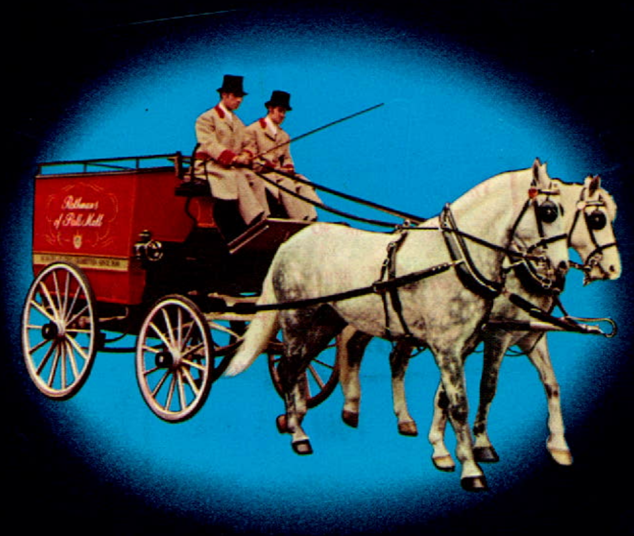
ROTHMANS OF PALL MALL CANADA LIMITED

Annual Report 1984



Rothmans of Pall Mall Canada Limited
Annual Report 1984

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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 17, 1984.

Ce rapport peut être obtenu en français sur demande.


Welcome to Greenwood HOME OF Rothmans Week of Racing
TOTAL
25296
POOL
TOTAL
8225
POOL


ROTHMANS INTERNATIONAL


DUNHILL
DUNHILL

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.

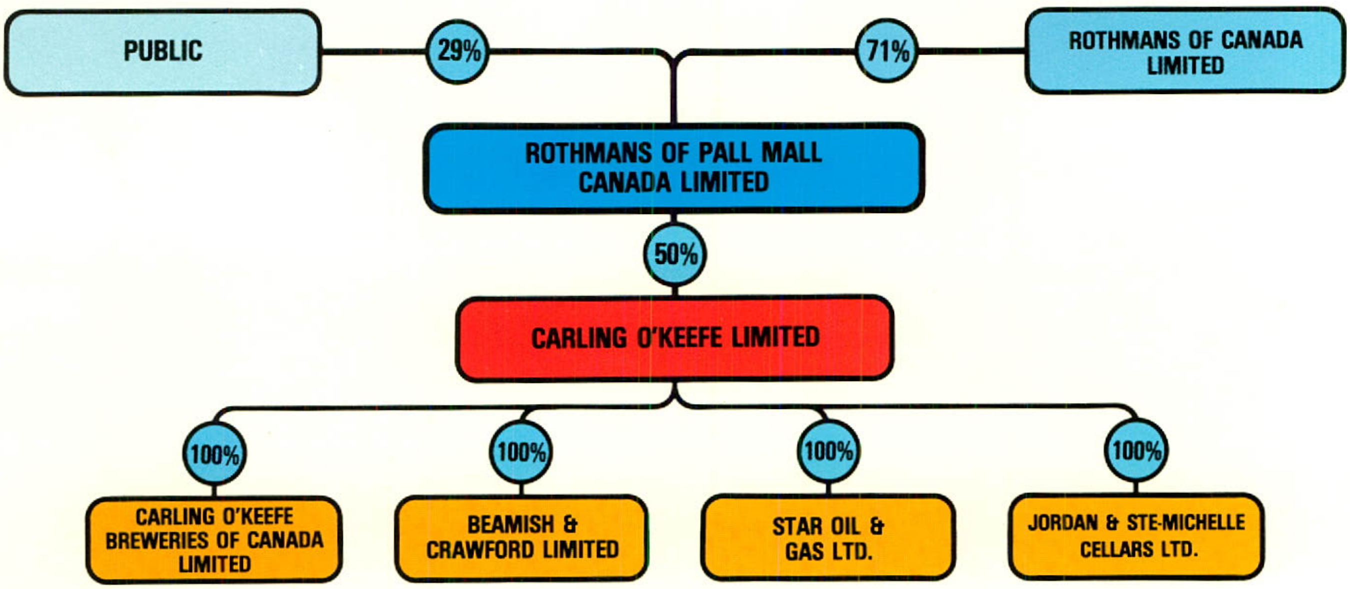
The Company is Canada's second largest manufacturer and distributor of cigarettes and tobacco products. Carling O'Keefe Limited, through subsidiary companies, is engaged in the production and sale of beer, wine and oil and gas.

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 fourteen 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, Miller High Life, Old Vienna, The Carlsberg Family, O'Keefe's Extra Old Stock and Carling Black Label. Through an affiliated company, Old Vienna, O'Keefe Ale and Cinci are exported to the United States. 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 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

	1984	1983	% Increase (decrease)
Year Ended March 31 ($000)			
SALES	**$1,490,706**	$1,296,440	15.0
EARNINGS	**45,859**	39,086	17.3
DIVIDENDS PAID:			
PREFERRED SHARES	**1,798**	1,835	(2.0)
COMMON SHARES	**8,817**	8,817	—
CAPITAL EXPENDITURES	**82,103**	41,340	98.6
At March 31 ($000)			
WORKING CAPITAL	**$174,520**	$176,405	(1.1)
TOTAL ASSETS	**675,387**	616,475	9.6
TOTAL INTEREST-BEARING DEBT	**51,225**	74,515	(31.3)
SHAREHOLDERS' EQUITY	**259,629**	226,017	14.9
Per Common Share			
EARNINGS	**$ 8.00**	$ 6.76	18.3
DIVIDENDS PAID	**1.60**	1.60	—
SHAREHOLDERS' EQUITY	**42.29**	36.10	17.1
Ratios			
RETURN ON AVERAGE TOTAL CAPITAL EMPLOYED	**17.2 %**	14.3 %	
RETURN ON SHAREHOLDERS' EQUITY	**18.9 %**	18.4 %	
WORKING CAPITAL RATIO	**2.00**	2.00	

REPORT TO SHAREHOLDERS

PERFORMANCE

For the fifth consecutive year, consolidated earnings from operations reached a record level in the year ended March 31, 1984. Consolidated earnings were $45,859,000 or $8.00 per Common share, and represented an increase of 17.3 percent over the previous year's earnings of $39,086,000 or $6.76 per Common share. Earnings from the Company's tobacco operations were $19,647,000 or 6.6 percent below last year. The Company's share of Carling O'Keefe's earnings increased substantially to $26,212,000 from $18,060,000 in 1983.

Consolidated sales increased 15 percent to $1,490,706,000 from $1,296,440,000 in 1983. While all segments showed increases, the most significant change was in Carling O'Keefe's beer business which was up 22.5 percent.

Consolidated short term indebtedness at March 31, 1984 amounted to $18,111,000, compared to $14,029,000 a year earlier.

ROTHMANS TOBACCO OPERATIONS

Earnings for fiscal 1984 amounted to $19,647,000 compared to 1983's level of $21,026,000. The Company's cigarette volume declined 5.6 percent while the total market for cigarettes showed a decrease of just under 4 percent during the year. As indicated in last year's annual report, the excessive cigarette tax increases introduced by both Federal and Provincial Governments in recent years have been the major factor contributing to the industry decline.

As a result of tobacco industry representations to the Federal Minister of Finance, a joint government-industry taxation task force was formed and has made recommendations to the Minister which may alleviate the current threat to the well-being of this important Canadian industry and its employees, customers, suppliers and shareholders.

In conjunction with the Federal taxation task force, the members of the industry are pursuing every opportunity to present to the ten provincial finance ministers the negative impact of excessive taxation policies.

In the consumer cigarette market, low and medium tar brands continue to dominate the market. Rothmans has been and remains well represented in these segments of the market. The consumer market for 100 millimetre products has also shown substantial growth, although it is a minor segment of the market with less than a five per cent market share. Rothmans major 100 millimetre brands are Craven "A" Special Mild 100's and Craven Menthol Special Mild 100's. The Rothmans Special and Rothmans Extra Light brands have shown some strength in the past year, as has the Craven group of products with its recent packaging changes. Dunhill King Size, although a relatively minor brand, showed volume increases in the 30 percent range. A regular length version of Dunhill was introduced in the Montreal market in April in order to provide the regular length smoker with a Dunhill product to meet his or her smoking requirements.

During the coming year, labour agreements will expire at both plants, in December 1984 at Toronto and in March 1985 at Quebec City. Negotiations will be conducted during the next few months.

The 1983 tobacco crop in Ontario amounted to 215 million pounds at an average price of $1.63 per pound. This compares with 154 million pounds in the 1982 frost-reduced crop at an average price of $1.62 per pound. Preliminary requirements for the 1984 crop indicate a 30 percent reduction from the 1983 crop. This is a result of both declining domestic requirements, due to increases in cigarette taxes, and a substantial reduction in export demand.

The Company continued to improve production methods during the year. Higher yields from leaf tobacco are being realized through better leaf handling and processing methods, without compromising the high quality of cigarettes produced by Rothmans. In the cigarette manufacturing area, additional high-speed Protos making machines have been installed, and more have been ordered. These machines are much more efficient than their predecessors and have contributed to the achievement of our world class standards.

PLANNING AND OUTLOOK

Company management has adopted a five point statement which identifies our mission in the tobacco business:

- to be one of Canada's leading cigarette producers and an acknowledged leader in the market place;

- to provide smoking consumers with high quality products designed to satisfy their needs;

- to maximize shareholder returns through management of Company resources, combining prudence with willingness to undertake reasonable business risk;

- to provide an operating environment for employees that will enable them to contribute to the achievement of corporate objectives and to share in the Company's success;

- to maintain a record of good corporate citizenship within Canadian society.

Within the context of this statement, the Company has undertaken a number of initiatives to improve its overall performance. These include a redefinition of consumer needs in order to properly design and position our products, a series of training and educational programmes to improve employee skills and increase their effectiveness, a continuing emphasis on achieving world class standards in our production facilities and an improved awareness of information needed to increase our competitiveness in the market place.

This approach is viewed as being extremely important in light of current industry conditions. The price of our products has been escalating at rates exceeding general inflation as a result of the taxation measures of both Federal and Provincial Governments. This has resulted in a two-year decline in the total market for cigarettes, which makes improved market share a more critical factor than in the past. We have experienced a decline in market share for the past few years but current indications are that a levelling off is occurring. As the results of the efforts of the recent past become known, we hope to see a reversal of this downward trend.

The Company's debt to capital ratio continues to decline and was 23% at March 31, 1984, compared to 32% in 1983. This relatively low ratio has worked to our advantage in the past few years during periods of high interest rates.

CARLING O'KEEFE OPERATIONS

The 1984 fiscal year was another year of significant growth for Carling O'Keefe Limited. Both sales revenue and earnings were substantially higher. Cash flow from operations also increased, but cash and short term investments at March 31, 1984 were lower than last year. The decline reflected the reinvestment of funds in the expanded capital expenditure programme, particularly at the Vancouver, Calgary and Toronto breweries.

Carling O'Keefe Breweries of Canada Limited had a very successful year, reporting much higher sales volume, sales revenue and earnings. Sales volume was up by 16 percent which, with industry sales virtually unchanged from 1983, resulted in an increase of approximately four market share points. The increase reflected not only the success of the introduction of Miller High Life in Quebec, Ontario, Manitoba and Saskatchewan, but also the continued strength of the company's other major brands. With the increased demand, production facilities operated at maximum capacity and still were unable to satisfy the market. The capital expenditure programme was therefore speeded up and permitted the launch of Miller High Life in Newfoundland, Alberta and British Columbia during May 1984. The expansion of the Toronto brewery was started during the year and is scheduled to be in production for the summer of 1985. Plans were also underway to begin expansion of the Montreal and Saskatoon facilities during the current fiscal year.

Carling O'Keefe's two professional sports franchises had successful years. The Toronto Argonauts of the Canadian Football League won both its division title and the Grey Cup. The Quebec Nordiques completed their best season in the National Hockey League, reaching the quarter finals of the league's playoffs.

Beamish & Crawford Limited, the Irish brewing subsidiary, had a satisfactory year and reported increased share of market, sales volume and earnings in Irish punts.

Jordan & Ste-Michelle Cellars Ltd. had a disappointing year and reported a decline in sales volume and earnings. Sales of Canadian produced wines declined from last year particularly in Ontario, which is the major market for these wines. Unless respective levels of government take steps to protect the domestic industry against low priced imported products, it is difficult to be optimistic about the future for this industry and for the grape growing areas of the country.

Star Oil & Gas Ltd. concentrated most of its efforts during the year in Saskatchewan, where improvements in government regulations and incentives provide the greatest likelihood of an acceptable return on investment. Additional reserves of crude oil were discovered and the company reported increased earnings and sales of oil compared to last year. The long term future of the oil and gas industry in Canada largely depends on obtaining increased markets for the export of natural gas to the United States. In the meantime, the company will continue to operate within its own cash flow and will concentrate on the search for oil which can usually be sold immediately.

INFLATION AND FINANCIAL REPORTING

In last year's annual report, it was stated that the Company intended to comply with recently released recommendations by the Canadian Institute of Chartered Accountants to issue supplementary current cost financial information. Since that time, there has been considerable reluctance by many large, publicly-owned companies to follow these recommendations, for reasons of complexity, subjectivity, costliness to prepare and, most importantly, usefulness to the reader. It appears that similar doubts are being expressed in the United Kingdom and the United States, where similar requirements have been in effect for a number of years. Furthermore, the inflation rate has significantly abated over the past year. For these reasons, the Company has decided not to publish any supplementary current cost information at this time, but will continue to monitor developments in this area.

GENERAL

The only change in the Company's officers during the 1984 fiscal year was the retirement of Miss Dorothy Williams, who was the Assistant Secretary of the Company.

Mr. Henry M. Giudice, formerly Chairman and Chief Executive Officer of Martin Brinkmann AG, has recently been reassigned to other duties with the Rothmans International group and, in April, resigned as a director of the Company.

On behalf of all directors, we would like to express our appreciation to employees of the Company and its subsidiaries and to our shareholders, suppliers and customers.

John H. Devlin

J.H. Devlin
Chairman of the Board

R. H. Hawkes

R.H. Hawkes
President and Chief Executive Officer

May 23, 1984

Review of Tobacco Operations

($000)	1984	1983	1982	1981	1980
Sales—					
Cigarettes	$519,609	$494,127	$469,858	$446,911	$405,818
Domestic tobacco	14,220	11,032	8,754	8,230	7,470
Imported tobacco	4,976	4,528	3,776	2,683	2,438
Cigars	2,172	2,104	2,454	2,371	2,491
All other products	1,263	422	564	1,296	1,522
	$542,240	$512,213	$485,406	$461,491	$419,739
Earnings—					
Before interest and income taxes	$ 32,574	$ 38,270	$ 41,404	$ 40,812	$ 36,625
Before income taxes	$ 30,002	$ 32,994	$ 36,186	$ 35,891	$ 31,917
For the year	$ 19,647	$ 21,026	$ 22,221	$ 21,391	$ 19,407
Capital Expenditures	$ 8,303	$ 7,916	$ 5,492	$ 8,622	$ 6,290
Assets Employed	$226,259	$226,190	$223,858	$186,454	$182,106

Earnings from tobacco operations for the year ended March 31, 1984 were $19.6 million, a decline of $1.4 million or 6.6 percent from the previous year. The major unfavourable factors were lower sales of cigarettes and generally higher costs, which were partially offset by selling price increases, higher fine cut and imported tobacco sales, and a reduction in interest expense.

Following a practice of many years, the Company measures its performance by return on average total capital employed. Return is calculated as earnings before interest expense but after taxes other than deferred income taxes, while capital employed is computed on the basis of monthly averages for debt, deferred taxes and shareholders' equity (total equity minus the investment in Carling O'Keefe Limited on the equity basis). With the decrease in absolute earnings, the return for 1984 declined to 12.3% from 13.3% in the previous year (1982—15.8%; 1981—16.6%; 1980—15.6%).

Statements of earnings, financial position and changes in financial position of tobacco operations can be found on pages 12 and 13 of the report. The following table and commentary provides a review of the 1984 results in comparison with the previous year.

	(per sales dollar) 1984	1983
Excise and sales taxes	51.0¢	49.9¢
Costs—		
Raw materials and manufacturing	28.4	28.6
Marketing and distribution	11.1	10.5
Administrative and general	3.5	3.6
Interest	0.5	1.0
	43.5	43.7
Income taxes	1.9	2.3
Earnings	3.6	4.1
	100.0¢	100.0¢

SALES:

Total sales revenue for the Company amounted to $542.2 million, an increase of $30 million or 5.9 percent over the 1983 fiscal year. Cigarette sales accounted for most of the gain, but higher revenue was also realized from sales of tobaccos, cigars and other products.

Cigarette sales revenue totalled $519.6 million in 1984, a gain of $25.5 million or 5.2 percent. The higher amount was attributable to selling price increases, which were somewhat offset by lower volume. During the year, Rothmans selling prices for cigarettes were raised twice—in April 1983 to cover higher operating costs and in September 1983 as a result of the automatic annual indexing of federal taxes. Unit sales of the Company's brands were 14,051 million compared to 14,888 million in 1983, a decline of 5.6 percent.

Total Canadian industry cigarette sales amounted to 63,996 million, a decrease of 2,629 million or almost 4 percent from the previous year (66,625 million).

Revenue from sales of domestic tobacco, primarily fine cut for the roll-your-own market, was $14.2 million in 1984. This represented an increase of about 29 percent over the previous year, reflecting both higher volume and increased selling prices. The Company sold 819,000 kilograms in the most recent period compared to 726,000 kilograms in 1983, an improvement of almost 13 percent. Rothmans share of market for fine cut tobacco also grew during the year. Selling prices were adjusted upwards at the same times as noted earlier for cigarettes.

Sales of imported pipe and chewing tobacco were $5 million in 1984, compared to $4.5 million in the previous year. Both selling prices and sales volume were higher. The Company sold 204,000 kilograms, up by 5.7 percent over sales of 193,000 kilograms in 1983.

Primarily because of selling price increases, revenue from cigar sales of $2.2 million was 3.2 percent higher in the period under review. Volume was also ahead of the previous year (3,706 thousand versus 3,637 thousand), but sales of the higher-priced and higher-margin Cuban cigars again suffered a decline.

Sales of all other products tripled to $1.3 million in 1984. Major factors were new lines of disposable lighters and cigarette tubes which were introduced during the year. Other products included in this category are pipes, non-disposable lighters and smokers' accessories.

FEDERAL AND PROVINCIAL TAXES:

There are three federal taxes on tobacco products (excise duty, excise tax and sales tax) which are paid by the Company and included in its selling prices. For the 1984 fiscal year, these taxes amounted to $276.6 million, an increase of $21.3 million or 8.3 percent. As a percentage of total sales revenue, they represented 51 percent in the most recent year compared to 49.9 percent in 1983.

Excise duty and excise tax automatically increase on September 1 each year based on a formula instituted by the Government of Canada a few years ago. In the year under review, these increases amounted to 15.8% (1983 – 15.4%), with excise duty going up by 24.8 cents per carton of 200 cigarettes and excise tax increasing by 24.4 cents. Sales tax of 12% is calculated on selling price and therefore was adjusted both in April and September 1983 when prices were increased – a total of 6 cents per carton in fiscal 1984. Subsequent to the year end, a manufacturers' selling price increase in April 1984 resulted in a further sales tax adjustment of 2 cents. At the present time, the three taxes total $4.27 per carton of king size cigarettes, compared to $3.73 a year ago.

At retail level, the selling price of tobacco products also includes tobacco taxes levied by all provinces and territories and sales taxes imposed by three provinces. During the twelve months since last year's annual report was issued, there have been seventeen provincial tobacco tax adjustments, including four in New Brunswick, three each in Ontario and Quebec and two each in British Columbia and Newfoundland.

COSTS:

Excluding taxes on sales and income, the Company's costs amounted to $235.6 million in 1984, an increase of $11.8 million or 5.3 percent over the previous year. With the exception of interest expense on both short and long term debt, all major cost categories were higher in the most recent year.

Raw materials and manufacturing costs (primarily leaf tobacco, packaging materials, direct labour and production overheads) increased by $7.3 million or 5 percent to $153.6 million in fiscal 1984. Higher costs were somewhat moderated by the reduction in cigarette sales. The cost of leaf tobacco charged against earnings totalled $57.3 million or $1.87 per pound, compared to $56 million or $1.76 per pound in the previous year. Packaging material costs amounted to $41.7 million compared to $42.8 million in 1983. Direct labour costs in 1984 were $19.4 million (1983 – $16.6 million). Manufacturing overheads charged against earnings increased to $30.5 million from $27.4 million in the previous year; in this expense category, the major cost increases occurred in compensation and benefits, building operating costs, spare parts usage and printing overheads.

Marketing and distribution expenses (primarily advertising and promotion, salesmen's costs, marketing administration, freight and warehousing costs) amounted to $60.3 million in the most recent year. This represented an increase of $6.5 million or 12.1 percent over 1983 ($53.8 million). The majority of the higher amount was attributable to media expenditures, promotions, salaries, fringe

	Provincial Tobacco Tax				
		Increases			
Per carton of 200 King Size Cigarettes	1983 Annual Report	Amount	%	Current	Current Federal and Provincial Tax
British Columbia	$3.20	$1.28	40.0	$4.48	$ 8.75
Alberta	2.96	—	—	2.96	7.23
Saskatchewan	4.16	1.20	28.8	5.36	9.63
Manitoba	4.20	1.00	23.8	5.20	9.47
Ontario*	4.60	0.58	12.6	5.18	9.45
Quebec	4.07	0.90	22.1	4.97	9.24
New Brunswick	5.36	0.64	11.9	6.00	10.27
Nova Scotia	2.80	1.20	42.9	4.00	8.27
Prince Edward Island**	3.00	—	—	3.00	7.27
Newfoundland***	9.02	0.54	6.0	9.56	13.83
Yukon Territory	3.20	—	—	3.20	7.47
Northwest Territories	4.20	—	—	4.20	8.47

* excluding provincial sales tax of 7%　　** excluding provincial sales tax of 10%　　*** excluding provincial sales tax of 12%

benefits, and special events such as the Rothmans International horse race, the Craven Special Moments fashion show and the American Accents exhibition.

Administrative and general costs totalled $19.2 million, compared to $18.5 million a year earlier. Significant items which contributed to this increase of 3.8 percent were salaries and related benefits, write-offs of finished goods, consulting fees and training expenses. Partial offsetting factors were sales tax refunds and increased revenue under royalty agreements.

Interest expense on both short and long term debt was $2.6 million, a decline of $2.7 million or 51.3 percent from 1983. Short term debt interest accounted for the majority of the favourable performance, as a result of both reduced average borrowing levels and lower rates. The prime bank rate was 11% for virtually all of the 1984 fiscal year whereas it ranged from a high of 18 1/4% to a low of 11 1/4% in the previous year. Interest on long term debt was somewhat lower in 1984 due to purchases of the Company's debentures for sinking fund requirements.

INCOME TAXES:
Income tax expense for 1984 was $10.4 million or 34.5% of pre-tax earnings, compared to $12 million (36.3%) a year earlier. The lower effective rate reflects proportionately larger tax reductions for both the inventory allowance and the investment tax credit together with a slightly lower marginal tax rate.

As in prior years, income taxes are accounted for on the tax allocation basis for all timing differences between accounting and taxable income. The principal timing difference arises between accounting and tax depreciation of capital assets.

FINANCIAL POSITION:
Total assets for the Company's tobacco operations (assets excluding its investment in Carling O'Keefe Limited) amounted to $226.3 million at March 31, 1984, virtually the same as at the previous year-end ($226.2 million). The main changes were a decrease of $12.8 million in inventories, with both leaf tobacco and finished goods contributing, and increases of $8.4 million in accounts receivable and $4.6 million in net property, plant and equipment. In total, inventories of $153.7 million represented 68 percent of assets employed, compared to $166.5 million or 74 percent at March 31, 1983.

During the 1984 fiscal year, the Company generated net cash of $16.8 million. As a result, short term indebtedness declined to $28.8 million at March 31, 1984 from $45.7 million at the end of the previous year. Earnings adjusted for non-cash items, a decrease in operating working capital and dividends from Carling O'Keefe Limited were the main cash generators. The most significant uses of cash were for dividends, capital expenditures and the retirement of long term debt.

Operating working capital (current assets less current liabilities excluding short term indebtedness) decreased by $9.2 million during the year; this compares to an increase of $3.9 million in 1983. The majority of the improvement was related to reductions in inventories of both leaf tobacco and finished goods.

Carling O'Keefe Limited increased its quarterly common share dividend payout from 7 cents to 10 cents effective October 1, 1983. As a result, dividends earned by the Company during the 1984 fiscal year increased to $4 million from $2.8 million in the previous year.

Total dividends paid by Rothmans on its Common and Preferred shares amounted to $10.6 million in 1984, marginally lower than last year. There was no change in the quarterly rate of 40 cents per Common share which was instituted in September 1981. Dividends on the two classes of preferred shares were slightly lower because of First Preferred shares purchased for cancellation.

Capital expenditures for the most recent year totalled $8.3 million, compared to $7.9 million in 1983. The majority of the expenditures were for machinery, equipment and building renovations at the two plant locations in Quebec City and Toronto.

The cost of long term debt retired during the year through purchases for sinking funds was $1.6 million. At March 31, 1984, $672,000 of sinking fund requirements due in the 1985 fiscal year had been discharged.


Rothmans
SPECIAL
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SPECIAL
Rothmans
EXTRA LIGHT
KING SIZE
Rothmans
Rothmans
SPECIAL
SPECIAL MILD
Rothmans
20
WORLD FAMOUS SINCE 1890
ROTHMANS
BEHIND ROTHMANS CIGARETTES STAND
OVER 80 YEARS OF FINE BLENDING
INTERNATIONAL


DUNHILL
KING SIZE
25
London Paris New York
INTERNATIONAL
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London Paris New York
DUNHILL
KING SIZE
FILTER DE LUXE
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London Paris New York


NUMBER 7
Lights
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CIGARETTES
KING SIZE 25 FILTER TIP


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ROTHMANS OF PALL MALL CANADA LIMITED

EARNINGS FROM TOBACCO OPERATIONS

(in thousands of dollars)

	Year ended March 31	
	1984	1983
Income:		
Sales	$542,240	$512,213
Excise and sales taxes	276,606	255,350
	265,634	256,863
Costs:		
Raw materials and manufacturing	153,634	146,371
Marketing and distribution	60,273	53,766
Administrative and general	19,153	18,456
Interest on long term debt	1,800	1,930
Other interest	772	3,346
	235,632	223,869
Earnings before income taxes	30,002	32,994
Income taxes:		
Current	9,190	11,216
Deferred	1,165	752
	10,355	11,968
Earnings for the year	$ 19,647	$ 21,026

CHANGES IN FINANCIAL POSITION OF TOBACCO OPERATIONS

(in thousands of dollars)

	Year ended March 31	
	1984	1983
Cash provided by:		
Earnings from tobacco operations	$ 19,647	$ 21,026
Adjusted for non-cash items—		
Depreciation	3,107	4,396
Deferred income taxes	1,165	752
Other	201	(172)
	24,120	26,002
Decrease in operating working capital	9,220	—
Disposal of property, plant and equipment	391	228
Dividends from Carling O'Keefe Limited	4,036	2,836
	37,767	29,066
Cash used for:		
Additions to property, plant and equipment	8,303	7,916
Dividends	10,615	10,652
Reduction of long term debt	1,557	1,485
Purchase of First Preferred shares	353	231
Increase in operating working capital	—	3,936
Other	120	90
	20,948	24,310
Decrease in short term indebtedness	16,819	4,756
Short term indebtedness at beginning of year	(45,664)	(50,420)
Short term indebtedness at end of year	$(28,845)	$(45,664)

ROTHMANS OF PALL MALL CANADA LIMITED

FINANCIAL POSITION OF TOBACCO OPERATIONS

(in thousands of dollars)

	March 31 1984	March 31 1983
ASSETS		
Current assets:		
Accounts receivable	$ 30,121	$ 21,677
Inventories	153,711	166,466
Prepaid expenses	1,698	1,669
Total current assets	185,530	189,812
Investment in Carling O'Keefe Limited, on the equity basis	118,178	97,280
Property, plant and equipment	91,003	83,667
Less: Accumulated depreciation	49,598	46,902
	41,405	36,765
Other assets	583	543
	$345,696	$324,400
LIABILITIES		
Current liabilities:		
Bank and other short term indebtedness	$ 28,845	$ 45,664
Accounts payable and accrued liabilities	17,715	14,425
Income taxes	985	172
Excise, sales and other taxes	14,706	13,871
Total current liabilities	62,251	74,132
Long term debt	15,050	16,650
Total liabilities	77,301	90,782
DEFERRED INCOME TAXES	8,766	7,601
SHAREHOLDERS' EQUITY		
Capital stock:		
Preferred shares	26,476	26,982
Common shares	27,349	27,349
	53,825	54,331
Retained earnings	207,135	171,686
Unrealized foreign currency translation adjustments	(1,331)	–
Total shareholders' equity	259,629	226,017
	$345,696	$324,400

Review of Brewing, Wine and Oil and Gas Operations

($000)	1984	1983	1982	1981	1980
Sales—					
Beer	$869,287	$709,820	$583,281	$481,189	$432,546
Wine	59,348	58,238	48,563	44,021	35,873
Oil and gas	19,831	16,169	12,289	12,138	9,640
	$948,466	$784,227	$644,133	$537,348	$478,059
Earnings from operations—					
Before interest and income taxes—					
Beer	$ 73,043	$ 63,325	$ 34,120	$ 24,331	$ 22,494
Wine	5,596	5,741	3,949	1,512 *	1,434 *
Oil and gas	9,089	1,389	3,907	5,729	4,720
Corporate	676	151	—	3,947	3,210
	$ 88,404	$ 70,606	$ 41,976	$ 35,519	$ 31,858
Before income taxes	$ 87,645	$ 68,609	$ 37,734	$ 32,421	$ 29,219
For the year	$ 54,320	$ 38,069	$ 22,774	$ 19,785	$ 17,338
Capital expenditures—					
Beer	$ 63,174	$ 24,480	$ 15,527	$ 15,637	$ 11,468
Wine	1,855	1,920	2,619	2,050	1,970
Oil and gas	8,771	7,024	6,972	8,800	11,953
	$ 73,800	$ 33,424	$ 25,118	$ 26,487	$ 25,391
Assets employed—					
Beer	$317,892	$242,599	$210,367	$187,627	$161,853
Wine	57,680	56,032	55,867	52,801	52,681
Oil and gas	66,091	60,287	63,513	58,967	51,993
Corporate	7,465	31,367	11,930	18,103	14,306
	$449,128	$390,285	$341,677	$317,498	$280,833

* 91.9% share

CONSOLIDATED OPERATIONS:

Earnings of Carling O'Keefe Limited and its subsidiaries totalled $54.3 million for the year ended March 31, 1984, an increase of $16.3 million or 42.7 percent over the previous year. The significant improvement came primarily from Canadian brewing operations and the oil and gas subsidiary.

The rate of return on average total capital employed recorded another impressive gain in 1984, rising to 20.5% from 15% last year, 12% in 1982, 11% in 1981 and 10% in 1980.

Total sales revenue for 1984 amounted to $948.5 million, a gain of $164.2 million or almost 21 percent. More than half of the increase was attributable to higher sales volume, whereas the major portion of the increase in recent prior years was due to selling price increases.

Consolidated net cash at March 31, 1984 was $10.7 million, a decrease of $20.9 million during the year. Although cash flow from operations was higher in 1984, primarily due to earnings from operations, the improvement was more than offset by substantially increased capital expenditures, higher working capital requirements and increased dividends paid on common shares.

Total assets of the company and its subsidiaries amounted to $449.1 million at March 31, 1984, compared to $390.3 million a year earlier. The most significant increases were $56.7 million in net fixed assets and $22.3 million in inventories, partially offset by a decline of $20.8 million in cash and short term investments.

Statements of earnings, financial position and changes in financial position for the company's consolidated operations are on pages 18 and 19. A copy of the company's 1984 annual report is enclosed to provide more detailed information.

CANADIAN BREWING:

Earnings before interest expense and income taxes were $70.9 million in 1984, an increase of 15 percent over last year ($61.9 million). The improved earnings were largely the result of increased volume.

The company's sales volume totalled 5,990,000 hectolitres compared to 5,150,000 hectolitres in 1983, an increase of approximately 16 percent. With industry volume relatively flat, Carling O'Keefe's market share improved by about four percentage points. Significant market share gains were achieved in Quebec, Ontario, Manitoba, Saskatchewan and Alberta. A major factor in the volume growth was the success of Miller High Life, which was launched in May 1983 in Quebec, Ontario, Manitoba and Saskatchewan. In addition, the company's other major brands, including O'Keefe Ale, Old Vienna and the Carlsberg family, performed exceptionally well in the face of intense competition.

A feature of this increased Canadian beer industry competition was the introduction of new brands in private mould bottles and the conversion of certain major competitors' brands to non-standard containers. As this action placed in doubt the future use of the industry compact bottle, the company made a provision of $6.6 million, representing its share of the existing industry surplus of compact bottles. Competitive pressure also resulted in an escalation of marketing spending.

Due to limitations on production capacity, the company was unable to satisfy market demand, particularly in Ontario. This resulted in a stepped-up capital expenditure programme which will continue in the current fiscal year. Expenditures in 1984 were $63.2 million and were significantly higher than in the previous year, with the majority of the funds being spent at the Vancouver, Calgary and Toronto breweries.

IRISH BREWING:

Beamish & Crawford Limited had a satisfactory year and reported increased sales volume and earnings in Irish punts. Earnings and sales revenue in Canadian dollars declined from last year, as a result of the Irish currency being generally lower in value in 1984 compared to the Canadian dollar.

The company's sales volume of 264,000 hectolitres was ahead of last year by almost 7 percent. With industry sales declining slightly, share of market improved, reflecting continued growth of the company's lager brands - Carling Black Label and Carlsberg.

WINE:

Earnings before interest and income taxes of Jordan & Ste-Michelle Cellars Ltd. were $5.6 million in 1984, marginally lower than in the previous year.

The company's sales volume declined by almost 4 percent, to 226,000 hectolitres from 235,000 hectolitres in 1983. Sales volume was lower in all regions of Canada except for British Columbia, where wine sales were equal to last year and cider sales showed excellent growth. The company's market share for wine decreased in 1984 reflecting a lack of full participation in the Quebec market and lower sales in the Prairies. Market share was unchanged in the major market of Ontario and share improved in British Columbia.

The Canadian wine market grew by only 0.5 percent in 1984, compared to 4 percent in the previous year. This was the lowest growth rate for many years. Sales of Canadian produced wines declined and now hold approximately 47 percent of the total market.

OIL AND GAS:

Star Oil & Gas Ltd. had a successful year and reported significant increases in crude oil production, sales revenue and earnings. Before interest expense and income taxes, earnings were $9.1 million compared to $1.4 million in the previous year.

Sales revenue of $19.8 million was almost 23 percent higher, reflecting increased selling prices for both crude oil and natural gas and higher oil production. Star's oil and natural gas liquid volume was ahead by about 16 percent, as a result of a successful drilling programme carried out in Saskatchewan. Natural gas production, on the other hand, was down by 2 percent from last year. The decline was due primarily to reduced demand in the United States, as a result of both the relatively high cost of Canadian gas and a surplus of United States productive capacity.

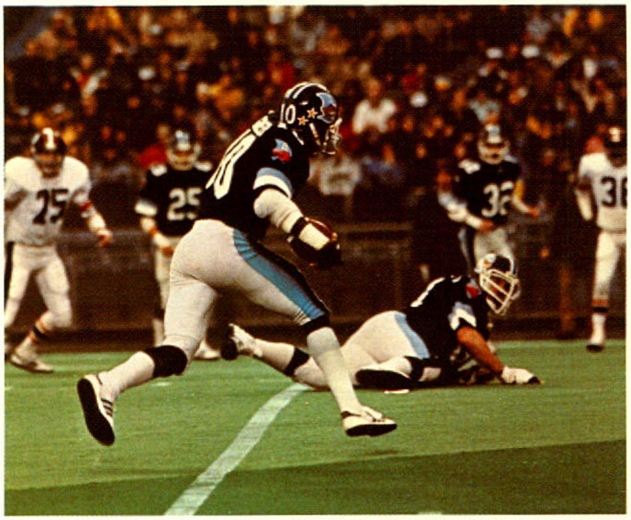
Capital spending on the exploration for and development of new reserves and on new facilities for the production of crude oil and natural gas increased by 25 percent to $8.8 million. The company continued to acquire additional potential crude oil and natural gas rights in Canada. Capital expenditures in the United States were reduced by 40 percent compared to last year.

While the results for the year were encouraging, the National Energy Program, the Federal Provincial Energy agreements of 1981, and the high rates of provincial royalties continue to have a serious negative impact on the company's cash flow and earnings. If the various governments wish to see increased activity by the industry, they will have to restructure the tax and royalty programmes to provide the companies with a larger share of gross sales revenue.


Just say OV
Old Vienna
LAGER BEER
BIÈRE


Miller
HIGH LIFE
Premium Quality Beer Since 1855


O'Keefe
LÉGÈRE
LIGHT
Bière
O'Keefe
Ale




Interlude
vin blanc · white wine
Wine for your special moments...
moments that last forever.


Spumante Bambino

CARLING O'KEEFE LIMITED
AND SUBSIDIARY COMPANIES

EARNINGS FROM OPERATIONS

(in thousands of dollars)

	Year ended March 31 1984	1983
Income:		
Sales	$948,466	$784,227
Excise and sales taxes	335,134	274,443
	613,332	509,784
Investment and other income	6,512	5,554
	619,844	515,338
Costs:		
Raw materials and manufacturing	279,109	235,367
Marketing and distribution	216,169	174,002
Administrative and general	36,162	35,363
Interest on long term debt	522	1,094
Other interest	237	903
	532,199	446,729
Earnings before income taxes	87,645	68,609
Income taxes:		
Current	23,581	27,142
Deferred	9,744	3,398
	33,325	30,540
Earnings for the year	$ 54,320	$ 38,069

CHANGES IN FINANCIAL POSITION

(in thousands of dollars)

	Year ended March 31 1984	1983
Cash provided by:		
Earnings for the year	$ 54,320	$ 38,069
Adjusted for non-cash items—		
Depreciation and depletion	14,339	18,868
Deferred income taxes	9,744	3,398
Other	1,254	1,566
	79,657	61,901
Decrease in operating working capital	—	32,738
Disposal of property, plant and equipment and other assets	1,031	1,096
Other	102	2,726
	80,790	98,461
Cash used for:		
Additions to property, plant and equipment	73,800	33,424
Purchase of shares in subsidiary company	—	9,320
Increase in operating working capital	11,875	—
Dividends	10,074	7,695
Additions to other assets	2,828	1,159
Reduction of long term liabilities	2,970	3,925
Other	144	111
	101,691	55,634
Increase (decrease) in net cash	(20,901)	42,827
Net cash (short term indebtedness) at beginning of year	31,635	(11,192)
Net cash at end of year	$ 10,734	$ 31,635

CARLING O'KEEFE LIMITED
AND SUBSIDIARY COMPANIES

FINANCIAL POSITION
(in thousands of dollars)

	March 31	
	1984	1983
ASSETS		
Current assets:		
Cash and short term investments	$ 11,705	$ 32,553
Accounts receivable	46,505	47,876
Income taxes	528	—
Inventories	99,716	77,463
Prepaid expenses	6,745	5,389
Total current assets	165,199	163,281
Property, plant and equipment	384,460	318,903
Less: Accumulated depreciation and depletion	139,978	131,153
	244,482	187,750
Other assets	39,975	39,254
	$449,656	$390,285
LIABILITIES		
Current liabilities:		
Bank and other short term indebtedness	$ 971	$ 918
Accounts payable and accrued liabilities	90,951	60,912
Income taxes	—	20,369
Other taxes	19,355	18,327
Dividends payable	2,681	2,030
Total current liabilities	113,958	102,556
Long term liabilities	6,288	9,435
Total liabilities	120,246	111,991
DEFERRED INCOME TAXES	51,851	42,182
SHAREHOLDERS' EQUITY		
Capital stock:		
Preference shares	41,770	42,020
Common shares	78,357	78,357
	120,127	120,377
Retained earnings	160,087	115,735
Unrealized foreign currency translation adjustments	(2,655)	—
Total shareholders' equity	277,559	236,112
	$449,656	$390,285

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 relating to the presentation of historical cost financial information. The significant accounting policies are outlined on page 21. 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. Management believes 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 has 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 reviews 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 and has approved the financial statements and all other information in the annual report. The Board has appointed an Audit Committee consisting of three outside directors to review the audited financial 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 23, 1984

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, 1984 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, 1984 and its financial position as at that date in accordance with generally accepted accounting principles applied, except for the change, with which we concur, in the method of accounting for foreign currency translation as explained in Note 2 to the financial statements, 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 relating to the presentation of historical cost financial information.

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:

The assets and liabilities of self-sustaining foreign subsidiaries are translated into Canadian dollars at year-end exchange rates; income and costs are translated at average rates of exchange during the year; unrealized foreign exchange translation adjustments are reflected in shareholders' equity. All other foreign exchange gains and 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.

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 are charged to operations generally 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, except for the costs of certain rights which are deferred and amortized over the terms of the respective contracts.

INVESTMENT TAX CREDITS:

Net investment tax credits relating to capital and research and development 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	
	1984	1983
Income:		
Sales	$1,490,706	$1,296,440
Excise and sales taxes	611,740	529,793
	878,966	766,647
Investment and other income	6,512	5,554
	885,478	772,201
Costs:		
Raw materials and manufacturing	432,743	381,738
Marketing and distribution	276,442	227,768
Administrative and general	55,315	53,819
Interest on long term debt	2,322	3,024
Other interest	1,009	4,249
	767,831	670,598
Earnings before income taxes and minority interest	117,647	101,603
Income taxes (Note 12):		
Current	32,771	38,358
Deferred	10,909	4,150
	43,680	42,508
Earnings before minority interest	73,967	59,095
Minority interest (Note 4)	28,108	20,009
EARNINGS FOR THE YEAR	$ 45,859	$ 39,086
Earnings per Common share	$8.00	$6.76

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

(in thousands of dollars)

	March 31 1984	March 31 1983	
ASSETS			
Current assets:			
Cash and short term investments	$ 11,705	$ 32,553	(20852)
Accounts receivable	75,367	68,623	6744
Inventories (Note 5)	253,427	243,929	9498
Prepaid expenses	8,443	7,058	1385
Total current assets	348,942	352,163	
Property, plant and equipment (Note 6)	475,463	402,570	72893
Less: Accumulated depreciation and depletion	189,576	178,055	11521
	285,887	224,515	
Other assets (Note 7)	40,558	39,797	761
	$675,387	$616,475	
LIABILITIES			
Current liabilities:			
Bank and other short term indebtedness (Note 8)	$ 29,816	$ 46,582	16766
Accounts payable and accrued liabilities	108,498	75,171	33327
Income taxes	457	20,541	(20084)
Excise, sales and other taxes	34,061	32,198	1863
Dividends payable	1,590	1,266	324
Total current liabilities	174,422	175,758	9
Long term liabilities (Note 9)	21,338	26,085	(4747)
Total liabilities	195,760	201,843	
DEFERRED INCOME TAXES	60,617	49,783	10834
MINORITY INTEREST IN SUBSIDIARY COMPANY (Note 4)	159,381	138,832	20549
SHAREHOLDERS' EQUITY			
Capital stock (Note 10)	53,825	54,331	(506)
Retained earnings	207,135	171,686	35449
Unrealized foreign currency translation adjustments (Note 2)	(1,331)	—	(1331)
Total shareholders' equity	259,629	226,017	
	$675,387	$616,475	

APPROVED BY THE BOARD:

John H. Devlin *Director*

R. O. J. Dawkes *Director*

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

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

	Year ended March 31 1984	Year ended March 31 1983
Cash provided by:		
Earnings for the year	$ 45,859	$ 39,086
Adjusted for non-cash items—		
Depreciation and depletion	17,446	23,264
Minority interest in earnings	28,108	20,009
Deferred income taxes	10,909	4,150
Other	1,455	1,394
	103,777	87,903
Decrease in operating working capital*	—	28,802
Disposal of property, plant and equipment and other assets	1,422	1,324
Other	102	2,726
	105,301	120,755
Cash used for:		
Additions to property, plant and equipment	82,103	41,340
Purchase of subsidiary company (Note 3)	—	9,320
Increase in operating working capital*	2,655	—
Additions to other assets	2,948	1,249
Reduction of long term liabilities	4,527	5,410
Dividends—		
By the Company	10,615	10,652
By a subsidiary company to minority shareholders	6,038	4,859
Other	497	342
	109,383	73,172
Decrease (increase) in net short term indebtedness	(4,082)	47,583
Net short term indebtedness at beginning of year	(14,029)	(61,612)
Net short term indebtedness at end of year	$(18,111)	$(14,029)
Comprised of:		
Cash and short term investments	$ 11,705	$ 32,553
Bank and other short term indebtedness	(29,816)	(46,582)
	$(18,111)	$(14,029)

*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	
	1984	1983
Balance at beginning of year	$171,686	$143,043
Earnings for the year	45,859	39,086
Excess of carrying value over cost of First Preferred shares purchased for cancellation (Note 10)	152	139
Excess of carrying value over cost of preference shares purchased for cancellation by a subsidiary company, less minority interest	53	70
	217,750	182,338
Dividends paid:		
Preferred shares—		
First Preferred shares, Series A ($6.85 per share)	894	931
Second Preferred shares ($1.325 per share)	904	904
	1,798	1,835
Common shares ($1.60 per share)	8,817	8,817
	10,615	10,652
Balance at end of year	$207,135	$171,686

CONSOLIDATED ANALYSIS OF CHANGES IN OPERATING WORKING CAPITAL

(in thousands of dollars)

	Year ended March 31	
	1984	1983
Accounts receivable	$ (6,744)	$ 8,668
Inventories	(9,498)	(7,747)
Prepaid expenses	(1,385)	(1,251)
Accounts payable, accrued liabilities and dividends payable	33,651	11,749
Income taxes	(20,084)	16,397
Excise, sales and other taxes	1,863	986
Unrealized foreign currency translation adjustments	(458)	—
Decrease (increase) in operating working capital	$ (2,655)	$ 28,802

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1984 AND 1983

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, wine and oil and gas.

	1984	1983
SALES		
ROTHMANS	$ 542,240,000	$ 512,213,000
CARLING O'KEEFE—		
Beer	869,287,000	709,820,000
Wine	59,348,000	58,238,000
Oil and gas	19,831,000	16,169,000
	$1,490,706,000	$1,296,440,000
OPERATING PROFITS		
ROTHMANS	$ 32,574,000	$ 38,270,000
CARLING O'KEEFE—		
Beer	73,043,000	63,325,000
Wine	5,596,000	5,741,000
Oil and gas	9,089,000	1,389,000
Corporate income, net	676,000	151,000
	120,978,000	108,876,000
Interest expense	(3,331,000)	(7,273,000)
Earnings before income taxes and minority interest	$ 117,647,000	$ 101,603,000
CAPITAL EXPENDITURES		
ROTHMANS	$ 8,303,000	$ 7,916,000
CARLING O'KEEFE—		
Beer	63,174,000	24,480,000
Wine	1,855,000	1,920,000
Oil and gas	8,771,000	7,024,000
	$ 82,103,000	$ 41,340,000

	1984	1983
DEPRECIATION AND DEPLETION		
ROTHMANS	$ 3,107,000	$ 4,396,000
CARLING O'KEEFE–		
Beer	9,608,000	8,811,000
Wine	1,419,000	1,335,000
Oil and gas	3,312,000	8,722,000
	$ 17,446,000	$ 23,264,000

	1984	1983
IDENTIFIABLE ASSETS		
ROTHMANS	$226,259,000	$226,190,000
CARLING O'KEEFE–		
Beer	317,892,000	242,599,000
Wine	57,680,000	56,032,000
Oil and gas	66,091,000	60,287,000
Corporate	7,465,000	31,367,000
	$675,387,000	$616,475,000

Corporate assets consist of cash, short term investments, receivable from sale of trade marks and mortgage receivable of Carling O'Keefe.

2. Change in accounting policy:

In accordance with recommendations of the Canadian Institute of Chartered Accountants, Carling O'Keefe changed its policy of accounting for foreign exchange adjustments arising from translation of the accounts of self-sustaining foreign subsidiaries. This change was applied on a prospective basis effective April 1, 1983. The change primarily affects the method of translating into Canadian dollars the property, plant and equipment of foreign subsidiaries. As a result, unrealized foreign exchange gains and losses are included as a separate account in shareholders' equity. The change had no significant effect on consolidated earnings for 1984.

Movements in the unrealized foreign currency translation adjustments account, after deduction of minority interest, for the year ended March 31, 1984 were as follows:

Effect of applying the accounting policy change as at April 1, 1983	$1,033,000
Adjustments for the year	298,000
Balance at March 31, 1984	$1,331,000

In prior years, current assets and liabilities of these subsidiaries were translated at year-end exchange rates, other balance sheet accounts and depreciation expense were translated at historical rates of exchange, and income and other costs were translated at average rates of exchange during the year. The resulting exchange gains or losses were included in earnings.

3. 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.

4. Minority interest in subsidiary company:

The interest of minority shareholders in the consolidated earnings of Carling O'Keefe Limited for the year ended March 31 was as follows:

	1984	1983
Preference shares	$ 2,022,000	$ 2,037,000
Common shares	26,086,000	17,972,000
	$ 28,108,000	$ 20,009,000

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

	1984	1983
Preference shares	$ 41,770,000	$ 42,020,000
Common shares	117,611,000	96,812,000
	$159,381,000	$138,832,000

5. Inventories:

	1984	1983
ROTHMANS—		
Leaf tobacco	$ 80,646,000	$ 92,046,000
Finished goods	58,344,000	60,270,000
Packaging material and other	14,721,000	14,150,000
	153,711,000	166,466,000
CARLING O'KEEFE—		
Beverage products, finished and in process	51,739,000	44,937,000
Materials and supplies	24,377,000	16,523,000
Containers	23,600,000	16,003,000
	99,716,000	77,463,000
	$253,427,000	$243,929,000

6. Property, plant and equipment:

	1984		1983	
	Cost	Accumulated depreciation and depletion	Cost	Accumulated depreciation and depletion
ROTHMANS—				
Land	$ 2,589,000	$ —	$ 2,731,000	$ —
Buildings	10,497,000	3,947,000	10,505,000	3,757,000
Machinery and equipment	63,777,000	34,223,000	56,687,000	32,459,000
Motor vehicles	5,074,000	4,347,000	4,921,000	4,110,000
Leasehold improvements	9,066,000	7,081,000	8,823,000	6,576,000
	91,003,000	49,598,000	83,667,000	46,902,000
CARLING O'KEEFE—				
Land	8,471,000	—	7,008,000	—
Buildings	103,057,000	29,671,000	82,079,000	28,507,000
Machinery and equipment	162,863,000	73,800,000	131,229,000	71,340,000
Motor vehicles	19,283,000	9,867,000	17,276,000	8,691,000
Oil and gas assets	86,491,000	24,664,000	77,463,000	21,026,000
Leasehold improvements	4,295,000	1,976,000	3,848,000	1,589,000
	384,460,000	139,978,000	318,903,000	131,153,000
	$475,463,000	$189,576,000	$402,570,000	$178,055,000

Effective April 1, 1983, Rothmans changed the depreciation period for machinery and equipment from 10 years to 15 years. As a result, depreciation expense for the 1984 fiscal year was reduced by approximately $1,300,000.

7. Other assets:

	1984	1983
ROTHMANS—		
Unamortized deferred charges, trade marks and patents	$ 583,000	$ 543,000
CARLING O'KEEFE—		
Unamortized cost of shares of subsidiaries in excess of underlying net tangible asset values at acquisition	21,321,000	21,615,000
Unamortized cost of sports franchises	11,603,000	11,934,000
Deferred charges and other investments	7,051,000	5,705,000
	39,975,000	39,254,000
	$40,558,000	$39,797,000

Amortization of other assets amounted to $703,000 for the year ended March 31, 1984 (1983—$699,000).

8. **Bank and other short term indebtedness:**

Bank and other short term indebtedness consists of bank indebtedness (1984-$22,816,000; 1983-$18,582,000), bankers' acceptances (1984-$ Nil; 1983-$23,000,000) and notes payable (1984-$7,000,000; 1983-$5,000,000).

	1984	1983
ROTHMANS	$28,845,000	$45,664,000
CARLING O'KEEFE	971,000	918,000
	$29,816,000	$46,582,000

9. **Long term liabilities:**

	1984	1983
ROTHMANS–		
Sinking fund debentures–		
Series A 8% due January 3, 1988	$ 3,331,000	$ 4,619,000
Series B 11% due February 15, 1995	12,647,000	13,045,000
	15,978,000	17,664,000
CARLING O'KEEFE–		
Sinking fund debentures–		
Series D 5 1/2% due April 1, 1986	1,600,000	2,396,000
Series E 5 1/2% due April 1, 1989	3,831,000	4,873,000
	5,431,000	7,269,000
Term bank loan	—	3,000,000
Obligations under capital leases	200,000	369,000
Advances under gas contracts	1,782,000	1,691,000
	7,413,000	12,329,000
	23,391,000	29,993,000
Less – Amount included in current liabilities	2,053,000	3,908,000
	$21,338,000	$26,085,000

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

	1985	1986	1987	1988	1989
Rothmans	$ 928,000	$1,600,000	$1,600,000	$2,250,000	$ 800,000
Carling O'Keefe	1,125,000	2,001,000	1,279,000	1,279,000	1,279,000
	$2,053,000	$3,601,000	$2,879,000	$3,529,000	$2,079,000

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 $1,919,000 principal amount of the Company's outstanding Series A debentures.

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

10. Capital stock:

AUTHORIZED:

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

ISSUED:	1984	1983
128,293 6.85% Cumulative Redeemable First Preferred shares, Series A (1983 – 133,344)	**$12,829,000**	$13,335,000
682,367 6 5/8% Cumulative Redeemable Second Preferred shares	**13,647,000**	13,647,000
	26,476,000	26,982,000
5,510,684 Common shares	**27,349,000**	27,349,000
	$53,825,000	$54,331,000

PURCHASES:

During the year ended March 31, 1984, 5,051 First Preferred shares with a total carrying value of $505,000 were purchased for cancellation at a cost of $353,000 (1983 – 3,700 shares).

REDEMPTION PRIVILEGES:

The Series A First Preferred shares are redeemable at the option of the Company 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, 1984, 1,707 shares of the 1984 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 19.5% (1983 – 18.7%) 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.

11. 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 $9,948,000 for the year ended March 31, 1984 (1983 – $10,723,000), including $6,997,000 (1983 – $7,852,000) for employees of Carling O'Keefe.

Based on recent independent actuarial valuations, unfunded prior service obligations for Carling O'Keefe are estimated at $15,800,000. 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.

12. 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:

	1984	1983
ROTHMANS—		
Income taxes at basic rate	$15,001,000	$16,497,000
Incentives	(4,752,000)	(4,383,000)
Other—net	106,000	(146,000)
	10,355,000	11,968,000
CARLING O'KEEFE—		
Income taxes at basic rate	43,822,000	34,304,000
Incentives	(8,828,000)	(5,065,000)
Alberta royalty tax credit	(2,066,000)	(2,712,000)
United States oil and gas write down	—	2,450,000
Foreign exchange	—	438,000
Other—net	397,000	1,125,000
	33,325,000	30,540,000
Income taxes—consolidated statement of earnings	$43,680,000	$42,508,000
Effective income tax rate	37.1%	41.8%

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

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

13. Commitments and contingent liabilities:

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

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, 1984:

	Rothmans	Carling O'Keefe	Total
Year ending March 31—			
1985	$1,749,000	$ 4,016,000	$ 5,765,000
1986	1,673,000	3,628,000	5,301,000
1987	1,345,000	2,769,000	4,114,000
1988	1,261,000	1,434,000	2,695,000
1989	1,234,000	1,207,000	2,441,000
Total for all years subsequent to March 31, 1989	2,686,000	4,577,000	7,263,000
	$9,948,000	$17,631,000	$27,579,000

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.

Quarterly Data

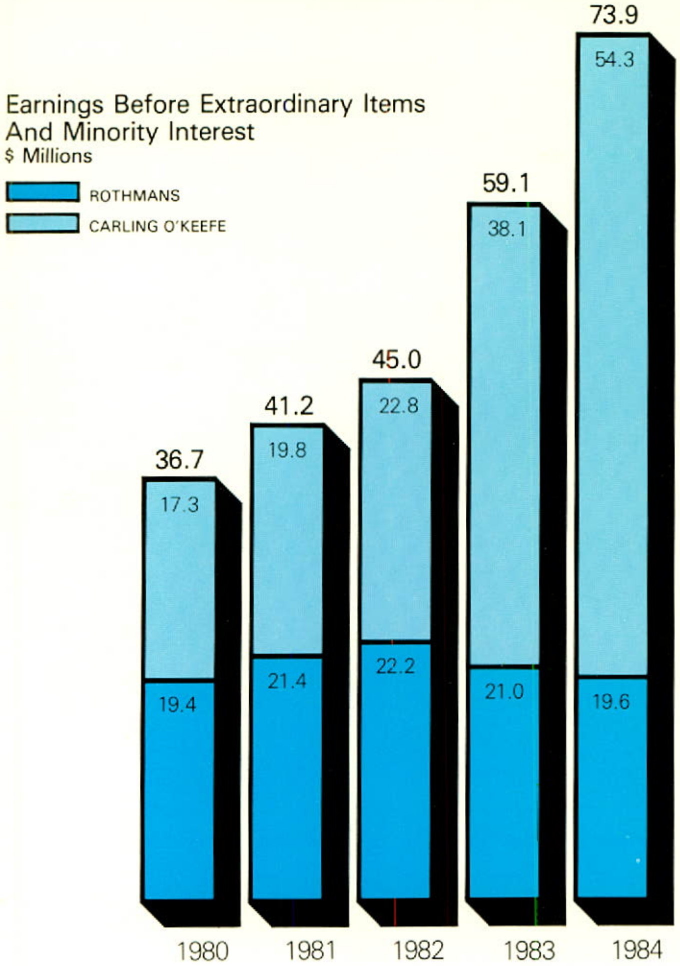
	June 30	Sept. 30	Dec. 31	Mar. 31	Total
	Quarter ended				
Consolidated Sales ($000)					
1984—Rothmans	$139,253	$146,812	$145,916	$110,259	$ 542,240
Carling O'Keefe	240,866	272,175	241,318	194,107	948,466
	$380,119	$418,987	$387,234	$304,366	$1,490,706
1983—Rothmans	$127,198	$137,318	$140,016	$107,681	$ 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
Consolidated Earnings Amount ($000)					
1984—Rothmans	$ 5,399	$ 6,374	$ 5,587	$ 2,287	$ 19,647
Carling O'Keefe*	7,686	9,823	6,459	2,244	26,212
	$ 13,085	$ 16,197	$ 12,046	$ 4,531	$ 45,859
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
Per Common Share—					
1984	$ 2.29	$ 2.86	$ 2.10	$ 0.75	$ 8.00
1983	$ 1.72	$ 2.19	$ 1.78	$ 1.07	$ 6.76
Share Market Prices					
First Preferred—					
1984—High	$72	$72	$73	$76	
Low	63	68 1/2	70	71 3/4	
1983—High	51	56	64 1/2	66	
Low	49	50	54 1/2	62	
Second Preferred—					
1984—High	14 5/8	14	15	15	
Low	12 3/4	12 5/8	13	14	
1983—High	9 3/4	11	12 7/8	13	
Low	8 3/4	9	10 1/2	11 5/8	
Common—					
1984—High	49 1/2	50 1/2	51 1/2	51 1/2	
Low	39 1/2	46	43 1/2	47	
1983—High	24 5/8	27 1/2	41	46	
Low	20	20 3/4	26 1/4	38 1/2	

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

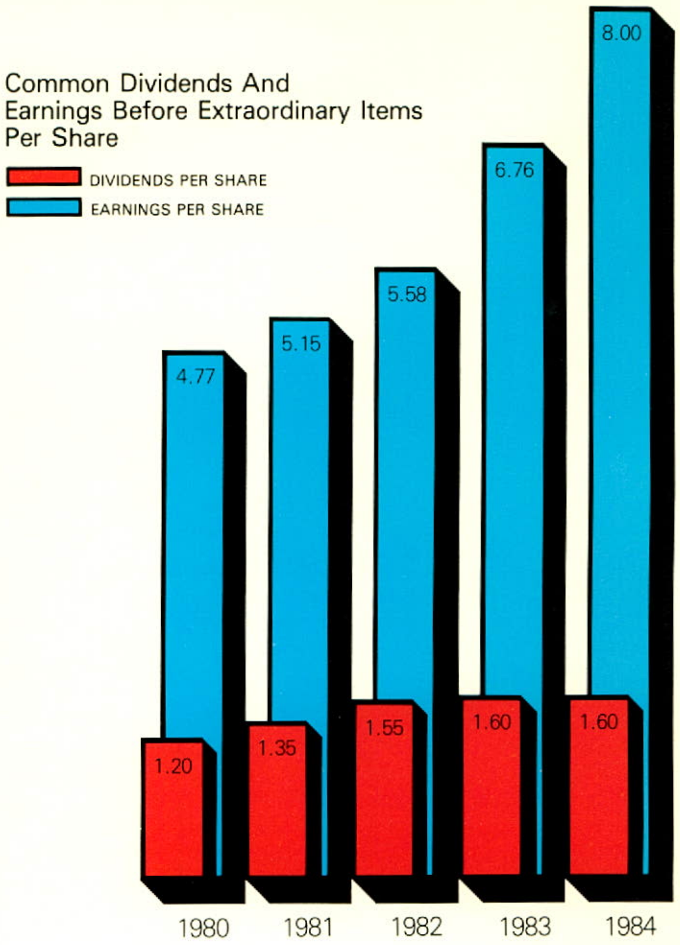
* after deducting minority interest.

Five-Year Financial Review

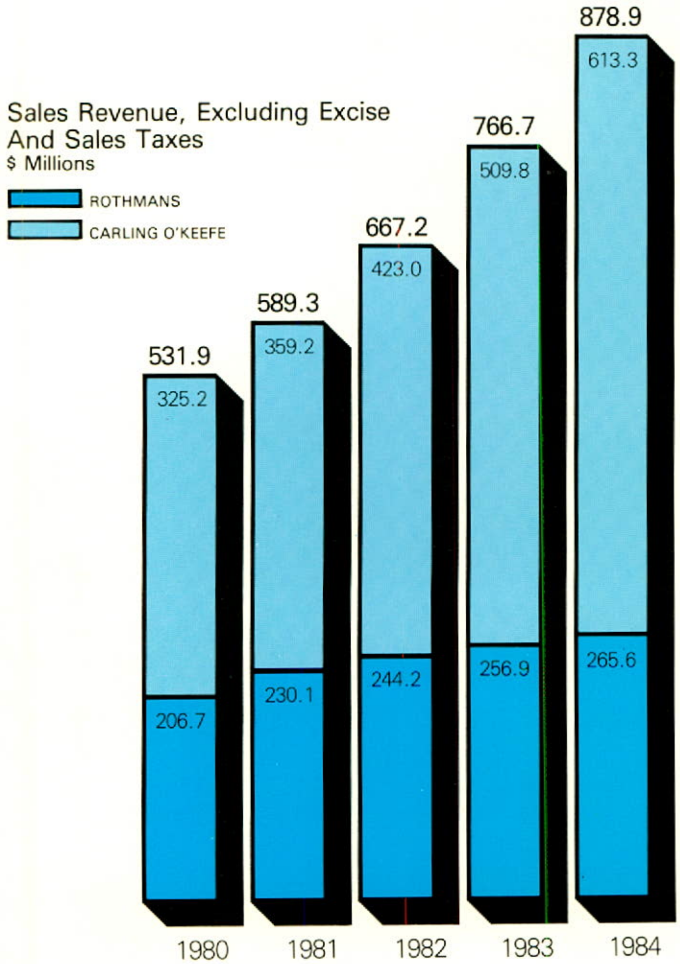
	Year Ended March 31				
	1984	1983	1982	1981	1980
Results For The Year ($000)					
Sales—					
Rothmans	$ 542,240	$ 512,213	$ 485,406	$461,491	$419,739
Carling O'Keefe	948,466	784,227	644,133	537,348	478,059
	1,490,706	1,296,440	1,129,539	998,839	897,798
Excise and sales taxes	611,740	529,793	462,364	409,595	365,843
	878,966	766,647	667,175	589,244	531,955
Earnings—					
Earnings from operations—					
Rothmans	19,647	21,026	22,221	21,391	19,407
Carling O'Keefe, less minority interest	26,212	18,060	10,389	8,882	7,649
Earnings before extraordinary items	45,859	39,086	32,610	30,273	27,056
Extraordinary items from Carling O'Keefe, less minority interest	—	—	—	5,263	—
Earnings for the year	45,859	39,086	32,610	35,536	27,056
Depreciation and depletion	17,446	23,264	17,032	15,303	14,394
Interest expense	3,331	7,273	9,460	8,019	7,347
Dividends paid—					
Preferred	1,798	1,835	1,861	1,894	2,683
Common	8,817	8,817	8,541	7,439	6,067
Financial Position ($000)					
Working capital	$ 174,520	$ 176,405	$ 157,624	$133,519	$123,571
Property, plant and equipment—net	285,887	224,515	207,164	194,655	177,189
Total assets	675,387	616,475	565,535	503,854	462,669
Total interest-bearing debt	51,225	74,515	99,569	79,069	88,265
Shareholders' equity	259,629	226,017	197,744	175,846	149,765
Per Common Share					
Earnings—					
Before extraordinary items	$ 8.00	$ 6.76	$ 5.58	$ 5.15	$ 4.77
For the year	8.00	6.76	5.58	6.11	4.77
Dividends paid	1.60	1.60	1.55	1.35	1.20
Shareholders' equity	42.29	36.10	30.91	26.82	22.04
Other Information					
Return on average total capital employed (%)	17.2	14.3	13.3	12.9	12.0
Return on shareholders' equity (%)	18.9	18.4	17.5	18.6	19.2
Capital expenditures ($000)	82,103	41,340	30,610	35,109	31,681
Working capital ratio	2.00	2.00	1.94	1.97	1.93



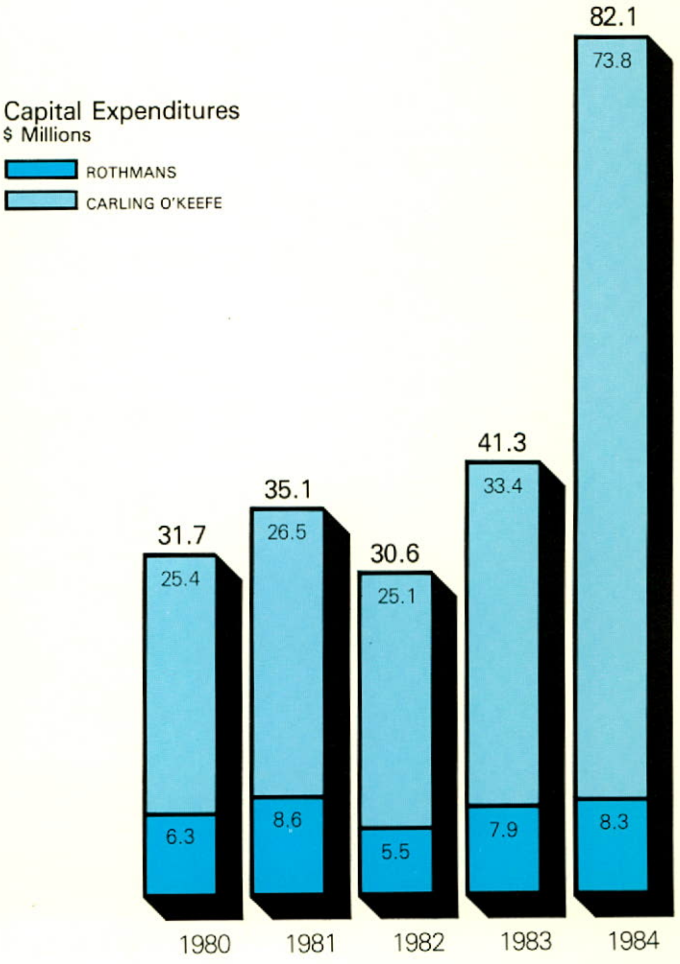
Earnings Before Extraordinary Items And Minority Interest
$ Millions
ROTHMANS
CARLING O'KEEFE
36.7
17.3
19.4
41.2
19.8
21.4
45.0
22.8
22.2
59.1
38.1
21.0
73.9
54.3
19.6
1980
1981
1982
1983
1984



Common Dividends And Earnings Before Extraordinary Items Per Share
DIVIDENDS PER SHARE
EARNINGS PER SHARE
4.77
1.20
5.15
1.35
5.58
1.55
6.76
1.60
8.00
1.60
1980
1981
1982
1983
1984



Sales Revenue, Excluding Excise And Sales Taxes
$ Millions
ROTHMANS
CARLING O'KEEFE
531.9
325.2
206.7
589.3
359.2
230.1
667.2
423.0
244.2
766.7
509.8
256.9
878.9
613.3
265.6
1980
1981
1982
1983
1984



Capital Expenditures
$ Millions
ROTHMANS
CARLING O'KEEFE
31.7
25.4
6.3
35.1
26.5
8.6
30.6
25.1
5.5
41.3
33.4
7.9
82.1
73.8
8.3
1980
1981
1982
1983
1984

DIRECTORS

RENÉ AMYOT, Q.C.
Partner Jolin, Fournier & Associates
Sainte-Foy, Quebec

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President and Chief Executive Officer, Baton Broadcasting Incorporated
Toronto, Ontario

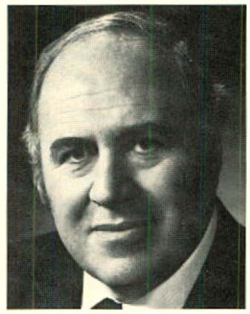
MONA L. CAMPBELL
President
Dover Industries Limited
Toronto, Ontario

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

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

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Vice President Research and Technical Development

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Vice President Marketing Planning

DAVID S. BROOME
Vice President Marketing

CAMILLE A. DENIS
Vice President Corporate Affairs

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Vice President Personnel and Industrial Relations

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Vice President and Treasurer

JAMES K. STRICKLAND
General Counsel and Secretary

GORDON R. WHITE
Vice President Sales

EDWARD A. CRIGHTON, C.A.
Comptroller

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Human Resources and Compensation	— DOUGLAS G. BASSETT - Chairman RENÉ AMYOT; JOHN H. DEVLIN
Pension Investment	— EDWARD A. CRIGHTON - Chairman RENÉ AMYOT; MONA L. CAMPBELL; RONALD F. FINDLAY; ROBERT H. HAWKES; JOHN J. MORRISSEY; HUGH R. SAMPSON