The "M" imprint was not added to M&M's Chocolate Candies until 1950 — in black. Today's white "M" imprint was introduced in 1954.
- A special machine imprints the "M" onto each M&M's Chocolate Candy. The machine is carefully calibrated so as not to crack the candy shell.
- Four to eight hours are needed to make an M&M's Chocolate Candy depending on the variety — Milk Chocolate, Peanut, Almond or Peanut Butter.
- The original M&M's chocolate candies were somewhat larger than today's product and were sold in a tube for five cents.
- Red M&M's were discontinued in 1960 over a controversy about a specific red food dye that wasn't even used for M&M's. In 1987, Red came back, and is now the spokescandy for the brand.
- Today more than 400 million M&M's candies are produced each day, totalling more than 146 billion per year!