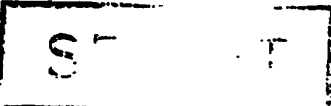


Guidelines for Imasco : July 1989



General

1. The central objective for Imasco should be to achieve returns and sustained rates of growth in earnings and dividends per share which compare favourably with other leading businesses in Canada and which are sufficient to contribute fully to the growth objectives for the Group.
2. In line with the Group's overall strategy, there is a preference for Imasco to achieve these objectives by maintaining Imperial Tobacco in a leadership position in its market and by developing other growth activities within the Group's main areas of interest in Financial Services, Paper/Pulp and Retailing, based in Canada rather than in the USA.
3. In evaluating Imasco's strategies and plans, B.A.T Industries will apply criteria similar to those applied to the other businesses within the Group. In particular, each of the businesses within Imasco should be operating efficiently and profitably, producing a cash flow which, after covering central overheads, interest payments and dividends, is either sufficient to fund growth at the desired rate or to give an equivalent cash surplus for investment elsewhere.

Financial Guidelines

4. Dividends : Based on the present B.A.T Industries Group shareholding, the minimum dividends expected from Imasco (gross of withholding tax) are:-

	Year to 31st December					
	1989	1990	1991	1992	1993	1994
C\$m	57	62	76	93	111	128

These Guidelines are based on Imasco achieving a minimum dividend payout of 45% of prior year earnings. It is noted that the actual dividend declared by Imasco for 1989 (C\$1.12 per share - BAT's share C\$54 million) is below the target level.

5. Returns and Profits : Imasco should seek to achieve an historic cost return on net assets (on a B.A.T Industries' basis) for its commercial activities rising from the current level of 26% to 35% by 1994. The target for C.T. Financial should be to achieve a sustained increase in after-tax profits of 15% p.a., with Imasco's equity in the net earnings of Imasco Enterprises growing at 20% p.a. These targets will be reviewed in the event that Imasco is required to reduce its holding in C.T. Financial.
6. Balance Sheet : Imasco should continue to give a high priority to implementing measures to further strengthen its balance sheet.

Specific Priorities

7. For Tobacco, Imperial Tobacco should aim to achieve at least the earnings and cash-flow projections outlined in the Imasco 1989-1993 Plan, eliminating the 'earnings gap' both through further improvements in productivity and market share and by seeking additional selective price increases.
8. Imperial Tobacco should ensure not only that it retains its position as the lowest-cost producer of quality cigarettes in Canada and that it is also able to match the efficiency of the leading US producers.
9. Imasco and Imperial Tobacco should maintain close links with Government and others both in order to influence future Federal and Provincial policy with regard to the taxation of cigarettes and to ensure that the Tobacco Products Control Act is not amended in a way that would have an adverse impact on the performance of Imperial Tobacco.

201791672

10. For Shoppers Drug Mart, the priority should be to secure at least the 15% p.a. improvement in earnings projected in the Imasco Plan. The plans to accelerate the development of the business through improved positioning, refitting older stores and improving store-for-store growth by increasing customer traffic and sales per customer should be implemented. In addition, the development of food basket locations should be accelerated and Shoppers should implement on a limited basis the Home Health Care Departments within SDM outlets.
11. Shoppers should also seek improvements in efficiency through reducing distribution costs and by accelerating the introduction of pharmacy systems, accounting packages and business systems into SDM stores.
12. For Peoples Drug Store, the first priority must be to bring about a marked and sustained improvement in performance. In addition, the potential of the remaining stores should be critically reviewed and, if the business is not capable of making an adequate contribution to the earnings, cash flow and development of Imasco, consideration should be given to their early divestment.
13. Whilst it is recognised that the UCS Group has value to Imasco in supporting the continued development of the Tobacco division, this business must also be run as a profitable, self-sufficient operation.
14. For Imasco USA, the priority should be to secure significant and continued improvements in performance through higher productivity, less waste and better margins through store-for-store growth and by building on the business' position as a strong regional network with increasing market shares rather than as a national chain.
15. Consideration should be given to the attractiveness and feasibility of strengthening the financial position of the business by selling an interest in the Fast Food Merchandisers operation.
16. With regard to Financial Services, Imasco's primary objective should be to improve its participation in establishing the strategic direction and development of C.T. Financial.
17. In particular, Imasco should work with C.T. Financial to ensure that plans are developed for improving the rate of organic growth of the business through strengthening the marketing effort, making efficient and innovative use of technology and by maintaining a competitive product range. Imasco should also seek improvements in the control and containment of costs in C.T. Financial.
18. Imasco should monitor progress relating to the Financial Services regulatory framework in Canada and actively seek to influence its development with a view to maximising the opportunities for extending the Group's involvement in profitable, fast-growing sectors of this market. In particular, consideration should be given to ways in which Imasco's Financial Services activities in Canada, especially in Quebec, might be extended in the medium term, through acquisition.
19. Imasco should continue to develop both Genstar Development Company and the Venture Capital business, but should also continue to seek opportunities for divestment at the earliest possible opportunity.

GJB/DJA
18th July 1989

201791673