ROTHMANS OF PALL MALL CANADA LIMITED • ANNUAL REPORT 1983

Rothmans

Rothmans of Pall Mall Canada Limited
Annual Report 1983

CONTENTS

Corporate profile	2
Consolidated highlights	3
Directors, officers and committees	4
Report to shareholders	5
Review of Rothmans tobacco operations	8
Review of Carling O'Keefe operations	14
Management and auditors' reports	19
Significant accounting policies	20
Consolidated financial statements and notes	21
Quarterly financial and market price data	31
Five-year financial review	32

HEAD OFFICE — 1500 Don Mills Road, Don Mills, Ontario M3B 3L1

AUDITORS — Price Waterhouse

BANKERS — Bank of Montreal

REGISTRAR AND TRANSFER AGENT — The Royal Trust Company

SOLICITORS — Smith, Lyons, Torrance, Stevenson & Mayer

The Annual Meeting of shareholders will be held at the Four Seasons Hotel, 21 Avenue Road, Toronto, Ontario, at 11:00 o'clock in the forenoon, on Tuesday, July 19, 1983.

Ce rapport peut être obtenu en français sur demande.


ROTHMANS

Rothmans of Pall Mall Canada Limited was incorporated on May 8, 1956 and was continued under the Canada Business Corporations Act on July 24, 1979. Manufacturing operations commenced in October 1957. In 1968 and 1969, the Company acquired 50.1% of Carling O'Keefe Limited. Through Rothmans of Canada Limited, the Company is a majority-owned (71.2%) subsidiary of Rothmans International p.l.c. of London, England, a holding company which has interests in tobacco companies around the world.

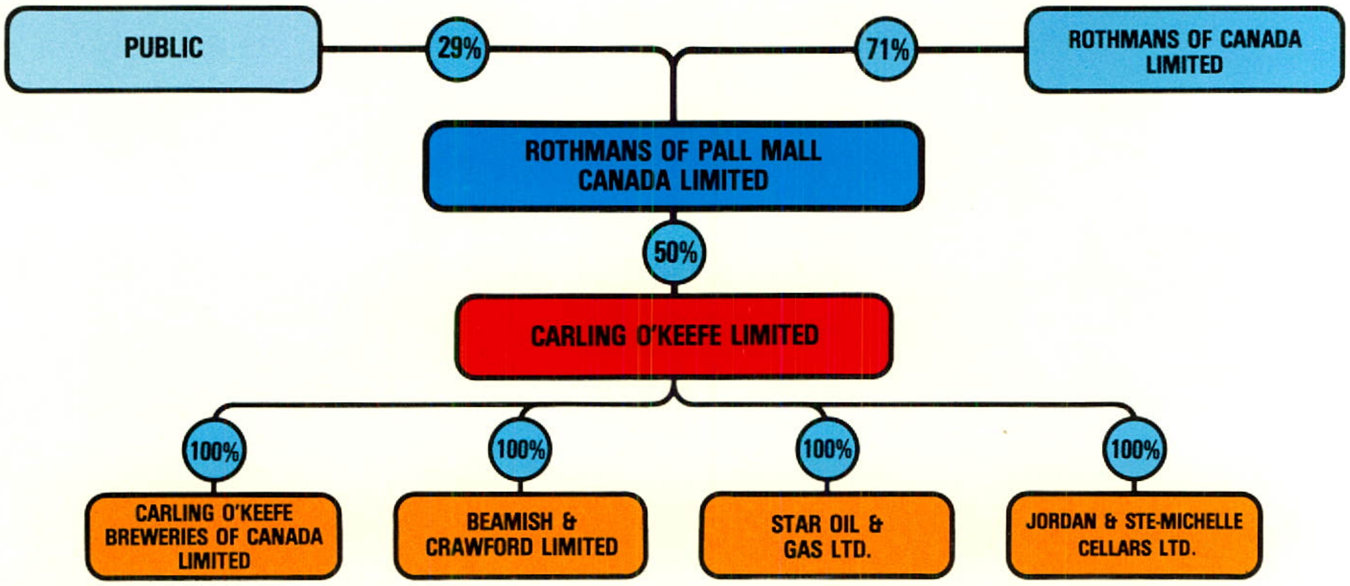
The Company is Canada's second largest manufacturer and distributor of cigarettes and tobacco products. Carling O'Keefe Limited, through subsidiary companies, is engaged in the production and sale of beer and wine and is also involved in oil and gas operations.

The major cigarette trade marks sold by the Company are Rothmans, Craven "A", Number 7, Sportsman, Dunhill and Peter Stuyvesant. Regular length, king size, international length and 100 mm cigarettes are produced. In addition, the Company sells fine cut and imported tobaccos, cigars and a number of other related products. Manufacturing operations are carried out at two plants (Toronto and Quebec City) and the Company has fifteen sales offices across Canada.

Carling O'Keefe operations are carried out through four principal subsidiary companies. In Canada, Carling O'Keefe Breweries of Canada Limited operates seven breweries, producing such well-known brands as O'Keefe Ale, Old Vienna, The Carlsberg Family, O'Keefe Extra Old Stock and Carling Black Label. Exports of Old Vienna, O'Keefe Ale and Cinci are made to the United States through an affiliated company. In addition, the Canadian brewing company owns Le Club de Hockey Les Nordiques and the Argonaut Football Club. Jordan & Ste-Michelle Cellars Ltd. produces wine at three Canadian wineries and sells under the trading styles of Jordan and Ste-Michelle. Star Oil & Gas Ltd. is engaged in the exploration for and the development and production of oil and gas primarily in Canada. In the Republic of Ireland, Beamish & Crawford Limited owns and operates a brewery in Cork, with the principal brands being Carling Black Label, Carlsberg and Bass.

The Company, including its subsidiaries, is among the 200 largest corporations in Canada, employing more than 5,600 people.

The following chart outlines the corporate relationship between your Company, its shareholders and its principal subsidiaries.



(PERCENTAGES HAVE BEEN ROUNDED)

ROTHMANS OF PALL MALL CANADA LIMITED

CONSOLIDATED HIGHLIGHTS

	1983	1982	% Increase (decrease)
Year Ended March 31 ($000)			
SALES	$1,296,440	$1,129,539	14.8
EARNINGS	39,086	32,610	19.9
DIVIDENDS PAID:			
PREFERRED SHARES	1,835	1,861	(1.4)
COMMON SHARES	8,817	8,541	3.2
CAPITAL EXPENDITURES	41,340	30,610	35.1
At March 31 ($000)			
WORKING CAPITAL	$176,405	$157,624	11.9
TOTAL ASSETS	616,475	565,535	9.0
TOTAL INTEREST-BEARING DEBT	74,515	99,569	(25.2)
SHAREHOLDERS' EQUITY	226,017	197,744	14.3
Per Common Share			
EARNINGS	$ 6.76	$ 5.58	21.1
DIVIDENDS PAID	1.60	1.55	3.2
SHAREHOLDERS' EQUITY	36.10	30.91	16.8
Ratios			
RETURN ON AVERAGE TOTAL CAPITAL EMPLOYED	14.3%	13.3%	
RETURN ON SHAREHOLDERS' EQUITY	18.4%	17.5%	
WORKING CAPITAL RATIO	2.00	1.94	

DIRECTORS

RENÉ AMYOT, Q.C.
Chairman
Air Canada
Montreal, Quebec
Partner
Létourneau, Stein & Amyot
Quebec, Quebec

DOUGLAS G. BASSETT
President and Chief Executive Officer
Baton Broadcasting Incorporated
Toronto, Ontario

MONA L. CAMPBELL
President
Dover Industries Limited
Toronto, Ontario

JOHN H. DEVLIN
Chairman of the Board
Rothmans of Pall Mall Canada Limited
Don Mills, Ontario

HENRY M. GIUDICE
Chairman and Chief Executive Officer
Martin Brinkmann AG
Bremen, Federal Republic of Germany

ROBERT H. HAWKES, Q.C.
President and Chief Executive Officer
Rothmans of Pall Mall Canada Limited
Don Mills, Ontario

SIR DAVID NICOLSON
Chairman
Rothmans International p.l.c.
London, England

DONALD R. SOBEY
President
Empire Company Limited
Stellarton, Nova Scotia

JOHN J. WETTLAUFER
Professor, School of Business Administration
The University of Western Ontario
London, Ontario

OFFICERS

JOHN H. DEVLIN
Chairman of the Board

ROBERT H. HAWKES, Q.C.
President and Chief Executive Officer

ROBERT W. ALLAN, C.A.
Vice President Leaf and Research

WARREN A. BRACKMANN
Vice President Research
and Technical Development

JOHN E. BROEN
Vice President Marketing Planning

DAVID S. BROOME
Vice President Marketing

CAMILLE A. DENIS
Vice President Corporate Affairs

RONALD F. FINDLAY, C.A.
Vice President Finance and Corporate Services

JOSEPH J. HEFFERNAN
Vice President Manufacturing

JOHN J. MORRISSEY
Vice President Personnel
and Industrial Relations

HUGH R. SAMPSON, C.A.
Vice President and Treasurer

JAMES K. STRICKLAND
General Counsel and Secretary

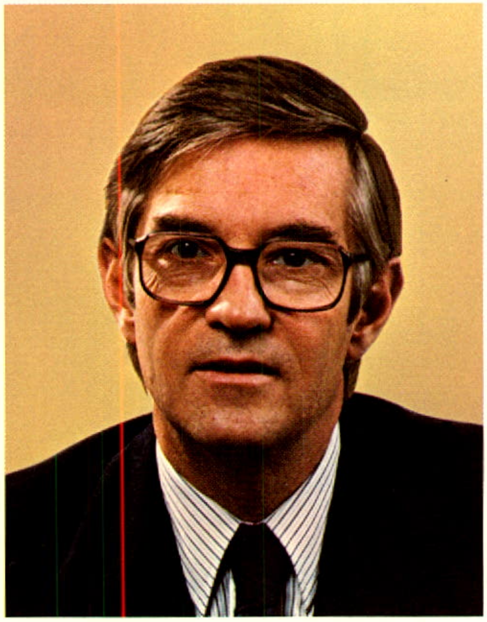
GORDON R. WHITE
Vice President Sales

EDWARD A. CRIGHTON, C.A.
Comptroller

DOROTHY I.L. WILLIAMS
Assistant Secretary

COMMITTEES

Audit Committee	— RENÉ AMYOT, Q.C.; DONALD R. SOBEY; JOHN J. WETTLAUFER
Compensation Committee	— RENÉ AMYOT, Q.C.; JOHN H. DEVLIN
Pension Investment Committee	— RENÉ AMYOT, Q.C.; EDWARD A. CRIGHTON, C.A. RONALD F. FINDLAY, C.A.; ROBERT H. HAWKES, Q.C.; JOHN J. MORRISSEY; HUGH R. SAMPSON, C.A.

REPORT TO SHAREHOLDERS

PERFORMANCE

Consolidated earnings of $39,086,000 or $6.76 per Common share represented a 19.9 percent increase over the previous year's earnings of $32,610,000 or $5.58 per Common share. Earnings from the Company's tobacco operations were $21,026,000 or 5.4 percent below last year. The Company's share of Carling O'Keefe's earnings increased to $18,060,000 from $10,389,000 in 1982.

Dividends paid on Common shares amounted to $1.60 per share compared to $1.55 in 1982. The quarterly rate of 40 cents per share established in September 1981 was maintained throughout the past year.

ROTHMANS TOBACCO OPERATIONS

Financial results for the year were not up to expectations. For the first time in the Company's history, industry-wide cigarette sales showed a slight decline. The Company's sales performance lagged slightly behind that of the industry. The decline in industry shipments is primarily the result of a large number of tax-induced price increases to the consumer. The indexing of tobacco taxes at the federal level and in five of the provinces has led to substantial increases in the proportion of taxes in the consumer selling price. These tax increases are well in excess of inflation. In 1982, for example, the tobacco products sub-group of the Consumer Price Index increased 15.4% while the Consumer Price Index increased 10.8%. The inevitable result of these actions is a reduction in consumer demand. It is interesting to note that the cigarette manufacturers increased prices by 5.3% during calendar 1982, while the federal government increased its excise duty and excise tax 15.4% and Quebec and Ontario increased their tobacco taxes 22.6% and 32.5% respectively. This unprecedented series of tax increases poses a significant threat to the long term well-being of this important Canadian industry and its suppliers, customers and shareholders.

We now have a system whereby tax increases will be perpetuated without any budget changes or selling price increases from the manufacturers. The method used by the Federal Government to determine tobacco taxation increases is based on average retail selling prices as measured by the Tobacco Products and Smokers' Supplies Subgroup of the Consumer Price Index. Increases in this index are influenced by three major factors: the previous year's increase in federal tobacco taxes, all provincial tobacco tax increases, and manufacturers', wholesalers' and retail price changes. Five of the provinces also base their tax increases on surveys of retail prices. As a result of these surveys, provincial taxes increase because of federal tax increases and trade price changes. If the trade did not institute any price changes, it would take several years before the ping-pong effects of federal and provincial indexing would decline to a negligible level. Accordingly, the Canadian Tobacco Manufacturers' Council, representing the four major domestic companies, is preparing an in-depth review in order to make recommendations for changes in the present tax system.

"Light/mild" brands continued to increase their share of the market and now account for over 60% of cigarettes sold in Canada. Rothmans continues to be well represented in the low and medium "tar" segments of the market.

During the year Rothmans introduced DUNHILL Lights in Alberta and Southern Ontario. This light version of the world-famous Dunhill brand is designed to participate in the growing lighter segment of the market. The original DUNHILL King Size brand also showed substantial growth, as did the 100 millimeter versions of CRAVEN "A" Special Mild and CRAVEN Menthol Special Mild.

New contracts were signed with each of the Company's four bargaining units. The current agreements expire in December 1984 for the Toronto plant and in March 1985 for the Quebec City employees.

The 1982 tobacco crop in Ontario suffered from frost damage late in the growing season and therefore the crop target of 238 million pounds was not reached. As a result, the auctions were completed earlier than usual, in late January, and a total of 154 million pounds was sold at an average price of $1.62 per pound. This compares to 220 million pounds and $1.52 per pound for the previous year's crop. For 1983 the industry agreement calls for 215 million pounds with an average minimum guaranteed price of $1.60 per pound.

The Company continued to improve production methods during the year. Better ways of treating tobacco leaf are continuing to be explored and quality improvements and cost reductions are now an integral part of the operations. In addition, licensing agreements have been signed to exploit several of these patented processes in other countries. Income generated from these agreements will be an integral part of future earnings.

In the cigarette manufacturing area, the new generation Protos making machine is operating up to expectations, and additional machines have been ordered for 1984.

PLANNING AND OUTLOOK

In previous annual reports, we have noted that the Company's management has made it a practice on an ongoing basis to formulate policies and objectives on a number of key issues affecting Rothmans performance. Plans are flexible and are periodically reviewed in the context of changing business and financial conditions.

In the current environment, this approach is extremely important. General conditions such as low or negative growth, high unemployment and historically high interest rates have all impacted negatively on most industries in the recent past, and significant relief does not appear to be immediately forthcoming. Within the tobacco industry itself, ever-increasing levels of government taxation together with health issues have adversely affected growth. Within this scenario, the Company has been even further impacted by a downward trend in market share over the past few years.

As a result of a major review and update of its strategy for the future, the Company has undertaken a number of initiatives designed to increase its long term share of market and profitability. These include repositioning some existing products, investigating additional brand introductions, restructuring the senior marketing group, increasing the emphasis on employee training and development, and improving production methods with a view to achieving world class standards.

In line with the financing guidelines noted in previous annual reports, continued progress has been made in the reduction of debt levels, with the debt-to-total capital ratio declining to 32 percent at March 31, 1983 from 36 percent at the previous year-end. Although this is lower than the target ratio of 45 to 50 percent first outlined in 1978, management believes that this has worked to the Company's advantage with the recent high levels of interest rates.

CARLING O'KEEFE OPERATIONS

The 1983 fiscal year was one of significant growth for Carling O'Keefe Limited, particularly in the Canadian beer and wine operations, despite the unfavourable economic environment. Sales revenue and earnings were both significantly higher and there was considerable improvement in the company's financial position.

Carling O'Keefe Breweries of Canada Limited had a successful year, reporting increased sales volume, sales revenue and earnings. The increased sales volume reflected an increase in market share which more than offset the effect of an industry volume decline of more than 1 percent. Particularly gratifying was the increase in market share in the key provinces of Ontario and Quebec. Share of market in the last quarter of the fiscal year was higher than the average for the year. The company also has a higher national market share in the growing light beer segment than in regular beers. Because of the increasing volume, major capital programmes have already begun to expand the breweries in Calgary and Vancouver and plans are underway to begin expansion at the Toronto brewery before the end of fiscal 1984. Effective April 1, 1982, the company acquired Century Importers, Inc., the sole distibutor in the United States of O'Keefe Ale, Old Vienna and Cinci. In March 1983, an agreement with Miller Brewing Company of Milwaukee, Wisconsin was announced, giving the company the right to manufacture and sell certain Miller brands in Canada; on May 18, 1983, Miller High Life was launched in four provinces.

Beamish & Crawford Limited, the Irish brewing subsidiary, had a reasonable year under difficult economic conditions which resulted in an industry sales volume decline. The company reported increased revenue, earnings and market share.

Jordan & Ste-Michelle Cellars Ltd. recorded increased sales volume, sales revenue and earnings. Sales volume gains were achieved in both the wine and cider segments of the market. While Carling's return on its investment remains relatively low, the wine company's management has taken steps to increase volume, improve asset utilization and implement technological innovation.

Star Oil & Gas Ltd. maintained its exploration and development expenditures at the same level as last year and concentrated on low-risk oil plays in Canada in order to take advantage of incentives implemented by the various levels of government. All costs related to an unsuccessful well drilled off-shore Australia were written off and the company's investment in the United States was written down to appraised value. Sales revenue was higher in 1983 and earnings were ahead of last year prior to the asset write down. The long term prospect for improved earnings is to a considerable extent in the hands of governments. The producers' net cash flow after production costs and taxation has to be increased if the government wishes to achieve its policy of energy self-sufficiency by 1990. The Company will continue to invest in energy at the present level, concentrating on Saskatchewan and Alberta and developing present holdings.

INFLATION AND FINANCIAL REPORTING

For a number of years, studies have been ongoing in certain countries to review the effects that continuing high levels of inflation have on financial reporting. In some countries, primarily the United States and the United Kingdom, requirements have been in effect for some time for supplementary financial statements reflecting the estimated effects of inflation. Within the past year, the Canadian Institute of Chartered Accountants issued its recommended approach, which calls for current cost supplementary financial information for large, publicly-owned companies, beginning with financial years commencing on or after January 1, 1983. Management will comply with the new Canadian requirements in next year's annual report.

DIRECTORS AND MANAGEMENT

Since last year's annual meeting, one director submitted his resignation and two new directors were appointed. The Honourable Alastair Gillespie, who had been a director since 1981, resigned as Chairman of Carling O'Keefe Limited and from the Company's Board. Donald R. Sobey, President of Empire Company Limited, Stellarton, Nova Scotia and Douglas G. Bassett, President and Chief Executive Officer of Baton Broadcasting Incorporated, Toronto, Ontario joined the Board, increasing the number of directors to nine.

Our fellow directors join us in thanking all employees of the Company and its subsidiaries for their contribution to the success of the business. To our shareholders, we express thanks for your continuing interest and support.

John H. Devlin

J.H. Devlin
Chairman of the Board

R. H. Hawkes

R.H. Hawkes
President and Chief Executive Officer

Review of Tobacco Operations

($000)	Year ended March 31 1983	1982	1981	1980	1979
*Net Operating Profits After Tax**					
Earnings From Operations	**$ 21,026**	$ 22,221	$ 21,391	$ 19,407	$ 17,605
Deferred Income Taxes	**752**	835	618	(775)	(228)
After-Tax Interest Expense	**2,902**	2,818	2,805	2,683	2,772
(A)	**$ 24,680**	$ 25,874	$ 24,814	$ 21,315	$ 20,149
Average Total Capital Employed					
Interest-Bearing Debt	**$ 53,577**	$ 48,473	$ 48,078	$ 47,686	$ 54,993
Deferred Income Taxes	**7,302**	7,320	5,812	6,216	6,486
Shareholders' Equity**	**124,100**	108,185	95,925	82,690	72,433
(B)	**$184,979**	$163,978	$149,815	$136,592	$133,912
Return On Average Total Capital Employed (A ÷ B)	**13.3%**	15.8%	16.6%	15.6%	15.0%

* Net operating profits after tax represent the Company's profits before interest expense but after taxes other than deferred income taxes.

** Average shareholders' equity for tobacco operations is computed from total shareholders' equity minus the investment in Carling O'Keefe Limited on the equity basis.

For a number of years, the Company has measured its performance in tobacco operations by return on average total capital employed. The above table provides the rate of return for the most recent fiscal year and comparative figures for the immediately preceding four years. Although operating profits in 1983 were slightly lower than in the previous year and were virtually the same as two years ago, the rate of return has declined fairly sharply in this period, with the majority of the decrease occurring in the most recent year.

The following table provides a comparative breakdown of a tobacco sales dollar for the past two fiscal years:

	1983	1982
Excise and sales taxes	49.9¢	49.7¢
Costs—		
Raw materials and manufacturing	28.6	28.8
Marketing and distribution	10.5	9.9
Administrative and general	3.6	3.0
Interest	1.0	1.1
	43.7	42.8
Income taxes	2.3	2.9
Earnings	4.1	4.6
	100.0¢	100.0¢

Statements of earnings, financial position and changes in financial position for tobacco operations are on pages 12 and 13.

Earnings for 1983 were $21 million, down by $1.2 million or 5.4 percent from the previous year. Lower sales of cigarettes together with higher costs in all areas of the Company's operations more than offset selling price increases and sales growth in other major product categories.

SALES:

Total sales revenue for the year was $512.2 million, an increase of $26.8 million or 5.5 percent over 1982. The majority of the gain was attributable to sales of cigarettes, but higher revenue was also recorded by both fine cut and imported tobacco.

Revenue from cigarette sales amounted to $494.2 million in fiscal 1983, a gain of $24.3 million or 5.2 percent over the previous year as a result of selling price increases. During the year, selling prices were adjusted upwards in June 1982 to cover higher operating costs and in September 1982 because of the annual increase in federal taxes. In addition, the most recent year reflected a full year of the manufacturers' cost and tax increases put into effect during the 1982 year.

The Company's unit cigarette sales totalled 14,888 million in 1983, a decline of 5.1 percent from sales of 15,694 million last year. Total industry cigarette sales also fell in the most recent year, amounting to 66,625 million compared to 67,211 million a year ago.

Sales revenue from fine cut and domestic pipe tobacco was $11 million, a significant improvement over 1982 sales of $8.7 million. The gain was attributable to both higher volume and increased selling prices. The Company sold 726,000 kilograms in 1983, an increase of 11 percent over sales of 654,000 kilograms in the previous year.

Revenue from the sale of imported pipe and chewing tobacco amounted to $4.5 million in the most recent year, compared to $3.8 million in 1982. Both volume and selling prices were higher. Sales were 193,000 kilograms versus 175,000 kilograms last year.

Sales of domestic and imported cigars generated revenue of $2.1 million, down from $2.4 million in 1982 despite overall higher volume (3,637 thousand compared to 3,456 thousand); the reduced revenue reflects lower sales of the higher-priced Cuban cigars. Sales of all other products, primarily pipes, lighters and smokers' accessories, totalled $0.4 million compared to $0.6 million last year.

FEDERAL AND PROVINCIAL TAXES:

The Company's selling prices include excise duty, excise tax and sales tax levied by the Government of Canada. For 1983, these three taxes totalled $255.3 million, an increase of $14.1 million or 5.9 percent despite lower volumes for the Company's principal product—cigarettes. As a result of federal legislation initially introduced in October 1980, rates for excise duty and excise tax automatically increase on September 1 each year, based on a formula related to the Tobacco Products and Smokers' Supplies Subgroup of the Consumer Price Index. During the 1983 fiscal year, these increases amounted to 15.4%—21 cents in excise duty and 20.6 cents in excise tax per carton of 200 cigarettes. Although the rate of sales tax (12%) did not change during the year, the amount per carton went up by 4.6 cents because of selling price increases to cover both the aforementioned tax changes and higher manufacturers' operating costs. Subsequent to the year-end, sales tax increased by a further 2.8 cents per carton as a result of a manufacturers' selling price increase in April 1983. At the present time, the three taxes amount to $3.73 per carton of king size cigarettes, compared to $3.24 a year ago.

The selling price of cigarettes at the retail level includes the above-noted federal taxes plus tobacco taxes levied by all of the provinces and territories. In addition, the provinces of Ontario, Newfoundland and Prince Edward Island impose sales tax on tobacco products. In the year since the 1982 annual report was issued, there have been twenty provincial or territorial tax increases, including four in New Brunswick, three each in Ontario and Newfoundland and two each in British Columbia, Saskatchewan and Quebec. The table at the bottom of the page details changes in provincial/territorial taxes in the past twelve months and shows the status of current taxes, including federal levies.

	Provincial Tobacco Tax				
		Increases			
Per carton of 200 King Size Cigarettes	1982 Annual Report	Amount	%	Current	Current Federal and Provincial Tax
British Columbia	$2.96	$0.24	8.1	$3.20	$ 6.93
Alberta	0.64	2.32	362.5	2.96	6.69
Saskatchewan	3.04	1.12	36.8	4.16	7.89
Manitoba	3.60	0.60	16.7	4.20	7.93
Ontario*	3.68	0.92	25.0	4.60	8.33
Quebec	3.69	0.38	10.3	4.07	7.80
New Brunswick	3.44	1.92	55.8	5.36	9.09
Nova Scotia	2.80	—	—	2.80	6.53
Prince Edward Island**	2.00	1.00	50.0	3.00	6.73
Newfoundland***	6.40	2.62	40.9	9.02	12.75
Yukon Territory	3.20	—	—	3.20	6.93
Northwest Territories	3.40	0.80	23.5	4.20	7.93

* excluding provincial sales tax of 7% ** excluding provincial sales tax of 10% *** excluding provincial sales tax of 12% (11% in 1982)

COSTS:

Total costs for the Company (excluding excise, sales and income taxes) amounted to $223.9 million in 1983 compared to $208 million last year, an increase of $15.9 million or 7.6%. Except for interest on long term debt, all of the major expense categories were higher in the most recent period. Purchases of the Company's debentures for sinking fund requirements resulted in long term debt interest expense being somewhat lower in 1983.

Raw materials and manufacturing costs for the current year were $146.4 million, compared to $140.1 million in 1982. This represents an increase of 4.5 percent in direct and indirect production costs charged against earnings.

The cost of leaf tobacco expensed totalled $56 million or $1.76 per pound in 1983, versus $55.5 million and $1.63 per pound a year earlier. The higher unit cost reflects the increased price of leaf purchased during the 1982 fiscal year, partly offset by production efficiency improvements. Leaf purchased during 1983 is included in inventory at year-end and its cost will impact on next year's results.

Packaging material costs amounted to $42.8 million, up by $1.6 million or 4 percent despite the reduced volume of cigarettes sold. Per unit costs were ahead of last year by 9.4 percent as a result of suppliers' price increases.

Direct labour costs amounted to $16.6 million in 1983. On a per unit basis, this cost element was 6.9 percent higher, reflecting both higher wage rates and lower production levels, partially offset by production efficiencies.

Manufacturing overhead expenses charged against earnings totalled $27.4 million compared to $23.5 million last year, an increase of 16.4 percent. This was significantly higher than the relative increase in expenses incurred during the year (10.7 percent), because per unit costs were inflated by the lower level of production. The majority of the higher costs incurred were related to compensation, building operating costs and spare parts used.

Marketing and distribution costs were $53.8 million, an increase over last year of $5.9 million or 12.4 percent. Included in this category are advertising and promotion expenses, costs of the sales organization and marketing administration, and freight and warehousing expenses. Most of the higher cost in 1983 was attributable to salaries and benefits, promotions, media and creative expenditures, point of sale materials, vehicle operating costs, market research studies, building operating costs and carriers' freight rates.

Administrative and general expenses amounted to $18.5 million in 1983, up by $3.7 million or 24.4 percent over last year ($14.8 million). Items which contributed to the increase were higher costs for salaries and benefits, provincial capital taxes, data processing costs, research and development expenses, consulting fees and building operating costs. In addition, last year's expense had been reduced by larger profits on debenture purchases and by some non-recurring income. A significant offsetting factor was that 1982 costs included expenses related to the two plant work stoppages.

Interest expense was $5.3 million in 1983, slightly higher than the total of $5.2 million a year ago. As noted earlier, interest on long term debt was somewhat lower in the current period. On the other hand, interest on short term indebtedness was higher ($3.4 million versus $3.2 million in 1982) despite significantly lower interest rates in 1983; last year's expense was favourably impacted by the unusually low levels of borrowing in the early part of that year after the plant work stoppages. The prime bank rate ranged from a high of 18 1/4% to a low of 11 1/4%, whereas in 1982 the rate peaked at 22 3/4% and was never lower than 17%.

INCOME TAXES:

Income tax expense for 1983 totalled $12 million compared to $14 million last year. As a percentage of earnings before income taxes, the provision amounted to 36.3 percent versus 38.6 percent in 1982.

Income taxes are accounted for on the tax allocation basis for all timing differences between accounting and taxable income. The principal timing differences arise between capital cost allowance claimable for income tax purposes and depreciation recorded in the accounts.

FINANCIAL POSITION:

During the year, the Company's short term indebtedness, consisting of bank loans, notes payable and bankers' acceptances, decreased by $4.8 million. At year-end, short term debt amounted to $45.7 million. The major factors providing cash in 1983 were earnings from operations adjusted for non-cash items and dividends from Carling O'Keefe Limited. The most significant uses of cash were for dividends, capital expenditures, operating working capital and the retirement of long term debt.

Dividends from Carling O'Keefe were slightly more than $2.8 million in 1983 (26 cents per Carling O'Keefe common share), down marginally from $3 million (27.5 cents) last year. In 1982, Carling O'Keefe paid a quarterly dividend of 5 cents per share and also declared a special dividend of 7.5 cents in recognition of the income generated by the sale of trade marks. In the most recent year, the quarterly payout was increased to 7 cents per share effective with the July 1st payment and there was no special declaration.

Total dividends paid by the Company in 1983 amounted to $10.7 million, an increase of $250,000 over the previous year. The higher amount reflects a full year of a quarterly payout of 40 cents per Common share, which was in effect for only three quarters of the 1982 fiscal year. Dividends on the two classes of preferred shares were marginally lower in 1983 because of First Preferred shares purchased for cancellation.

Capital expenditures during the year totalled $7.9 million, compared to only $5.5 million in 1982 when plant work stoppages early in that year kept additions to unusually low levels. As in prior years, the largest part of the additions was related to production facilities at the two plants in Quebec City and Toronto. In addition, the Company spent funds on a new stem shredding system located at a leaf processing plant in southwestern Ontario.

Operating working capital (working capital excluding short term indebtedness) increased by only $3.9 million in 1983, after an increase of $33.6 million last year. Most of the increase in 1982 had been related to the buildup of finished goods inventories after the plant work stoppages.

During the most recent year, inventories increased by only $6.6 million versus an increase of $32.8 million in the previous year.

The retirement of long term debt of $1.5 million in 1983 was related to purchases of debentures for sinking fund requirements. At year-end, $586,000 of the sinking fund payments due in the 1984 fiscal year had been discharged.

Excluding its investment in Carling O'Keefe Limited, the Company's assets totalled $227.1 million at March 31, 1983. This represented an increase of $2.8 million over assets of $224.3 million at the end of the previous year. Inventories accounted for $166.5 million (73 percent) of total assets compared to $159.9 million and 71 percent at March 31, 1982.

ROTHMANS OF PALL MALL CANADA LIMITED

EARNINGS FROM TOBACCO OPERATIONS

(in thousands of dollars)

	Year ended March 31	
	1983	1982
Income:		
Sales	$512,213	$485,406
Excise and sales taxes	255,350	241,210
	256,863	244,196
Costs:		
Raw materials and manufacturing	146,371	140,106
Marketing and distribution	53,766	47,853
Administrative and general	18,456	14,833
Interest on long term debt	1,930	2,067
Other interest	3,346	3,151
	223,869	208,010
Earnings before income taxes	32,994	36,186
Income taxes:		
Current	11,216	13,130
Deferred	752	835
	11,968	13,965
Earnings for the year	$ 21,026	$ 22,221

CHANGES IN FINANCIAL POSITION OF TOBACCO OPERATIONS

(in thousands of dollars)

	Year ended March 31	
	1983	1982
Cash provided by:		
Earnings from tobacco operations	$ 21,026	$ 22,221
Depreciation	4,396	4,658
Deferred income taxes	752	899
Other items	(172)	(600)
	26,002	27,178
Disposal of property, plant and equipment	228	532
Dividends from Carling O'Keefe Limited	2,836	3,000
	29,066	30,710
Cash used for:		
Additions to property, plant and equipment	7,916	5,492
Dividends	10,652	10,402
Increase in operating working capital	3,936	33,647
Reduction of long term debt	1,485	1,141
Purchase of First Preferred shares	231	375
Other	90	48
	24,310	51,105
Decrease (increase) in short term indebtedness	4,756	(20,395)
Short term indebtedness at beginning of year	(50,420)	(30,025)
Short term indebtedness at end of year	$(45,664)	$(50,420)

ROTHMANS OF PALL MALL CANADA LIMITED

FINANCIAL POSITION OF TOBACCO OPERATIONS

(in thousands of dollars)

	March 31	
	1983	1982
ASSETS		
Current assets:		
Accounts receivable	$ 21,677	$ 29,164
Inventories	166,466	159,875
Prepaid expenses	1,669	1,406
Total current assets	189,812	190,445
Investment in Carling O'Keefe Limited, on the equity basis	97,280	81,986
Property, plant and equipment	83,667	78,215
Less: Accumulated depreciation	46,902	44,900
	36,765	33,315
Other assets	543	554
	$324,400	$306,300
LIABILITIES		
Current liabilities:		
Bank and other short term indebtedness	$ 45,664	$ 50,420
Accounts payable and accrued liabilities	14,425	16,637
Income taxes	172	404
Excise, sales and other taxes	13,871	15,996
Total current liabilities	74,132	83,457
Long term debt	16,650	18,250
Total liabilities	90,782	101,707
DEFERRED INCOME TAXES	7,601	6,849
SHAREHOLDERS' EQUITY		
Capital stock:		
Preferred shares	26,982	27,352
Common shares	27,349	27,349
	54,331	54,701
Retained earnings	171,686	143,043
Total shareholders' equity	226,017	197,744
	$324,400	$306,300

Review of Brewing, Wine and Oil and Gas Operations

($000)	Year ended March 31 1983	1982	1981	1980	1979
*Net Operating Profits After Tax**					
Earnings From Operations	**$ 38,069**	$ 22,774	$ 19,785	$ 17,338	$ 13,612
Deferred Income Taxes	**3,398**	6,575	4,965	2,824	3,225
After-Tax Interest Expense	**1,098**	2,376	1,487	1,406	1,042
(A)	**$ 42,565**	$ 31,725	$ 26,237	$ 21,568	$ 17,879
Average Total Capital Employed					
Interest-Bearing Debt	**$ 21,102**	$ 29,618	$ 27,611	$ 26,434	$ 26,952
Other Long Term Liabilities	**1,711**	1,664	1,441	348	—
Minority Interest	**—**	—	933	1,845	1,777
Deferred Income Taxes	**40,483**	35,496	30,177	26,732	23,708
Shareholders' Equity	**220,980**	198,540	179,372	161,051	149,299
(B)	**$284,276**	$265,318	$239,534	$216,410	$201,736
Return On Average Total Capital Employed (A ÷ B)	**15.0%**	12.0%	11.0%	10.0%	8.9%

* Net operating profits after tax represent the company's profits before interest expense but after taxes other than deferred income taxes.

The above table shows the rate of return on average capital employed for Carling O'Keefe's consolidated operations for 1983 and comparative figures for the preceding four fiscal years. With a significant improvement in earnings from operations in the most recent period, the return percentage again recorded an impressive gain; this trend has now been in effect for six straight years.

Statements of earnings, financial position and changes in financial position for Carling O'Keefe's consolidated operations are on pages 17 and 18. A copy of the company's 1983 annual report is enclosed to provide detailed information on results and financial position. The following commentary is a brief review of the more significant items.

CONSOLIDATED OPERATIONS:

Earnings amounted to $38.1 million, an increase of $15.3 million or 67 percent over 1982 results of $22.8 million. The significant improvement was primarily attributable to better results from Canadian brewing and wine operations.

Sales revenue for 1983 totalled $784.2 million compared to $644.1 million last year, a gain of $140.1 million or 22 percent. Selling price increases for all products plus higher volumes for both Canadian beer and wine were the major contributing factors. All divisions of the company recorded higher revenue in 1983.

Net cash provided by consolidated operations during the year was $42.8 million, with the result that the company went from a net short term borrowing position of $11.2 million at the end of 1982 to a cash and short term investment position of $31.6 million at March 31, 1983. The main sources of cash were earnings adjusted for non-cash items and a decrease in operating working capital. Funds were used primarily for capital expenditures, the purchase of Century Importers, Inc. and dividend payments.

Total assets of the company and its subsidiaries amounted to $390.3 million at the end of the 1983 fiscal year, compared to $341.7 million a year earlier. The most significant increases were $26.6 million in cash and short term investments, $13.9 million in the net book value of property, plant and equipment and $6.7 million in other assets (primarily as a result of the Century Importers acquisition).

CANADIAN BREWING:

Earnings from Canadian brewing operations, before interest expense and income taxes, totalled $61.9 million in 1983, an increase of

$28.4 million or 85 percent over last year ($33.5 million). The gain in earnings was the result of growth in sales volume, the control of costs and expenses below inflationary levels together with the favourable effect of the timing and amounts of selling price increases.

The company's sales volume totalled 5,150,000 hectolitres compared to 5,012,000 hectolitres in 1982. With sales volume of the Canadian beer industry declining by approximately 1 percent from the previous year, the company's sales volume increase of about 3 percent meant that its market share improved by more than one percentage point. Market share increased in Quebec, Ontario, Manitoba, Saskatchewan and Alberta. The company maintained its market position in British Columbia and experienced a marginal decline in Newfoundland. In July 1982, O'Keefe's Extra Old Stock malt liquor was introduced in Saskatchewan, and Carlsberg Bock, a special seasonal product, was launched in Ontario and Newfoundland in January 1983; both brands achieved sales in excess of expectations. Carlsberg Light was introduced in British Columbia in March 1983 and has shown satisfactory results. Sales volume also benefited from a full year's sales of O'Keefe Light in Quebec and Carlsberg Light in Newfoundland, both of which were launched in the last month of the preceding fiscal year.

Because of both the higher volume and selling price increases, sales revenue was up by $126.4 million or 23.6 percent, amounting to $661.8 million.

The company's Canadian Football League team, the Toronto Argonauts, had excellent on-field performance, representing the Eastern Division in the 1982 Grey Cup, and also achieved improved operating results. The Quebec Nordiques of the National Hockey League had another satisfactory season and continued to grow in popularity within the Province of Quebec.

Capital expenditures for the year were significantly higher than last year, with major expansion programmes in Calgary and Vancouver which will be completed in phases over the next few years. Major labour contracts expired in Quebec and Ontario during the year and in British Columbia at the end of April 1983 and new two-year agreements have been settled. Labour contracts in some other provinces are presently in negotiation and it is anticipated that these contracts can be settled without disruption to operations.

IRISH BREWING:

Beamish & Crawford Limited had a satisfactory year, reporting increased sales revenue and earnings despite a decline in sales volume. Earnings before interest and income taxes were $1.4 million compared to $0.7 million in 1982. However, most of the improved performance can be attributed to a lower foreign exchange loss on translation of the financial statements from Irish punts to Canadian dollars. Earnings before the foreign exchange loss were only $52,000 higher than last year.

The company's sales volume declined slightly, to 247,000 hectolitres from 253,000 hectolitres in the 1982 fiscal year. Nevertheless, share of market increased, reflecting the excellent performance of the company's principal brands—Carling Black Label and Carlsberg—in the lager sector of the market, which is the only sector showing growth. The increase in market share was offset by a decline in industry sales volume as a result of the troubled economy and continued high unemployment. Increases in excise taxes, value added taxes, retailers' markup and brewery selling prices resulted in a significant increase in final selling price, which also had an adverse effect on industry sales. With selling price increases just slightly more than offsetting the lower volume, sales revenue was $48.1 million compared to $48 million last year.

WINE:

Jordan & Ste-Michelle Cellars Ltd. achieved significant increases in sales volume, sales revenue and earnings. Earnings before interest and income taxes amounted to $5.7 million compared to $3.9 million in 1982, a gain of $1.8 million or 45 percent.

The company's sales volume was 235,000 hectolitres, an increase of about 8 percent over last year's 217,000 hectolitres. This growth was concentrated in the major markets of Ontario and British Columbia, where volume increased by approximately 19 percent and share of market increased significantly. These increases were partially offset by lower bulk and export sales and lower sales in Quebec and the Prairie provinces. The company continued its programme of developing a complement of brands with primary consumer benefits which can be advertised on a national basis. Additionally, the programme of technological improvements continued, allowing the production of better quality wines using domestic grapes. Interlude, a wine which is a product of new technology, was launched late in the fiscal year and consumer response has been very favourable.

The Canadian wine market grew by approximately 4 percent in 1983, a slight decline in the rate of growth from last year (5 percent). The table wine category outperformed all other segments, growing at a rate of 6 percent. White table wine continued to broaden its appeal, enjoying a 13 percent volume increase, and now accounts for about 58 percent of all table wine sales. Canadian produced wines continued to hold approximately 48 percent of the total market.

The company's sales revenue for the year was $58.2 million, an increase of 20% over last year ($48.6 million). This gain reflected the improved sales volume, as well as selling price increases which were necessary to recover higher operating costs and increased production and sales taxes.

Labour agreements for the Calgary and St. Catharines wineries have expired and are currently in negotiation. The contracts for the Surrey winery expire December 31, 1983. It is anticipated that these negotiations will be concluded without labour disruption.

OIL AND GAS:

Earnings of Star Oil & Gas Ltd. before interest and income taxes again suffered a significant decline in 1983, as a result of higher production costs and the write off of United States and Australian costs. Included in production costs was the petroleum and gas revenue tax which amounted to $1.6 million, an increase of 35% over the previous year. Earnings were $1.4 million compared to $3.9 million in 1982.

The company's natural gas production declined 5 percent compared to last year due to lower demand, particularly for export gas to the United States. Star's oil and natural gas liquid production increased by 11 percent as a result of new reserves being placed on production during the year and higher demand for production from existing wells. Sales revenue increased by 32 percent to $16.2 million, as a result of increased prices for both crude oil and natural gas and increased oil production.

The petroleum industry in Canada continued to be adversely affected by the National Energy Program of the Government of Canada and by the subsequent provincial and federal energy agreements. The resulting high level of royalties and taxation reduced industry cash flow and for many projects resulted in an uneconomic rate of return on investment. This situation combined with a lack of markets for natural gas have reduced industry activity significantly, and all of the major projects such as the oil sands plants and the heavy oil recovery schemes, which will be needed in Canada by the end of the 1980's, have been cancelled or deferred indefinitely. During the year, the federal and provincial governments recognized the need for assistance to the industry in order to stimulate activity. The Government of Canada reduced somewhat the petroleum and gas revenue tax and allowed an annual deduction against the tax payable. The incremental oil revenue tax was postponed until May 31, 1984. The governments of Alberta and Saskatchewan also introduced schemes to help the industry. Unfortunately, the majority of these programmes have been short term in nature and do not address the fundamental problems of the industry. If there is to be a long term revival of the petroleum industry in western Canada, the two levels of government will have to reduce their share of total revenue and allow the industry to achieve a fair rate of return on investment.

To take advantage of the various short term incentives, Star increased spending on exploration and development in Canada by 70 percent compared to last year. In the United States, conversely, the company reduced its expenditures by approximately 75 percent.

CARLING O'KEEFE LIMITED
AND SUBSIDIARY COMPANIES

EARNINGS FROM OPERATIONS

(in thousands of dollars)

	Year ended March 31 1983	1982
Income:		
Sales	$784,227	$644,133
Excise and sales taxes	274,443	221,154
	509,784	422,979
Investment and other income	5,554	6,251
	515,338	429,230
Costs:		
Raw materials and manufacturing	235,367	206,399
Marketing and distribution	174,002	149,753
Administrative and general	34,500	27,332
Interest on long term debt	1,094	1,684
Other interest	903	2,558
Foreign exchange	863	3,770
	446,729	391,496
Earnings before income taxes	68,609	37,734
Income taxes:		
Current	27,142	8,385
Deferred	3,398	6,575
	30,540	14,960
Earnings for the year	$ 38,069	$ 22,774

CHANGES IN FINANCIAL POSITION

(in thousands of dollars)

	Year ended March 31 1983	1982
Cash provided by:		
Earnings for the year	$ 38,069	$ 22,774
Depreciation and depletion	18,868	12,374
Deferred income taxes	3,398	6,575
Other items	1,566	1,648
	61,901	43,371
Decrease in operating working capital	32,738	—
Disposal of property, plant and equipment and other assets	1,096	1,908
Current portion of long term receivable	1,785	4,376
Other	941	35
	98,461	49,690
Cash used for:		
Additions to property, plant and equipment	33,424	25,118
Purchase of shares in subsidiary company	9,320	—
Dividends	7,695	8,031
Additions to other assets	1,159	1,977
Reduction of long term liabilities	3,925	3,585
Increase in operating working capital	—	18,295
Other	111	126
	55,634	57,132
Decrease (increase) in net short term indebtedness	42,827	(7,442)
Net short term indebtedness at beginning of year	(11,192)	(3,750)
Cash and short term investments (net short term indebtedness) at end of year	$ 31,635	$(11,192)

CARLING O'KEEFE LIMITED
AND SUBSIDIARY COMPANIES

FINANCIAL POSITION
(in thousands of dollars)

	March 31	
	1983	1982
ASSETS		
Current assets:		
Cash and short term investments	$ 32,553	$ 5,952
Accounts receivable	47,876	48,583
Inventories	77,463	76,307
Prepaid expenses	5,389	4,401
Total current assets	163,281	135,243
Property, plant and equipment	318,903	292,016
Less: Accumulated depreciation and depletion	131,153	118,167
	187,750	173,849
Other assets	39,254	32,585
	$390,285	$341,677
LIABILITIES		
Current liabilities:		
Bank and other short term indebtedness	$ 918	$ 17,144
Accounts payable and accrued liabilities	60,912	46,908
Income taxes	20,369	3,740
Other taxes	18,327	15,216
Dividends payable	2,030	1,599
Total current liabilities	102,556	84,607
Long term liabilities	9,435	12,437
Total liabilities	111,991	97,044
DEFERRED INCOME TAXES	42,182	38,784
SHAREHOLDERS' EQUITY		
Capital stock:		
Preference shares	42,020	42,270
Common shares	78,357	78,357
	120,377	120,627
Retained earnings	115,735	85,222
Total shareholders' equity	236,112	205,849
	$390,285	$341,677

ROTHMANS OF PALL MALL CANADA LIMITED

AND SUBSIDIARY COMPANIES

MANAGEMENT REPORT

The consolidated financial statements of Rothmans of Pall Mall Canada Limited and its subsidiary companies have been prepared by management and are in accordance with accounting principles generally accepted in Canada, which conform in all material respects with international accounting standards adopted by the International Accounting Standards Committee. The significant accounting policies are outlined on page 20. All other financial and operating information in the annual report is consistent with that contained in the financial statements.

Management is responsible for maintaining a system of internal accounting controls which provides reasonable assurance that assets are safeguarded and that reliable financial information is produced. They believe that existing internal controls are appropriate in terms of cost and risk to meet these objectives. Internal auditors employed by the Company and its subsidiaries continually monitor accounting records and related systems.

Price Waterhouse have been appointed by the shareholders as independent auditors to examine and report on the Company's consolidated financial statements and their report appears below. As part of their examination, Price Waterhouse review internal control systems to the extent deemed necessary to support their opinion on such financial statements.

The Company's board of directors has overall responsibility for the financial statements and has given them their approval. The Board has appointed a three-man Audit Committee, all of whom are outside directors, to review the audited statements prior to their submission to the full Board. The Committee also meets periodically throughout the year with Company officials, internal auditors and Price Waterhouse.

Price Waterhouse
CHARTERED ACCOUNTANTS

Box 51
Toronto-Dominion Centre
Toronto, Ontario M5K 1G1
(416) 863-1133 Telex 065-24111

May 27, 1983

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
ROTHMANS OF PALL MALL CANADA LIMITED:

We have examined the consolidated statements of earnings, changes in financial position and retained earnings of Rothmans of Pall Mall Canada Limited for the year ended March 31, 1983 and the consolidated balance sheet as at that date. 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 results of operations and the changes in financial position of the Company for the year ended March 31, 1983 and its financial position as at that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse

Chartered Accountants

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared on the historical cost basis in accordance with accounting principles generally accepted in Canada and conform in all material respects with international accounting standards adopted by the International Accounting Standards Committee.

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The principal subsidiary companies are listed on page 2 of the annual report. Purchase accounting has been followed for all acquisitions and the results of operations of subsidiaries are included from effective dates of acquisition.

For certain subsidiaries of Carling O'Keefe Limited acquired prior to April 1, 1974, the excess of the cost of shares over the recorded value of underlying net tangible assets at dates of acquisition is carried at cost and is not amortized. Intangible assets acquired subsequently and sports franchises are amortized over periods not exceeding forty years.

FOREIGN EXCHANGE:

Foreign currency accounts are translated into Canadian dollars as follows: current accounts at exchange rates in effect at March 31; other balance sheet accounts and depreciation expense at historical rates of exchange; income and other costs at average rates of exchange during the year. The resulting exchange gains or losses are included in earnings.

INVENTORIES:

Inventories, other than containers, are stated at the lower of average cost and net realizable value. Containers are recorded at amortized cost which is lower than new replacement cost.

PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment are recorded at cost. Depreciation is provided on the straight-line basis over the estimated service lives of the assets, which are as follows for the principal asset categories:

Buildings	— 15 to 40 years
Machinery and equipment	— 5 to 15 years
Motor vehicles	— 3 to 10 years
Leasehold improvements	— term of lease, not to exceed 10 years

Oil and gas assets are accounted for using the full cost method, whereby all costs of exploration and development are capitalized on a country by country basis. Such capitalized costs net of amortization cannot exceed net revenues from estimated future production of proved reserves at current prices and costs and the estimated fair market value of properties. Costs are amortized against income using the unit of production method based on proved oil and gas reserves.

OTHER ASSETS:

Other assets are recorded at cost or amortized cost. Deferred charges are primarily payments under employment and promotional rights contracts which are amortized over the life of the respective contracts.

PENSIONS:

Current service costs are charged to operations as they accrue. Prior service costs arising from amendments to the plans and actuarial gains or losses generally are charged to operations over periods of up to fifteen years.

MARKETING COSTS:

Marketing costs, including those related to the introduction of new brands, are charged against earnings during the year in which they are incurred.

INVESTMENT TAX CREDITS:

Net investment tax credits relating to capital expenditures are accounted for as a reduction of income tax expense in the year earned.

EARNINGS PER COMMON SHARE:

Earnings per Common share are calculated after deducting dividends on Preferred shares and are based on the weighted average number of shares outstanding during the year.

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES
(Incorporated under the laws of Canada)

CONSOLIDATED STATEMENT OF EARNINGS
(in thousands of dollars)

	Year ended March 31 1983	1982
Income:		
Sales	$1,296,440	$1,129,539
Excise and sales taxes	529,793	462,364
	766,647	667,175
Investment and other income	5,554	6,251
	772,201	673,426
Costs:		
Raw materials and manufacturing	381,738	346,505
Marketing and distribution	227,768	197,606
Administrative and general	52,956	42,165
Interest on long term debt	3,024	3,751
Other interest	4,249	5,709
Foreign exchange	863	3,770
	670,598	599,506
Earnings before income taxes and minority interest	101,603	73,920
Income taxes (Note 11):		
Current	38,358	21,515
Deferred	4,150	7,410
	42,508	28,925
Earnings before minority interest	59,095	44,995
Minority interest (Note 3)	20,009	12,385
EARNINGS FOR THE YEAR	$ 39,086	$ 32,610
Earnings per Common share	$6.76	$5.58

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(in thousands of dollars)

	Year ended March 31	
	1983	1982
Cash provided by:		
Earnings for the year	$ 39,086	$ 32,610
Depreciation and depletion	23,264	17,032
Minority interest in earnings	20,009	12,385
Deferred income taxes	4,150	7,474
Other items	1,394	1,048
	87,903	70,549
Decrease in operating working capital*	28,802	—
Disposal of property, plant and equipment and other assets	1,324	2,440
Current portion of long term receivables	1,785	4,376
Other	941	35
	120,755	77,400
Cash used for:		
Additions to property, plant and equipment	41,340	30,610
Purchase of subsidiary company (Note 2)	9,320	—
Additions to other assets	1,249	2,025
Reduction of long term liabilities	5,410	4,726
Dividends—		
By the Company	10,652	10,402
By a subsidiary company to minority shareholders	4,859	5,031
Increase in operating working capital*	—	51,942
Other	342	501
	73,172	105,237
Decrease (increase) in net short term indebtedness	47,583	(27,837)
Net short term indebtedness at beginning of year	(61,612)	(33,775)
Net short term indebtedness at end of year	$(14,029)	$(61,612)
Comprised of:		
Cash and short term investments	$ 32,553	$ 5,952
Bank and other short term indebtedness	(46,582)	(67,564)
	$(14,029)	$(61,612)

*Operating working capital consists of working capital excluding cash, short term investments and short term indebtedness.

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
(in thousands of dollars)

	Year ended March 31	
	1983	1982
Balance at beginning of year	**$143,043**	$120,505
Earnings for the year	**39,086**	32,610
Excess of carrying value over cost of First Preferred shares purchased for cancellation (Note 9)	**139**	265
Excess of par value over cost of preference shares purchased for cancellation by a subsidiary company, less minority interest	**70**	65
	182,338	153,445
Dividends paid:		
Preferred shares—		
First Preferred shares, Series A ($6.85 per share)	**931**	957
Second Preferred shares ($1.325 per share)	**904**	904
	1,835	1,861
Common shares (1983—$1.60 per share; 1982—$1.55)	**8,817**	8,541
	10,652	10,402
Balance at end of year	**$171,686**	$143,043

CONSOLIDATED ANALYSIS OF DECREASE (INCREASE) IN OPERATING WORKING CAPITAL
(in thousands of dollars)

	Year ended March 31	
	1983	1982
Accounts receivable	**$ 8,668**	$(11,610)
Inventories	**(7,747)**	(45,439)
Prepaid expenses	**(1,251)**	609
Accounts payable, accrued liabilities and dividends payable	**11,749**	(1,748)
Income taxes	**16,397**	(310)
Excise, sales and other taxes	**986**	6,556
	$ 28,802	$(51,942)

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET
(in thousands of dollars)

	March 31 1983	March 31 1982
ASSETS		
Current assets:		
Cash and short term investments	$ 32,553	$ 5,952
Accounts receivable	68,623	77,291
Inventories (Note 4)	243,929	236,182
Prepaid expenses	7,058	5,807
Total current assets	352,163	325,232
Property, plant and equipment (Note 5)	402,570	370,231
Less: Accumulated depreciation and depletion	178,055	163,067
	224,515	207,164
Other assets (Note 6)	39,797	33,139
	$616,475	$565,535
LIABILITIES		
Current liabilities:		
Bank and other short term indebtedness (Note 7)	$ 46,582	$ 67,564
Accounts payable and accrued liabilities	75,171	63,634
Income taxes	20,541	4,144
Excise, sales and other taxes	32,198	31,212
Dividends payable to minority interest	1,266	1,054
Total current liabilities	175,758	167,608
Long term liabilities (Note 8)	26,085	30,687
Total liabilities	201,843	198,295
DEFERRED INCOME TAXES	49,783	45,633
MINORITY INTEREST IN SUBSIDIARY COMPANY (Note 3)	138,832	123,863
SHAREHOLDERS' EQUITY		
Capital stock (Note 9)	54,331	54,701
Retained earnings	171,686	143,043
Total shareholders' equity	226,017	197,744
	$616,475	$565,535

APPROVED BY THE BOARD:

John H. Devlin *Director*

R. O. J. Dawkes *Director*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1983 AND 1982

1. Segmented information:

In these financial statements, all references to "Rothmans" relate to the tobacco operations of the Company and its tobacco subsidiaries. All references to "Carling O'Keefe" relate to all activities of the Company's majority-owned (50.1%) subsidiary, Carling O'Keefe Limited, which include the production and sale of beer and wine and also the oil and gas operations.

	1983	1982
SALES		
ROTHMANS	$ 512,213,000	$ 485,406,000
CARLING O'KEEFE—		
Beer	709,820,000	583,281,000
Wine	58,238,000	48,563,000
Oil and gas	16,169,000	12,289,000
	$1,296,440,000	$1,129,539,000
OPERATING PROFITS		
ROTHMANS	$ 38,270,000	$ 41,404,000
CARLING O'KEEFE—		
Beer	63,325,000	34,120,000
Wine	5,741,000	3,949,000
Oil and gas	1,389,000	3,907,000
	108,725,000	83,380,000
Corporate income, net	151,000	—
Interest expense	(7,273,000)	(9,460,000)
Earnings before income taxes and minority interest	$ 101,603,000	$ 73,920,000
CAPITAL EXPENDITURES		
ROTHMANS	$ 7,916,000	$ 5,492,000
CARLING O'KEEFE—		
Beer	24,480,000	15,527,000
Wine	1,920,000	2,619,000
Oil and gas	7,024,000	6,972,000
	$ 41,340,000	$ 30,610,000
DEPRECIATION AND DEPLETION		
ROTHMANS	$ 4,396,000	$ 4,658,000
CARLING O'KEEFE—		
Beer	8,811,000	7,645,000
Wine	1,335,000	1,194,000
Oil and gas	8,722,000	3,535,000
	$ 23,264,000	$ 17,032,000

	1983	1982
IDENTIFIABLE ASSETS		
ROTHMANS	**$226,190,000**	$223,858,000
CARLING O'KEEFE—		
Beer	**242,599,000**	210,367,000
Wine	**56,032,000**	55,867,000
Oil and gas	**60,287,000**	63,513,000
	585,108,000	553,605,000
Corporate	**31,367,000**	11,930,000
	$616,475,000	$565,535,000

Corporate income, net represents corporate revenue less corporate costs of Carling O'Keefe Limited. Corporate assets consist of cash, short term investments, receivable from sale of trade marks and mortgage receivable of Carling O'Keefe.

2. Acquisition:

Effective April 1, 1982, Carling O'Keefe acquired from an associated company all of the outstanding shares of Century Importers, Inc. for $6,235,000 in cash and assumed a working capital deficiency of $3,085,000. The excess of the cost of shares over the underlying net tangible assets acquired amounted to $9,188,000.

3. Minority interest in subsidiary company:

The interest of minority shareholders in consolidated earnings of Carling O'Keefe Limited was as follows:

	1983	1982
Preference shares	**$ 2,037,000**	$ 2,046,000
Common shares	**17,972,000**	10,339,000
	$ 20,009,000	$ 12,385,000

The minority shareholders' interest in the capital stock and retained earnings of Carling O'Keefe Limited at March 31 is as follows:

	1983	1982
Preference shares	**$ 42,020,000**	$ 42,270,000
Common shares	**96,812,000**	81,593,000
	$138,832,000	$123,863,000

4. **Inventories:**

	1983	1982
ROTHMANS—		
Leaf tobacco	$ 92,046,000	$ 95,574,000
Finished goods	60,270,000	50,911,000
Packaging material and other	14,150,000	13,390,000
	166,466,000	159,875,000
CARLING O'KEEFE—		
Beverage products, finished and in process	44,937,000	45,031,000
Materials and supplies	16,523,000	15,497,000
Containers	16,003,000	15,779,000
	77,463,000	76,307,000
	$243,929,000	$236,182,000

5. **Property, plant and equipment:**

	1983		1982	
	Cost	Accumulated depreciation and depletion	Cost	Accumulated depreciation and depletion
ROTHMANS—				
Land	$ 2,731,000	$ —	$ 2,731,000	$ —
Buildings	10,505,000	3,757,000	9,853,000	3,451,000
Machinery and equipment	56,687,000	32,459,000	52,229,000	31,627,000
Motor vehicles	4,921,000	4,110,000	5,043,000	3,802,000
Leasehold improvements	8,823,000	6,576,000	8,359,000	6,020,000
	83,667,000	46,902,000	78,215,000	44,900,000
CARLING O'KEEFE—				
Land	7,008,000	—	6,895,000	—
Buildings	82,079,000	28,507,000	75,742,000	26,693,000
Machinery and equipment	131,229,000	71,340,000	117,263,000	67,001,000
Motor vehicles	17,276,000	8,691,000	15,640,000	8,037,000
Oil and gas assets	77,463,000	21,026,000	73,331,000	15,131,000
Leasehold improvements	3,848,000	1,589,000	3,145,000	1,305,000
	318,903,000	131,153,000	292,016,000	118,167,000
	$402,570,000	$178,055,000	$370,231,000	$163,067,000

6. **Other assets:**

	1983	1982
ROTHMANS—		
Unamortized deferred charges, trade marks and patents	$ 543,000	$ 554,000
CARLING O'KEEFE—		
Unamortized cost of shares of subsidiaries in excess of underlying net tangible asset values at acquisition	21,615,000	12,721,000
Sports franchises, less amortization	11,934,000	12,265,000
Unamortized deferred charges and other investments	5,705,000	7,599,000
	39,254,000	32,585,000
	$39,797,000	$33,139,000

Amortization of other assets amounted to $699,000 for the year ended March 31, 1983 (1982—$466,000).

7. Bank and other short term indebtedness:

Bank and other short term indebtedness consists of bank indebtedness (1983-$18,582,000; 1982-$23,564,000), bankers' acceptances (1983-$23,000,000; 1982-$39,000,000) and notes payable (1983-$5,000,000; 1982-$5,000,000).

	1983	1982
ROTHMANS	$45,664,000	$50,420,000
CARLING O'KEEFE	918,000	17,144,000
	$46,582,000	$67,564,000

8. Long term liabilities:

	1983	1982
ROTHMANS—		
Sinking fund debentures—		
Series A 8% due January 3, 1988	$ 4,619,000	$ 5,186,000
Series B 11% due February 15, 1995	13,045,000	13,701,000
	17,664,000	18,887,000
CARLING O'KEEFE—		
Sinking fund debentures—		
Series C 5% due January 15, 1983	—	600,000
Series D 5 1/2% due April 1, 1986	2,396,000	3,200,000
Series E 5 1/2% due April 1, 1989	4,873,000	4,918,000
	7,269,000	8,718,000
Term bank loan due March 31, 1985	3,000,000	4,400,000
Obligations under capital leases	369,000	483,000
Unfunded pensions	—	981,000
Deferred revenue under gas contracts	1,691,000	750,000
	12,329,000	15,332,000
	29,993,000	34,219,000
Less—Amount included in current liabilities	3,908,000	3,532,000
	$26,085,000	$30,687,000

The remaining principal requirements for long term liabilities are as follows for the years ending March 31:

	1984	1985	1986	1987	1988
Rothmans	$1,014,000	$1,600,000	$1,600,000	$1,600,000	$2,250,000
Carling O'Keefe	2,894,000	2,817,000	1,927,000	1,000,000	1,000,000
	$3,908,000	$4,417,000	$3,527,000	$2,600,000	$3,250,000

The Rothmans debentures are secured by a floating charge on the Company's assets in the Provinces of Ontario and Quebec.

An affiliated company owns $3,019,000 principal amount of the Company's outstanding Series A debentures.

The term bank loan bears interest at the bank's prime rate and is repayable in varying instalments to March 31, 1985.

Containers and equipment leased under capital leases by Carling O'Keefe are included in their respective asset categories and are depreciated accordingly.

9. Capital stock:

AUTHORIZED:

469,889 First Preferred shares issuable in series
2,817,062 Second Preferred shares
An unlimited number of Common shares

	1983	1982
ISSUED:		
133,344 6.85% Cumulative Redeemable First Preferred shares, Series A (1982—137,044)	**$13,335,000**	$13,705,000
682,367 6 5/8% Cumulative Redeemable Second Preferred shares	**13,647,000**	13,647,000
	26,982,000	27,352,000
5,510,684 Common shares	**27,349,000**	27,349,000
	$54,331,000	$54,701,000

PURCHASES:

During the year ended March 31, 1983, 3,700 First Preferred shares with a total carrying value of $370,000 were purchased for cancellation at a cost of $231,000 (1982—6,402 shares).

REDEMPTION PRIVILEGES:

The Series A First Preferred shares are redeemable at the option of the Company at $103 per share if redeemed before January 27, 1984, at $102 per share if redeemed before January 27, 1989, and at $101 per share if redeemed on or after January 27, 1989. The Company is required to purchase 5,000 of these shares in each calendar year. At March 31, 1983, 1,656 shares of the 1983 requirement had been acquired.

The Second Preferred shares are redeemable at the option of the Company at $20 per share.

OWNERSHIP:

Rothmans of Canada Limited, a wholly-owned subsidiary of Rothmans International p.l.c., is the owner of record of 71.2% of the Company's issued Common shares and 18.7% (1982—18.2%) of the issued Series A First Preferred shares. It is the intention of Rothmans International to reduce its equity interest to 50% at some future date, as conditions warrant.

10. Pensions:

The Company and its subsidiaries maintain pension plans covering substantially all employees and generally fund pensions with independent trustees in accordance with legal requirements. Certain supplementary pensions are unfunded and charged to operations when paid. The charge against earnings was $10,713,000 for the year ended March 31, 1983 (1982—$8,513,000), including $7,852,000 (1982—$6,937,000) for employees of Carling O'Keefe.

Based on recent independent actuarial valuations, unfunded prior service obligations are estimated at $9,100,000 (including Carling O'Keefe—$6,900,000). The unrecorded unfunded amounts are being charged to operations generally over periods of up to fifteen years, as described in the summary of significant accounting policies.

11. Income taxes:

The difference between a basic income tax rate of 50% and the effective income tax rate based on tax legislation is explained as follows:

	1983	1982
ROTHMANS—		
Income taxes at basic rate	**$16,497,000**	$18,093,000
Incentives	**(4,383,000)**	(4,076,000)
Other—net	**(146,000)**	(52,000)
	11,968,000	13,965,000
CARLING O'KEEFE—		
Income taxes at basic rate	**34,304,000**	18,867,000
Incentives	**(3,361,000)**	(2,626,000)
Alberta Royalty tax credit	**(2,712,000)**	(2,063,000)
Rate difference on Irish earnings	**(504,000)**	(528,000)
United States oil and gas write down	**2,450,000**	—
Foreign exchange	**438,000**	1,456,000
Other—net	**(75,000)**	(146,000)
	30,540,000	14,960,000
Income taxes—consolidated statement of earnings	**$42,508,000**	$28,925,000
Effective income tax rate	**41.8%**	39.1%

Incentives include inventory allowances, manufacturing and processing credits, investment tax credits and resource and depletion allowances net of royalties.

Deferred income taxes primarily reflect timing differences between accounting and tax depreciation.

12. Commitments and contingent liabilities:

In the normal course of business, the Company and its subsidiaries have commitments which include the cost of television rights, royalties payable under licensing agreements, the purchase of agricultural products and capital expenditures.

Commitments under operating lease obligations relate to sports facilities, warehouses, retail stores and offices. The following table summarizes the minimum rental payments due after March 31, 1983:

	Rothmans	Carling O'Keefe	Total
Year ending March 31—			
1984	$ 1,707,000	$ 3,777,000	$ 5,484,000
1985	1,702,000	2,964,000	4,666,000
1986	1,626,000	2,487,000	4,113,000
1987	1,299,000	1,928,000	3,227,000
1988	1,215,000	1,070,000	2,285,000
Total for all years subsequent to March 31, 1988	3,821,000	5,200,000	9,021,000
	$11,370,000	$17,426,000	$28,796,000

There are a number of outstanding claims and legal actions involving the Company and its subsidiaries. In the opinion of management, the outcome of these matters should have no material effect on the Company's financial position.

13. Comparative figures:

The 1982 comparative figures in the consolidated statement of changes in financial position have been reclassified to conform with the Company's current financial statement presentation.

Quarterly Data

	Quarter ended				
	June 30	Sept. 30	Dec. 31	Mar. 31	Total
Consolidated Sales ($000)					
1983 — Rothmans	$127,198	$137,318	$140,016	$107,681	$ 512,213
Carling O'Keefe	204,945	214,260	197,599	167,423	784,227
	$332,143	$351,578	$337,615	$275,104	$1,296,440
1982 — Rothmans	$110,453	$128,069	$129,537	$117,347	$ 485,406
Carling O'Keefe	159,109	181,260	168,276	135,488	644,133
	$269,562	$309,329	$297,813	$252,835	$1,129,539
Consolidated Earnings Amount ($000)					
1983 — Rothmans	$ 5,658	$ 7,211	$ 5,606	$ 2,551	$ 21,026
Carling O'Keefe*	4,287	5,305	4,694	3,774	18,060
	$ 9,945	$ 12,516	$ 10,300	$ 6,325	$ 39,086
1982 — Rothmans	$ 3,447	$ 5,402	$ 7,402	$ 5,970	$ 22,221
Carling O'Keefe*	1,802	4,215	3,650	722	10,389
	$ 5,249	$ 9,617	$ 11,052	$ 6,692	$ 32,610
Per Common Share —					
1983	$ 1.72	$ 2.19	$ 1.78	$ 1.07	$ 6.76
1982	$ 0.87	$ 1.66	$ 1.92	$ 1.13	$ 5.58
Share Market Prices					
First Preferred —					
1983 — High	$51	$56	$64 1/2	$66	
Low	49	50	54 1/2	62	
1982 — High	66	62	58	50	
Low	63	58	49 1/4	47	
Second Preferred —					
1983 — High	9 3/4	11	12 7/8	13	
Low	8 3/4	9	10 1/2	11 5/8	
1982 — High	12	11 1/2	10 3/4	9 1/2	
Low	11 3/8	9 3/4	8 1/2	8 1/2	
Common —					
1983 — High	24 5/8	27 1/2	41	46	
Low	20	20 3/4	26 1/4	38 1/2	
1982 — High	26 1/2	26	22 3/4	24 3/4	
Low	23 3/4	20	19 1/4	22	

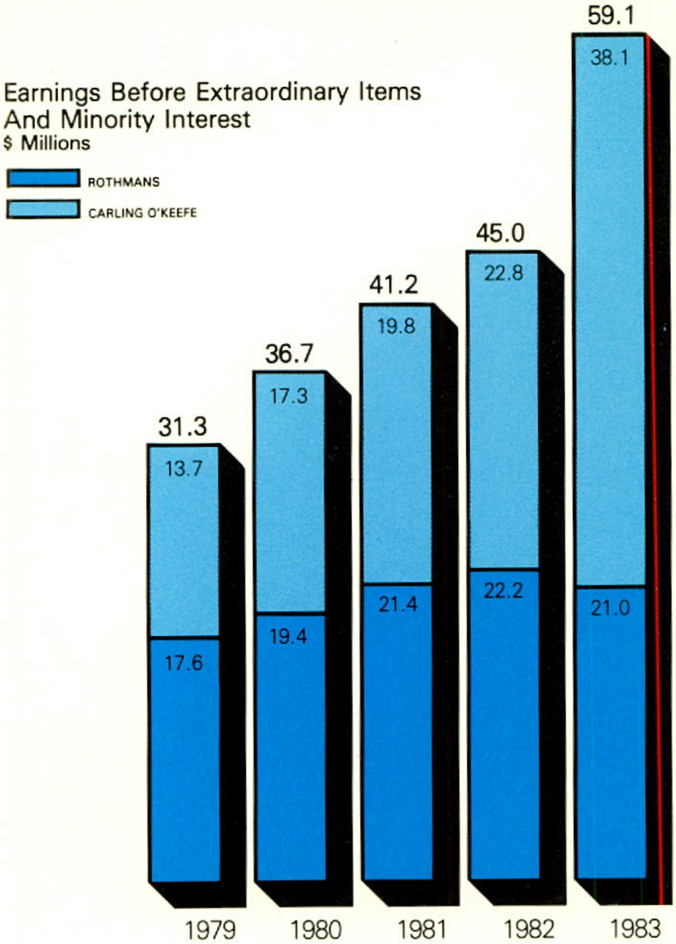
The Company's Preferred and Common shares are listed on the Toronto, Montreal and Vancouver stock exchanges.

* after deducting minority interest.

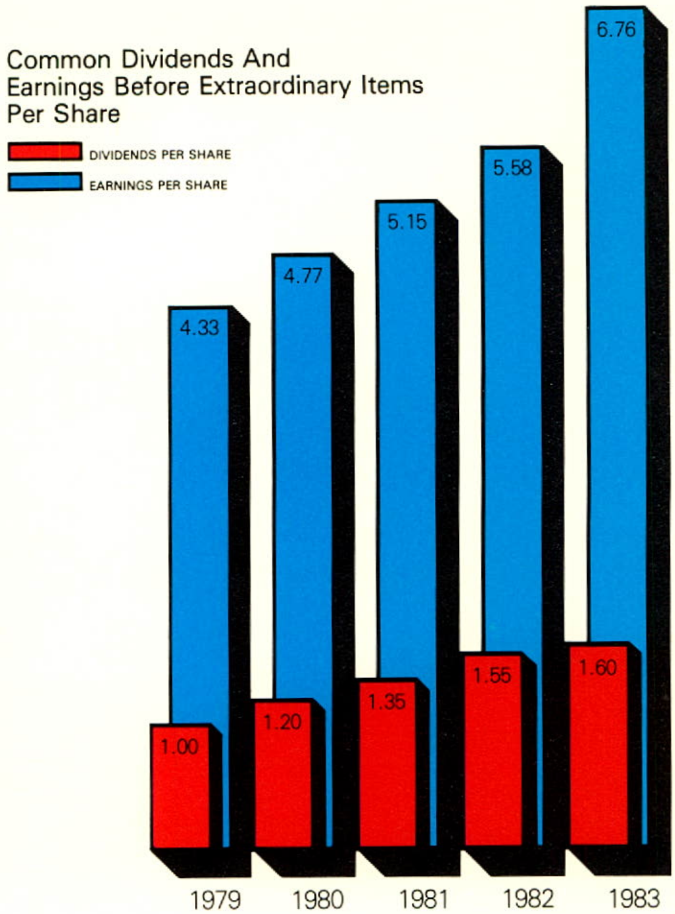
Five-Year Financial Review

	Year Ended March 31				
	1983	1982	1981	1980	1979
Results For The Year ($000)					
Sales—					
Rothmans	**$ 512,213**	$ 485,406	$461,491	$419,739	$400,042
Carling O'Keefe	**784,227**	644,133	537,348	478,059	401,273
	1,296,440	1,129,539	998,839	897,798	801,315
Excise and sales taxes	**529,793**	462,364	409,595	365,843	340,046
	766,647	667,175	589,244	531,955	461,269
Earnings—					
Earnings from operations—					
Rothmans	**21,026**	22,221	21,391	19,407	17,605
Carling O'Keefe, less minority interest	**18,060**	10,389	8,882	7,649	5,775
Earnings before extraordinary items	**39,086**	32,610	30,273	27,056	23,380
Extraordinary items from Carling O'Keefe, less minority interest	**—**	—	5,263	—	161
Earnings for the year	**39,086**	32,610	35,536	27,056	23,541
Depreciation and depletion	**23,264**	17,032	15,303	14,394	13,403
Interest expense	**7,273**	9,460	8,019	7,347	6,868
Dividends paid—					
Preferred	**1,835**	1,861	1,894	2,683	3,505
Common	**8,817**	8,541	7,439	6,067	4,583
Financial Position ($000)					
Working capital	**$ 176,405**	$ 157,624	$133,519	$123,571	$117,292
Property, plant and equipment—net	**224,515**	207,164	194,655	177,189	160,583
Total assets	**616,475**	565,535	503,854	462,669	418,512
Total interest-bearing debt	**74,515**	99,569	79,069	88,265	85,515
Shareholders' equity	**226,017**	197,744	175,846	149,765	132,023
Per Common Share					
Earnings—					
Before extraordinary items	**$ 6.76**	$ 5.58	$ 5.15	$ 4.77	$ 4.33
For the year	**6.76**	5.58	6.11	4.77	4.37
Dividends paid	**1.60**	1.55	1.35	1.20	1.00
Shareholders' equity	**36.10**	30.91	26.82	22.04	17.40
Other Information					
Return on average total capital employed (%)	**14.3**	13.3	12.9	12.0	11.2
Return on shareholders' equity (%)	**18.4**	17.5	18.6	19.2	18.8
Capital expenditures ($000)	**41,340**	30,610	35,109	31,681	31,324
Working capital ratio	**2.00**	1.94	1.97	1.93	2.06

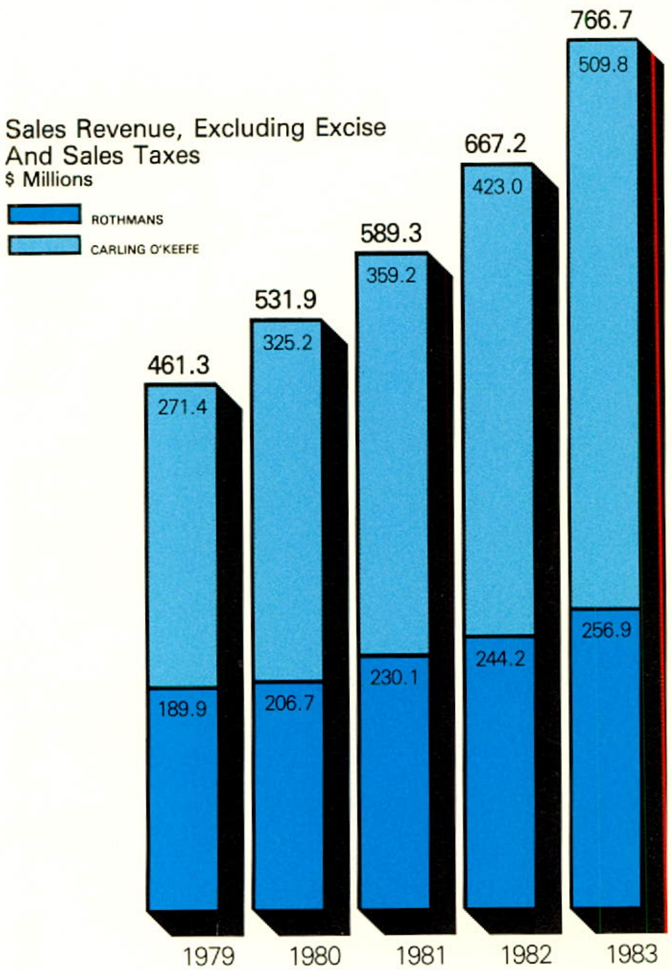
Earnings Before Extraordinary Items And Minority Interest
$ Millions



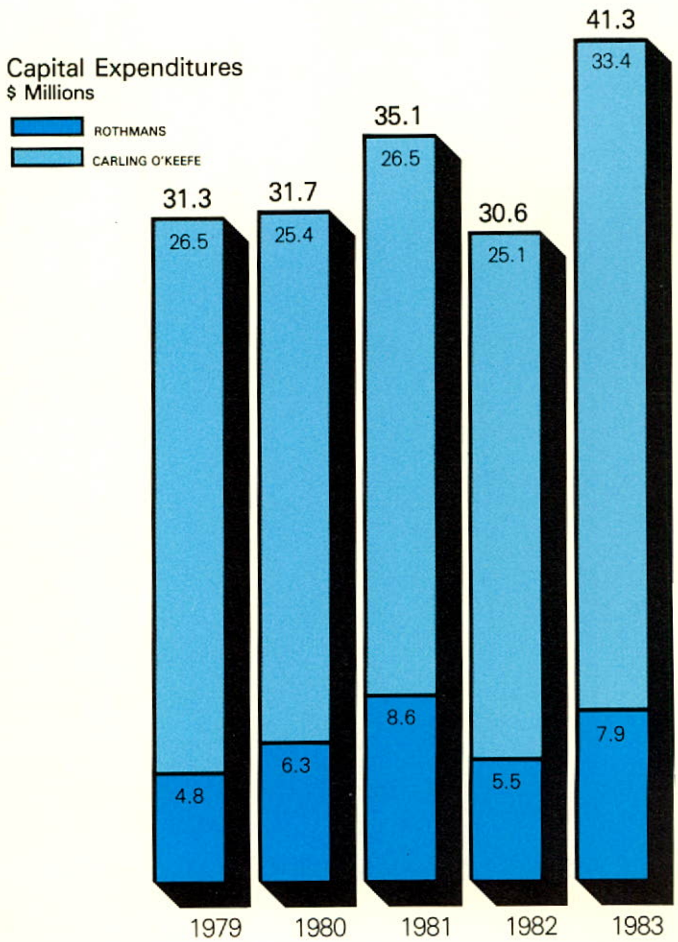
Common Dividends And Earnings Before Extraordinary Items Per Share



Sales Revenue, Excluding Excise And Sales Taxes
$ Millions



Capital Expenditures
$ Millions




Rothmans
KING SIZE
Rothmans
SPECIAL
25
SPECIAL MILD
ROTHMANS
INTERNATIONAL
Rothmans
KING SIZE
25
FILTER TIPPED
ROTHMANS DE PALL MALL
Rothmans
EXTRA LIGHT
25
KING SIZE


CRAVEN
"A"
Special Mild
CRAVEN
"A"
Special Mild
100's
CRAVEN
MENTHOL
Special Mild
100's
CRAVEN
"A"
Ultra Light
CRAVEN
"A"
KING SIZE
CRAVEN
MENTHOL
KING SIZE
CRAVEN
"A"
CRAVEN "A"


DUNHILL
DUNHILL
dunhill


NUMBER 7
NUMBER 7
Lights
NUMBER 7
NUMBER 7
Lights
NUMBER 7


Rothmans
ROTHMANS INTERNATIONAL
5
8
15


OF RACING
JULY 12-17
APPROXIMATE ODDS
TOTE
PAYS
TIME OF DAY
7:32
$2.00 FEATURE
FINISH
MILE
3/4
1/2
1/4


ROTHMANS

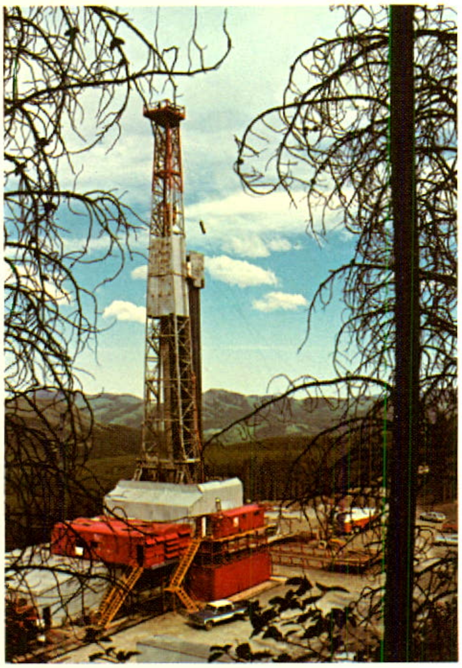

MOLY SLIP
98
ROTHMANS
MUSTANG

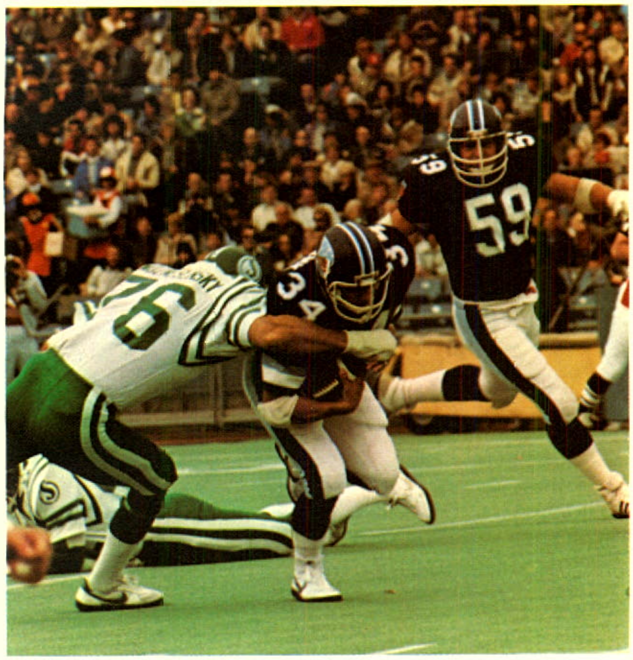

Old Vienna


Carlsberg
Light
Carlsberg
Bock
Gold
Carlsberg
Beer Bière


O'Keefe
LÉGÈRE
LIGHT
Bière
O'Keefe
Ale


Maria
Christina
Light






Rothmans