C

Benson & Hedges (Canada) Inc.

# ANNUAL REPORT 1980

# Contents



Benson & Hedges (Canada) Inc. manufactures cigarettes, including Accord, Alpine Lights, Belmont Milds, Belvedere, Belvedere Extra Milds, Benson & Hedges 100's, Benson & Hedges 100's Lights, Benson & Hedges Lights King Size, Mark Ten, Mark Ten Lights, Viscount and Viscount No. 1, as well as fine cut tobacco. The head office is located in Montreal; six regional sales offices are located throughout the country; and manufacturing facilities are located in Montreal, Quebec and Brampton, Ontario. The Company's stemmery operation is located in Delhi, Ontario.

# Review of the Year

**Highlights in Brief**
Consolidated gross sales revenue for the Company in 1980 rose to $205,981,000 from $193,278,000 in 1979. Cigarette sales were 7.506 billion units in 1980, and the Company's share of the market was 11.4%.

Net earnings for the year were $5,533,000 compared with $4,352,000 in 1979. As a result of rising manufacturing costs and federal excise taxes, two major price increases were announced in 1980. No dividend was declared or paid to shareholders during the year.

**Marketing**
Consumer interest in milder products intensified throughout 1980. Competitive marketing activity centered on the introduction of mild extensions of established brand families, and resulted in continuing sales consolidation among the leading brands.

Benson & Hedges (Canada) Inc. concentrated its sales and marketing efforts on improving its position within the growing mild market segment. The Company recorded strong sales increases on its Belvedere Extra Milds and Benson & Hedges 100's Lights trademarks. In addition, the Company repositioned its Viscount brand as the mildest cigarette in Canada.

During 1980, Benson & Hedges also undertook an ambitious marketing initiative which involved the launch of a new freestanding entry into the ultra mild segment. Utilizing the most advanced tobacco technology available, Accord and Accord Menthol were designed and positioned as the "Ultra Mild Taste Breakthrough." The brand quickly established a presence in a highly competitive marketplace. The launch of Accord represents one of the most successful new product introductions in the industry over the past ten years, and puts Benson & Hedges in a position to secure leadership of the ultra mild segment.

The sales and marketing programs initiated during 1980 have stabilized the sales of older brand families, successfully established a range of milder products, and have provided Benson & Hedges with a base for future growth.

**Operations**
The efficient manufacture of the highest quality products continues to be the Company's primary operating objective. To reach this objective, significant progress was made during the year in increasing productivity and in further upgrading product quality in both the Company's manufacturing facilities in Brampton and Montreal.

Research and Development activities received a high priority and were concentrated on the development of superior quality mild products. The construction of an expanded tobacco processing facility in Brampton, Ontario was successfully completed in 1980. This multi-million dollar investment in buildings and equipment will provide Benson &

Hedges with the capability to further progress development activity in the design and production of mild and ultra mild cigarettes.

**Leaf**

In 1980, action was taken to prevent a recurrence of the outbreak of blue mould, which had occurred in the Ontario leaf crop during the summer of 1979. However, due to unfavourable weather conditions in that area, the crop was considered to be only fair in terms of quality. In spite of a significant increase in the leaf export subsidies contributed by the four Canadian cigarette manufacturers, export sales were below expectations although well ahead of the results for 1979.

During the 1980 off-season, new threshing and separating equipment was installed in the Company's leaf stemmery in Delhi, Ontario. The new equipment will further improve quality and efficiency standards and will also allow the Company to increase its processing capacity to satisfy export demands.

**Community and Public Relations**

In 1980, as in other years, Benson & Hedges reaffirmed its commitment to the communities where the Company is located.

In addition to the modernization of equipment in the Delhi stemmery, the Company provided the Delhi community with ten acres of land adjacent to the plant. The land was used to create a sports park and soccer field for the region, which was officially opened in July.

In Brampton, Ontario, the completion of the new tobacco processing facility endorsed the Company's confidence in Brampton and in the future of the Canadian tobacco market.

Benson & Hedges is also committed to active support of community and cultural programs. From the Atlantic provinces to British Columbia, the Company provides assistance to colleges, theatres, orchestras and all types of charitable groups. In 1980, these groups included the United Way across Canada; organizations assisting the handicapped; disaster relief funds; and groups funding research into such diseases as Multiple Sclerosis and Cerebral Palsy.

The Company, with the other three major Canadian tobacco companies, also participated in an exhibit at Les Floralies Internationales de Montréal, sponsored by the Canadian Tobacco Manufacturers Council. The exhibit acquainted some 1.4 million visitors with tobacco as a plant and provided information on its contribution to the economy.

**Public Smoking Issues**

Although faced with increasingly hostile anti-smoking forces, the cigarette industry continues to fulfill a need in society. Last year, these groups attacked the industry through attempts to ban smoking on city transit vehicles, calls for cigarette advertising bans and demands for municipal legislation of public smoking.

However, we believe that the subject of public smoking should be handled by courtesy and consideration, not legislation.

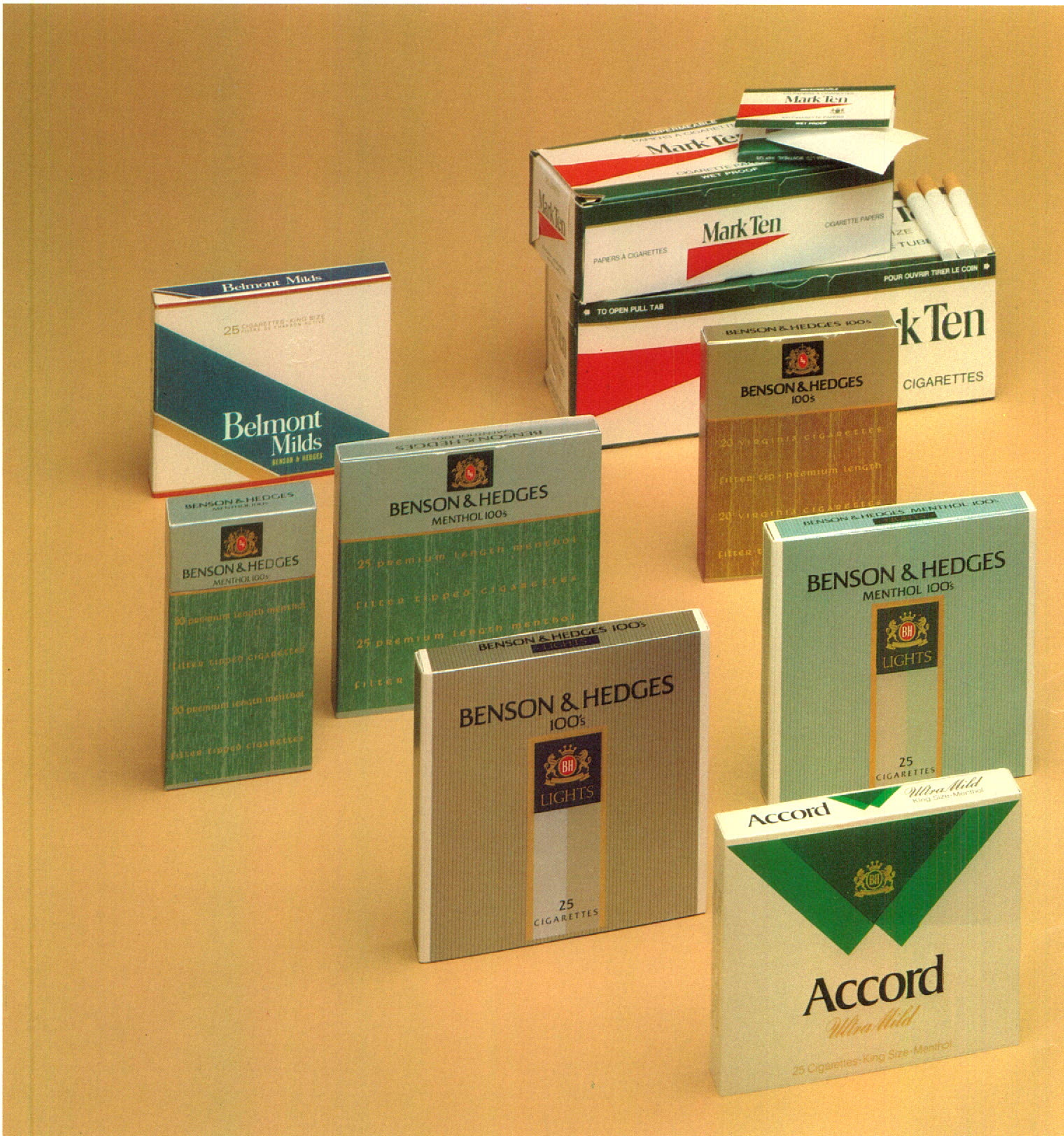
The questions on smoking and health remain unresolved. In 1980, as in the past, Benson & Hedges supported independent medical research on these questions in conjunction with other members of the Canadian Tobacco Manufacturers Council.

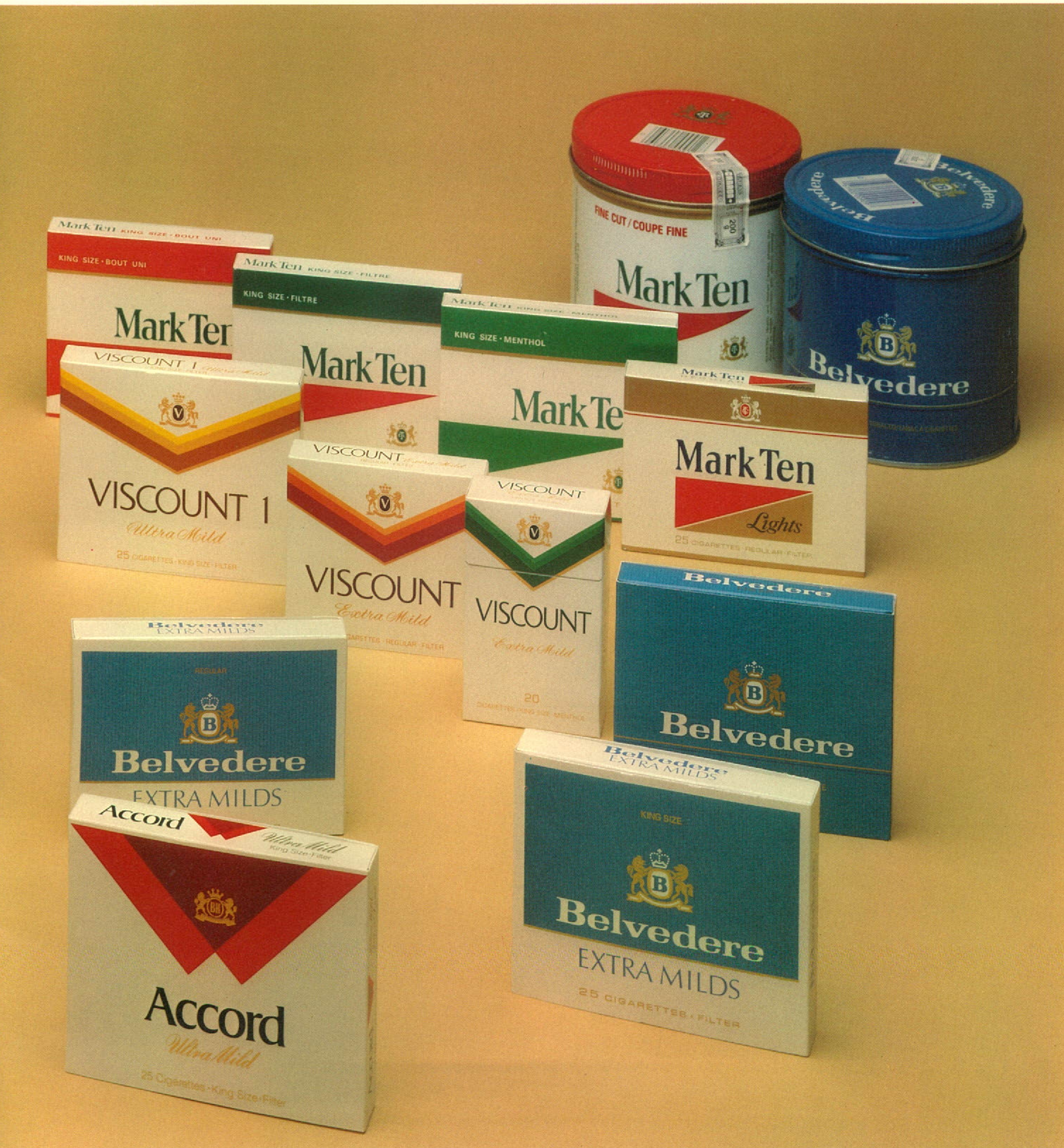
On behalf of the Board of Directors, I would like to express my appreciation to all members of Benson & Hedges for their dedication and efforts throughout the year. The continued improvements in performance at all levels of the Company's operations set the base for further real progress in 1981.

William H. Webb

William H. Webb
President

# Selection of Products




Mark Ten
KING SIZE · BOUT UNI
KING SIZE · FILTRE
KING SIZE · MENTHOL
FINE CUT / COUPE FINE
Belvedere
VISCOUNT 1
Ultra Mild
25 CIGARETTES · KING SIZE · FILTER
VISCOUNT
Extra Mild
Lights
25 CIGARETTES · REGULAR · FILTER
REGULAR
EXTRA MILDS
20
KING SIZE
Accord
Ultra Mild
King Size · Filter
25 Cigarettes · King Size · Filter
25 CIGARETTES · FILTER

# Consolidated Balance Sheet as at December 31, 1980

Benson & Hedges (Canada) Inc.

| Assets | 1980 | 1979 |
|---|---|---|
| **Current Assets** | | |
| Notes receivable — current portion | **$ 1,536,000** | $ 1,678,000 |
| Accounts receivable — trade (note 2) | **16,363,000** | 16,117,000 |
| — other | **1,482,000** | 1,724,000 |
| — affiliates | — | 82,000 |
| Inventories (note 3) | **64,642,000** | 55,212,000 |
| Prepaid expenses | **431,000** | 541,000 |
| Total current assets | **84,454,000** | 75,354,000 |
| **Notes Receivable** — less current portion | **12,860,000** | 14,176,000 |
| **Fixed Assets (note 4)** | | |
| Land, buildings and equipment — at cost | **49,433,000** | 40,005,000 |
| Accumulated depreciation | **18,991,000** | 17,333,000 |
| | **30,442,000** | 22,672,000 |
| | **$127,756,000** | $112,202,000 |

| Liabilities | 1980 | 1979 |
|---|---|---|
| **Current Liabilities** | | |
| Bank indebtedness | **$ 21,345,000** | $ 10,472,000 |
| Notes payable | **15,401,000** | 21,312,000 |
| Accounts payable and accrued liabilities | **15,404,000** | 12,760,000 |
| Accounts payable — affiliates | **295,000** | — |
| Income taxes | **1,766,000** | 358,000 |
| Total current liabilities | **54,211,000** | 44,902,000 |
| **Deferred Income Taxes** | **6,609,000** | 5,667,000 |
| | **60,820,000** | 50,569,000 |
| **Shareholders' Equity** | | |
| **Capital Stock** | | |
| Authorized — | | |
| An unlimited number of common shares | | |
| Issued and fully paid — | | |
| 4,577,085 shares | **22,134,000** | 22,134,000 |
| **Retained Earnings** | **44,802,000** | 39,499,000 |
| | **66,936,000** | 61,633,000 |
| | **$127,756,000** | $112,202,000 |

**Signed on Behalf of the Board**

William H. Webb.

Director

Oscar Grimson

Director

# Consolidated Statement of Earnings

Benson & Hedges (Canada) Inc.
For the Year Ended December 31, 1980

| | 1980 | 1979 |
|---|---|---|
| **Sales** | **$205,981,000** | $193,278,000 |
| Less: Excise and sales taxes | **104,314,000** | 100,198,000 |
| | **101,667,000** | 93,080,000 |
| **Costs** | | |
| Manufacturing, distributing, selling, general and administrative (note 6) | **89,698,000** | 83,838,000 |
| Depreciation | **3,004,000** | 2,284,000 |
| Interest — net | **1,332,000** | 1,473,000 |
| Realized exchange gain on U.S. term deposit | — | (203,000) |
| | **94,034,000** | 87,392,000 |
| **Earnings Before Income Taxes** | **7,633,000** | 5,688,000 |
| **Provision for Income Taxes** | | |
| Current | **1,158,000** | 1,046,000 |
| Deferred | **942,000** | 290,000 |
| | **2,100,000** | 1,336,000 |
| **Net Earnings for the Year** | **$ 5,533,000** | $ 4,352,000 |

# Consolidated Statement of Retained Earnings

Benson & Hedges (Canada) Inc.
For the Year Ended December 31, 1980

| | 1980 | 1979 |
|---|---|---|
| **Balance — Beginning of Year** | **$39,499,000** | $35,489,000 |
| Net earnings for the year | **5,533,000** | 4,352,000 |
| | **45,032,000** | 39,841,000 |
| Refundable dividend tax (note 5) | **230,000** | 342,000 |
| **Balance — End of Year** | **$44,802,000** | $39,499,000 |

# Consolidated Statement of Changes in Financial Position

Benson & Hedges (Canada) Inc.
For the Year Ended December 31, 1980

| | 1980 | 1979 |
|---|---|---|
| **Source of Working Capital** | | |
| Net earnings for the year | **$ 5,533,000** | $ 4,352,000 |
| Items not affecting working capital — | | |
| Depreciation | **3,004,000** | 2,284,000 |
| Deferred income taxes | **942,000** | 290,000 |
| Provided from operations | **9,479,000** | 6,926,000 |
| Disposal of fixed assets | **594,000** | 475,000 |
| Notes receivable | **1,316,000** | 1,698,000 |
| Source of working capital | **11,389,000** | 9,099,000 |
| **Use of Working Capital** | | |
| Additions to fixed assets | **11,368,000** | 2,852,000 |
| Refundable dividend tax | **230,000** | 342,000 |
| Use of working capital | **11,598,000** | 3,194,000 |
| **Increase (Decrease) in Working Capital** | **(209,000)** | 5,905,000 |
| **Working Capital — Beginning of Year** | **30,452,000** | 24,547,000 |
| **Working Capital — End of Year** | **$30,243,000** | $30,452,000 |

# Auditors' Report

We have examined the consolidated balance sheet of Benson & Hedges (Canada) Inc. as at December 31, 1980 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants

January 8, 1981

# Notes to Consolidated Financial Statements

Benson & Hedges (Canada) Inc.
For the Year Ended December 31, 1980

**1. Summary of Accounting Policies**

The significant accounting policies followed by Benson & Hedges (Canada) Inc. and its subsidiary company are presented below to assist the reader in reviewing the consolidated financial statements and other data contained in this report. These policies comply with generally accepted accounting principles and have been consistently applied.

Consolidation —
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary B & H Retail Limited.

Receivables —
Current earnings are charged and an allowance is credited with a provision for doubtful accounts based on experience and on any unusual circumstances which may affect the ability of customers to meet their obligations. Accounts deemed uncollectible are charged against this allowance. Receivables are reported on the balance sheet net of such accumulated allowances.

Inventories —
Inventories are valued at the lower of cost and net realizable value. The cost of leaf tobacco is determined on an average cost basis and the cost of other inventories is determined generally on a first in, first out basis. It is generally recognized industry practice to classify the total amount of leaf tobacco as a current asset although part of such inventory, because of the duration of the ageing process, would not ordinarily be utilized within one year.

Fixed assets —
Maintenance and repairs are charged against income, and expenditures for renewals and improvements are capitalized. To present more realistically the economic cost of a constructed facility, the capitalized cost of the facility includes interest incurred during the construction period. The interest capitalized on construction of facilities is determined by applying an appropriate borrowing rate to the related construction balance. Provision for depreciation of assets is recorded by a charge against income at rates, which are considered adequate to amortize the cost of such assets over their useful lives using the straight-line method of computation. The useful lives assumed are as follows:

| Assets | Useful lives |
|---|---|
| Land improvements | 10 years |
| Buildings and building equipment | 10 - 40 years |
| Machinery and equipment | 5 - 15 years |
| Furniture, fixtures and data processing equipment | 3 - 10 years |
| Transportation equipment | 4 years |
| Leasehold improvements | Term of lease |

Income taxes -
The provision for income taxes is calculated separately on reported pre-tax earnings for the parent company and its subsidiary. Certain items of income and expense included in the financial statements, such as depreciation, are claimed on an accelerated basis for tax purposes in accordance with applicable income tax laws. The resulting difference between the financial statement income tax provision and income taxes currently payable is reported in the financial statements as deferred income taxes.

Foreign exchange -
Foreign currency balances receivable and payable have been translated into Canadian dollars at the rates of exchange prevailing on the balance sheet date.

# Notes to Consolidated Financial Statements

Benson & Hedges (Canada) Inc.
For the Year Ended December 31, 1980

**1. Summary of Accounting Policies (cont'd)**

Pension plans -

The Company and its subsidiary have pension plans covering substantially all of their employees. Prior service costs are amortized over periods of up to fifteen years and accrued pension costs are funded with independent trustees.

**2. Accounts Receivable**

Accounts receivable include trade receivables of $17,033,000 in 1980 and $16,639,000 in 1979 offset by allowances for doubtful accounts and for sales discounts of $670,000 in 1980 and $522,000 in 1979.

**3. Inventories**

| Inventory components are as follows: | 1980 | 1979 |
|---|---|---|
| Leaf tobacco | $43,679,000 | $40,259,000 |
| Packaging and other raw materials | 3,179,000 | 2,838,000 |
| Work in process | 633,000 | 363,000 |
| Finished goods | 14,914,000 | 9,899,000 |
| Machine parts and supplies | 2,237,000 | 1,853,000 |
| Total inventories | $64,642,000 | $55,212,000 |

**4. Fixed Assets**

| | 1980 | | | 1979 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated depreciation | Net | Cost | Accumulated depreciation | Net |
| Land | $ 828,000 | $ — | $ 828,000 | $ 828,000 | $ — | $ 828,000 |
| Land improvements | 155,000 | 84,000 | 71,000 | 155,000 | 71,000 | 84,000 |
| Buildings and building equipment | 9,261,000 | 4,053,000 | 5,208,000 | 8,961,000 | 3,691,000 | 5,270,000 |
| Machinery and equipment | 25,429,000 | 12,738,000 | 12,691,000 | 25,383,000 | 11,806,000 | 13,577,000 |
| Furniture, fixtures and data processing equipment | 2,265,000 | 1,430,000 | 835,000 | 1,833,000 | 1,063,000 | 770,000 |
| Transportation equipment | 260,000 | 126,000 | 134,000 | 361,000 | 192,000 | 169,000 |
| Leasehold improvements | 701,000 | 560,000 | 141,000 | 695,000 | 510,000 | 185,000 |
| Construction and machinery installation in progress | 10,534,000 | — | 10,534,000 | 1,789,000 | — | 1,789,000 |
| | $49,433,000 | $18,991,000 | $30,442,000 | $40,005,000 | $17,333,000 | $22,672,000 |

The provision for depreciation included in the statement of earnings for 1980 and 1979 is $3,004,000 and $2,284,000 respectively computed on the straight-line method.

**5. Refundable Dividend Tax**

Certain taxes paid by the Company on investment income are refundable to the Company at the rate of $1 for every $4 of taxable dividends paid to shareholders. The current year's refundable tax and the cumulative refundable amount as at December 31, 1980 were $230,000 and $848,000 respectively. Such tax and its recovery is charged and credited to retained earnings.

**6. Research and Development Expense**

Total research and development expense included in the statement of earnings for the years ended December 31, 1980 and December 31, 1979 was $585,000 and $534,000 respectively.

# Notes to Consolidated Financial Statements

Benson & Hedges (Canada) Inc.
For the Year Ended December 31, 1980

**7. Rental Expense**

Total rental expense included in the statement of earnings for the years ended December 31, 1980 and December 31, 1979 was $1,454,000 and $1,325,000 respectively.

The minimum rental commitments under all non-cancellable leases for each of the five years ending December 31 are as follows:

1981 $945,000 1982 $218,000 1983 $24,000 1984 $22,000 1985 $20,000

**8. Pension and Retirement Plan**

Pension plan expense included in the statement of earnings for the years ended December 31, 1980 and 1979 was $897,000 and $849,000 respectively. Included in expense for 1980 and 1979 is the amortization of the unfunded liability of $141,000 and $216,000 respectively. The unfunded liability outstanding was estimated to be $597,000 as at December 31, 1980, and $712,000 as at December 31, 1979.

Included in the unfunded liability is an unfunded past service pension liability of $593,000. This liability is being funded by equal annual instalments of $71,000 to December 31, 1989 and $59,000 thereafter to 1993.

**9. Contingent Liabilities**

During 1974, the Company instituted legal action against a supplier to recover the cost of defective materials delivered in prior years to the Formosa Spring Brewery Division in the amount of $536,000. This action is being defended by the supplier and the supplier has made a counter claim for damages in the amount of $1,404,000. This claim has been denied and with the advice of counsel, is being vigorously contested. Accordingly, no provision or adjustment has been made in the financial statements.

**10. Commitments**

As at December 31, 1980, the Company has made financial commitments of $16,400,000 for purchases of inventories.

**11. Related Party Transactions**

Notes payable amounting to $15,401,000 (1979 - $21,312,000) are guaranteed by the parent company.

# Five Year Summary

(Canadian $,000 omitted)

| | **1980** | 1979 | 1978 | 1977 | 1976 |
|---|---|---|---|---|---|
| Sales | **$205,981** | $193,278 | $186,304 | $196,371 | $214,487 |
| Earnings Before Income Taxes and Extraordinary Items | **$ 7,633** | $ 5,688 | $ 8,648 | $ 9,858 | $ 12,438 |
| Net Earnings | **$ 5,533** | $ 4,352 | $ 5,716 | $ 6,572 | $ 6,742 |
| Capital Expenditures | **$ 11,368** | $ 2,852 | $ 2,751 | $ 3,726 | $ 4,621 |
| Working Capital | **$ 30,243** | $ 30,452 | $ 24,547 | $ 15,419 | $ 11,888 |
| Shareholders' Equity | **$ 66,936** | $ 61,633 | $ 57,623 | $ 52,180 | $ 47,603 |
| After-Tax Return on Shareholders' Equity | **8.6%** | 7.3% | 10.4% | 13.2% | 15.2% |
| Sales Units (Billions of Cigarettes) | **7.506** | 7.700 | 7.613 | 8.262 | 9.066 |
| Number of Employees | **1,125** | 1,142 | 1,093 | 1,149 | 1,288 |

# Directors and Officers

at December 31, 1980

**Directors**

Hamish Maxwell
President & Chief Executive Officer
Philip Morris International

Geoffrey Bible
Vice President
Philip Morris International

John B. Claxton, Q.C.
Partner
Lafleur, Brown, de Grandpré

R. William Murray
Executive Vice President
Philip Morris International

Oscar Y. Primeau
Vice President
Benson & Hedges (Canada) Inc.

Derek M. Ridout
President
Seven-Up Canada Inc.

The Hon. Maurice Sauvé, P.C.
Executive Vice President,
Administrative and Public Affairs
Consolidated Bathurst Inc.

William Stevenson
President
Millbrook Industries Limited

William H. Webb
President
Benson & Hedges (Canada) Inc.

**Officers**

Hamish Maxwell
Chairman of the Board

William H. Webb
President

John J. O'Brien
Vice President Marketing

Oscar Y. Primeau
Vice President Corporate Relations

Derek L. Smith
Vice President Finance & Administration
Treasurer

Udo R. Westphal
Vice President Operations

Dennis Robertson
Director of Finance

Kenneth Erlick
Secretary

**New Appointments - Officers**
Effective 1981

V.J. Buccellato
Vice President Marketing

P.A. McDonagh
Director of Planning and Management
Information Services

**Auditors**
Coopers & Lybrand

**Key Bankers**
The Royal Bank of Canada
The Bank of Montreal

**Legal Counsel**
Lafleur, Brown, de Grandpré
Miller, Thomson, Sedgewick,
Lewis & Healy