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Our ref PDL/DAA/IM-REP

RESTRICTED

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13 October 1986

Dear Dan,

B.A.T Industries reporting and Imasco

I was glad of the opportunity of attending the Imasco presentation on Friday morning. It was unfortunate that Chris Menkin got tied up and could not make it for which he sends his apologies. I did, however, have a chance to chat to half a dozen or so of the bankers and without exception they were impressed, and I don't think they were being obsequious!

Following our meeting on Wednesday I thought it might be sensible to make a note of the issues raised as well as inform you of the various B.A.T Industries reporting dates.

As far as B.A.T Industries statutory reporting during 1987 is concerned the table below gives the B.A.T Industries announcement date together with the last date for computer input in order to meet these deadlines. Narratives for the commentaries are required 2 or 3 days after the computer input date so it would be useful to have Imasco's own published narratives in time for this.

<u>Results</u>	<u>Computer Input</u>	<u>B.A.T Industries Announcement</u>
Year to 31st December 1986	Tuesday 17 March	Wednesday 25 March
Three months to 31st March 1987	Monday 4 May	Wednesday 27 May
Six months to 30 June 1987	Monday 10 August	Wednesday 2 September
Nine months to 30 September 1987	Monday 2 November	Wednesday 25 November

The CPC will be discussing the Imasco Five Year Plan on 27 February and in order for it to be studied in Windsor House it should be received by 23 February at the latest. However all the B.A.T Industries subsidiaries and other associates will have had their plans discussed by mid-January and at this time it will be necessary to prepare consolidated Group forecasts. The latest possible date that Imasco figures can be included would be 12 January. As I understand it, the Imasco long range plan will be completed towards the end of 1986 so it should be possible to meet these deadlines without difficulty.

The Imasco strategy review has been scheduled for discussion by the CPC for Wednesday 14 May. This is primarily a planning department requirement and I expect Mr Dennis will be discussing this with Mr Crawford.

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During 1987 there will be three formal QPRs. The table below shows the B.A.T Industries Board Meeting dates together with the last day for input to allow the consolidated B.A.T Industries paper together with a narrative for Imasco to be prepared and circulated.

	<u>Input Date</u>	<u>Board Meeting</u>
March 1987 QPR	Friday 24 April	Tuesday 5 May
June 1987 QPR	Friday 17 July	Tuesday 28 July
September 1987 QPR	Friday 23 October	Tuesday 3 November

In addition there will almost certainly be occasions when updates of B.A.T Industries' Group estimates are required for one reason or another. Depending on the need for accuracy and developments within Imasco, it may be necessary for me to contact you. It is not, however, possible to give dates for these in advance. However we are currently reviewing our 1987 management reporting timetable in the light of published quarterly information, and I will send you further information as it becomes available.

I understand that as far as the B.A.T Industries September 1986 QPR is concerned, Imasco will have a forecast available on 24 October which will enable us to calculate an estimate for the year to 31 December. In general, quarterly profit breakdowns will only be available in April after the Imasco plan has been finalised or in October. For its own Board purposes Imasco prepares an analysis of actual results for each quarter together with an estimate for the next year to March. Although it is too late to use as input for the BAT QPR we would be grateful if a copy could continued to be sent to London for the record.

B.A.T Industries will be including in its results the BAT Group share of Imasco's interest in Trust Co. at the pre-tax level after writing back Imasco's goodwill amortization. It is understood that this treatment will not cause difficulties for Imasco and that Imasco will be able to furnish us with details of the tax charge and Trust Co. turnover. BAT's share of turnover will be 40% of 98% of Trust Co. turnover. For background information it would be helpful if we received copies of Trust Co.'s annual and quarterly accounts in future as they are published. It would also be interesting to have their December 1985 report together with their March and June releases.

The goodwill arising on the Genstar acquisition gives rise to a severe problem in connection with the B.A.T Industries 1986 accounts. The Imasco prospectus included a goodwill figure of C\$800 million on the basis of keeping the whole of Genstar Financial. On the basis of disposing of all Genstar Financial's assets save Trust Co. this would be increased to C\$1000 million before revaluation and for published accounts purposes Imasco is amortizing this over 25 years. This 4% per annum rate is a blend insofar as part of the C\$1000 million will be represented by revalued assets that will be written off over a much shorter period than the 40 years normally adopted for intangibles.

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The main problem as far as B.A.T Industries is concerned is not the profit and loss account effect of goodwill but the balance sheet implications. For B.A.T Industries 1986 consolidation purposes it will be necessary for the Group to set off its share of Imasco's goodwill against reserves. The total Imasco goodwill could be anywhere between C\$100 million or C\$500 million less than the current estimate but Imasco will not have to firm up on a figure for its own published accounts until the March year-end. In the meantime you agreed to look into the possibility of Imasco updating the goodwill figure in your December quarterly report. This would enable B.A.T Industries to base its December year-end accounts on recent published Imasco information.

Save for Genstar/Trust Co. Imasco's accounting is very similar to the US GAAP. The only material difference would seem to be "extraordinary items" where Canada follows the UK rather than the US. The acquisition accounting for Genstar will have less of an impact after the disposals have been completed. It still has to be seen how far the Imasco carrying value for Trust Co. and income reporting follows US practice. In this context the SEC may be easing up in its requirements and also changes in Canadian accounting for financial services are under discussion: in this context we would appreciate a copy of the report you are having prepared on US/Canadian GAAP differences for Trust Co. From an audit perspective the PW audit of Trust Co. would not seem to cause difficulties. Also Deloitte's review the Imasco December announcement and will have completed the bulk of the audit work on Imasco's March accounts before signing off the December B.A.T Industries accounts.

Yours sincerely



P D Lovejoy

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