

## Guidelines for Imasco - July 1993

### General Priorities

1. It is suggested that the primary objective for Imasco should be to provide shareholders with an above-average return on their investment in the Company through dividends and capital appreciation measured in terms of the movement of the share price relative to the TSE 300 Index.
2. In line with the Group's overall development, B.A.T Industries would prefer Imasco to achieve these objectives through a strategy based mainly on maintaining Imperial Tobacco in a leadership position in its market and on developing the Company's Financial Services activities.
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, it is expected that there will be an aim for each business within Imasco either to be a leader or to be seeking to achieve leadership in markets where it is possible to earn rates of return which will generate sufficient cash both to pay a dividend and either support self-funded growth at above-average rates or provide surplus cash for investment elsewhere.

### Financial Guidelines

4. Profits should grow at the following average rates over the five years 1994-1998, in each case measured from a 1992 base:-

	% p.a.	
<b>Earnings from Operations</b>		
Financial Services	15	(5)
Tobacco	6	(6)
Other	14	(9)
<b>Earnings from Operations (full consolidation)</b>	11	(6)
<b>Earnings Before Tax</b>	15	(9)
<b>Earnings for Common Shares</b>	14	(10)

Figures in brackets relate to the eight year growth rate from a 1989 base.

5. Imasco should adhere to a target for operating cash flow each year to show a substantial surplus after payment of taxes and dividends; this target should be expressed as a percentage of the cost of common dividends.
6. Imasco should aim to pay common dividends equivalent to at least 40% of current year earnings per share; and for the rate of increase to accelerate as earnings recover. The minimum percentage distribution should be reviewed with a view to increasing it when there are major asset disposals.

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7. Imasco should continue to give priority to strengthening its balance sheet, reducing the level of borrowings through generation of cash surpluses after payment of tax dividends and disposal of Hardees as soon as practicable.
8. Imasco should aim to provide shareholders with a "superior total return" measured by dividends plus the increase in the company's common share price. "Superior" is to be measured over three, five and ten years by reference to the TSE300, other peer group equities, Canadian Treasury bills and a synthetic index composed of the consumer products index (60%) and the bank index (40%).

#### **Specific Priorities**

9. **Imperial Tobacco** : There should be continuing strong pressure to obtain amendments or revisions of the Tobacco Products Control Act and opposition to any further increases in the level of taxation on cigarettes.
10. There should also be specific strategies for counteracting stick sales by competitors and the prevalence of transit trade.
11. The plan should review Imperial's manufacturing strategy in the light of the likely introduction of NAFTA on 1st January 1994.
12. The plan should also review Imperial's export strategy and discuss any changes to the cost structure of the business and development of brands that would be necessary to make a success of the strategy.
13. **CT Financial** : The plan should set out how the level of profitability and payment of dividends from CT Financial will be improved.
14. **Canada Trust** should lobby for the deregulation of the Canadian financial services market, particularly concerning the rules that banks and trust companies may not sell the insurance products of sister companies.
15. There should be a defined plan to optimise the method and timing for the reduction in the shareholding in Canada Trust, required under the Financial Services legislation. An agreement needs to be reached between Imasco and B.A.T Industries on how the proceeds from the sale of 35% of CT Financial will be utilised.
16. **Hardee's** : Plans should be progressed for the divestment of Hardee's, and an agreement needs to be reached on how the proceeds from the sale of Hardee's will be utilised.
17. **Shoppers Drug** : The plans for the drugstore business should include specific programmes for productivity improvements through the introduction of improved systems. There should also be plans to react to restrictions on the sale of Tobacco products. In keeping with B.A.T's wish to concentrate development on Tobacco and Financial Services, possible divestment of Shoppers Drug should be considered.
18. **UCS** : The future of UCS as a separate business or as part of Imperial Tobacco should be determined.

HCB/fmi, 30 June, 1993

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