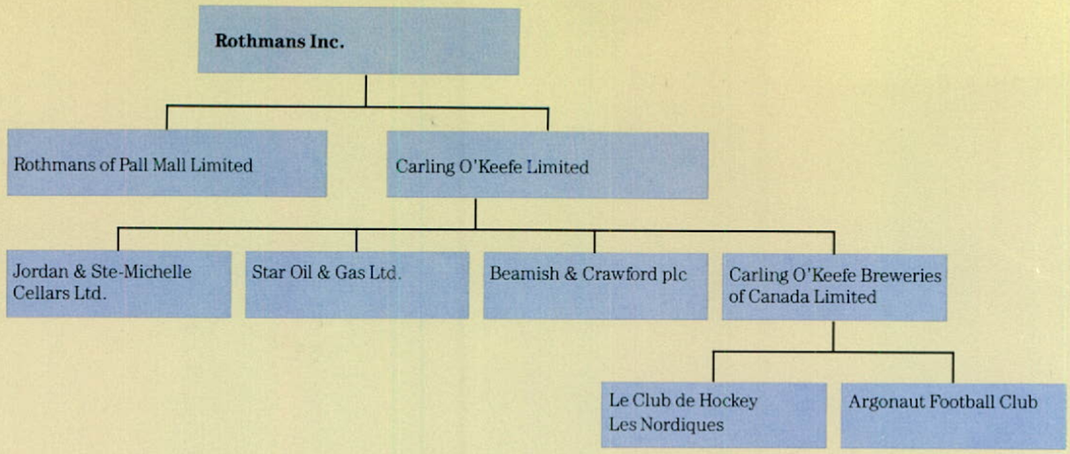
Rothmans Inc.

Annual Report 1986

The past year was one of significant change. As we enter fiscal 1987, we have a new corporate direction, a new structure and a new name. Our objective is to revitalize earnings from existing businesses, which will provide a strong base for future expansion.

Rothmans of Pall Mall Limited

CARLING O'KEEFE LIMITED



Corporate Profile

Rothmans Inc. through two subsidiary companies is engaged in the production and sale of tobacco products, beer, wine, oil and natural gas.

Rothmans of Pall Mall Limited is Canada's second largest manufacturer and distributor of cigarettes. It also sells fine cut and pipe tobacco and has Dunhill retail shops.

Carling O'Keefe Limited, owned 50.1 percent since 1969, has four subsidiaries. Through its domestic beer subsidiary, it is Canada's third largest brewery and owns two major professional sports franchises. Through other subsidiaries, it is Canada's third largest winery, is involved in oil and gas exploration and production in Canada's West, and makes and distributes beer in Ireland.

The Company's common shares are owned 71.2 percent by Rothmans International p.l.c. of London, England, which also owns 21.5 percent of the issued Series A First Preferred shares. The common and preferred shares trade on the Toronto, Montreal and Vancouver stock exchanges under the ticker symbol ROC.

Rothmans of Pall Mall Limited

- Led the cigarette industry with innovative new packaging.
- Increased production efficiency and enhanced product quality.
- Substantially reduced operating costs.

Carling O'Keefe Limited

- Completed modernization and expansion of three breweries, and construction of six canning facilities.
- Launched three new beer products and three new wine products.

Highlights for Fiscal 1986

Year ended March 31	**1986**	1985	Percentage Change
		in thousands	
Income Statement			
Sales	**$1,559,533**	$1,472,899	+5.9
Excise and sales taxes	**710,478**	615,866	+15.4
Sales net of excise and sales taxes	**849,055**	857,033	-0.9
Earnings before extraordinary items	**13,764**	25,997	-47.1
Earnings (loss) for the year	**(1,126)**	24,292	—
Financial Position			
Total assets	**$874,344**	$818,166	+6.9
Total interest-bearing debt	**195,746**	136,755	+43.1
Shareholders' equity	**263,061**	272,511	-3.5
Per Common Share ($)			
Earnings before extraordinary items	**$ 2.18**	$ 4.40	-50.5
Earnings (loss) for the year	**(0.52)**	4.09	—
Dividends paid	**1.60**	1.60	—
Shareholders' equity	**43.15**	44.71	-3.5
Ratios			
Return before extraordinary items on average total capital employed	**7.4%**	8.1%	
Return before extraordinary items on shareholders' equity	**5.1%**	9.8%	
Working capital ratio	**1.76**	1.64	
Long-term debt to shareholders' equity	**35:65**	24:76	

Rothmans Inc.

Rothmans Inc. is a holding company that replaces Rothmans of Pall Mall Canada Limited as the publicly-held corporation. The new structure more clearly delineates the tobacco and beer operations and provides a framework for future expansion. The holding company's mandate is to set objectives and implement strategies for long-term corporate growth.

Report to Shareholders

P.J. Fennell,
President and
Chief Executive Officer

The Honourable
William M. Kelly,
Chairman

To Our Shareholders

In years to come, we believe that fiscal 1986 will be seen as a pivotal year in your Company's history–the year when we changed course and began heading in a rewarding new direction.

That prediction will likely arouse skepticism among those who judge a corporation's performance only by sales volume and earnings, both of which were disappointing in fiscal 1986. However, certain developments initiated halfway through the year contain significant potential for profitability and growth that we expect to realize over the next two years.

We expect performance to improve as a result of a change in corporate direction. This change was coincident with the formation of a new holding company, Rothmans Inc., which in September 1985 replaced Rothmans of Pall Mall Canada Limited as the publicly-held corporation. Currently, its holdings are the 100 percent ownership of Rothmans of Pall Mall Limited and the 50.1 percent position in Carling O'Keefe Limited.

We were appointed President and Chairman of Rothmans Inc. when it was formed. Our mission is to place Rothmans at the forefront of the tobacco and beer industries and provide shareholders with a high return on assets.

Our strategy is to build on the traditional strengths of quality products and people, to gain market share while becoming more cost efficient.

Even before the end of the fiscal year, several of your Company's efforts were beginning to show results. Sales volumes for Rothmans of Pall Mall, for example, which were in decline as the year began, were up in the second half.

New Corporate Strategy

Here are the key elements of our new approach:

- **Strengthen the corporate structure.** A new entity, Rothmans Inc., was incorporated as a holding company to set new objectives and create appropriate strategies for our two operating subsidiaries. This new corporate structure also gives Rothmans the flexibility it will need for exploring other opportunities for growth.
- **Set a new target for earnings.** Our immediate objective is to achieve a 15 percent return on average total capital employed by fiscal 1988. This objective reflects our resolve to make Rothmans Inc. a recognized leader within its industries.
- **Adopt an aggressive new marketing strategy.** Guided by results from significant new investment in market research and strategic planning, our two subsidiaries will be launching new and revitalized products. An outstanding example of this new

approach has been Rothmans of Pall Mall's introduction of the 30-pack for its Rothmans and NUMBER 7 brand families of cigarettes–the most successful new packaging concept the industry has seen in years and one which two of our three major competitors have since begun to imitate.

- **Increase efficiency.** We plan to reposition both subsidiaries among the most cost-efficient in their industries. Last year we accelerated a programme to modernize cigarette manufacturing and completed a programme to modernize three breweries.
- **Introduce progressive new employee policies.** To attract and maintain the team of skilled and motivated employees we require, new measures are being introduced that reward results more directly, and that encourage initiative and innovation.

Performance Review

We see these actions as not just desirable but essential measures if we are to reverse trends that continued in most of fiscal 1986. Consolidated net sales revenues were essentially unchanged at $849.1 million in the year ended March 31, 1986. Earnings during the same period were down by 47.1 percent, to $13.8 million, or $2.18 per share, before extraordinary items. Following an extraordinary cost of $20.7 million (after minority interests–$10.4 million) at Carling O'Keefe resulting from the write-off of goodwill, and of $11.8 million (after tax $4.5 million) at Rothmans of Pall Mall due to rationalization and consolidation, Rothmans Inc. had a loss of $1.1 million. The Rothmans of Pall Mall charge was $20.8 million (after tax $10.8 million) partly offset by gains of $9.1 million (after tax $6.3 million) from the sale of property and other assets.

At Rothmans of Pall Mall, net sales declined by 3.8 percent when tobacco taxes are excluded, due to reduced volumes. Earnings were down by 25.6 percent before net extraordinary costs.

Between April 1985 and fiscal year end, employment at Rothmans of Pall Mall was reduced by 450, in response to lower production requirements. Industry cigarette volumes have declined since 1982 when tobacco taxes began to accelerate. Subsequent to year end, the Company announced that cigarette production will be discontinued at the Toronto plant near the end of 1986, affecting additional workers. We have given, and will continue to provide departing employees with relocation assistance.

The whole-year results fail to reveal, however, the new buoyancy which NUMBER 7 cigarettes provided through the sales performance of its new 30-pack. They also do not show the improvement in cost efficiencies at the tobacco subsidiary's Quebec plant.

At Carling O'Keefe, net sales for fiscal 1986 increased to $589.4 million. Profit from operations declined to $1.1 million from $15.7 million the previous year, the result of work stoppages, production interruptions during an expansion programme and increased borrowing costs. Rothmans portion after deducting minority interests amounted to a loss of $472,000. After an extraordinary item related to the write-off of good will, it had a loss of $19.7 million of which Rothmans portion was $10.4 million.

Financial Condition

Your Company continues to be in a strong financial condition. For credit rating purposes, the Company's corporate debt to capitalization improved in fiscal 1986 to 6.7 percent from 1985's 8.5 percent.

Having paid cash dividends consistently since 1974, your Company has every intention of continuing to do so.

Outlook

Our remarks reflect an optimism we feel towards the future of the Rothmans group. We have no illusions that success will be easy. As suppliers of heavily taxed products, which by their nature are controversial, the Company cannot hope to escape frequent criticism. We must respond by demonstrating that Rothmans Inc. is a responsible corporation that believes in the wisdom of moderation. The Company supports the principle that consumers in our free society have a right to use its products as a matter of individual choice consistent with respecting the concerns of others.

Through the new policies and innovations we have introduced, we expect to report one year from now meaningful gains in market share by both our subsidiaries and overall improvement in earnings.

On behalf of Rothmans Inc. we express gratitude for the considerable contributions made to the Company by John H. Devlin, who retired as Chairman and Robert H. Hawkes, who stepped down as President to return to private law practice.

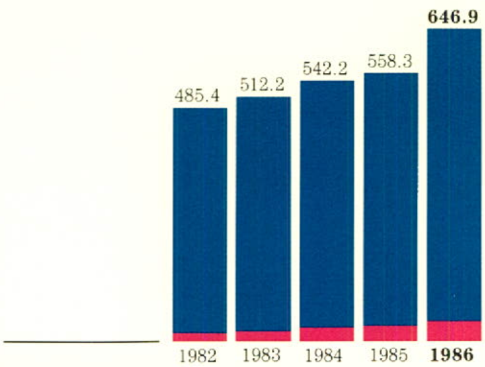
Our special thanks go as well to employees at both subsidiaries, for weathering an unsettling year. We are grateful for their abiding loyalty and their many achievements, and we know they share our enthusiasm for the revitalization and growth that lie ahead.

P.J. Fennell President and Chief Executive Officer	Hon. W.M. Kelly Chairman of the Board

May 21, 1986

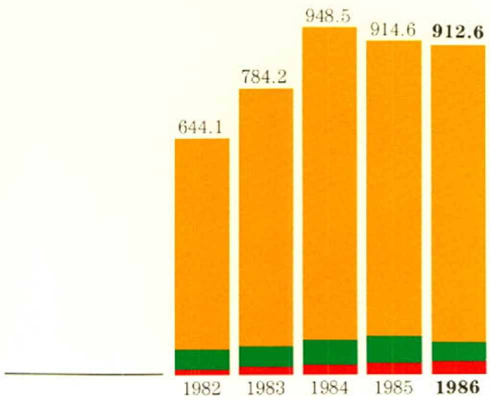
Rothmans of Pall Mall Limited
Sales ($ millions)

Cigarettes	469.9	494.1	519.6	534.5	**615.5**
Fine cut tobacco and related products	15.5	18.1	22.6	23.8	**31.4**



Carling O'Keefe Limited and Subsidiary Companies
Sales ($ millions)

Beer	583.2	709.8	869.4	833.5	**832.9**
Wine	48.6	58.2	59.3	57.7	**54.6**
Oil and gas	12.3	16.2	19.8	23.4	**25.1**



Corporate Overview

Rothmans of Pall Mall Limited

Major Product Groups and Brands

Cigarettes (in order of sales volumes): Craven "A", Rothmans, NUMBER 7, Sportsman, Dunhill, Peter Stuyvesant. In total, there are more than 55 cigarette products of varying lengths, tar levels, package types and sizes.

Fine cut tobaccos: Craven "A", Rothmans, Sportsman, Black Cat NUMBER 7.

Dunhill Division: Men's luxury fashion goods, smoking-related accessories.

Pipe tobaccos: Captain Black, Erinmore, Gulden Dansk.

Cigars: Montecristo (Cuban), Schimmelpenninck (Dutch), Antonio Y Cleopatra.

Operations: The Company at year end had cigarette manufacturing plants in Quebec City and Toronto and 12 sales offices from coast to coast. Dunhill has three retail outlets, located in Toronto, Montreal, Vancouver, and a wholesale distribution centre in Toronto.

Carling O'Keefe Limited

Major Subsidiaries and Brands

Carling O'Keefe Breweries of Canada Ltd.: O'Keefe, Old Vienna, Miller High Life, Miller Lite, Carlsberg, Carlsberg Light, Carling Black Label, O'Keefe's Extra Old Stock. Recent introductions: Foster's in Ontario, Old Vienna Light in the prairie provinces.

Jordan & Ste-Michelle Cellars Ltd.: Spumante Bambino, Maria Christina, Toscano, Interlude, Coola Bianca, and Growers ciders.

Beamish & Crawford plc: Carling Black Label, Carlsberg, Bass.

Operations: Carling O'Keefe Breweries operates seven breweries in Canada. Plants are located in Newfoundland, Quebec, Ontario, Manitoba, Saskatchewan, Alberta, British Columbia.

Jordan & Ste-Michelle Cellars Ltd.: Operates wineries in Ontario and British Columbia, and has 33 retail stores in Ontario.

Beamish & Crawford plc: Operates a brewery in Cork, Republic of Ireland.

Star Oil & Gas Ltd.: Has crude oil and natural gas reserves in Alberta, Saskatchewan.

Rothmans of Pall Mall Limited

For Rothmans of Pall Mall Limited, fiscal 1986 was a pivotal year–a year in which the Company acquired a new sense of direction and a new vitality as it embarked on a programme of reorganization designed to make it more responsive to market demands and competitive pressures. Significant improvements were made in operating efficiencies; and market leadership–notably the highly successful 30-pack of NUMBER 7 cigarettes–reversed a trend of declining market share.

Operations Review

Financial Highlights

($ millions)	1986	1985	Percentage Change
Sales	**646.9**	558.3	+15.9
Excise and sales taxes	**387.3**	288.5	+34.2
Net sales	**259.6**	269.8	-3.8
Earnings before extraordinary items	**14.2**	19.1	-25.6
Net earnings	**9.7**	17.4	-44.1
Capital expenditures	**14.0**	10.6	+32.1
Average working capital	**128.7**	128.6	+0.1
Return before extraordinary items on average capital employed	**8.4%**	11.2%	-25.0
Net sales per average number of employees ($ thousands)	**164**	149	+10.1

Rothmans of Pall Mall has faced the same obstacles as the entire Canadian tobacco industry. However, last year it developed and began implementing a new strategy to deal with these problems and to achieve new performance objectives. (For details of the objectives and strategy, see page 11.)

Cigarette volumes have been declining since 1982, when increases in taxes and duty began accelerating. At the same time, technology has been increasing employee productivity. The result was a growing excess of manpower and plant capacity that eroded earnings. Accordingly, last year the Company undertook a painful but necessary programme to rationalize and consolidate its operations.

Concurrently, as part of a long-term strategy of product innovation, the Company launched a new cigarette package that brought about an immediate increase in market share. It also

made new capital investments that improved productivity and increased its ability to respond quickly to new product requirements. As well, operations were reorganized to enhance market responsiveness.

Performance

Sales revenues from cigarettes and other products rose by 15.9 percent in fiscal 1986, to $646.9 million. The increase resulted from a 34 percent boost in excise and sales taxes. Sales net of taxes dropped by 3.8 percent, to $259.6 million.

The decline in net sales can be attributed to a 5.9 percent decrease in cigarette sales volume, to 12.5 billion, including 487 million units for export. Declines in volume and revenues alike

were concentrated in the first half of the year. In the second half, volume increased 2.6 percent due to brisk sales of the newly launched 30-pack, which was offered at the same price as a 25-pack to hasten its market acceptance.

The Company's earnings declined 25.6 percent to $14.2 million before extraordinary items, and by 44.1 percent to $9.7 million after extraordinary items. Earnings from operations declined primarily because of reduced overall volumes and also because the offer on the 30-pack cut into profit margins.

Extraordinary items on an after-tax basis included costs of $10.8 million that were partially offset by gains of $6.3 million. Costs consisted of $6.6 million related to substantial employment reductions, and $4.2 million for the writedown of equipment and other assets. Gains were realized from disposal of real estate in Toronto and Ottawa and other assets. Fiscal 1985 earnings were restated to identify an extraordinary item–a $1.7 million after-tax provision for rationalization. (For Rothmans of Pall Mall financial statements and review, see page 34.)

Cigarettes

Cigarette revenues increased 15.1 percent to $615.5 million, primarily the result of excise and sales tax increases. Also contributing to the gain was the launching of the NUMBER 7 30-pack, combined with a modest two percent overall price increase effective November 11, 1985.

NUMBER 7 30s were introduced in Ontario and Quebec in September 1985, then nationally in January 1986. In the third quarter, the new packs brought a sudden halt to the year-over-year decline in volume of the Company's cigarette shipments, and in the fourth quarter they generated an overall 6.7 percent increase in shipments–the first since 1982. This trend was confirmed at another level of measurement, when an A.C. Nielsen Co. of Canada Ltd. retail audit in January-February 1986 showed Rothmans with a retail market share of about 23 percent, compared to a 21 percent share

in the previous year. The Company considers retail sales more indicative of market standing than manufacturers' shipments, as they are a more immediate reflection of current consumer preferences.

The NUMBER 7 30s were conceived as a distinctive offering to combat the inertia that develops with brand loyalties.

Determined to exploit market segments with greatest growth potential, the Company directed NUMBER 7 30s at markets where it has been under-represented–the regular length market and the fast-expanding medium-strength category.

Rothmans leadership with the 30-pack is reminiscent of the now standard flip-top pack that Rothmans introduced 30 years ago. Although two major competitors came up with their own imitations of the new package, Rothmans maintained the sales lead that usually goes to the innovator. The new breakthrough has been achieved partly through a value approach–30 cigarettes for the price of 25–but only as a temporary expedient.

Meanwhile, the Company's leading brands, Craven "A" and Rothmans, continued to lose market share. During the year, a revamped market research and strategic planning department analyzed these brands fully, to arrive at strategies that will strengthen their position in the market. The first venture was the launching in February 1986 of Rothmans King Size 30s in the West. By year end, other innovative initiatives were being readied for launching.

Fine Cut Tobacco and Other Related Products

This product group performed well in fiscal 1986. Sales volume of fine cut tobaccos increased by 18.3 percent, outpacing the industry as a whole. Revenues from other products in this group–pipe tobacco, cigars and the Dunhill retail and wholesale business–increased 15.1 percent to $11.7 million.

Rationalization and Consolidation

Between April 1985 and fiscal year end, the number of employees was reduced by 450 to 1,400 through a programme of early retirements and voluntary terminations as well as normal attrition.

In May 1986, the Company announced that cigarette production would be discontinued at the Toronto plant effective near the end of 1986, affecting an additional 170 employees.

The Company has given and will continue to provide every possible assistance to departing workers, by helping to arrange for relocation and early retirement.

Comparative breakdown of retail sales dollar

	1982	Current
Federal tobacco taxes	27¢	32¢
Provincial tobacco taxes	26	32
Wholesalers & retailers	19	17
Manufacturers, processors and growers	28	19
Total	100.0¢	100.0¢

Cigarette excise and sales taxes

Per carton of 200 King Size cigarettes	Provincial tobacco tax: 1985 Annual Report	Increases %	May 23 1986	Current federal and provincial tax
British Columbia	$5.44	26.5	$6.88	$13.95
Alberta	2.96	—	2.96	10.03
Saskatchewan	6.16	32.5	8.16	15.23
Manitoba	6.20	32.3	8.20	15.27
Ontario·	5.32	1.5	5.40	12.47
Quebec	7.20	25.6	9.04	16.11
New Brunswick	6.16	29.9	8.00	15.07
Nova Scotia	4.80	45.8	7.00	14.07
Prince Edward Island··	3.00	—	3.00	10.07
Newfoundland···	9.56	—	9.56	16.63
Yukon Territory	3.20	100.0	6.40	13.47
Northwest Territories	5.20	26.9	6.60	13.67

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

Capital Expenditures

In a $36 million modernization programme launched in 1979 and continued through fiscal 1986, the Company has transformed its Quebec plant from among the least efficient to one of the most efficient operations of its kind. As part of its $12.2 million worth of improvements in 1986, the Company installed state-of-the-art leaf equipment that reduced production costs while enhancing tobacco fill quality.

Tobacco Leaf

The Company ended the fiscal year with tobacco leaf inventories valued at $73.4 million, down from $98.3 million in 1985. Inventories were lower because tobacco growers delayed the auction for the 1985 crop in a dispute over subsidies for tobacco exports. At year end the Company had outstanding purchase commitments of $19 million. At a time when the Company is rationalizing its own operations, Rothmans cannot justify further subsidies.

Taxes

The past year was a record year for increases in excise and sales taxes (see table on left). Altogether, the provinces imposed 12 increases (three from New Brunswick alone), and Ottawa ordered four, the last of which, effective April 1 this year, brought the federal sales tax to the 15 percent level.

In May 1985, the federal government repealed the existing excise tax formula, which was indexed to the Consumer Price Index, and returned to a system of specific taxation. Rothmans favors the indexing of taxes to the CPI, if additional taxes are to be levied at all, because it facilitates corporate planning.

Outlook

Having set a new direction, and having seen early rewards from its new strategy, Rothmans of Pall Mall is now building on that success. As it continues to exploit its renewed strengths in marketing innovation, production efficiency and operational flexibility, Rothmans of Pall Mall looks forward to a consistent pattern of earnings growth, beginning with fiscal 1987.

Rothmans of Pall Mall Limited

In the past year Rothmans of Pall Mall began to reap the benefits of a new corporate strategy.

This special section of the Annual Report outlines the corporate objectives that took shape as the Company's newly-constituted team of strategists analyzed its present and potential markets and explored ways of managing these markets to the best advantage.

Corporate Strategy

The Executive Operating Committee of Rothmans of Pall Mall, from left to right: John J. Morrissey, Vice President, Human Resources and Administration; Patrick J. Fennell, President and Chief Executive Officer; Robert W. Allan, Vice President, Finance and Public Affairs; Joseph J. Heffernan, Vice President, Operations; and Robert J. McCloskey, Vice President, Marketing and Sales.

In keeping with the strategy of Rothmans Inc., Rothmans of Pall Mall has set its sights on an ambitious but realistic financial target: an annual return on average total capital employed of 15 percent.

To hit this target, the Company in fiscal 1986 committed itself to becoming a disciplined leader in all aspects of the tobacco industry, from the earliest stages of production planning right through to completion and follow-up of sales. This new resolve is vital if Rothmans of Pall Mall is to prosper in spite of intense competition within a declining market. As it solidifies its new achievements in the marketplace and strengthens its earning power, the Company is positioning itself to take full advantage of anticipated consolidation within the industry.

Even while concentrating much of its attention on the new strategy, the Company is maintaining its traditional commitment to the production of quality products–"the best tobacco money can buy"–and to attracting and maintaining quality employees. Under the direction of a newly-formed Executive Operating Committee led by the new President, P.J. Fennell, the Company is aggressively seeking leadership and dominance in five vital areas of activity and concern:

- **Gains in Market Share** The Company has set out to recapture market share by leading the industry in the introduction of innovative products based on exhaustive market research and in the servicing of customers. Under the direction of Robert McCloskey, who joined in September 1985 as Vice President, Marketing and Sales, the Company's marketing and sales departments were reorganized to carry out this objective. The marketing department was one of the few to be expanded, with new emphasis on research and strategic planning. The sales departments of cigarettes and of non-cigarette products were combined, and new efforts were concentrated on selling national accounts and servicing the retail trade.

The Company is committed to anticipating consumer preferences and to meeting these preferences with products that will stir the market's inherent inertia into dramatic response. The NUMBER 7 30s were just the first of many innovations to emerge from this newly activated creative process.

- **Production Efficiency** Guided by Joseph Heffernan, Vice President, Operations, the Company three years ago set itself a difficult but attainable objective: to rank among the five best plants worldwide of London-based Rothmans International p.l.c. in all phases of production.

  By the end of fiscal 1986, the leaf and filter departments in the Company's Quebec plant were among the best worldwide, the cigarette-making department had advanced to within 80 percent of its goal, and the packaging department had attained 50 percent of its target. These evaluations are based on objective, plant-to-plant measurements such as cost per 1,000 cigarettes.

- **Operating Flexibility** All Company operations are being reorganized. The emphasis is on teamwork and quick response to market demands and competitive pressures. Many of the internal operating functions come under Robert Allan, Vice President, Finance and Public Affairs. A notable example is management information systems, which lately have been made substantially more responsive.

  In addition to its reorganizational moves, the Company is fostering flexibility by encouraging creative risk-taking and individual initiative.

- **Quality People** The employment reductions of the past year went a long way towards achieving a corporate objective of becoming lean and healthy. Under the direction of John Morrissey, Vice President, Human Resources and Administration, the Company is refining compensation packages to reward performance, and creating programmes to encourage initiative. Among other innovations, President's Awards will be presented to employees who make outstanding efforts.

- **Industry Issues** The Company will take firm positions on issues of substance that concern the industry, to influence developments to Rothmans advantage.

Leadership in these five areas will put Rothmans of Pall Mall in a position to achieve the goals Rothmans Inc. has set.

Rothmans of Pall Mall Limited

Rothmans of Pall Mall Limited at year end had 1,400 employees from coast to coast, involved in a wide range of activities.

Whether they are in marketing or sales, in manufacturing or distribution, in administration, finance or other corporate staff positions, Rothmans employees are important members of a high-performance team. The success of the Company's new corporate direction is in their capable hands.

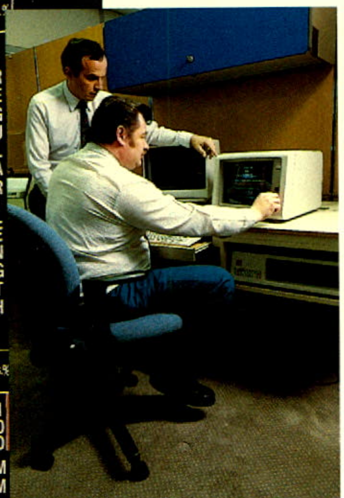
Profile of Employees

Many Rothmans of Pall Mall employees have been with the Company most of their working years and have an invaluable depth of experience and commitment. Others have joined more recently, and brought new ideas with them.

The members of the senior marketing team discuss new strategies to sell the wide range of Company tobacco products. From the left, John Broen, Vice President, Marketing; Robert McCloskey, Vice President, Marketing and Sales; Anthony Pace, Marketing Finance Manager; and Gordon White, Vice President, Sales.

Tony Braganza, Materials Specification Controller, checks an order at Toronto head office.

Diane Fantinel discusses inventory levels with Worrell Smith, Billing Supervisor, in Toronto.



Ted Malchuk, Merchandising Material Manager in the Marketing Department at Toronto head office with a new Company product: 30-pack Rothmans.

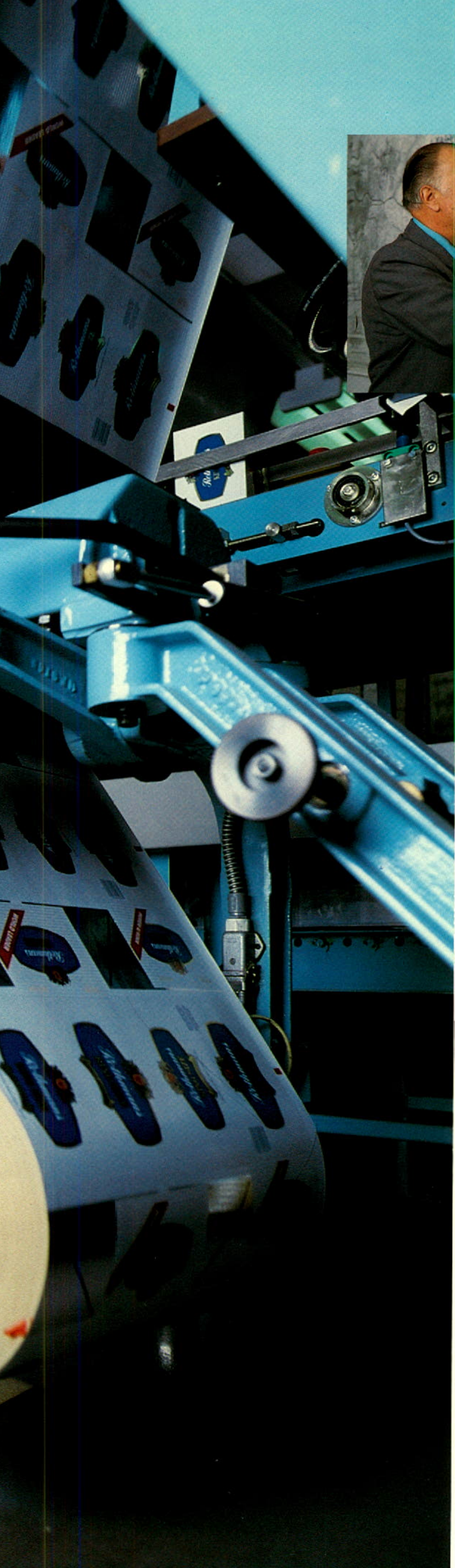
Terry Finkle (left), Marketing Finance Assistant, and Michael Overdyk, Marketing Finance Supervisor, review figures in Toronto head office.

Lucie Chantal carefully checks product quality at the Quebec City plant. She has been with the Company for 43 years.

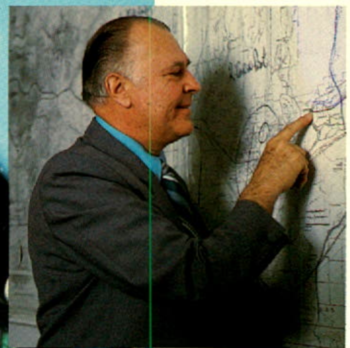
Magella Côté operates a cigarette-making machine at the Quebec City plant–now one of the most efficient in the industry, worldwide.

Kirk Williams, Calgary Sales Representative, views promotional material with Linda Bobinski of Mercury Drugs, Calgary.

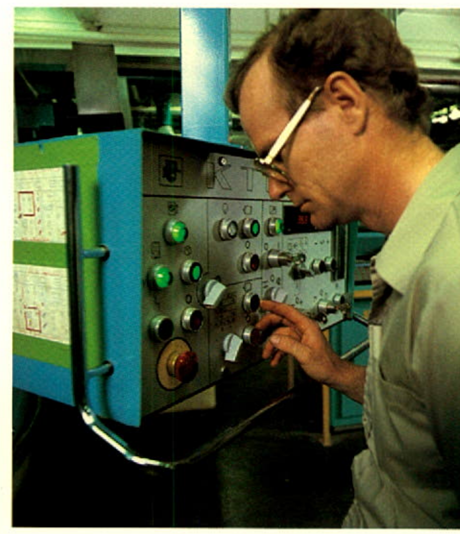
Gilles Pouliot, Operator of the Focke machine in Quebec City, loads it with Rothmans brand wrappers.



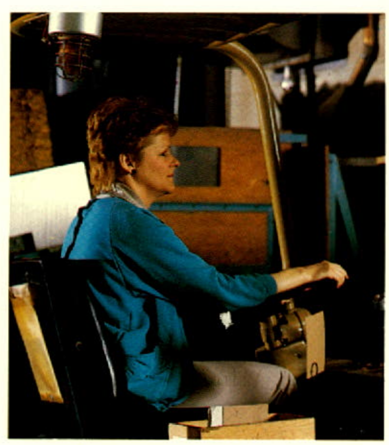
Helen Naken (left), Photo-composition Administrator with Margaret Cho-Chak-Wing, Typesetting Operator at the Toronto head office.



John Silvester, Vancouver Sales Representative, has been selling Rothmans products for 37 years–longer than any other rep in the Company.



Daniel Therrien operates some of the high-efficiency equipment at the Quebec City plant.



Marlène Dubois operates a lift truck at the Quebec City plant.

Carling O'Keefe Limited

For Carling O'Keefe Limited, a holding company with subsidiaries in the beer, wine and oil and gas industries, fiscal 1986 was a difficult year in which all its domestic businesses faced adverse conditions. And yet the year also marked a turning point from which the Company expects to move on to significantly improved earnings from operations in 1987 and beyond.

Operations Review

Financial Highlights

($ millions)	1986	1985	Percentage Change
Sales	**912.6**	914.6	–0.2
Excise and sales taxes	**323.2**	327.4	–1.3
Net sales	**589.4**	587.2	+0.4
Earnings before extraordinary items	**1.1**	15.7	–93.0
Net earnings (loss)	**(19.7)**	15.7	—
Capital expenditures	**76.3**	124.5	–38.7
Working capital	**51.0**	21.1	+141.8

In the past year, some of Carling O'Keefe's businesses faced abnormal problems that hampered their operations and adversely affected their revenues. In the Canadian beer subsidiary, labour difficulties led to lengthy work stoppages which, combined with an expansion programme, resulted in interruptions in production. In addition, competitive initiatives required heavy expenditures. For the wine subsidiary, a decline in the domestic market was aggravated by government-generated negative publicity regarding the possible dangers from ethyl carbamate in some of its fortified products. The oil and gas subsidiary and Irish beer subsidiary reported improved results.

Performance

The Company's consolidated sales revenue for the year ended March 31, 1986, was essentially the same, at $912.6 million, compared with $914.6 million in 1985. Consolidated earnings from operations dropped sharply, to slightly more than $1 million, from $15.7 million in 1985. An extraordinary item was included in 1986 to write-off $20.7 million worth of goodwill, thereby creating a loss for the year of $19.7 million.

Reduced earnings reflected a loss in the wine subsidiary and a substantial decline in the Canadian beer subsidiary, offset only to a small extent by gains in Irish beer and oil and gas. (For Carling O'Keefe's financial statements and review, see page 36.)

Corporate Strategy

While several developments occurred in fiscal 1986 to produce a sharp decline in consolidated earnings, and a substantial loss after the extraordinary items, the Company entered fiscal 1987 in a much-improved position, with good prospects for long-term growth.

Carling O'Keefe Breweries of Canada Limited is central to the Company's future as it has the potential to generate the most profit. Many of the steps taken in 1985 and 1986 can be expected to yield positive results in the future:

- Innovations in packaging and the introduction of new brands are helping expansion into new market areas to complement development of traditional strengths.
- Completion of capital projects, coupled with new long-term labour contracts, should mean freedom from production stoppages.
- Newly installed equipment will contribute to increased efficiency and productivity and, more importantly, will increase market flexibility.
- A considerable number of organizational changes have been initiated to implement new strategies to improve profitability.

Canadian Beer

In fiscal 1986, Carling O'Keefe Breweries of Canada Ltd. recorded sales of $765.0 million compared to $778.7 million in 1985.

Sales volume, however, was lower, reflecting a three percent reduction for the industry as a whole, largely due to work stoppages and a reduced market share for Carling in all provinces except Quebec. The company could not respond fully to competitive pressures until late in the year, when its expansion and modernization programme was completed. The installation of new equipment at the Toronto brewery caused production delays which, among other things, hampered exports to the United States.

Earnings from operations declined to $2.6 million. The effect of the lengthy work stoppages in Alberta and Newfoundland; increased costs of sorting

private mould bottles; start-up difficulties with the new equipment and rationalization costs were the major reasons for the decline. Earnings in 1985 were after a $20.6 million write-off of compact bottles.

To meet the continuing challenge of competition, the company made various innovations in packaging, and introduced three new products and brands.

The company also started up state-of-the-art aluminum-canning equipment lines in six provinces and is producing beer in four different can sizes.

The new products are Foster's Lager, an Australian brew introduced in Ontario in March 1986; Cincinnati Cream, launched in British Columbia in October 1985; and Old Vienna Light, which went on the market in Western Canada in March 1986.

During the year, national distribution was achieved for Miller Lite.

As the beer industry moves into fiscal 1987, it faces several critical issues: low-priced imports in the western provinces make it difficult for the industry to recover its costs; the proposal to allow beer sales in Ontario grocery stores, which would increase distribution costs; and continuing high excise and sales taxes. In the longer term, the industry faces the prospect of free trade with the United States, which could pose a serious competitive challenge.

Nevertheless, the prospects for Carling O'Keefe in 1987 are, on balance, quite positive. The company expects to benefit from improved cost controls, a full year of success with its new brands and packages, and production uninterrupted by labour disputes or construction.

Irish Beer

Beamish & Crawford plc increased its sales to $67.9 million in 1986, up 24 percent from 1985, and achieved a 21 percent increase in pre-tax earnings, to $4 million. These results reflect increased sales volumes and a 16 percent increase in the average exchange rate. As the trend to lagers continues, the company is in a good position to increase its market share.

Wine

Severe competition from low-priced imports and increased production costs resulted in an operating loss in fiscal 1986 for Jordan & Ste-Michelle Cellars Ltd. Sales volumes dropped by 2.3 percent, pushing down sales revenue by 5.4 percent, to $54.6 million.

Sales in the company's major markets, Ontario and British Columbia, were depressed by competitive pricing and by ordering patterns of the liquor boards.

The Calgary winery was closed during the year, due to the lack of profitability in the Alberta market.

Among the more positive moves, the company continued its nation-wide promotion of its major brands, including Maria Christina, the best-selling Canadian table wine in Ontario.

Oil and Gas

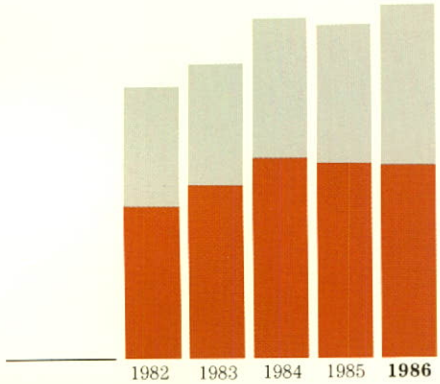
Star Oil & Gas Ltd. increased its revenue in 1986 by 7.4 percent, to $25.1 million. Crude oil production was up; natural gas remained level with 1985. In response to the oil price decline late in the fiscal year, the company will limit its capital spending to projects essential to its high-quality leases, gas contract areas and producing properties.

Outlook

Fiscal 1987 is expected to be a more stable business environment for the Company's operations. Initiatives taken by the Company should ensure a substantially improved performance during the year, and provide a base for growth in coming years.

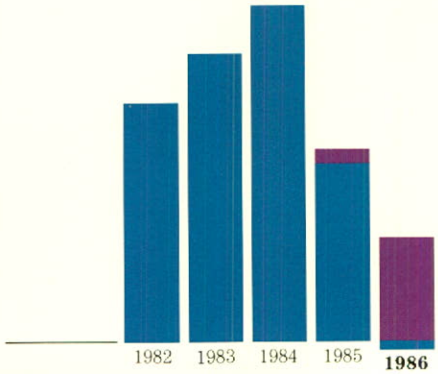
Rothmans Inc.
Sales ($ millions)

Sales	1,129	1,296	1,491	1,473	**1,559**
Net sales	667	767	879	857	**849**

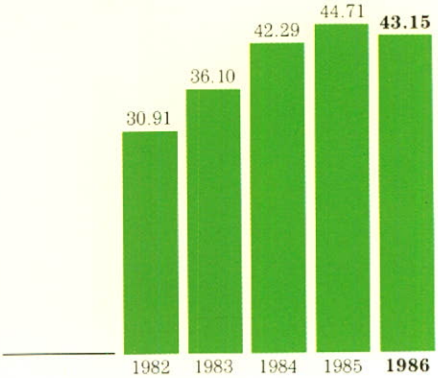


Rothmans Inc.
Earnings ($ millions)

Earnings before extraordinary items	32.6	39.1	45.9	26.0	**13.8**
Net earnings (loss)	32.6	39.1	45.9	24.3	**(1.1)**



Rothmans Inc.
Shareholders Equity per share ($)



Rothmans Inc. Financial Review

Sales

Sales revenues increased 5.9 percent to $1,559.5 million in the 12 months ended March 31, 1986. Most of the gain reflects a 34 percent increase in federal tobacco excise and sales taxes, to $387.3 million. Production and sales taxes levied on products of Carling O'Keefe subisidiaries declined slightly, to $323.2 million.

After deducting the taxes, net sales declined by less than one percent to $849.1 million. Net sales of the tobacco subsidiary declined by 3.8 percent to $259.6 million, despite a two percent increase in cigarette prices November 11, 1985. Volume shipments of cigarettes declined by 5.9 percent to 12.5 billion for the year, reflecting a general industry trend. However, volume increased 2.6 percent on a year-over-year basis in the last half of the year. Net sales for Carling O'Keefe increased by less than one percent to $589.4 million, as an increase in oil and gas revenue offset small declines in beer and wine revenues.

Earnings

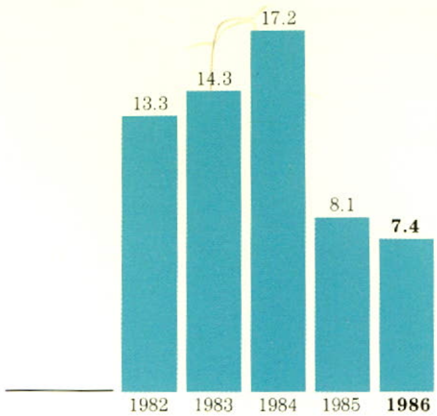
Consolidated earnings before extraordinary items and after deducting minority interest in Carling O'Keefe declined by 47.1 percent to $13.8 million or $2.18 per share in fiscal 1986, compared with the previous year. Of the decline in earnings, close to 60 percent resulted from Carling O'Keefe and the balance from Rothmans of Pall Mall. Earnings from both companies were affected by lower sales volumes and a change in accounting for investment tax credits. In addition, Carling O'Keefe's earnings reflected increased interest charges that result from its expansion programme.

After extraordinary items, Rothmans Inc. recorded a loss of $1.1 million or 52 cents per share, compared with a profit of $24.3 million or $4.09 a share the previous year. Rothmans of Pall Mall had after-tax extraordinary costs of $4.5 million. This was the result of rationalization and consolidation costs of $20.8 million (after tax–$10.8 million) partially offset by gains of $9.1 million (after tax–$6.3 million) from the divestment of non-strategic assets. Carling O'Keefe had extraordinary charges of $20.7 million of which $10.4 million was Rothmans Inc.'s share. The charges are the result of an extraordinary write-off of goodwill at Carling O'Keefe.

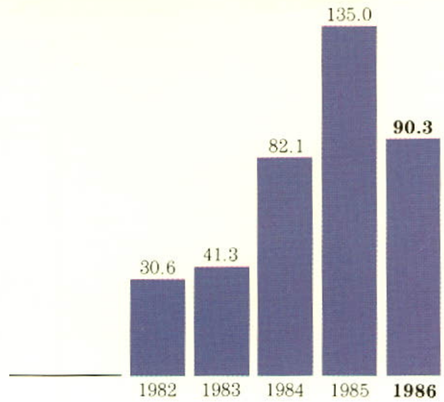
Shareholders' equity per share

Shareholders' equity declined slightly to $43.15 per share from $44.71 the previous year due to the loss after extraordinary items, while the Company continued to pay dividends on common and preferred shares. Dividend payments totalled $10.5 million. Retained earnings declined to $209.5 million, from $221 million in fiscal 1985. At the same time, the Company recorded a gain of $2.8 million on unrealized foreign currency translation adjustments due to Carling's offshore operations.

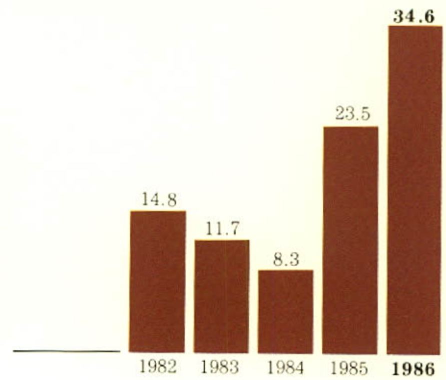
Rothmans Inc.
Return on average total capital employed (%)



Rothmans Inc.
Capital expenditures ($ millions)



Rothmans Inc.
Debt to capital (%)



Return on average total capital employed

The return on average total capital employed based on earnings before extraordinary items was 7.4 percent in fiscal 1986, compared with 8.1 percent the previous year. As is explained in the operations sections, earnings declined for the second year at both subsidiaries. Rothmans Inc. has strategies in place to increase this return, and has an objective of 15 percent overall in fiscal 1988.

Earnings for the calculation include minority interests at Carling O'Keefe. Average total capital employed represents the quarterly average of all interest-bearing debt, deferred taxes, minority interest and shareholders' equity. Average total capital increased to $694.4 million in fiscal 1986, from $588.1 million the previous year.

Capital expenditures:

Capital expenditures of $90.3 million were down from $135 million in fiscal 1985 but above the average of preceding years. Of total expenditures, $76.3 million were by Carling O'Keefe and $14.0 million by Rothmans of Pall Mall.

Carling O'Keefe completed an expansion programme concentrated in its breweries in Vancouver, Calgary and Toronto. As part of this programme, it installed and began operations on state-of-the-art canning equipment lines in all plants except Saskatoon. The company currently is one of the leaders in can sales and has the flexibility to react quickly to changing can market requirements.

Rothmans further modernized the Quebec City cigarette-making plant by installing new leaf equipment, blending boxes and Focke high-speed packers.

Debt Position

Long-term debt as a percent of capital (long-term debt plus shareholders' equity) improved on a corporate basis; a basis that excludes debt from Carling O'Keefe Limited. It improved to 6.7 percent at the end of fiscal 1986, from 8.5 percent a year earlier. On a consolidated basis, long-term debt represented 34.6 percent of capital, compared with 23.5 percent in fiscal 1985.

Debt declined as a percent of capital on a corporate basis due to Rothmans of Pall Mall's reduced long-term borrowings. The tobacco subsidiary's borrowings declined to $11.2 million from $14.3 million, as sinking fund debentures were retired. Meanwhile, Carling O'Keefe's long-term liabilities increased to $128.2 million from $69.4 million the previous year, reflecting financing for its expansion programme which was completed in fiscal 1986. Term bank loans increased to $125 million from $62.0 million (see Note 8).

Rothmans debt position is conservative relative to most companies, and provides the opportunity to borrow a substantial amount should borrowing be beneficial at any time.

Consolidated Statement of Earnings and Retained Earnings

Year ended March 31	1986	1985
		in thousands
Earnings		
Income:		
Sales	**$1,559,533**	$1,472,899
Excise and sales taxes	**710,478**	615,866
	849,055	857,033
Investment and other income	**3,678**	3,600
	852,733	860,633
Costs:		
Raw materials and manufacturing	**456,045**	457,622
Marketing and distribution	**293,322**	292,156
Administrative and general	**66,317**	60,217
Interest on long-term debt	**11,384**	3,180
Other interest	**2,320**	1,209
	829,388	814,384
Earnings before income taxes, minority interest and extraordinary items	**23,345**	46,249
Income taxes (Note 11)	**8,055**	11,416
Earnings before minority interest and extraordinary items	**15,290**	34,833
Minority interest (Note 3)	**1,526**	8,836
Earnings before extraordinary items	**13,764**	25,997
Extraordinary items, less income taxes and minority interest (Note 14)	**(14,890)**	(1,705)
Earnings (loss) for the year	**$ (1,126)**	$ 24,292
Earnings (loss) per common share:		
Before extraordinary items	**$ 2.18**	$4.40
For the year	**$(0.52)**	$4.09
Retained Earnings		
Balance at beginning of year	**$ 221,018**	$ 207,135
Earnings (loss) for the year	**(1,126)**	24,292
Excess of carrying value over cost of First Preferred shares purchased for cancellation (Note 9)	**133**	116
Excess of carrying value over cost of preference shares purchased for cancellation by a subsidiary company, less minority interest	**50**	52
	220,075	231,595
Dividends paid:		
Preferred shares–		
First Preferred shares, Series A ($6.85 per share)	**826**	856
Second Preferred shares ($1.325 per share)	**904**	904
	1,730	1,760
Common shares ($1.60 per share)	**8,817**	8,817
	10,547	10,577
Balance at end of year	**$ 209,528**	$ 221,018

The accompanying notes are an integral part of the financial statements.

Consolidated Balance Sheet

March 31	1986	1985
		in thousands
Assets		
Current assets:		
Cash and short-term investments	**$ 21,171**	$ 4,334
Accounts receivable	**84,782**	82,143
Income taxes	**25,992**	8,965
Inventories (Note 4)	**268,066**	278,060
Prepaid expenses	**9,707**	10,502
Total current assets	**409,718**	384,004
Property, plant and equipment (Note 5)	**677,363**	599,365
Less: Accumulated depreciation and depletion	**232,183**	204,745
	445,180	394,620
Other assets (Note 6)	**19,446**	39,542
	$874,344	$818,166
Liabilities		
Current liabilities:		
Bank and other short-term indebtedness (Note 7)	**$ 59,547**	$ 56,212
Accounts payable and accrued liabilities	**111,407**	121,425
Due to customers for returnable containers	**20,630**	21,532
Excise, sales and other taxes	**39,625**	33,603
Dividends payable	**1,800**	1,804
Total current liabilities	**233,009**	234,576
Long-term liabilities (Note 8)	**139,229**	81,342
Total liabilities	**372,238**	315,918
Deferred income taxes	**92,021**	69,268
Minority interest in subsidiary company (Note 3)	**147,024**	160,469
Shareholders' equity		
Capital stock (Note 9)	**52,620**	53,371
Retained earnings	**209,528**	221,018
Unrealized foreign currency translation adjustments	**913**	(1,878)
Total shareholders' equity	**263,061**	272,511
	$874,344	$818,166

The accompanying notes are an integral part of the financial statements.

Approved by the Board:

Director

Director

Consolidated Statement of Changes in Financial Position

Year ended March 31	1986	1985
		in thousands
Cash provided by(used for):		
Operations–		
Earnings before extraordinary items	**$ 13,764**	$ 25,997
Adjusted for non-cash items–		
Depreciation and depletion	**29,558**	23,727
Minority interest	**1,526**	8,836
Deferred income taxes	**29,175**	10,083
Other items	**1,885**	807
	75,908	69,450
Extraordinary items	**7,968**	—
Increase in operating working capital	**(20,863)**	(12,567)
Disposal of assets	**2,015**	2,458
Additions to property, plant and equipment	**(90,253)**	(135,026)
Additions to other assets	**(1,339)**	(445)
	(26,564)	(76,130)
Financing activities–		
Increase in long-term liabilities	**57,535**	58,632
Current portion of other assets	**1,187**	1,797
Dividends–		
By the Company	**(10,547)**	(10,577)
By a subsidiary company to minority shareholders	**(7,206)**	(7,005)
Other	**(903)**	(484)
	40,066	42,363
Decrease (increase) in net short-term indebtedness	**13,502**	(33,767)
Net short-term indebtedness at beginning of year	**(51,878)**	(18,111)
Net short-term indebtedness at end of year	**$ (38,376)**	$ (51,878)
Comprised of:		
Cash and short-term investments	**$ 21,171**	$ 4,334
Bank and other short-term indebtedness	**(59,547)**	(56,212)
	$ (38,376)	$ (51,878)

Analysis of Changes in Operating Working Capital

Accounts receivable	**$ (2,639)**	$ (6,776)
Income taxes	**(17,027)**	(9,422)
Inventories	**9,994**	(24,633)
Prepaid expenses	**795**	(2,059)
Accounts payable, accrued liabilities and dividends payable	**(10,022)**	13,142
Due to customers for returnable containers	**(902)**	21,532
Excise, sales and other taxes	**6,022**	(458)
Unrealized foreign currency translation adjustments	**3,857**	(893)
Extraordinary provisions included in the above	**(10,941)**	(3,000)
Increase in operating working capital	**$ (20,863)**	$ (12,567)

The accompanying notes are an integral part of the financial statements.

Management Report

The consolidated financial statements of Rothmans Inc. 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 28. 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 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 to the right. As part of their examination, Price Waterhouse reviewed 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.

President and Chief Executive Officer

R. W. Allan

Vice President Finance

May 21, 1986

Auditors' Report

To The Shareholders of Rothmans Inc.:

We have examined the consolidated statements of earnings, retained earnings and changes in financial position of Rothmans Inc. for the year ended March 31, 1986 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, 1986 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 investment tax credits as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Price Waterhouse

Chartered Accountants

May 21, 1986

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 at the beginning 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 was carried at cost and was not amortized prior to its write-off in the current fiscal year (Note 14). Intangible assets acquired subsequently and sports franchises are amortized over periods not exceeding forty years.

Inventories

Inventories, other than returnable containers, are stated at the lower of average cost and net realizable value. Returnable 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 which approximate estimated service lives.

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.

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.

Notes to Consolidated Financial Statements

March 31, 1986 and 1985

(Tabular amounts are in thousands of dollars)

1. Segmented information

In these financial statements, all references to "Rothmans" relate to the tobacco operations carried out by the Company and its wholly-owned subsidiary Rothmans of Pall Mall Limited. All references to "Carling O'Keefe" relate to 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.

	1986	1985
Sales:		
Rothmans	**$ 646,880**	$ 558,343
Carling O'Keefe–		
Beer	**832,928**	833,449
Wine	**54,618**	57,731
Oil and gas	**25,107**	23,376
	$1,559,533	$1,472,899
Operating profits:		
Rothmans	**$ 24,822**	$ 31,656
Carling O'Keefe–		
Beer	**6,544**	8,154
Wine	**(2,328)**	3,225
Oil and gas	**11,560**	10,015
Corporate expense, net	**(3,549)**	(2,412)
	37,049	50,638
Interest expense	**(13,704)**	(4,389)
Earnings before income taxes, minority interest and extraordinary items	**$ 23,345**	$ 46,249
Capital expenditures:		
Rothmans	**$ 13,965**	$ 10,569
Carling O'Keefe–		
Beer	**62,890**	109,310
Wine	**2,497**	4,153
Oil and gas	**10,901**	10,994
	$ 90,253	$ 135,026

	1986	1985
Depreciation and depletion:		
Rothmans	**$ 5,434**	$ 4,306
Carling O'Keefe–		
Beer	**17,973**	13,327
Wine	**1,709**	1,529
Oil and gas	**4,442**	4,565
	$ 29,558	$ 23,727
Identifiable assets:		
Rothmans	**$242,865**	$263,276
Carling O'Keefe–		
Beer	**501,997**	422,474
Wine	**50,486**	58,534
Oil and gas	**76,183**	73,090
Corporate	**2,813**	792
	$874,344	$818,166

Corporate assets consist of cash, short-term investments and mortgage receivable of Carling O'Keefe.

2. Change in accounting policy

Effective April 1, 1985, the Company prospectively changed its accounting policy for investment tax credits related to capital expenditures to conform with the recommendations of the Canadian Institute of Chartered Accountants. For the year ended March 31, 1986, investment tax credits have been deducted from the cost of the related fixed assets. In prior years, net investment tax credits were accounted for as a reduction of income tax expense (Note 11). The change reduced consolidated earnings for the year by $2,118,000 (38¢ per common share) of which $1,317,000 related to Carling O'Keefe.

3. Minority interest in subsidiary company

The interest of minority shareholders in the consolidated earnings before extraordinary items of Carling O'Keefe for the years ended March 31 was as follows:

	1986	1985
Preference shares	$ 1,996	$ 2,011
Common shares	(470)	6,825
	$ 1,526	$ 8,836

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

	1986	1985
Preference shares	$ 41,270	$ 41,520
Common shares	105,754	118,949
	$ 147,024	$160,469

4. Inventories

	1986	1985
Rothmans–		
Leaf tobacco	$ 73,414	$ 98,274
Finished goods	59,948	68,090
Packaging material and other	11,945	14,423
	145,307	180,787
Carling O'Keefe–		
Beverage products, finished and in process	52,414	47,523
Materials and supplies	29,541	27,633
Returnable containers	40,804	22,117
	122,759	97,273
	$268,066	$278,060

The Ontario tobacco auctions for the 1985 crop were not completed at March 31, 1986 at which date outstanding purchase commitments amounted to approximately $19,000,000.

In 1985, a provision by Carling O'Keefe for the write-off of compact bottles of $20,600,000 was charged to raw material and manufacturing costs and deducted from the amortized cost of returnable containers in inventory.

5. Property, plant and equipment

	1986		1985	
	Cost	Accumulated depreciation and depletion	Cost	Accumulated depreciation and depletion
Rothmans–				
Land	$ 1,591	$ —	$ 2,449	$ —
Buildings	10,616	3,721	11,635	4,168
Machinery and equipment	80,765	44,410	69,468	35,434
Motor vehicles	2,723	2,425	5,159	4,413
Leasehold improvements	10,005	8,625	9,897	7,561
	105,700	59,181	98,608	51,576
Carling O'Keefe–				
Land	9,264	—	9,164	—
Buildings	154,004	34,568	138,593	31,788
Machinery and equipment	271,487	89,045	228,983	78,448
Motor vehicles	23,878	11,902	21,727	10,901
Oil and gas assets	108,424	34,178	97,773	29,677
Leasehold improvements	4,606	3,309	4,517	2,355
	571,663	173,002	500,757	153,169
	$677,363	$232,183	$599,365	$204,745

6. Other assets

	1986	1985
Rothmans–		
Unamortized deferred charges, trade marks and patents	**$ 575**	$ 573
Carling O'Keefe–		
Unamortized cost of sports franchises	**10,942**	11,273
Deferred charges and other investments	**7,929**	6,668
Unamortized cost of shares of subsidiaries in excess of underlying net tangible asset values at acquisition (Note 14)	**—**	21,028
	18,871	38,969
	$ 19,446	$ 39,542

Amortization of other assets amounted to $672,000 (1985–$705,000).

7. Bank and other short-term indebtedness

Bank and other short-term indebtedness consists of bank indebtedness of $31,832,000 (1985–$26,212,000) and notes payable of $27,715,000 (1985–$30,000,000).

	1986	1985
Rothmans	**$ 24,925**	$ 53,151
Carling O'Keefe	**34,622**	3,061
	$ 59,547	$ 56,212

8. Long-term liabilities

	1986	1985
Rothmans–		
Sinking fund debentures–		
Series A 8% due January 3, 1988	**$ 1,032**	$ 3,021
Series B 11% due February 15, 1995	**10,167**	11,267
	11,199	14,288
Carling O'Keefe–		
Sinking fund debentures–		
Series D 5½% due April 1, 1986	**—**	800
Series E 5½% due April 1, 1989	**—**	3,455
Term bank loans	**125,000**	62,000
Obligations under capital leases	**—**	83
Advances under gas contracts	**1,283**	1,511
Unfunded pensions (Note 10)	**1,965**	1,597
	128,248	69,446
	139,447	83,734
Less–Amount included in current liabilities	**218**	2,392
	$ 139,229	$ 81,342

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

	1987	1988	1989	1990	1991
Rothmans	$ —	$ 1,599	$ 800	$ 800	$800
Carling O'Keefe	218	25,216	100,216	216	—
	$ 218	$26,815	$101,016	$1,016	$800

Carling O'Keefe called the outstanding Series E 5½% debentures for redemption on April 1, 1986. The funds for the redemption, together with funds for the final payment for the Series D 5½% debentures, were deposited with the Trustee on March 31, 1986.

During 1985, Carling O'Keefe entered into bank loan arrangements for $125,000,000 of floating rate revolving credits. As at March 31, 1986 these credits mature in fiscal years 1988 ($25,000,000) and 1989 ($100,000,000) and may be extended. The average interest rate on borrowings was 9.8% during fiscal 1986, (1985–10.8%) and 10.6% at March 31, 1986, (1985–11.1%).

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

At March 31, 1985, an affiliated company owned $1,919,000 principal amount of the Company's outstanding Series A debentures.

9. Capital stock

Authorized:

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

Issued:	**1986**	1985
116,242 6.85% Cumulative Redeemable First Preferred shares, Series A (1985–123,753)	**$ 11,624**	$ 12,375
682,367 6⅝% Cumulative Redeemable Second Preferred shares	**13,647**	13,647
	25,271	26,022
5,510,684 Common shares	**27,349**	27,349
	$ 52,620	$ 53,371

Purchases:

During the year ended March 31, 1986, 7,511 First Preferred shares with a total carrying value of $751,000 were purchased for cancellation at a cost of $618,000 (1985–4,540 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, 1986, 3,758 shares of the 1986 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 71.2% of the Company's issued Common shares and 21.5% (1985–20.2%) of the issued Series A First Preferred shares.

10. Pensions

The Company and its subsidiaries maintain defined benefit pension plans for 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 $8,653,000 for the year ended March 31, 1986 (1985–$10,121,000), including $6,355,000 (1985–$7,649,000) for employees of Carling O'Keefe.

Based on recent independent actuarial valuations, the unfunded pension liability for Carling O'Keefe is estimated at $5,567,000. The unfunded liability, including a vested liability of $1,965,000, is being charged to operations generally over periods which approximate estimated service lives, as described in the summary of significant accounting policies.

11. Income taxes

The consolidated provision for income taxes, which included deferred taxes of $29,175,000 (1985—$10,083,000), has been determined as follows:

	1986	1985
Rothmans–		
Income taxes at basic rate of 50%	**$ 11,642**	$ 14,776
Incentives	**(2,765)**	(3,241)
Investment tax credits	**—**	(597)
Other, net	**170**	(525)
	9,047	10,413
Carling O'Keefe–		
Income taxes at basic rate of 51% (1985–50%)	**32**	8,349
Incentives	**(602)**	(1,254)
Investment tax credits	**—**	(4,626)
Alberta Royalty Tax Credit	**(1,610)**	(1,750)
Other, net	**1,188**	284
	(992)	1,003
Income taxes–consolidated statement of earnings	**$ 8,055**	$ 11,416
Effective income tax rate	**34.5%**	24.7%

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

Deferred income taxes primarily reflect timing differences between accounting and tax depreciation. In 1985, deferred income taxes included the effect of the provision for the compact bottle write-off.

12. 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 and agricultural products.

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, 1986:

	Rothmans	Carling O'Keefe	Total
Year ending March 31–			
1987	$1,766	$ 4,113	$ 5,879
1988	1,682	3,186	4,868
1989	1,644	2,631	4,275
1990	1,630	2,373	4,003
1991	486	1,821	2,307
Years subsequent to March 31, 1991	876	5,129	6,005
	$8,084	$19,253	$27,337

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

13. Company name change and reorganization

Effective September 30, 1985, the name of the Company was changed from Rothmans of Pall Mall Canada Limited to Rothmans Inc., and the tobacco business and all the related assets and liabilities were transferred to a wholly-owned subsidiary company Rothmans of Pall Mall Limited.

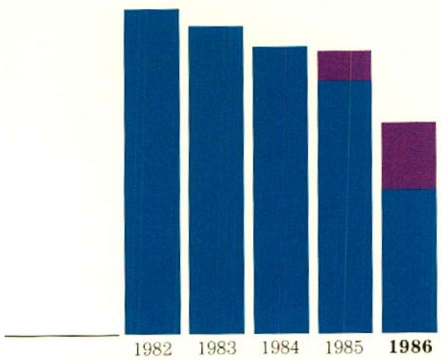
14. Extraordinary items

	1986	1985
Rothmans–		
Rationalization costs less income taxes of $10,070 (1985–$1,295)	**$ (10,784)**	$ (1,705)
Gain on sale of non-strategic assets less income taxes of $2,778	**6,286**	—
	(4,498)	(1,705)
Carling O'Keefe–		
Unamortized cost of shares of subsidiary companies in excess of underlying net tangible asset values at acquisition written off due to permanent impairment of the value of the company's investments less minority interest of $10,342	**$ (10,392)**	$ —
	$ (14,890)	$ (1,705)

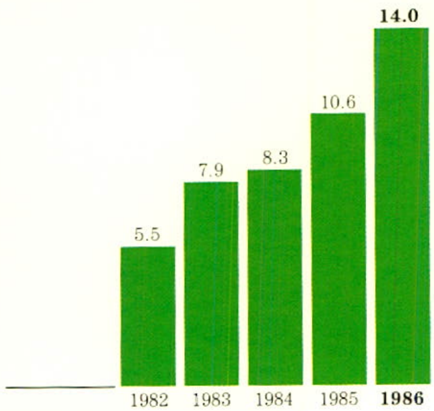
Rationalization costs include costs and provisions arising from the staff reduction programme and the write-down of certain assets relating to the discontinuance of cigarette production at the Company's Toronto plant.

Rothmans of Pall Mall Limited
Earnings ($ millions)

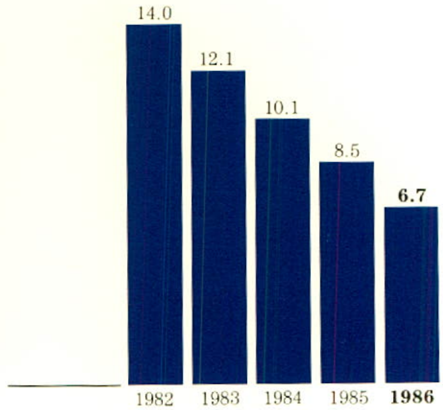
Earnings before extraordinary items	22.2	21.0	19.6	19.1	**14.2**
Net earnings	22.2	21.0	19.6	17.4	**9.7**



Rothmans of Pall Mall Limited
Capital expenditures ($ millions)



Rothmans of Pall Mall Limited
Debt to capital (%)



Financial Review

Earnings

Earnings before extraordinary items for Rothmans of Pall Mall declined by 25.6 percent to $14.2 million in fiscal 1986. The reduction in earnings was due to reduced sales, net of federal excise and sales taxes, and to lower profit margins resulting mainly from the launching of a new product, initially at a value price–the NUMBER 7 30-cigarette packages for the price of 25. Earnings before extraordinary items and income tax based on net sales declined to 9.0 percent from 11.0 percent.

Extraordinary items totalling $4.5 million after tax reduced earnings to $9.7 million, compared with a $1.7 million reduction to $17.4 million the previous year. Earnings for 1985 were restated, to include costs related to employment rationalization as an extraordinary item. Extraordinary costs in fiscal 1986 included $10.8 million after tax related to actual and anticipated rationalization and consolidation costs minus gains amounting to $6.3 million after tax from the sale of non-strategic assets, including properties in Toronto and Ottawa.

The costs of rationalization and consolidation are expected to be recovered through savings in salaries, benefits, and other operation expenses within two years.

Capital Expenditures

During fiscal 1986, the Company spent $14.0 million on capital of which $12.2 million was on cigarette machinery and equipment at the Quebec City plant. Cigarette manufacturing will be consolidated in Quebec later this year.

As part of a programme begun in 1979 to make the Quebec cigarette manufacturing plant one of the most efficient worldwide, the Company this past year installed leaf equipment and packing machinery. The leaf equipment enables the Company to reduce the cost per cigarette while at the same time enhancing the quality. In addition, new Focke high-speed packing equipment significantly improved capacity and efficiencies. As well, some existing packers were modified for the new 30-cigarette package at the Quebec plant.

The continuation of the programme to be a world class cigarette manufacturer together with investments related to the consolidation at the Quebec City plant will amount to approximately $12 million in fiscal 1987.

Financial Position

Long-term debt as a percentage of capital was reduced to 6.7 percent at the end of fiscal 1986 from 8.5 percent a year earlier. For this calculation, capital includes shareholders' equity plus long-term debt. Long-term debt declined to $11.2 million from $14.3 million due to the retirement of sinking fund debentures.

Bank and other short-term indebtedness declined to $24.9 million from $53.2 million, mainly as a result of reduced tobacco leaf inventories. At year end, outstanding leaf purchase commitments amounted to approximately $19 million. Total inventories of $145.3 million were down by $35 million from the previous year, mainly reflecting the lower leaf inventories.

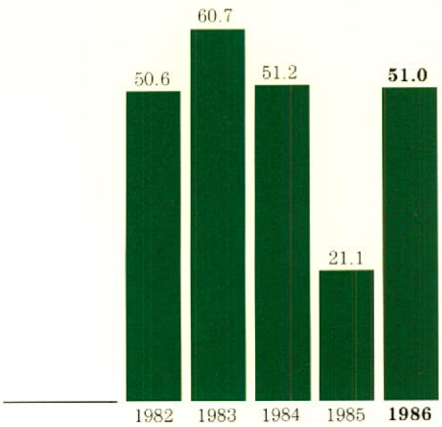
Within current liabilities, accounts payable increased to $26.5 million from $19.2 million. This increase reflects in excess of $10 million provided for extraordinary charges.

Summarized Financial Information

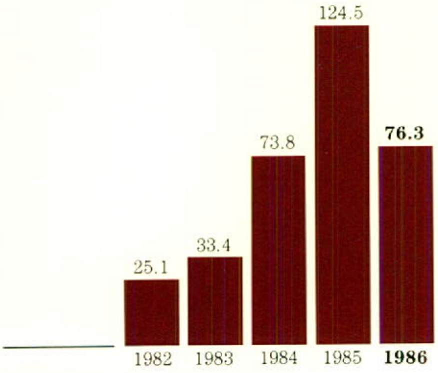
Year ended March 31	**1986**	1985
		in thousands
Sales	**$646,880**	$ 558,343
Excise and sales taxes	**387,269**	288,497
Sales net of excise and sales taxes	**259,611**	269,846
Costs–		
Raw materials and manufacturing	**150,282**	153,426
Marketing and distribution	**63,882**	64,149
Administrative and general	**20,625**	20,615
Interest	**1,539**	2,104
	236,328	240,294
Earnings before income taxes and extraordinary items	**23,283**	29,552
Earnings before extraordinary items	**14,236**	19,139
Earnings for the year	**$ 9,738**	$ 17,434
Cash provided by (used for):		
Earnings adjusted for non-cash items	**$ 22,374**	$ 25,234
Extraordinary items	**7,968**	—
Decrease (increase) in operating working capital	**36,939**	(32,346)
Disposal of property, plant and equipment	**273**	786
Additions to property, plant and equipment	**(13,965)**	(10,569)
Dividends	**(10,547)**	(10,577)
Other items, net	**2,184**	3,166
Decrease (increase) in short-term indebtedness	**$ 45,226**	$ (24,306)

At March 31		
Short-term investments	**$ 17,000**	$ —
Accounts receivable	**33,782**	34,992
Inventories	**145,307**	180,787
Property, plant and equipment, net	**46,519**	47,032
All other assets	**1,887**	2,645
Total assets	**$244,495**	$ 265,456
Bank and other short-term indebtedness	**$ 24,925**	$ 53,151
Accounts payable	**26,532**	19,227
Income, excise, sales and other taxes	**20,278**	16,315
Long-term debt	**11,199**	14,288
Total liabilities	**$ 82,934**	$ 102,981

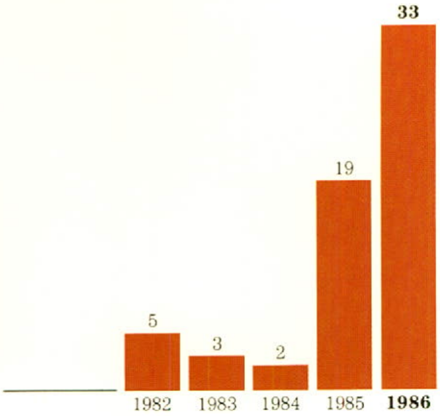
Carling O'Keefe Limited
Working capital ($ millions)



Carling O'Keefe Limited
Capital expenditures ($ millions)



Carling O'Keefe Limited
Debt to capital (%)



Financial Review

Working Capital

Working capital for Carling O'Keefe increased to $51.0 million in fiscal 1986, compared with an average $45.9 million for the previous four years. The increase from $21.1 million in fiscal 1985 mainly reflected a $25.5 million increase in inventories to $122.8 million, due primarily to the new distinctive private mould bottles. At the same time, accounts payable and accrued liabilities declined $16.5 million to $85.0 million.

Capital Expenditures

The Company's beer subsidiary in fiscal 1986 completed a substantial capital expansion programme that began in 1984 following a sharp increase in beer market share. That programme makes the Company the most modern and potentially the most efficient and responsive to product change in the industry. However, the decline in industry sales volumes due to work stoppages and in the Company's market share since expansion began, has resulted in current excess capacity.

Breweries in Vancouver, Calgary and Toronto were expanded and modernized. In addition, state-of-the-art canning equipment was installed in six of the seven plants.

Financial Position

Long-term debt as a percentage of capital increased to 33 percent, compared with 19 percent in 1985 and much lower levels in prior years. Carling O'Keefe's term bank loans increased to $125 million from $62 million, to finance the completion of the significant expansion and modernization programme at its beer subsidiary.

Bank and other short-term indebtedness increased to $34.6 million from $3.1 million the previous year. Additional borrowings were required to finance inventories of new distinctive private mould bottles. Inventories overall increased 26 percent to $122.8 million, of which $40.8 million includes returnable private mould bottles to replace the compact bottles which had been written off in 1985.

Summarized Financial Information

Year ended March 31	**1986**	1985
		in thousands
Sales	**$912,653**	$ 914,556
Excise and sales taxes	**323,209**	327,369
Sales net of excise and sales taxes	**589,444**	587,187
Costs–		
Raw materials and manufacturing	**305,763**	304,196
Marketing and distribution	**229,440**	228,007
Administrative and general	**45,692**	39,602
Interest	**12,165**	2,285
	593,060	574,090
Earnings before income taxes and extraordinary item	**62**	16,697
Earnings before extraordinary item	**1,054**	15,694
Earnings (loss) for the year	**$ (19,680)**	$ 15,694

Cash provided by (used for):		
Earnings adjusted for non-cash items	**$ 53,534**	$ 44,216
Decrease (increase) in operating working capital	**(57,802)**	19,779
Disposal of assets	**1,742**	1,672
Additions to property, plant and equipment	**(76,288)**	(124,457)
Increase in long term liabilities	**59,786**	60,074
Dividends	**(12,442)**	(12,022)
Other items, net	**(254)**	1,277
Decrease in net cash	**$ (31,724)**	$ (9,461)

At March 31		
Accounts receivable	**$ 52,405**	$ 48,566
Inventories	**122,759**	97,273
Property, plant and equipment, net	**398,661**	347,588
All other assets	**57,654**	61,463
Total assets	**$631,479**	$ 554,890
Bank and other short-term indebtedness	**$ 34,622**	$ 3,061
Accounts payable	**84,753**	99,912
Due to customers for returnable containers	**20,630**	21,532
Production and sales taxes	**19,572**	18,053
Dividends payable	**3,109**	3,113
Long-term liabilities	**128,248**	69,446
Total liabilities	**$290,934**	$ 215,117

Six-Year Financial Review

Year ended March 31	1986	1985	1984	1983	1982	1981
						in thousands
Operations						
Sales–						
Rothmans	**$ 646,880**	$ 558,343	$ 542,240	$ 512,213	$ 485,406	$ 461,491
Carling O'Keefe	**912,653**	914,556	948,466	784,227	644,133	537,348
	1,559,533	1,472,899	1,490,706	1,296,440	1,129,539	998,839
Excise and sales taxes	**710,478**	615,866	611,740	529,793	462,364	409,595
	849,055	857,033	878,966	766,647	667,175	589,244
Earnings–						
Earnings (loss) from operations–						
Rothmans	**14,236**	19,139	19,647	21,026	22,221	21,391
Carling O'Keefe, less minority interest	**(472)**	6,858	26,212	18,060	10,389	8,882
Earnings before extraordinary items	**13,764**	25,997	45,859	39,086	32,610	30,273
Extraordinary items, less income taxes and minority interest	**(14,890)**	(1,705)	—	—	—	5,263
Earnings (loss) for the year	**(1,126)**	24,292	45,859	39,086	32,610	35,536
Capital expenditures	**90,253**	135,026	82,103	41,340	30,610	35,109
Depreciation and depletion	**29,558**	23,727	17,446	23,264	17,032	15,303
Interest expense	**13,704**	4,389	3,331	7,273	9,460	8,019
Dividends paid–						
Preferred	**1,730**	1,760	1,798	1,835	1,861	1,894
Common	**8,817**	8,817	8,817	8,817	8,541	7,439
Financial Position at Year End						
Working capital	**$ 176,709**	$ 149,428	$ 174,520	$ 176,405	$ 157,624	$ 133,519
Property, plant and equipment, net	**445,180**	394,620	285,887	224,515	207,164	194,655
Total assets	**874,344**	818,166	675,387	616,475	565,535	503,854
Total interest-bearing debt	**195,746**	136,755	51,225	74,515	99,569	79,069
Shareholders' equity	**263,061**	272,511	259,629	226,017	197,744	175,846
Per Common Share						
Earnings (loss)–						
Before extraordinary items	**$ 2.18**	$ 4.40	$ 8.00	$ 6.76	$ 5.58	$ 5.15
For the year	**(0.52)**	4.09	8.00	6.76	5.58	6.11
Dividends paid	**1.60**	1.60	1.60	1.60	1.55	1.35
Shareholders' equity	**43.15**	44.71	42.29	36.10	30.91	26.82
Ratios						
Return before extraordinary items on average total capital employed (%)	**7.4**	8.1	17.2	14.3	13.3	12.9
Return before extraordinary items on shareholders' equity (%)	**5.1**	9.8	18.9	18.4	17.5	18.6
Working capital ratio	**1.76**	1.64	2.00	2.00	1.94	1.97
Long-term debt to shareholders' equity	**35:65**	24:76	8:92	12:88	15:85	18:82

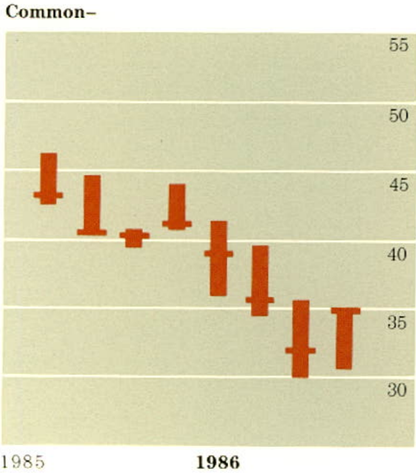
Quarterly Data

Quarter ended	June 30	Sept. 30	Dec. 31	Mar. 31	Total Before Extraordinary Items	Total for the Year
						in thousands
Consolidated Sales						
1986–Rothmans	**$ 142,022**	**$ 170,154**	**$ 188,577**	**$ 146,127**	**$ 646,880**	**$ 646,880**
Carling O'Keefe	**241,591**	**262,366**	**231,761**	**176,935**	**912,653**	**912,653**
	$ 383,613	**$ 432,520**	**$ 420,338**	**$ 323,062**	**$ 1,559,533**	**$ 1,559,533**
1985–Rothmans	$ 146,302	$ 144,509	$ 155,308	$ 112,224	$ 558,343	$ 558,343
Carling O'Keefe	263,909	262,741	223,082	164,824	914,556	914,556
	$ 410,211	$ 407,250	$ 378,390	$ 277,048	$ 1,472,899	$ 1,472,899
Consolidated Earnings (Loss)						
1986–Rothmans	**$ 3,288**	**$ 4,452**	**$ 5,113**	**$ 1,383**	**$ 14,236**	**$ 9,738**
Carling O'Keefe*	**353**	**992**	**1,093**	**(2,910)**	**(472)**	**(10,864)**
	$ 3,641	**$ 5,444**	**$ 6,206**	**$ (1,527)**	**$ 13,764**	**$ (1,126)**
1985–Rothmans	$ 4,600	$ 5,271	$ 6,502	$ 2,766	$ 19,139	$ 17,434
Carling O'Keefe*	7,005	5,760	(4,064)	(1,843)	6,858	6,858
	$ 11,605	$ 11,031	$ 2,438	$ 923	$ 25,997	$ 24,292
Per Common Share–						
1986	**$0.58**	**$0.91**	**$1.05**	**$(0.36)**	**$2.18**	**$(0.52)**
1985	$ 2.03	$ 1.92	$ 0.36	$ 0.09	$ 4.40	$ 4.09

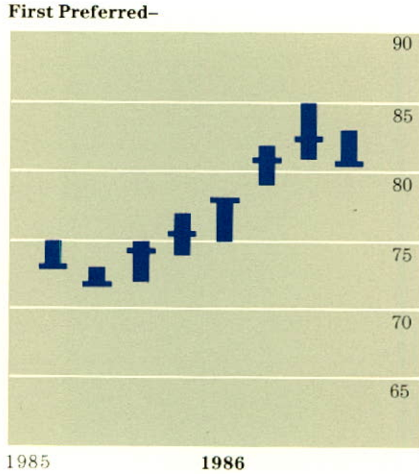
* after deducting minority interest.

Share Market Prices ($)

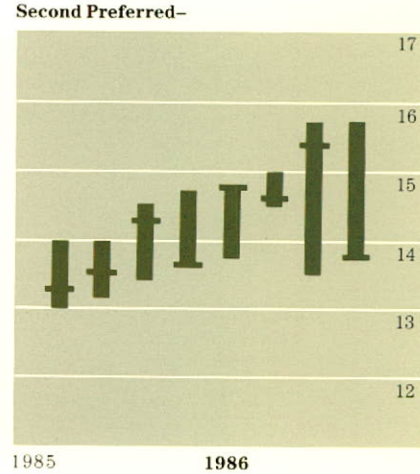
Common–



First Preferred–



Second Preferred–



Directors and Officers

Rothmans Inc.
Directors

The Honourable William M. Kelly
Chairman,
Rothmans Inc.
North York, Ontario

• **Patrick J. Fennell**
President and Chief Executive Officer
Rothmans Inc.
North York, Ontario

○▪• **René Amyot, Q.C.**
Counsel to Jolin, Fournier & Associates
Barristers and Solicitors
Sainte-Foy, Quebec

▪• **Douglas G. Bassett**
President and Chief Executive Officer
Baton Broadcasting Incorporated
Toronto, Ontario

Vernon A. Brink
Chief Executive Officer
Rothmans International p.l.c.
London, England

○ **Mona L. Campbell**
President
Dover Industries Limited
Toronto, Ontario

Sir Robert Crichton-Brown
Chairman
Rothmans International p.l.c.
London, England

S. Roderick McInnes, C.A.
Chairman, President and Chief Executive Officer
Carling O'Keefe Limited
Toronto, Ontario

▪ **John J. Wettlaufer, M.B.A., LL.D.**
Professor Emeritus
School of Business Administration
The University of Western Ontario, London, Ontario

Officers

The Honourable William M. Kelly
Chairman of the Board

Patrick J. Fennell
President and Chief Executive Officer

Robert W. Allan, C.A.
Vice President Finance

John J. Morrissey
Secretary

Brenda J. Moher
Assistant Secretary

▪ Audit Committee
○ Pension Investment Committee
• Human Resources and Compensation Committee

Rothmans of Pall Mall Limited
Officers

Patrick J. Fennell
Chairman, President and Chief Executive Officer

Robert W. Allan, C.A.
Vice President Finance and Public Affairs

Joseph J. Heffernan
Vice President Operations

Robert J. McCloskey
Vice President Marketing and Sales

John J. Morrissey
Vice President Human Resources and Administration and Secretary

Warren A. Brackmann
Vice President Research and Technical Development

John E. Broen
Vice President Marketing

Gordon R. White
Vice President Sales

Edward A. Crighton, C.A.
Director of Finance

Brenda J. Moher
Assistant Secretary

Corporate Data

Rothmans Inc.
Head Office:
1500 Don Mills Road
North York, Ontario M3B 3L1
(416) 449-5525

Transfer Agent and Registrar:
The Royal Trust Company
Vancouver, Edmonton, Regina,
Winnipeg, Toronto, Montreal, St. John,
Halifax, Charlottetown, St. John's

Solicitors:
Smith, Lyons, Torrance,
Stevenson & Mayer

For Shareholder Information, contact:
Robert W. Allan
Vice President Finance

Annual Meeting:
The Annual Meeting of Shareholders will be held in the Regency West Room of the Four Seasons Hotel 21 Avenue Road, Toronto, Ontario on July 16, 1986 at 11:00 a.m.

Rapport Annuel:
Si vous désirez recevoir ce rapport en français, veuillez vous adresser au Secrétaire général,
Rothmans Inc.
1500 Don Mills Road
North York, Ontario M3B 3L1.

Rothmans of Pall Mall Limited
Plant Locations:
Quebec City, Quebec
Toronto, Ontario

Sales Offices:
- Vancouver, British Columbia
- Calgary, Alberta
- Edmonton, Alberta
- Saskatoon, Saskatchewan
- Winnipeg, Manitoba
- Toronto, Ontario
- Burlington, Ontario
- Ottawa, Ontario
- Montreal, Quebec
- Sainte-Foy, Quebec
- Halifax, Nova Scotia
- St. John's, Newfoundland

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