

Guidelines for Imasco : October 1989

General

1. The central objective for Imasco is to achieve returns and sustained rates of growth in earnings and dividends which compare favourably with other leading businesses in Canada.
2. 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

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

	<u>Year to 31st December</u>					
	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
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.

4. Returns and Profits : Imasco will seek to achieve an historic cost return on net assets (on a B.A.T Industries' basis) for its commercial activities in accordance with existing plans, rising from the current level of 26% to 35% by 1994. The target for C.T. Financial will 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.
5. Balance Sheet : Imasco will continue to give a high priority to implementing measures to further strengthen its balance sheet.

Strategic Priorities

6. For Tobacco, B.A.T Industries will be looking to Imperial Tobacco to achieve at least the earnings and cash flow projected in the 1989/93 Imasco Plan, eliminating the 'earnings' gap through further improvements in productivity and market share and by seeking additional selective price increases.
7. There will be particular interest in the plans to increase market share, to maintain Imasco's position as the lowest cost producer of quality cigarettes in Canada and to maintain competitiveness against potential competition from the USA.

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8. There will also be interest in the plans for maintaining close links with Government and others both in order to influence 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 which would have an adverse impact on the performance of Imperial Tobacco.
9. For Shoppers Drug Mart, it is expected that the plans for 1990/4 will show trends similar to those in the previous plan with a 15% p.a. improvement in earnings based on a continuing development of the business.
10. For Peoples Drug Store, it is expected that the plans will show either a rationalisation programme leading to a continuing business which is capable of making an adequate return to the cash flow and development of Inasco or, failing this, firm plans for divestment.
11. For the UCS Group, it is recognised that the business has a role in the development of the tobacco activities, but the plans for this operation will also be evaluated on the basis that it should also meet the criteria for a profitable self-sufficient business.
12. For Inasco USA, it is expected that the priority will be to secure significant and continued improvements through higher productivity, less waste and better margins through store-for-store growth. It is also expected that the strategy will be to build on the position as a strong regional network with increasing market shares rather than seeking national coverage.
13. It is also expected that further consideration will be given to the optimum future for the Fast Food Merchandisers operation.
14. With regard to Financial Services, it is expected that Inasco will have plans to improve its participation in establishing the strategic direction and development of C.T. Financial.
15. In particular, it is expected that Inasco will 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 innovative and efficient use of technology and by maintaining a competitive product range. It is also expected that there will be plans to achieve improvements in the control and containment of costs in C.T. Financial.
16. It is expected that Inasco will continue to monitor progress relating to the Financial Services regulatory framework in Canada with a view to maximising the opportunities for extending the Group's involvement in profitable, fast-growing sectors of the market.
17. It is expected that Inasco will continue to develop both Genstar Development Company and the Venture Capital business, but that opportunities for early divestment will also be sought.

RS/CC
10th October 1989

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