

## **Contents**

1	Financial Highlights
2	To our Shareholders
6	Divisional Reports
6	Imperial Tobacco
10	Imasco USA
14	Shoppers Drug Mart
18	Peoples Drug Stores
22	Other Operations
22	The UCS Group
26	Involvement in the Community
28	Directors
30	Management's Discussion and Analysis
33	Management's Responsibility for Consolidated Financial Statements
33	Auditors' Report
35	Consolidated Financial Statements
38	Notes to the Consolidated Financial Statements
44	Selected Ten Year Financial Data
46	Divisional Statistical Highlights - Five year review
47	Quarterly Consolidated Financial Information
48	Officers
48	Divisional Information
50	Corporate Information

## **The Corporation**

Imasco Limited is a major Canadian consumer products and services corporation with operations in Canada and the United States.

Imperial Tobacco, Canada's largest tobacco company, manufactures and distributes tobacco products.

Imasco USA operates and licenses a system of 2,587 fast food restaurants, principally under the name Hardee's, in the United States and abroad.

Shoppers Drug Mart licenses and operates 434 pharmacies in Canada.

Peoples Drug Stores operates a chain of 832 drug stores in 15 states and the District of Columbia.

The UCS Group operates 464 tobacco and gift shops in Canada.

## **Head Office**

4 Westmount Square  
Montréal, Canada  
H3Z 2S8  
Telephone (514) 937 9111  
Telex 0524176  
Telecopier (514) 931 4651

## **Annual Meeting of Shareholders**

The Annual Meeting of Shareholders will be held June 25, 1986 at 10:30 at the Château Champlain Hotel, 1 Place du Canada, Montréal, Québec.

Si vous désirez recevoir le rapport annuel en français, veuillez communiquer avec

Le Secrétaire  
Imasco Limitée  
4, square Westmount  
Montréal, Canada  
H3Z 2S8



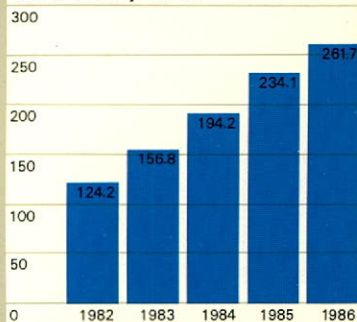
**McGill**  
**University**  
**Libraries**

**Howard Ross Library**  
**of Management**

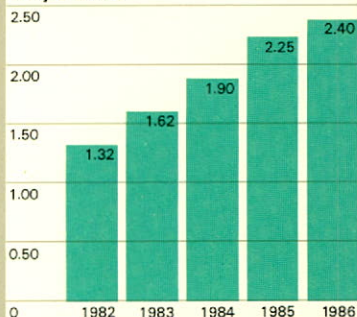


**Financial Highlights**  
For the years ended March 31

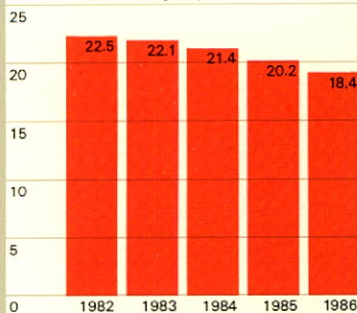
**Earnings before extraordinary items** (\$000,000)



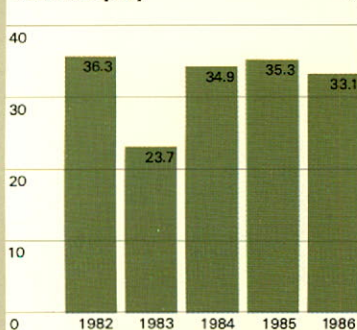
**Earnings per common share, fully diluted** (\$)



**Return on average shareholders' equity** %



**Debt to equity\*** %



\* Long term debt as a % of long term debt and tangible equity.

<b>Imasco Limited</b>	<b>1986</b>	<b>1985</b>	<b>1984</b>
	Thousands of dollars		
System-wide sales	<b>8,688,642</b>	7,346,472	5,382,021
Revenues	<b>5,325,134</b>	4,353,254	2,873,151
Operating earnings	<b>465,870</b>	432,032	339,608
Earnings before extraordinary items	<b>261,745</b>	234,108	194,172
Earnings per common share before extraordinary items			
basic	<b>\$2.40</b>	\$2.25	\$2.03
fully diluted	<b>\$2.40</b>	\$2.25	\$1.90
Dividends per common share	<b>\$0.75</b>	\$0.645	\$0.50
Working capital	<b>878,303</b>	708,204	419,586
Total assets	<b>2,986,644</b>	2,741,572	2,029,897
Shareholders' equity	<b>1,517,091</b>	1,325,781	988,021

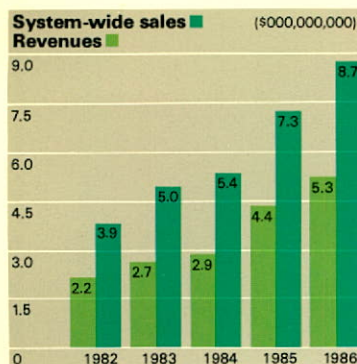
<b>Operating Divisions</b>	<b>1986</b>	<b>1985</b>	<b>1984</b>
	Thousands of dollars		
Tobacco – Imperial Tobacco			
Revenues	<b>1,769,776</b>	1,451,130	1,358,935
Operating earnings	<b>246,015</b>	224,024	205,209
Restaurant – Imasco USA			
Revenues	<b>1,508,710</b>	1,321,248	1,134,074
Operating earnings	<b>118,768</b>	108,289	92,259
Drug Store – Peoples Drug Stores			
Revenues	<b>1,831,271</b>	1,359,261	–
Operating earnings	<b>46,444</b>	55,307	–
Drug Store – Shoppers Drug Mart			
Revenues	<b>78,360</b>	66,146	60,707
Operating earnings	<b>46,555</b>	38,283	32,632

Howard Ross Library  
of Management

DED - 6 1993

Annual Report  
McGILL UNIVERSITY





During the fiscal year just completed Imasco Limited was again able to achieve continued success. This occurred in an environment of increased competition in many of our business sectors and in a climate of more moderate economic growth. Sales and earnings increased, and the quarterly dividend on common shares was raised.

Consolidated net earnings were \$261.7 million, an increase of 12% over the \$234.1 million earned in fiscal 1985. Net earnings per common share were \$2.40 compared with \$2.25 last year. Growth in earnings per share on a fully diluted basis for fiscal 1986 was 7%, and for the five-year period ended in fiscal 1986 represented a compound annual growth of 18%. Net earnings over the five-year period increased at a compound annual rate of 24%. Dividends over the same period grew to 75 cents per share, a compound growth rate of 20%. System-wide sales for fiscal 1986 were \$8.7 billion, representing an increase of 18% over the \$7.3 billion in 1985. Revenues increased 22% from \$4.4 billion in fiscal 1985 to \$5.3 billion in 1986. These results were due in large part to the continued growth of the major business segments of Imasco Limited. The following remarks review the performance of each division.

### Imperial Tobacco

The past year proved to be an exciting and challenging one for Imperial Tobacco. Excessive cigarette taxation continued to be the industry's major problem in fiscal 1986. Substantial increases in taxes at both the federal and provincial levels resulted in a further slowing of unit sales. Although the federal government eliminated the indexation of taxes, they replaced it with an excise tax increase of 25 cents per pack of 25 in May 1985 and

followed that with a further increase of 4.5 cents per pack of 25 in February of this year. The province of Québec also increased tobacco taxes by 25 cents per pack of 25 in April 1985 and subsequently added another 23 cents per pack of 25 in February 1986.

Despite these higher levels of taxation and the resultant effect on industry volume, Imperial Tobacco was able to continue its growth in fiscal 1986. Revenues were \$1.8 billion, an increase of 22%, while operating earnings were \$246 million, an increase of 10% over the prior year. Imperial Tobacco's share of the cigarette market increased for the eleventh consecutive year to 52.9%, an increase of 1.6 share points over last year.

As a result of the challenges facing the tobacco industry, principally the spiralling of prices caused by taxation, and the consequent reduction in unit shipments, several manufacturers began offering cigarettes at cut prices. A competitor introduced a new package of 30 cigarettes for the price of 25 in the middle of the fiscal year. Imperial Tobacco conducted a test on the Peter Jackson brand during the third quarter to assess its potential in this new off-price market segment. The success of this promotion led us to reintroduce Peter Jackson at a lower price in February of this year. This programme was further extended in early April to position Peter Jackson in the principal segments of the cigarette market, i.e. menthol, extra light, light and regular. While this marketing programme has been successful and has increased Peter Jackson's market share, the cost to Imperial Tobacco may be heavy and will result in lower operating margins.

In order to continue to improve productivity, several pro-

grammes were undertaken in fiscal 1986. The company continued its programme to reduce its labour force in conjunction with the plant modernization programme and in light of the lower sales volume. During the year 171 employees took advantage of the company's voluntary separation programme.

We believe the company is well positioned to maintain its leadership. Imperial Tobacco has the resources to enable it to lead the tobacco industry in the development of new products and the implementation of effective marketing and productivity programmes.

### Imasco USA

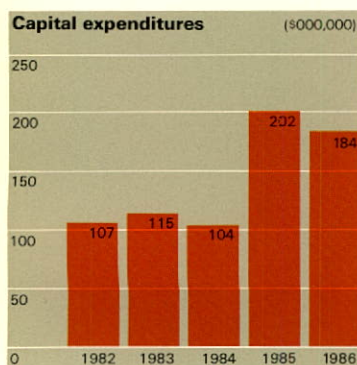
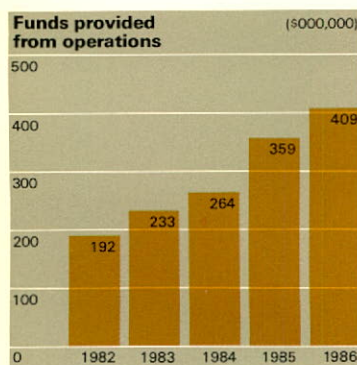
Imasco USA, through its principal operating subsidiary, Hardee's Food Systems, Inc., had an improved year in fiscal 1986. Revenues increased 14% from \$1.3 billion in fiscal 1985 to \$1.5 billion in fiscal 1986. Operating earnings of \$118.8 million represented a 10% increase over fiscal 1985's \$108.3 million. Hardee's performance was especially encouraging given the relative softness in the U.S. economy and the slowing rate of growth of the food service industry. Hardee's growth in revenues and earnings continued to place it in a leadership position within the industry. During the year Hardee's extended its product line into new areas, launched a new national advertising campaign and introduced its new 1/4 pound hamburger.

Fast Food Merchandisers, Inc., Imasco USA's food manufacturing and distribution arm, showed much improved results in fiscal 1986. The Monterey, Tennessee plant, which incurred heavy start up costs in fiscal 1985, is now performing at expected levels of production and results there improved significantly over last year.









Hardee's will continue to pursue its advertising and promotional programmes in fiscal 1987. Close attention will be given to improving sales during the lunch and dinner periods through the intensive marketing of its new 1/4 pound hamburger line. This new hamburger is juicier and thicker than those of Hardee's competitors. It is the result of a new and revolutionary manufacturing process developed by Fast Food Merchandisers. Hardee's advertising in fiscal 1987 will emphasize the attributes of quality, juiciness and taste of this new hamburger, and will continue to help position Hardee's as a leading fast food restaurant in the U.S.

In order to continue to advance within this highly competitive industry, Hardee's is also undertaking a major renovation programme to remodel a minimum of 150 restaurants during the year. This \$40 million programme will supplement the opening of new units. As a result of these programmes and the renewed spirit of Hardee's, we are confident that Imasco USA and Hardee's will show above-average growth in sales and profits in fiscal 1987 and the years ahead.

### Shoppers Drug Mart

Shoppers Drug Mart experienced an outstanding year in fiscal 1986, particularly in light of the many changes and increased competition in the drug store industry in Canada. The division was able to achieve a 15% increase in system-wide sales from \$1.4 billion to \$1.6 billion. Revenues increased 18% to \$78.4 million. Operating earnings increased 22% to \$46.6 million in fiscal 1986.

Shoppers Drug Mart continued to face stiff competition from combo stores and other drug retailers, but despite this, compa-

rable stores' sales increased 12% in fiscal 1986. This was a result of its realigned marketing strategies and pricing in all its markets to meet the competition. Store development during fiscal 1986 continued at a faster pace over that of prior years with the opening or acquisition of 23 drug stores in Canada. During fiscal 1986 Shoppers continued to open larger, off-price drug stores under the Howie's and Pharmaprix Carnival trademarks. During the year six stores of this type were opened. Shoppers Drug Mart also began testing its Food Basket concept, a small convenience food section as part of a traditional Shoppers Drug Mart store. There are now three drug stores which have convenience food sections.

During the year Shoppers experienced continued growth in all its divisions. The growth achieved in Québec was particularly encouraging.

Shoppers Drug Mart will face the challenges of direct competition from the combo stores and other drug store retailers, and potential legislation that will restrict its pricing flexibility and, consequently, the potential profit of its pharmacy operations. However, the division is well positioned to meet these challenges and will continue to grow in fiscal 1987.

### Peoples Drug Stores

Results of Peoples Drug Stores for fiscal 1986 were well below the objectives set by its management team. Coming after the excellent year in fiscal 1985, results for 1986 were disappointing. They reflect the problems attendant upon the opening of the new warehouse and distribution centre in Fredericksburg, Virginia, and the competitive environment in the mid-Atlantic region.

These operational problems, coupled with generally slower growth in the retail drug store industry in the U.S. resulted in lower profits and lower margins for Peoples in fiscal 1986. Revenues were \$1.8 billion compared with \$1.4 billion in fiscal 1985 and represented an increase of 35%. Operating earnings, however, declined 16% to \$46.4 million. Rea and Derick, a 134-store group based primarily in Pennsylvania, was successfully integrated into the chain as were the Shoppers Drug Mart stores in Florida. During the year Peoples opened 44 drug stores, bringing the total number of stores to 832.

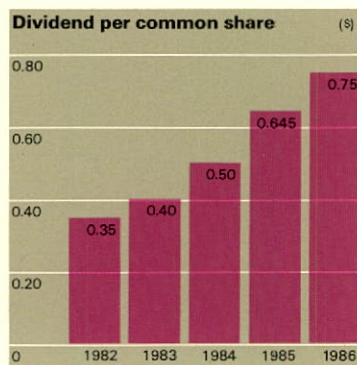
During fiscal 1987 Peoples will continue to emphasize its strategy of market leadership. Health orientation sets Peoples apart from most other U.S. drug store retailers, and this emphasis will continue. Peoples will expand its optical operations and increase its growth and development of traditional free-standing drug stores.

Despite the difficulties experienced in bringing the Fredericksburg facility into full operation during this past year, Peoples' management is confident that the operational problems are being solved.

Peoples considers that 1987 will be a year of reestablishment of the chain as one of the faster growing regional drug store chains in the United States. The outlook for fiscal 1987 is one of gradual but steady improvement in sales and earnings during the course of the year.

### The UCS Group

The UCS Group, with 464 retail outlets in Canada continued to show improvement in its sales and earnings during the course of fiscal 1986. Sales of \$191 million represented an increase of





9% over sales of \$176 million in fiscal 1985. Operating earnings increased 57% from \$4.0 million to \$6.3 million. The UCS Group progressed towards its objective of being the strong leader in the retail convenience tobacco store industry. During fiscal 1986, 28 new stores were opened.

### **Genstar Corporation**

In March Imasco Limited announced its intention to acquire all of the outstanding common shares of Genstar Corporation. As of April 30, 1986 the Corporation had purchased at \$58 a share 31,266,133 common shares of Genstar which, together with the shares already owned and those which Imasco has the right to acquire, comprised 86% of all Genstar common shares on a fully diluted basis. This is a major acquisition for Imasco and it provides a basis on which the Corporation can achieve strong future growth in sales and earnings. The acquisition of Genstar, particularly the financial services group, provides a strong fourth leg on which Imasco can continue to broaden its trading base to achieve its objectives of above-average growth in earnings and return to shareholders.

The Corporation does not intend to keep all of the non-financial operations of Genstar. Through selective disposition of these assets, the Corporation's balance sheet will be improved in the coming year.

### **Dividends**

On January 29, 1986 the Board of Directors increased the quarterly dividend on the common shares by three cents a share to 21 cents, or 84 cents annually.

This is the twelfth consecutive year that Imasco has increased its dividends. The Corporation has paid dividends every year since its establishment in 1912.

### **Board of Directors**

At the meeting of the Board of Directors on May 1, 1986, the number of directors of the Corporation was decreased from 15 to 13. Messrs. Yves Hudon and L. Edmond Ricard will not stand for reelection at the Annual Meeting of Shareholders in June.

Mr. Hudon, a director since 1980, leaves to take up other interests.

Mr. Ricard became a director in 1969 but was for a long time president of Imperial Tobacco. He became president and chief operating officer of Imasco in 1979. He filled these operating roles with distinction and he will be much missed by his colleagues. He leaves in accordance with the retirement policy covering executive directors.

Both Mr. Ricard and Mr. Hudon brought their unique experience and skills to the deliberations of the Board and the management of the Corporation. On behalf of the shareholders we thank them for their invaluable contribution to the prosperity of the Corporation.

### **Management**

On July 1, Purdy Crawford will become president and chief executive officer. Paul Paré will relinquish the position of chief executive officer but will remain chairman of the board. These changes are being made in anticipation of Mr. Paré's retirement in the spring of 1987.

### **Investment Canada**

In September 1985 the Corporation received notice from Investment Canada that it is deemed to be a Canadian for the purposes of making any investment in Canada except one related to Canada's cultural heritage or national identity.

### **Outlook**

We are encouraged about our prospects for fiscal 1987 in light of the addition of Canada Trust and Genstar to the Imasco family and the continued growth expected in most of our major business segments. We expect a challenging year for Imperial Tobacco but we are confident it will continue to improve its position in the industry.

We thank our shareholders, employees and associates for their support this past year, and we look forward to their support for our continued success in the future.

On behalf of the Board of Directors



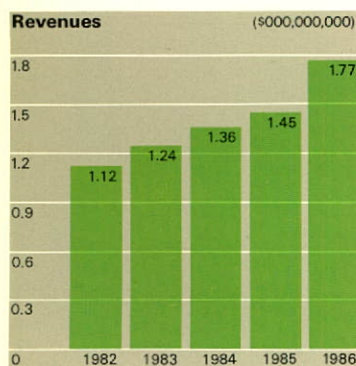
Paul Paré, Chairman  
and Chief Executive Officer



Purdy Crawford, President  
and Chief Operating Officer

Montréal, May 1, 1986





Imperial Tobacco experienced turbulent times in fiscal 1986. Renewed excessive taxation of tobacco products, fierce competition that brought about unprecedented price discounting in the cigarette industry, and a decline in Canadian cigarette industry sales for a third consecutive year are but some of the developments that challenged Imperial Tobacco.

Despite these circumstances, the company was able to achieve results that testify to its reputation for excellence and leadership. The company increased its share of the Canadian cigarette market for the eleventh consecutive year, further improved its productivity, launched a number of promising new brands and registered record operating earnings.

#### Industry cigarette sales

Total industry cigarette sales declined 5.5% in fiscal 1986, to 57.9 billion cigarettes. Mostly responsible for this decline were two consecutive tax increases of 25 cents a pack each by the Québec and federal governments.

In last year's annual report the company mentioned that the federal government had agreed to modify its tobacco tax structure. Unfortunately, with the advent of a new government in Ottawa, the decision of the previous administration was reversed in May 1985 when the federal finance minister abolished indexation of the cigarette tax and raised it a full 45%.

Imperial Tobacco and other Canadian cigarette manufacturers, together with other partners in the industry, have renewed their efforts to convince federal and provincial finance ministers that current tobacco taxation policies are detrimental to the Canadian economy.

Imperial Tobacco is determined to continue its representations to governments until such time as the tax burden of Canadian smokers is placed on a more equitable basis.

#### Imperial Tobacco sales

Imperial Tobacco's performance was remarkable in a declining industry. In fiscal 1986, cigarette sales totalled 30.7 billion cigarettes, down 2.5% from the previous year's sales of 31.4 billion cigarettes. As a result of this better-than-industry performance, Imperial Tobacco's market share grew from 51.3% in fiscal 1985 to its current level of 52.9%, an increase of 1.6 share points.

Imperial Tobacco's strong market position is a result of the continued positive performance of its major trademarks.

The Player's family of brands, for example, continues to be the most popular, accounting for 22.8% of all cigarettes sold in Canada. The Player's family offers a wide selection of brand options for varied consumer needs and preferences under the popular trademark that has become a synonym for quality in cigarettes.

The du Maurier trademark is the second most popular in the country. With the recent launch of Avanti Slims cigarettes under the du Maurier banner, this family now accounts for 18.2% of the total Canadian cigarette market.

Matinée continues to rank third among Imperial Tobacco's family of brands. With a share of market of 6%, it ranks sixth among all Canadian cigarette trademarks.

To meet the changing needs and desires of Canada's seven million smokers, Imperial Tobacco

made a number of additions to its list of cigarette brands in fiscal 1986. Du Maurier Special Mild, regular length, John Player Special, regular and 100mm length, and new Matinée Slims packages were introduced.

Imperial Tobacco continues to be involved in a programme of world class professional sports events, in support of its cigarette marketing objectives. This year, the company became involved in a major, new sponsorship, the du Maurier Tour of Canada's Royal Winnipeg Ballet. Under du Maurier's patronage, the Royal Winnipeg Ballet was able to undertake a cross-Canada tour which comprised some 66 performances in 25 major and medium-sized Canadian cities. Finally, du Maurier also associated itself with two other major cultural activities in Montréal, the exhibitions "Pablo Picasso: Meeting in Montréal" and "Ramsès II and his times".

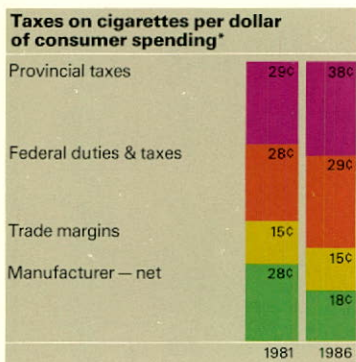
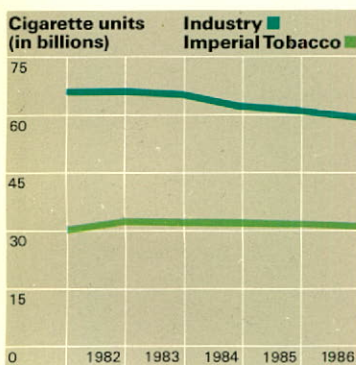
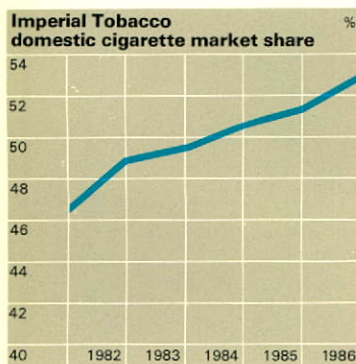
Sales of Imperial Tobacco fine cut tobacco for roll-your-own cigarettes totalled 3.2 million kilograms in fiscal 1986, an increase of 23% over the previous year. During the same period industry sales of fine cut tobacco increased by 19%, a result of the high cost of tailor-made cigarettes. Imperial Tobacco's share of this market grew by 1.5 share points, to 45.1%.

Sales of large cigars declined 18% to 37 million units in fiscal 1986. Imperial Tobacco implemented a rationalization programme of its large-cigar operation in the face of the continuing decrease in demand for these products and discontinued several marginal brand sizes. The company has now focused its marketing efforts on the more promising small-cigar segment of the market. Imperial Tobacco's volume of small-cigar sales grew by 5% to 237 million









cigars, reversing a prolonged sales decline.

Imperial Tobacco registered impressive results in the duty free and export markets. In fiscal 1986, volume rose to 400 million cigarettes, an increase of 22% over the previous year. This segment of the market covers sales to duty free airport shops, border stores, airlines, diplomats, ships stores, and exports to areas where Canadians congregate while on vacation such as Florida, Hawaii and the Caribbean Islands.

### Price discounting

One of the major developments of fiscal 1986 was the introduction by two of Imperial Tobacco's competitors of established trademarks in packages of 30 cigarettes for the price of 25.

Imperial Tobacco first responded in October 1985 by offering a discount of \$4 a carton on its Peter Jackson cigarettes for a limited period in three major markets: Québec, Ontario and British Columbia. After this special offer came to an end in December, the company assessed the results. Convinced that this type of offer was most likely to protect its share of market, the company in February 1986 reintroduced Peter Jackson cigarettes at a reduction of \$4 a carton. This offer was made nationally, for an indefinite period, and with a full range of brand options.

The costs involved can be expected to be considerable. Imperial Tobacco is convinced, however, that it must be ready to protect and increase its share of the Canadian cigarette market, a leadership position it took some 10 years of effort and investment to achieve. Imperial Tobacco is prepared to compete on any terms, and for any length of time.

### Human resources

In fiscal 1986, Imperial Tobacco continued its long term commitment to productivity growth. To maximize the utilization of human and technical resources, it pursued its assessment of activities and personnel requirements. During the past year, Imperial Tobacco introduced a voluntary employee reduction programme directed primarily to employees in the Montréal and Joliette plants. A combination of cash incentives and enhanced early retirement attracted 171 employees from the two plants.

The collective agreement covering 400 seasonal employees represented by the Energy and Chemical Workers' Union at Imperial Leaf Tobacco's processing plant in Aylmer, Ontario expired on October 31, 1985. A new two-year agreement expiring in 1987 was ratified by employees in November 1985.

Five collective agreements with the Bakery, Confectionery and Tobacco Workers' International Union, covering approximately 1,700 employees in Guelph, Montréal, Québec City and Joliette, expired on April 14, 1986. Negotiations are currently in progress and the company expects to reach a satisfactory settlement early in fiscal 1987.

The company is proud of the dedication, talent, and spirit of its personnel. Considerable efforts will be required by all in the months ahead, but the company is confident that it can depend on its employees.

### Imperial Leaf Tobacco

The 1985 Canadian flue-cured tobacco crop is projected at 191 million pounds, a slight drop from the 1984 crop of 194 million pounds. The 1985 guaranteed minimum price was set at

\$1.765 per pound, up from \$1.70 per pound in 1984.

Imperial Leaf Tobacco expects to purchase 67 million pounds, of which 12.3 million pounds are destined for export.

The crop is of better than average quality and minimum grade prices have been reduced by 14.3%, compared with those of the 1984 crop, making the 1985 crop more competitive on world markets.

### Senior appointments

In fiscal 1986, Jean-Louis Mercier, chief executive officer, was appointed chairman and Wilmat Tennyson, formerly executive vice-president, marketing, became president and chief operating officer. Don Brown, formerly national sales director, succeeded Wilmat Tennyson as vice-president, marketing.

### Outlook

After the last Québec tobacco tax increase of 23 cents per pack of 25 cigarettes, there is no doubt that the short and medium term fate of the industry is very much related to the level of taxation of tobacco products.

Continued excessive tax increases, as legislated by the federal and provincial governments over the last four years, have a negative impact on total industry volume.

Imperial Tobacco's decision to enter the price war with its Peter Jackson brand will have some negative impact on short term profitability. However, it should protect and increase its market share and secure its leadership.

\*For the Province of Québec calculated for March 31st of each year.



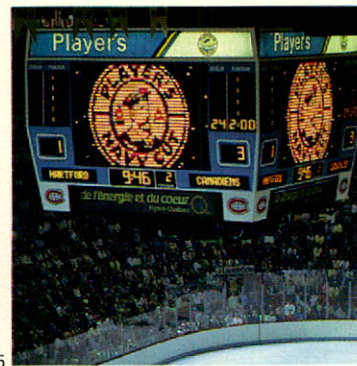
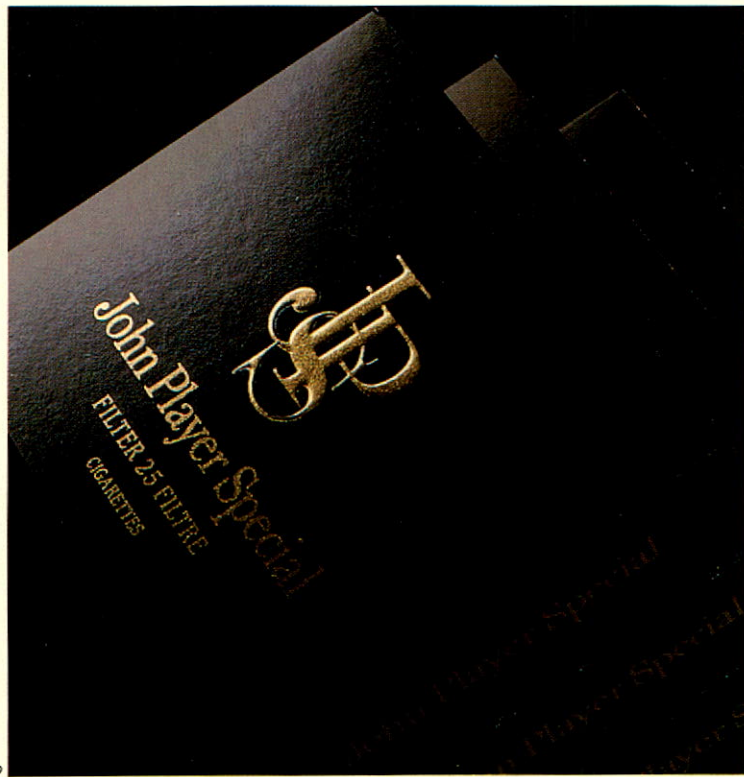
1 Wilmot Tennyson, president and chief operating officer, Jean-Louis Mercier, chairman and chief executive officer, and Donald Brown, vice-president, marketing, Imperial Tobacco.

2 Classic packaging reflects the quality of John Player Special cigarettes.

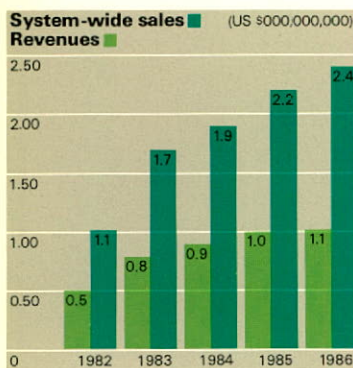
3 Peter Jackson, with a full selection of options for the smoker, leads the off-price cigarette market segment.

4 du Maurier Special Mild now available in regular size.

5 New Player's sportstimer at the Forum in Montréal.







In a year in which the food service industry experienced modest growth, Imasco USA, Inc. demonstrated growth that was equal to or better than the fast service restaurant segment in which the company operates. Moderate growth in the U.S. economy together with low inflation rates and increased purchases of consumer goods were primarily responsible for a lacklustre performance by the fast service restaurant segment during fiscal 1986.

For fiscal 1986 Imasco USA's system-wide sales were \$3.4 billion. Total capital spending amounted to \$87.3 million for the year.

#### Hardee's Food Systems

Hardee's Food Systems, the principal operating division of Imasco USA, operates and franchises 2,562 quick service restaurants. Of these 875 are owned by the company and 1,687 are operated under licence agreement by franchisees. Hardee's restaurants are located in 40 states, principally in the southeastern, midwestern and mid-Atlantic regions of the United States and in several other countries. During the past fiscal year, Hardee's opened 28 company-owned restaurants and 238 franchised restaurants, and remodelled 40 existing company-owned restaurants. Fiscal 1987 plans call for the addition of 57 company-owned and 208 franchised restaurants. The company plans to accelerate its remodelling programme and will upgrade 150 company-owned restaurants to enhance their quality image to increase market share. Hardee's currently ranks fourth in revenue among all hamburger restaurant chains and fifth among all fast food chains in the United States.

Hardee's continues to maintain a company ownership base of

approximately one-third of all restaurants, highest among the leaders of the hamburger, fast food industry. Average unit volumes were US \$803,000 in fiscal 1986, a slight increase over fiscal 1985.

A number of important factors influenced Hardee's restaurants in fiscal 1986. Hardee's introduction of a uniquely formulated 1/4 pound hamburger and the adjustment of the company's overall image were both undertaken in response to consumer preferences determined through research. In addition, quality, service and cleanliness incentive programmes for restaurant staff were introduced to enhance the customer's in-store experience.

The new 1/4 pound hamburger patty was introduced after eight years of research and testing, and consumer response has been excellent. Fast food customers have long expressed a desire for a thicker, juicier product that mirrored the attributes of a homemade hamburger. Hardee's new patty delivers just that and has been independently judged to be the thickest and juiciest 1/4 pound hamburger available from any major fast-food restaurant chain. It is now available in the Hardee's "Big Deluxe", "Bacon Cheeseburger", and new 1/4 pound Cheeseburger sandwiches. New processing equipment was developed by Fast Food Merchandisers to produce this unique six-sided patty. Much of the success of the new product is due to the fact that it can be uniformly mass-produced with excellent quality control using this new equipment. In addition, a new cooking method in the restaurants was developed for the patty which enhances its thicker, juicier qualities. To prepare the product under optimum cooking conditions, new cooking grills are being installed system-wide. This capital expenditure of \$11.5

million in fiscal 1986 by the company represents the single largest expenditure by the system for a new product in Hardee's history.

Breakfast remains a strong part of Hardee's day as consumers continue to respond to "made from scratch" biscuits with fresh ingredients and other quality products on the menu. More people are working and more women are in the workforce, both factors contributing to the current upward trend in breakfast sales industry-wide. Life-styles and traditional marketing indices are being studied to obtain a better picture of the target market. Listening to and understanding the consumer will hold the key to future success for Hardee's.

To complement the new and improved products in the restaurants, Hardee's introduced new staff uniforms and a new packaging design. Chosen to give Hardee's restaurants a brighter, more contemporary look, the new designs emphasize white with highlights of yellows, oranges and browns.

In fiscal 1986, Hardee's opened its first "Express", a limited menu, ultra quick service restaurant. This prototype unit in Carthage, North Carolina contains fewer seats and less equipment than a standard Hardee's unit and has the unique feature of two drive-through service windows. These units can be located on smaller real estate parcels and offer savings in construction costs.

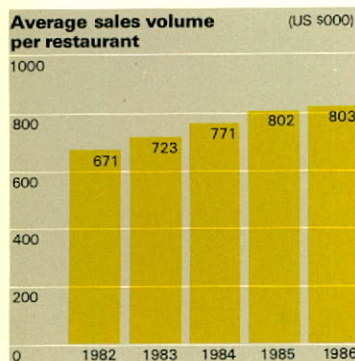
This smaller unit is potentially important to the chain's strategic positioning in view of the inflated price of real estate in most metropolitan areas and its suitability for smaller towns.

With greater attention to customers' needs, Hardee's Equip-









ment Division has grown to US \$53 million in sales this year. This division is responsible for the supply of new equipment to existing and new franchises as well as to company-owned restaurants.

Hardee's Specialty Food Service Division has also opened a prototype Hardee's restaurant offering limited seating, "limited menu" and extra-fast service. This application of the limited menu concept is primarily for areas such as malls and in-line units where space and demographics may make a full-scale Hardee's unit impracticable. Results of tests of this concept have been promising. Specialty Food is also pursuing its successful development with Peoples Drug Stores and is continuing its penetration into non-traditional dining environments such as college campuses, hospitals and toll-roads.

#### **Fast Food Merchandisers**

Fast Food Merchandisers, the manufacturing and distribution subsidiary of Imasco USA, produces many of the high quality products used by the Hardee's chain. These products are delivered through an efficient network of distribution centres. In addition, Fast Food Merchandisers' manufacturing expertise and technical abilities developed the new 1/4 pound hamburger and the manufacturing process that produces its unique characteristics.

During fiscal 1986 Fast Food Merchandisers achieved increased efficiencies and profitability at its new 190,000 square foot manufacturing facility in Monterey, Tennessee. Along with its other plants in Forest City and Rocky Mount, North Carolina, Fast Food Merchandisers supplies 78% of the products utilized in Hardee's restaurants.

Fast Food Merchandisers operates 10 distribution centres in nine states and plans to open its eleventh and most western distribution centre in Ardmore, Oklahoma, in June 1986.

In keeping with the transition of Hardee's image, Fast Food Merchandisers redesigned the graphics for its fleet of trucks and trailers. The conversion to this new design, which uses large, reflective photographs of Hardee's products and ingredients, was completed this past year on all of its 100 trailers.

#### **Grisanti**

The development of the Grisanti's restaurant division continues and represents a new and exciting venture for Imasco USA. Grisanti offers high-quality northern Italian cuisine in a casual dining atmosphere with emphasis on customer value. A prototype unit was opened in Omaha, Nebraska in April 1986. Current plans include the opening of five additional units in fiscal 1987.

#### **Experienced management**

The senior management of Imasco USA and its operating divisions possess restaurant expertise which dates back to the very first days of fast-food development in the United States. Their combined talent has compiled an enviable record of growth and success that now spans a quarter of a century for Hardee's Food Systems. The current year will mark the 25th anniversary of the founding of Hardee's Food Systems' first company unit in 1961.

Hardee's strengthened its management with the engagement of William Prather as president and chief operating officer. Mr. Prather was formerly executive vice-president of a major fast food company. He joins Mr.

Laughery, chairman and chief executive officer, to lead Hardee's management team.

While Imasco USA strives to remain a leader in the ever-changing climate of the food service industry, the consumer will continue to have the greatest influence on the directions in which the company moves. Imasco USA looks to the challenges of the future with a great deal of optimism.



1 Jack Laughery, chairman, president and chief executive officer, Imasco USA, and William Prather, president and chief operating officer, Hardee's Food Systems.

2 Hardee's new 1/4 pound hamburger is produced with specially designed equipment at Fast Food Merchandisers.

3 Everything's new at Hardee's. Employee in new uniform prepares new 1/4 pound hamburger.

4 Bacon cheeseburger.

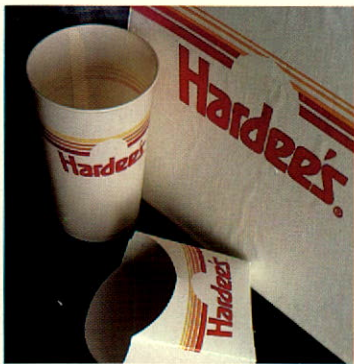
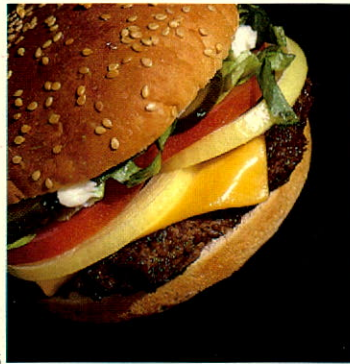
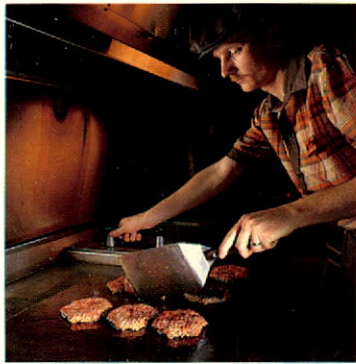
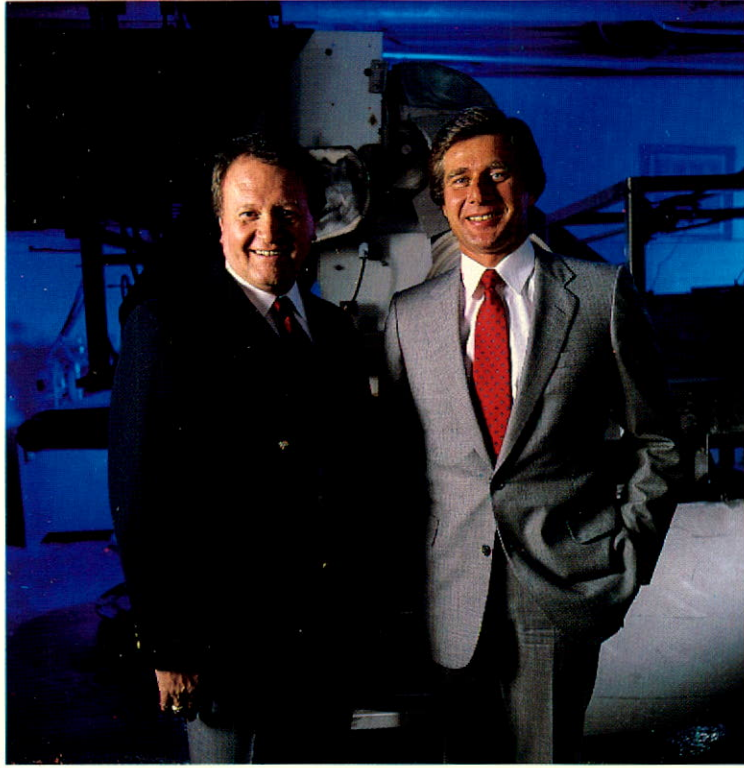
5 "Big Deluxe" hamburger.

6 1/4 pound cheeseburger.

7 Good food for the family at Hardee's.

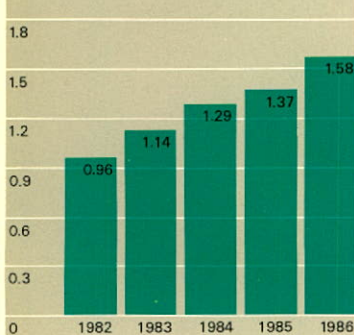
8 New packaging contributes to new image at Hardee's.

9 Hardee's new "Express" unit provides quicker service and drive-through convenience.

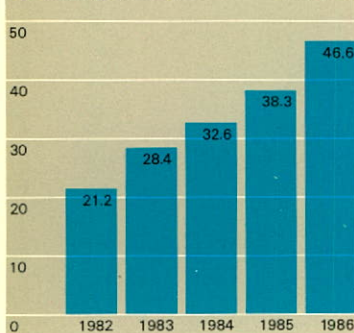




**System-wide sales** (\$000,000,000)



**Operating earnings** (\$000,000)



Shoppers Drug Mart continued to achieve record-breaking performance in virtually every aspect of the company's retail operations. System-wide sales, customer counts, average sale per customer, average sales per square foot, average sales per store and number of prescriptions filled were all up over fiscal 1985.

Strengthening its long held position as Canada's largest retail drug store network, Shoppers Drug Mart also tested and further advanced four new, but allied, concepts during the year – Home Health Care Centres, Howie's – More Than A Drug Store, Pharmaprix Carnaval and the Shoppers Drug Mart Food Basket.

Highly motivated and skilled leadership at both the executive and store level successfully withstood intense competition for consumer attention, but did so while improving productivity and achieving major operating efficiencies.

On a comparative store basis, sales increased 12%. Average sales per store increased from \$3.3 million to \$3.7 million, while sales per square foot rose from \$542 to \$626, the highest in the industry in North America.

## Number of retail units

Through a combination of acquisitions and new store openings the number of retail locations increased to 434 by fiscal year end. These units operate under the following trademarks:

	1986	1985
Shoppers Drug Mart	385	377
Pharmaprix	38	37
Pharmaprix Carnaval	3	–
Howie's	5	2
Food Basket	3	–

Effective April 1, 1985, the operations of Shoppers Drug Mart in the State of Florida were transferred to Peoples Drug Stores.

## Acquisitions

During the year, the company acquired seven drug stores, extending its services to new customers and strengthening its presence in well established markets.

## New retail concepts

Retail competition in general has been intensified in the drug sector by food stores that provide traditional drug store products and services. Shoppers Drug Mart has anticipated this challenging situation with new retail concepts capable of protecting and increasing its market share.

In 1984, two prototype Howie's stores were opened in Toronto, based on the strategy that consumers would forego convenience for a price/quality benefit. Both stores have proved successful and three more were opened during fiscal 1986, two in Windsor and one in Winnipeg.

It is expected that up to six new Howie's stores will be opened in the coming year.

The sales mix of Howie's is concentrated on national brand drugs, health and beauty aids, household items and general merchandise. A selection of food items is also available in most units.

## Pharmaprix Carnaval

In response to the success of superstores in other provinces, Pharmaprix has opened three licensed locations in Québec adjacent to a major supermarket chain to provide consumers with convenient, one-stop shopping.

## Shoppers Drug Mart Food Basket

To reach and attract additional customers and to enhance its service to existing customers, three Shoppers Drug Mart stores have been designed to accommodate convenience food products. Known as Shoppers Drug Mart Food Basket, these stores also feature extended hours of operation, seven days a week.

The two test stores in Halifax and one in Vancouver have been successful in increasing the customer base and the average sale per customer. Some existing Shoppers Drug Mart stores will be changed to the Food Basket model in British Columbia, Ontario, New Brunswick and Nova Scotia.

## Home Health Care Centres

As far back as 1981, Shoppers Drug Mart was pioneering the concept of retail outlets for convalescent aids and other items for patient care in the home. At year end, there were 11 Home Health Care Centres, some operating as separate units and others as departments of Shoppers Drug Mart stores.

The demand for hospital beds and the growth of the aging population have increased the need for home care and for products and services to fill that need. At present in Canada, there is no national market leader. Shoppers Drug Mart is positioned to capture that role.

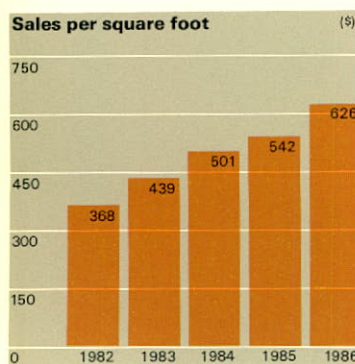
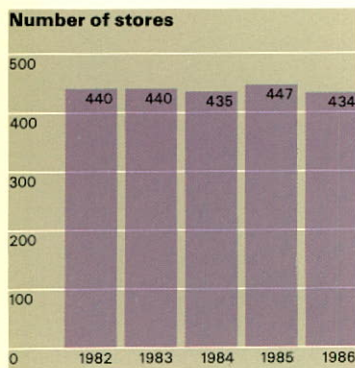
## Marketing and advertising

Aggressive marketing and advertising strategies were responsible for improving the Shoppers Drug Mart/Pharmaprix national market share. The Shoppers Drug Mart Money Saver flyer, which reaches over seven million homes, is the larg-









est of its kind of any retailer in Canada.

The company's corporate brands, "Life Brand", "Shoppers Drug Mart" and the generic "Red Saver/Écono-Rouge", gained strength and consumer acceptance. Many corporate brand products are among the top three in market share in their categories, and "Life Brand" vitamins currently enjoy the number one position of all vitamins sold in Canada.

Employee motivational programmes to support the marketing objectives continue to be effective in educating staff to "Think Like a Customer". Through these and other programmes, the stores themselves have become one of the company's best marketing vehicles.

Shoppers Drug Mart recently celebrated its 25th anniversary with a six-week, high powered, promotional campaign, the results of which exceeded all expectations.

#### Human resources

The licensing system under which the company operates gives each store operator (Pharmacist Associate) a great deal of flexibility and the autonomy to meet local market conditions while adhering to corporate policies and guidelines. This enables the company to respond quickly to economic and competitive pressures in local trading areas.

To ensure that the Pharmacist Associates and their employees are equipped to cope with rapidly changing market conditions, Shoppers Drug Mart offers an array of management, marketing, merchandising and human relations training courses on a regional basis through its Koffler Academy. As a result, store management teams are able to

assess their opportunities to improve performance with the objective of serving customers better than their local competitors.

The company has also begun an employee video programme, SDM-TV, producing quarterly programmes for viewing on each store's video equipment. Reaching approximately 14,000 employees, the programmes contain information about current campaigns, customer relations and corporate progress.

#### Management information systems

Senior management continues to strengthen the company's information systems. At March 31, 1986 110 stores were operating with pharmacy computers, and a further 92 are scheduled for installation over the next 12 months. Stores with these computers will also receive a financial planning and accounting package over the next 24 months. A full, store-level, business system, including scanning, inventory management and buying records is currently being tested at two stores.

In addition to competition in the marketplace, the company also faced the issue of provincial government intervention in drug selection, pricing and in serving the prescription requirements of nursing homes. The environment surrounding government prescription plans is expected to become more challenging in fiscal 1987.

#### Executive appointments

The most important personnel change as at March 31, 1986, was the retirement of Murray B. Koffler, founder and chairman of the board of Shoppers Drug Mart. Mr. Koffler's vision and inspiration have been imbued in his colleagues who will continue

the style of management with which Mr. Koffler made Shoppers Drug Mart a unique Canadian company.

In recognition of his valuable service to the company, Mr. Koffler has been named honorary chairman of Shoppers Drug Mart and will continue his keen interest in its progress and development.

David R. Bloom, president and chief executive officer since 1983, has also been named chairman of the board. Mr. Bloom has made significant contributions to the company over the past 20 years since he joined the company as an Associate.

#### Outlook

Shoppers Drug Mart is people oriented, internally and externally, and will continue to strengthen its people skills in order to satisfy more and more consumers with its products and services.

Through acquisitions, new stores and the establishment of new concepts in drug store retailing, together with timely and effective assistance to Pharmacist Associates, Shoppers Drug Mart will reinforce its leadership position and provide consumers with everything they want in a drug store.



1 Murray Koffler, honorary chairman, and David Bloom, chairman, president and chief executive officer, Shoppers Drug Mart.

2 Shoppers Drug Mart Food Basket offers customers extra convenience and value in Halifax store.

3, 4 Shoppers offers many items to help parents in child care.

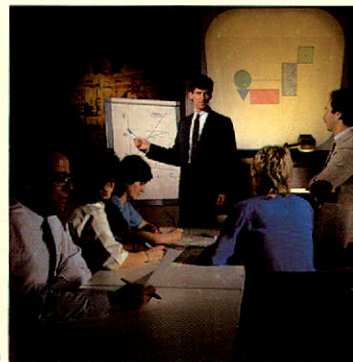
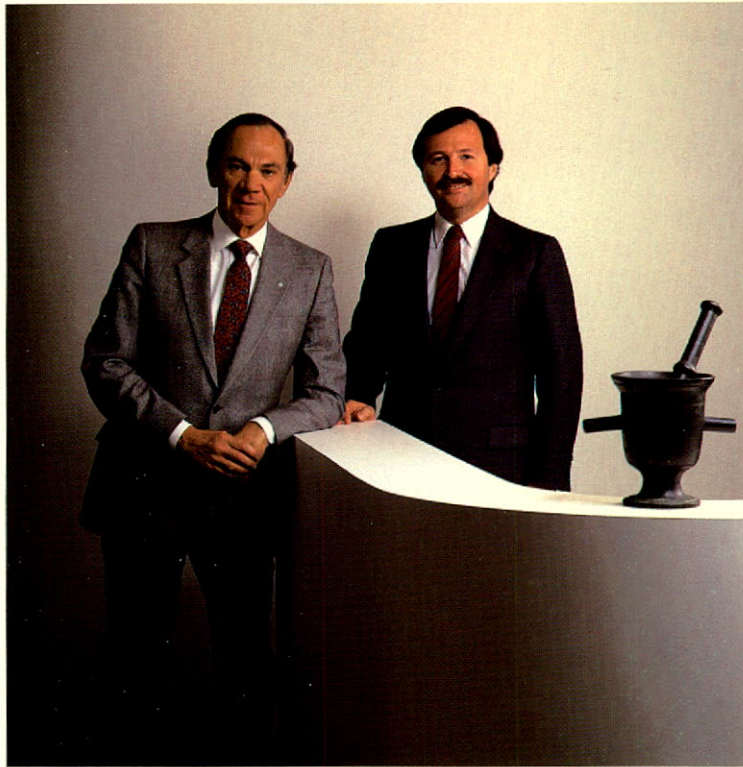
5, 6 Eye-catching Red Saver packaging means special value to the customer.

7 Shoppers Drug Mart celebrates its 25th anniversary.

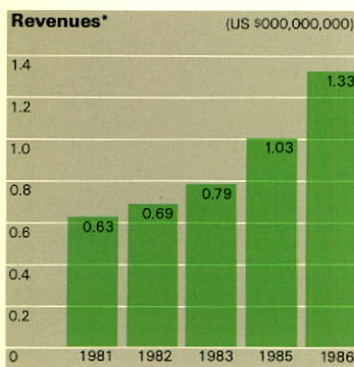
8 Alwyn Morris, o.c., Olympic medalist, counsels young people on good health habits.

9 Koffler Academy teaches business methods and practice to Associates and others at Shoppers Drug Mart.

10 Recording fingerprints with Shoppers Drug Mart Child Identification Kit.







\*For the years ended September, except for March 31, 1985 and 1986.

Even though fiscal 1986 was not a good year for most retailers, including Peoples, the company nevertheless moved ahead with the implementation of several projects that should have a favourable impact on its long term future.

Sales per square foot increased from US \$196 to US \$213 in fiscal 1986. Average sales per store increased from US \$1.5 million to US \$1.6 million.

## Fredericksburg distribution centre

Peoples' new distribution centre, equipped with the latest in automated sortation systems, was put into operation in early September 1985. The distribution centre, which has 350,000 square feet of storage on a main floor with 40 feet of stack height, and 150,000 square feet of mezzanine, is designed to replace the two distribution centres that Peoples has operated in Richmond and Alexandria, Virginia.

The transition period is expected to take approximately nine months. The Richmond warehouse has been closed and all merchandise transferred to Fredericksburg. The Alexandria unit will be phased out during the coming year.

## New store design prototype

In November Peoples unveiled its prototype store design at a remodelled Lane store in Southland Shopping Center, Toledo, Ohio.

Early indications are that the new store has enhanced the shopping experience and that average unit sales as well as the total store sales have increased. Research conducted through exit interviews shows excellent customer acceptance of the various elements of the design.

## Help Your Health. You Can, We Can

In October, at a press conference held in the U.S. Capitol Building in Washington, DC, Peoples Chief Executive Officer Sheldon W. Fante introduced another wide-ranging public education/advertising campaign entitled, "Help Your Health. You Can, We Can". Similar to Peoples' award-winning campaigns in 1983 and 1981 on child drug abuse and health problems of the aging, Help Your Health is designed to build Peoples' image as a community health care resource. The programme is designed to convince the consumer that the Peoples pharmacist is a knowledgeable professional, and a community resource, willing to answer questions without appointment.

## Bud's deep discount drug stores

Peoples' experimental deep discount division which started with its first "Bud's" store in fiscal 1985, added five more units this year, with one more scheduled to open shortly, bringing to completion the original seven planned for the experiment. These stores, usually two-and-a-half times the size of a conventional Peoples, are designed for the mass merchandising of high volume health and beauty products and some day-to-day consumable items that are more often found in supermarkets. Merchandise is sold at lower margins to achieve higher sales volume and this is reinforced with a price-oriented pharmacy.

Two more locations have been planned for fiscal 1987 and management is continuing to look for locations for this type of unit.

## Eye City

Peoples currently operates 53 small optical centres, dispensing

eyeglasses based on prescription patients bring in. These optical units are primarily located inside various Peoples Drug Stores in major markets and each is manned by a single optician. In January 1986, Peoples opened a 12,000 square foot optical department store in Annandale, Virginia, named "Eye City". This unusual store offers complete eyeglass and contact lens service "while you wait", and is equipped with state-of-the-art optometric devices.

Eye City is a major new direction in eyeglass retailing and if successful may have great potential for Peoples.

## Shoppers Drug Mart

At the beginning of fiscal 1986, Peoples assumed control of the Shoppers Drug Mart stores in Florida which had been transferred from Imasco's Shoppers Drug Mart division. Peoples' management has consolidated much of the accounting overhead into its Alexandria office, opened a temporary bulk distribution warehouse, and is adapting certain features of the Peoples merchandising and store decor package to the Shoppers stores. In fiscal 1987 Peoples intends to expand and convert the stores on the Florida east coast to the Peoples' name.

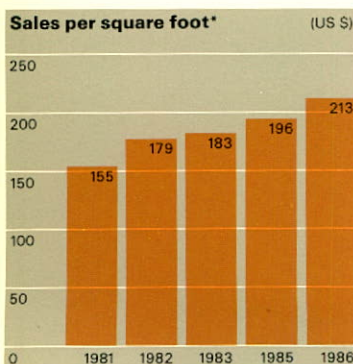
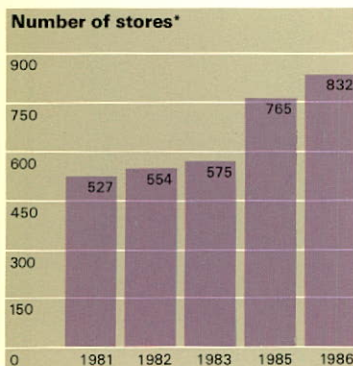
## Rea and Derick stores

Fifty of the Rea and Derick stores in Pennsylvania and Maryland acquired last year have been converted to the Peoples name, and remodelled to the Peoples merchandising "plan-o-grams" and floor layout. Most of these are located in the Harrisburg/York/Lancaster metropolitan market and, together with the 12 Peoples stores originally in this market, create a major store group for efficient advertising coverage.









\*For the years ended September, except for March 31, 1985 and 1986.

## Hardee's

Since opening its first Hardee's franchise in the Washington area at the end of fiscal 1985, Peoples has opened an additional four units in the Washington area, three adjacent to currently operated Peoples stores and one in conjunction with a new Peoples store in the central residential area of the District of Columbia. All five stores have met or exceeded original goals, promising a new opportunity for Hardee's to substantially increase its overall market share in Washington.

## Management information systems

Peoples continues to install pharmacy computer terminals on a regular schedule in its pharmacies and is planning an experiment in a limited number of stores this coming year with point-of-sale scanners and computerized registers to speed customer service at the checkout.

AIMS, Peoples' "Advanced Inventory Management System" has been implemented on the Alexandria office's computer mainframe. The new system automates and simplifies many of the time-consuming, manual buying and promotional functions and is designed to create new efficiencies in buying, selling and particularly inventory turnover.

During the fall season, the system provided all of the expected information but is still not operating at the level of speed and sophistication that can be expected within the next few years as management and technical staff become more accustomed to its operation.

## Marketing strategy

Peoples' strategy is based on market dominance. Peoples is

either first or second in market share in almost all of its markets, including the six major metropolitan markets in which Peoples operates about 50% of all its stores. These major markets are Washington, DC; Toledo, Ohio; Harrisburg/York/Lancaster, Pennsylvania; and the Tidewater area of Norfolk and Newport News, Virginia, where Peoples maintains prime market share, and Indianapolis, Indiana, and Atlanta, Georgia, where it holds number two shares. In addition to market leadership, Peoples' business strategy includes emphasis on health care and convenience. It is the health orientation which sets it apart from most other U.S. drug retailers. This public perception is reinforced by such programmes as the "Help Your Health. You Can, We Can", and other public information programmes, and the ancillary advertising of its Optical Centres and Home Health Care Centres. These latter retail units provide durable medical equipment and hospital-type supplies for sale or rent. Peoples now has two of these units in metropolitan Washington and one each in Richmond and Norfolk, Virginia.

Convenience, the third leg of Peoples' marketing strategy, is in the design of the store, emphasizing ease of access, nearness of parking, simplicity and logic of merchandise adjacencies and quickness of day-to-day necessity shopping.

## Operational structure

Peoples operates through seven regional divisions, the largest of which, with 351 stores, is Peoples Mid-Atlantic Division, headquartered in Alexandria, Virginia. This division operates stores from south central Pennsylvania, along the Atlantic Coast to eastern North Carolina. Other medium-sized groups of about 100 stores each include

the Reed Division, headquartered in Atlanta, Georgia, operating stores under the name of Reed Drug around Atlanta and Lee Drug in and around Columbus, Georgia; the Lane Drug Division, operating primarily as Lane Drug in the greater Toledo, Ohio, market and as Peoples Drug in eastern Ohio and western Pennsylvania.

Peoples Midwest Division is headquartered in Indianapolis, Indiana, with operations in Indiana, Kentucky, Illinois and Iowa. The new Rea and Derick Division, headquartered in Northumberland, Pennsylvania, consists of the original 82 stores of the Rea and Derick purchase. The two prime markets of the Rea and Derick Division are the Wilkes-Barre/Scranton market and the Allentown/Bethlehem/Easton markets in eastern Pennsylvania.

Two smaller regional groups include the 34 "Health Mart" stores headquartered at Uniontown in western Pennsylvania, and 31 Shoppers Drug Mart stores headquartered in Boca Raton, Florida. Peoples also operates B.H. Krueger, Fair Lawn, New Jersey, a manufacturer of fragrances, powders and lotions for private label and national brand accounts.

## Positioning for the future

During fiscal 1987 Peoples plans to continue its internally generated expansion with new stores in markets in which it currently has a principal market share, and continue its remodelling programme. The prime object in the coming year will be to gain and refine skills in using its new systems and facilities so as to properly position Peoples as one of the few major drug chains of the next decade.



1 Bud Fantle, chairman, president and chief executive officer, and David Eisenberg, executive vice-president and chief operating officer, Peoples Drug Stores, visit a Bud's deep discount store.

2 Client tries new glasses at Peoples Drug Stores' "Eye City", Annandale, VA.

3 Latest innovations in store layout and design at Lane Drug, Toledo, OH.

4 New Fredericksburg distribution centre automates receiving, storing, retrieval and shipping of thousands of products.

5 Truck trailer carries Peoples' new symbol and logo.

6 Pharmacist offers information and advice at Peoples Drug Stores.





## Other operations

### The UCS Group

The UCS Group performed well during a most challenging year for its management and store employees.

Despite increased provincial and federal government taxation on tobacco products, UCS was able to maintain volume and margins in the overall tobacco category. Substantial increases were achieved in other core products, especially confectionery. Self-imposed restrictions on the display and sale of selected magazines did not affect sales of reading materials, including newspapers, magazines and paperbacks, all of which increased.

Occupancy costs have increased because of stores in new mall locations, and in airports where competitive tender bids have rapidly accelerated costs.

The UCS Group operates 464 retail units from coast to coast. These are made up of 156 Woolco in-store tobacco departments, 44 Den for Men/Au Masculin stores, 99 hotel and airport locations and 165 specialty/convenience stores, including card and gift shops in high traffic malls and commercial spaces. During the year, the company opened 28 new retail locations and closed 19.

UCS's core product categories are reading materials, tobacco products and confectionery. The sales mix is varied according to location and type of store to include a wide range of convenience and impulse items such as greeting cards, gifts, souvenirs, toys and novelties.

UCS has maintained and strengthened its position as Canada's leading retailer of

- 1 Norman Latowsky, president, stands among gifts for all occasions in one of The UCS Group stores.
- 2 Inclination shops offer largest selection of greeting cards.
- 3 Le petit Calumet, tobacco and convenience store, Fairview Mall, Pointe Claire, Québec.

convenience, non-food items. Stores are mainly located in shopping malls where high pedestrian traffic assures maximum customer flow.

The company is continuing its long term policy of human resources development and training at all levels to ensure that customer needs are being met in the most courteous, convenient and economical way.

In fiscal 1987, people and productivity will be emphasized as UCS prepares to earn a larger share of the market in which it operates.

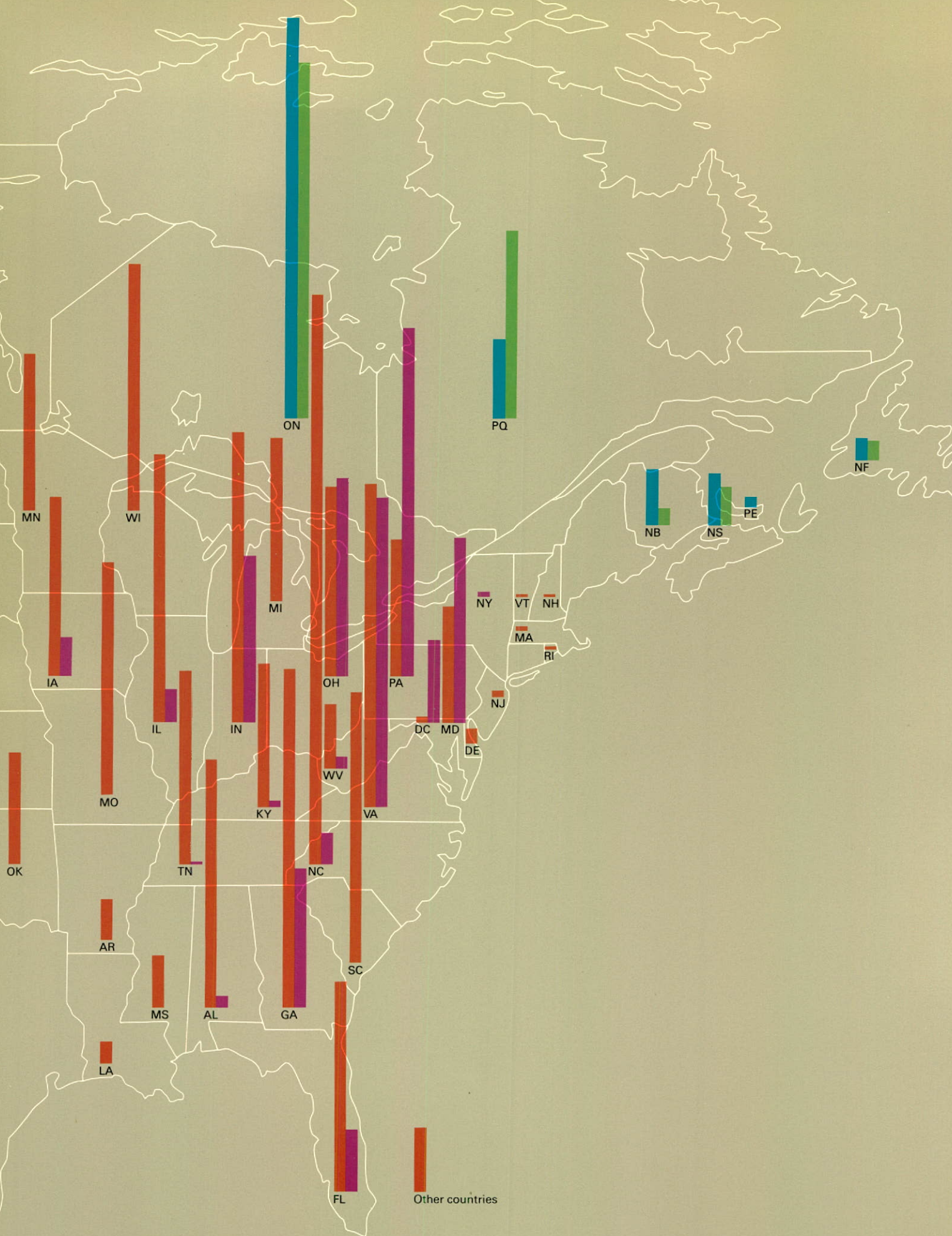




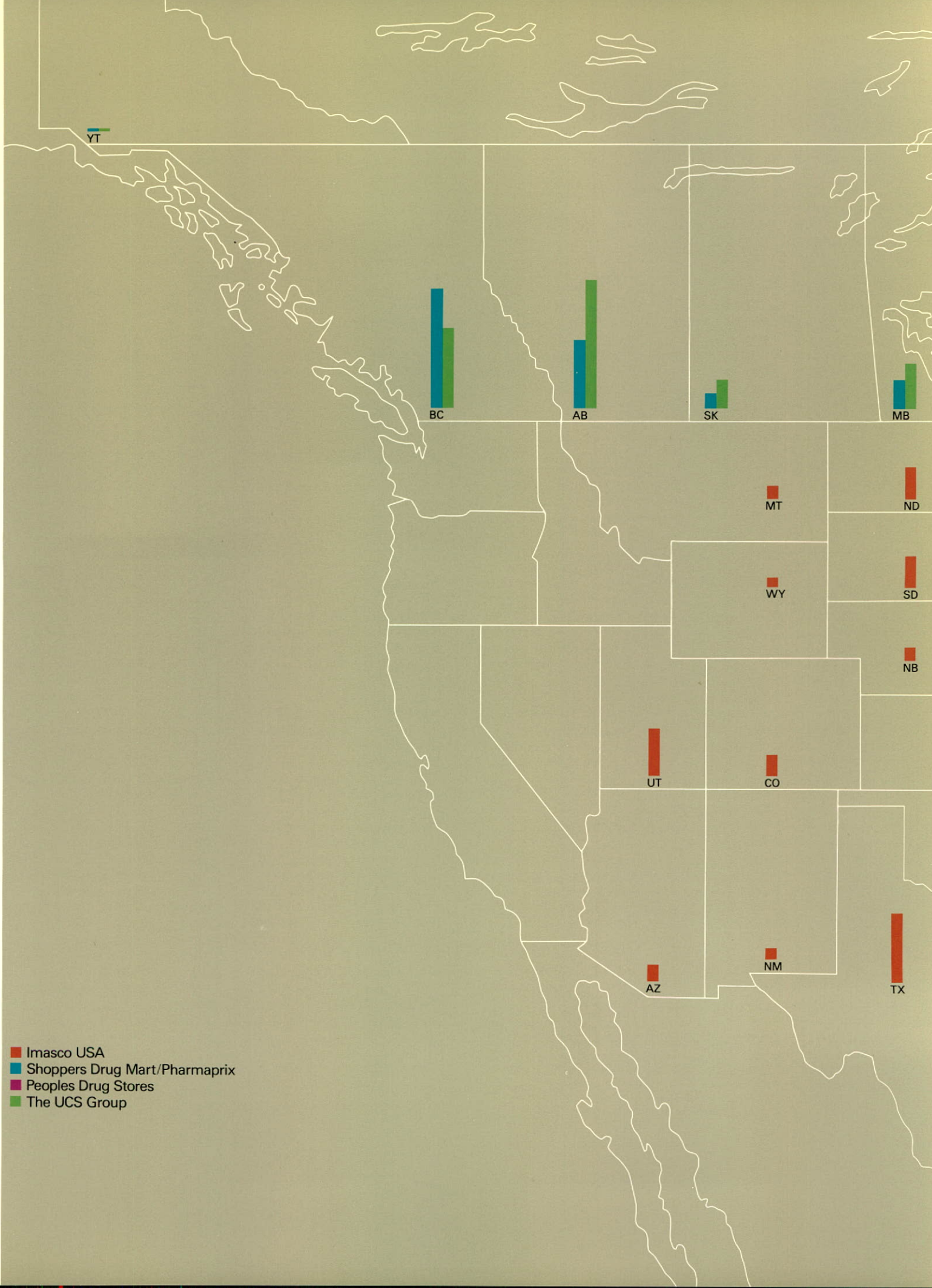
**Imasco Limited**  
**Restaurants, drug stores**  
**and other retail locations**

	Shoppers Drug Mart	The UCS Group		Imasco USA	Peoples Drug Stores
<b>Canada</b>			<b>United States</b>		
AB Alberta	36	67	AL Alabama	127	6
BC British Columbia	62	42	AR Arkansas	21	-
MB Manitoba	14	24	AZ Arizona	9	-
NB New Brunswick	29	8	CO Colorado	11	-
NF Newfoundland	11	10	DC District of Columbia	3	42
NS Nova Scotia	27	20	DE Delaware	8	-
ON Ontario	200	181	FL Florida	108	31
PE Prince Edward Island	5	-	GA Georgia	173	71
PQ Québec	41	96	IA Iowa	91	20
SK Saskatchewan	8	15	IL Illinois	137	17
YT Yukon	1	1	IN Indiana	148	85
<b>Total</b>	<b>434</b>	<b>464</b>	KS Kansas	61	-
			KY Kentucky	73	3
			LA Louisiana	11	-
			MA Massachusetts	2	-
			MD Maryland	59	94
			MI Michigan	83	-
			MN Minnesota	80	-
			MO Missouri	119	-
			MS Mississippi	27	-
			MT Montana	7	-
			NB Nebraska	7	-
			NC North Carolina	291	16
			ND North Dakota	17	-
			NH New Hampshire	1	-
			NJ New Jersey	3	-
			NM New Mexico	6	-
			NY New York	-	2
			OH Ohio	97	101
			OK Oklahoma	57	-
			PA Pennsylvania	70	178
			RI Rhode Island	1	-
			SC South Carolina	139	-
			SD South Dakota	16	-
			TN Tennessee	99	1
			TX Texas	37	-
			UT Utah	25	-
			VA Virginia	165	159
			VT Vermont	1	-
			WI Wisconsin	126	-
			WV West Virginia	33	6
			WY Wyoming	5	-
			<b>Other Countries</b>		
			Bahrain	1	-
			Costa Rica, C.A.	1	-
			Kuwait	12	-
			Netherlands Antilles	1	-
			Panama City	2	-
			Qatar	1	-
			Saudi Arabia	9	-
			Singapore	2	-
			United Arab Emirates	4	-
			<b>Total</b>	<b>2587</b>	<b>832</b>









- Imasco USA
- Shoppers Drug Mart/Pharmaprix
- Peoples Drug Stores
- The UCS Group



Imasco Limited continued its support during the year of charitable causes, large and small. Donations totalling \$1.7 million were made to some 350 organizations with a further \$2.1 million pledged over several years.

All requests for donations in Canada are referred to the Corporate Donations Committee composed of seven members representing the operating divisions in Canada. This Committee, established in 1969, operates under the authority of the Board of Directors of the Corporation, and within a budget approved by the Board. Donations over a certain amount are recommended to the Board for approval.

Donations are made for public welfare, aid to the disadvantaged, public health, education, cultural, recreational and youth activities. Capital campaigns of hospitals and universities make up a significant part of the donations budget.

Imasco has also made special grants to recognize unique events such as those causes singled out by the United Nations to call attention to some particularly needy and worthy group. Imasco established in 1981 a fund to assist disabled students to attend university in response to the United Nations Declaration of the International Year of the Disabled. Since then the fund has awarded 37 scholarships. In 1982 \$50,000 was added to the original \$100,000 fund, and in fiscal 1986 individual awards were increased from \$1,500 to \$2,000.

Shoppers Drug Mart has for many years supported amateur sports for youth at the community level. At the Canadian Sports Awards, January 16, 1986, sponsored by The Sports Federation of Canada, David

Bloom, Chairman, President and Chief Executive Officer of Shoppers was awarded the President's Shield as Corporate President of the Year. The citation reads, "Shoppers' involvement in sport and fitness goes back many years and spans a wide variety of events...The company encourages local store owners to become involved in supporting community sport and actively encourages the development of a positive attitude to athletic involvement with its sportsmanship awards..."

In tribute to Murray Koffler, retiring Chairman of Shoppers Drug Mart, arrangements were made with the University of Toronto to erect a building to be part of the Faculty of Pharmacy and known as the Koffler Institute of Pharmacy Management. When completed in 1987 the Institute will be the first of its kind in North America and it will fill a void in the formal training of pharmacists in retail business practice. It will also offer courses to all nine faculties of pharmacies across Canada.

Imasco Limited sponsored the library of the Institute which will be known as the Edmond Ricard Resources Centre in honour of Imasco's retiring Vice-Chairman.

Shoppers Drug Mart continued its support of the Council On Drug Abuse (CODA) and Pharmacists Against Drug Abuse (PADA) programmes. Shoppers has sponsored Native Canadian Alwyn Morris o.c., Olympic Gold and Bronze medalist, who spends a great deal of time on Indian reserves counselling young people against alcohol and drug abuse.

Imasco USA recognizes its importance to the communities in which it operates and is noted for its involvement in local and

national charitable organizations. Contributions are made regularly to programmes which encompass such diverse areas as education, medicine and projects involving the elderly. Hardee's is also a sponsor of Special Olympics. Charitable contributions by Imasco USA in fiscal 1986 amounted to US \$203,000.

Peoples Drug Stores contributed over US \$358,000 to charitable causes and pledged a further US \$350,000 during fiscal 1986. Many Peoples executives volunteer their services to local organizations in their spare time. To encourage this, Peoples favours contributing to organizations where its executives are active participants. Peoples also contributed merchandise and services to the value of US \$64,000.

### **Sponsorships**

Imasco is one of many companies in Canada that recognize the need to support the search for excellence in sports and in the arts. Accordingly, through support for a number of sports competitions, exhibitions and artistic events, associated with product brand names, Imperial Tobacco makes a major contribution to the development of these pursuits in Canada.

The calendar of sports events begins this year with the Canadian Open Golf Tournament, Glen Abbey, Oakville, Ontario, June 23-27. Next will follow the du Maurier Classic for women golfers at the Board of Trade Country Club, Toronto, Ontario, July 21-27. Tennis events begin with the Player's Challenge for women, Jarry Tennis Stadium, Montréal, Québec, August 2-10, followed by the Player's International for men at the National Tennis Centre, Toronto, Ontario, August 9-17. Two equestrian events will also

be held this year; the du Maurier International Equestrian Masters, Spruce Meadows, Calgary, Alberta, September 14, and the du Maurier Cup at the Atlantic Winter Fair, Halifax, Nova Scotia, October 18.

### **The du Maurier Council for the Arts**

The du Maurier Council for the Performing Arts was established in 1971, and since then has distributed \$5.2 million to performing arts groups across Canada.

The word "Performing" was removed from the title of the Council in 1985 to reflect the broader scope of its support for the arts in Canada.

### **Political contributions**

Imasco has for many years provided financial support for political parties and other organizations which stand behind the principles of a strong private business sector and democratic government. In accordance with a policy approved by the Board of Directors, the Corporation contributed \$94,000 to federal and provincial parties in fiscal 1986.

### **Employee participation and encouragement**

The Corporation encourages employees to take part in community activities and provides assistance for such involvement. Employees are also encouraged to take up membership in trade and professional associations which have as their aim the education, training and general betterment of the members' abilities and the advancement of their disciplines. In fiscal 1986 510 employees participated through company-paid memberships in 428 associations in Canada and in the United States.



1 Chris Evert Lloyd, 1984, 1985 Player's Challenge Champion.

2 John McEnroe, 1984, 1985 Player's International Champion.

3 Imasco Chief Executive Paul Paré congratulates Martina Navratilova and Gigi Fernandez, 1985 Player's Challenge Doubles Champions.

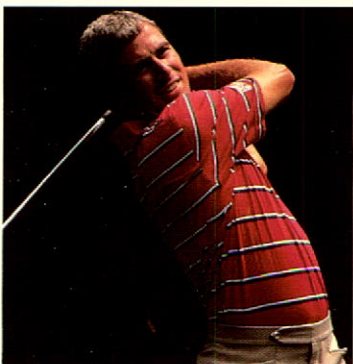
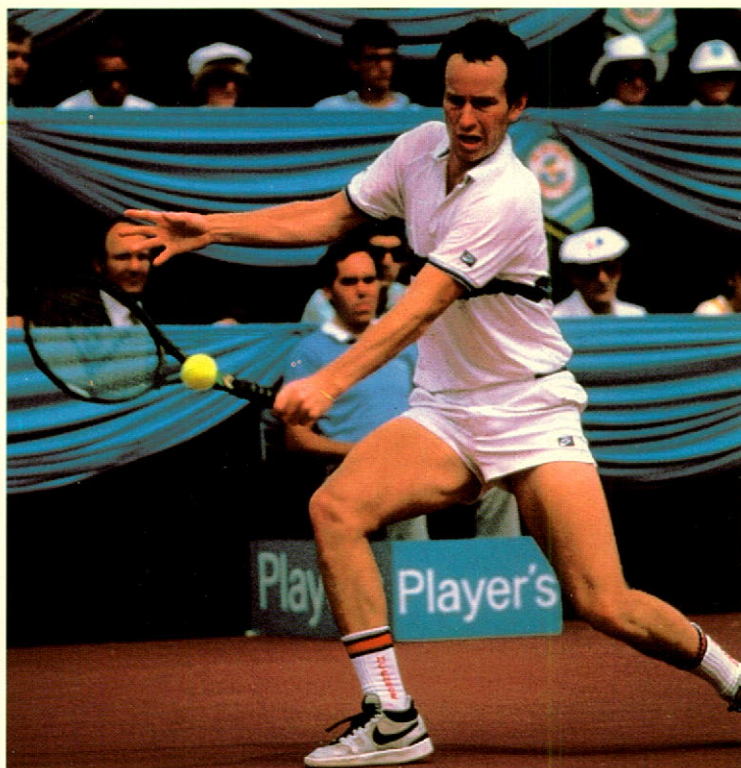
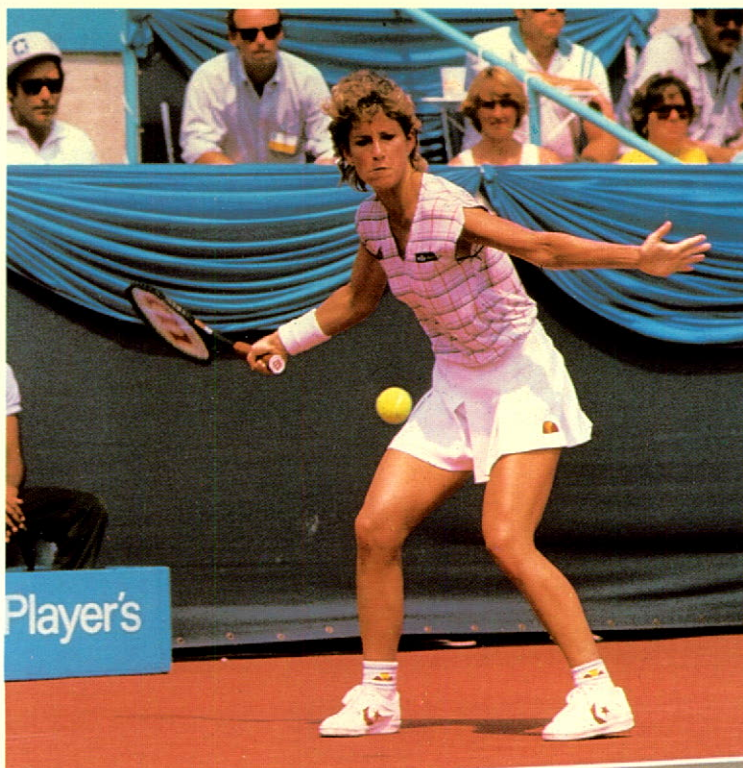
4 Imperial Tobacco Chief Executive Jean-Louis Mercier presents the first installment of a \$100,000 donation to the Clinical Research Institute of Montréal to Dr. Michel Chrétien, Scientific Director. With them are Donations Committee Chairman John Economides and Executive Vice-President Roderick C. Foster, Imasco.

5 Curtis Strange, 1985 Canadian Open Champion.

6 Imperial Tobacco President Wilmat Tennyson presents the du Maurier Classic trophy to 1985 winner Pat Bradley.

7 Peoples Drug Stores Chief Executive Sheldon Fantle and Kathy Iaccoca were co-chairmen of the Annual Juvenile Diabetes Association Fund-raising Ball in Washington, DC, in January 1986. With them is Miss Iaccoca's father, Lee.

8 Hardee's sponsored the "Hotter'n Hell Hundred" bicycle race for youngsters, Wichita Falls, Texas, in August 1985.





# Imasco Limited Directors

Paul Paré, O.C.<sup>1,3,4</sup>

Chairman and  
Chief Executive Officer  
Imasco Limited

L. Edmond Ricard <sup>1</sup>

Vice-Chairman  
Imasco Limited

Purdy Crawford <sup>1</sup>

President and  
Chief Operating Officer  
Imasco Limited

David R. Bloom

Chairman, President and  
Chief Executive Officer  
Shoppers Drug Mart Limited

Sheldon W. Fantle

Chairman, President and  
Chief Executive Officer  
Peoples Drug Stores,  
Incorporated

Roderick C. Foster, C.A.

Executive Vice-President  
Imasco Limited

Rowland C. Frazee, O.C.<sup>1,2,3</sup>

Chairman and  
Chief Executive Officer  
The Royal Bank of Canada

Yves Hudon

President  
Clairvy Investments Inc.

Peter Kilburn

Consultant  
Richardson Greenshields  
of Canada Limited

Murray B. Koffler, C.M.<sup>2,3,4</sup>

Honorary Chairman  
Shoppers Drug Mart Limited

Jack A. Laughery

Chairman, President and  
Chief Executive Officer  
Imasco USA, Inc.

Paul E. Martin <sup>1</sup>

President and  
Chief Executive Officer  
The CSL Group Inc.

Jean-Louis Mercier

Chairman and  
Chief Executive Officer  
Imperial Tobacco Limited

Jean H. Richer, C.M.<sup>2,4</sup>

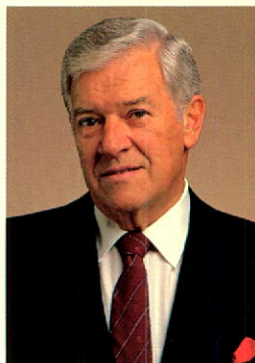
President  
Jean H. Richer Associés Ltée

Daniel E. Somers

Executive Vice-President,  
Chief Financial Officer and  
Corporate Comptroller  
Imasco Limited



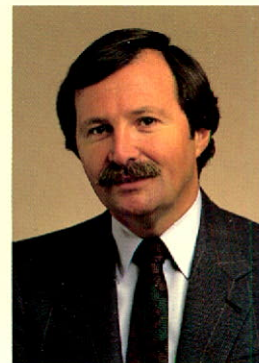
Paul Paré, O.C.



L. Edmond Ricard



Purdy Crawford



David R. Bloom



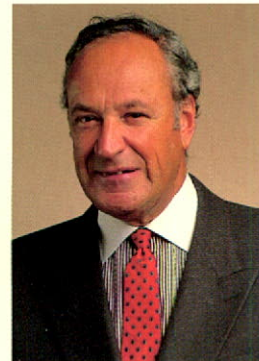
Sheldon W. Fantle



Roderick C. Foster, C.A.



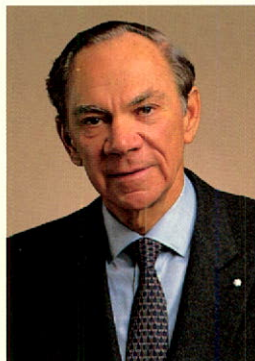
Rowland C. Frazee, O.C.



Yves Hudon



Peter Kilburn



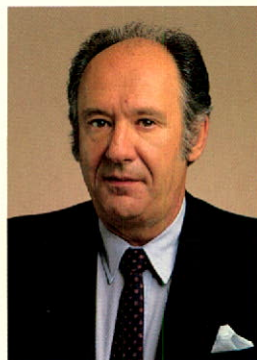
Murray B. Koffler, C.M.



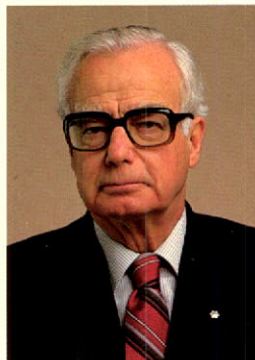
Jack A. Laughery



Paul E. Martin



Jean-Louis Mercier



Jean H. Richer, C.M.



Daniel E. Somers

<sup>1</sup> Member of the Executive Committee

<sup>2</sup> Member of the Audit Committee

<sup>3</sup> Member of the Salary Committee

<sup>4</sup> Member of the Nominating Committee



**Contents**

30	Management's Discussion and Analysis
33	Management's Responsibility for Consolidated Financial Statements
33	Auditors' Report
35	Consolidated Financial Statements
38	Notes to the Consolidated Financial Statements
44	Selected Ten Year Financial Data
46	Divisional Statistical Highlights – Five year review
47	Quarterly Consolidated Financial Information
48	Officers
48	Divisional Information
50	Corporate Information



## Management's Discussion and Analysis

### Results of operations

Consolidated sales and earnings	<p>System-wide sales for the year were \$8.7 billion, an increase of 18% over fiscal 1985. System-wide sales include the sales of franchised retail stores and franchised restaurants.</p> <p>Revenues for the year increased 22% to \$5.3 billion. The increase in revenues was led by Peoples Drug Stores, up 35%, and Imperial Tobacco, up 22%.</p> <p>Fiscal 1986 operating earnings increased by 8% to \$465.9 million from \$432.0 million in fiscal 1985. This improvement reflects continuing progress by Shoppers Drug Mart whose earnings increased 22% and by Imperial Tobacco and Imasco USA which both increased 10%. The strong performance of these operations was offset in part by disappointing results at Peoples Drug Stores which were down 16%.</p> <p>Net interest expense for the year was \$38.7 million, a decrease of 22% from fiscal 1985. This significant decrease is primarily due to lower interest rates than experienced in 1985. Proceeds from the sale of the investment in Canada Northwest Energy Limited of \$57.9 million were used in part to reduce debt levels and to increase short term investments.</p> <p>Income tax expense increased 11% during fiscal 1986 to \$145.4 million. The increase is a result of a higher level of pre-tax earnings offset in part by the decrease in the effective tax rate from 35.9% in fiscal 1985 to 35.7% in fiscal 1986.</p> <p>Net earnings in fiscal 1986 were \$261.7 million, an increase of 12% over those of fiscal 1985 of \$234.1 million. Basic earnings per common share were \$2.40 compared with \$2.25 in fiscal 1985, an increase of 7%. The percentage increase in net earnings exceeds the percentage increase in earnings per share as a result of the full year earnings per share dilution in fiscal 1986 caused by the issue of 6.8 million common shares in December 1984.</p> <p>During the five year period beginning fiscal 1982, the Corporation achieved compound annual net earnings growth of 24%, and compound growth in revenues of 30%.</p>
Imperial Tobacco	<p>Revenues for fiscal 1986 were \$1.8 billion, an increase of 22% over fiscal 1985 revenues of \$1.5 billion. This increase is due to higher retail selling prices resulting primarily from cigarette tax increases. During the year Imperial Tobacco shipped 30.7 billion cigarettes in comparison with 31.4 billion in fiscal 1985, a decrease of 2.5%.</p> <p>Despite price competition in the tobacco industry, operating earnings for fiscal 1986 were \$246 million, an increase of 10% over 1985 operating earnings of \$224 million. Imperial Tobacco's continuing productivity improvement programmes and increased operating efficiencies contributed to this higher level of operating earnings in fiscal 1986.</p> <p>Tax increases have had a negative impact upon the tobacco industry. Industry shipments during the year declined 5.5% to 57.9 billion cigarettes. Imperial Tobacco, however, continues to expand upon its position of market dominance. Fiscal 1986 saw Imperial Tobacco's share of the cigarette market grow by 1.6 share points to 52.9%.</p>
Imasco USA	<p>System-wide sales in fiscal 1986 were \$3.4 billion, an increase of 16% over fiscal 1985. This is based upon 2,587 restaurants in fiscal 1986 compared with 2,411 restaurants in fiscal 1985. Average unit sales volumes of the Hardee's restaurants grew to US \$803,000 per restaurant.</p> <p>Fiscal 1986 revenues were \$1.5 billion, up \$187 million over the previous year. On a comparable unit basis, revenues of company-owned restaurants increased 1.4% in fiscal 1986.</p> <p>Operating earnings for the year were \$118.8 million, an increase of 10% over last year.</p> <p>These results are encouraging given the general softness in the industry as well as the intense competition faced during the year.</p> <p>The number of company-owned restaurants increased by nine during the year to 879. Licensed restaurants numbered 1,708 at March 31, 1986, an increase of 167 over the previous year.</p>



---

**Management's Discussion and Analysis**

---

**Results of operations**

(continued)

**Shoppers Drug Mart**

System-wide sales in fiscal 1986 were \$1.6 billion, an increase of 15% over fiscal 1985 system-wide sales of \$1.4 billion. On a comparable store basis the increase was 11.6% in fiscal 1986.

Average retail sales per store were \$3.7 million as compared with \$3.3 million last year. Sales per square foot rose to \$626, an increase of \$84 over those of fiscal 1985. The average prescription sale rose by 8.1% during fiscal 1986 to \$15.38.

Fiscal 1986 revenues increased by 18% to \$78.4 million.

Operating earnings for the year were \$46.6 million representing an increase of 22% over those of the previous year. This increase is attributable to the strong comparative store sales increases illustrated above, the effects of productivity programmes and innovative marketing and advertising campaigns.

Prior year system-wide sales and revenues have been restated to reflect the transfer of 31 Shoppers Drug Mart stores in Florida to Peoples Drug Stores effective April 1, 1985.

The above results reflect the 18 store net increase in the group during the year, excluding the stores transferred to Peoples Drug Stores. At year-end there were 434 retail locations.

**Peoples Drug Stores**

Revenues for fiscal 1986 were \$1.8 billion, an increase of 35% over last year. The increase reflects the acquisition of the 134-store Rea and Derick drug store chain in December 1984. On a comparable store basis revenues increased 6.6%.

Average retail sales per store were US \$1.6 million compared with US \$1.5 million in fiscal 1985. Sales per square foot rose to US \$213, an increase of US \$17 from fiscal 1985. The average prescription sale rose by 18.5% to US \$13.20.

Peoples' sales and margins have been adversely affected by increased competition within the chain drug industry and also by distribution delays associated with opening the new distribution centre in Fredericksburg, Virginia.

Operating earnings for the year were \$46.4 million, a decrease of 16%.

Prior year revenues have been restated to reflect the transfer of 31 Shoppers Drug Mart stores in Florida to Peoples Drug Stores effective April 1, 1985.

The above results reflect the net addition of 36 stores during fiscal 1986, excluding the 31 stores transferred from Shoppers Drug Mart.

---



---

**Management's Discussion and Analysis**

---

**Financial condition**

Funds provided from operations	<p>Working capital provided from operations amounted to \$409.3 million in fiscal 1986 compared with \$359.5 million in fiscal 1985.</p> <p>Total cash and cash equivalents provided from operating activities were \$407.7 million in fiscal 1986 compared with \$107.6 million in fiscal 1985. Cash and cash equivalents from operating activities exceeded the sum of capital expenditures and dividends leaving \$141.6 million of internally generated funds available for other purposes. Cash and cash equivalents are defined as cash and term deposits, net of bank and other short term loans.</p>
Working capital and liquidity	<p>The Corporation's working capital increased by 24% to \$878.3 million in fiscal 1986 from \$708.2 million in fiscal 1985.</p> <p>Cash and cash equivalents increased by \$190.7 million during the year to a March 31, 1986 balance of \$126.5 million.</p> <p>The current ratio at March 31, 1986 was 2.1:1 compared with 1.9:1 the previous year.</p> <p>Current assets at March 31, 1986 are 56% of total assets compared with 54% the previous year.</p> <p>The above are indicative of the Corporation's high level of liquidity and its ability to meet short term obligations.</p>
Capital resources	<p>During fiscal 1986 the Corporation increased its long term debt position by \$43.1 million. This offset by an increased shareholders' equity position resulted in a debt to equity ratio at March 31, 1986 of 33.1% as compared with 35.3% at March 31, 1985. Over the past five years this ratio averaged 32.7%.</p> <p>Major business acquisitions are financed through additional long term debt, issuance of the Corporation's equity securities and through internally generated funds.</p> <p>The Genstar Corporation acquisition is being financed through a special US \$1.875 billion unsecured revolving credit and term loan facility. The credit facility will have a final maturity date on or about March 31, 1994. The Corporation presently anticipates that a review of Genstar and its assets and operations will result in the disposition of certain assets or lines of business. This disposition process is expected to result in improvement in the post acquisition debt level.</p>
Capital expenditures	<p>Capital expenditures for fiscal 1986 were \$184.1 million compared with \$202.1 million in fiscal 1985.</p> <p>Capital spending was most significant in the Imasco USA and Peoples Drug Stores divisions.</p> <p>Imasco USA capital spending amounted to \$87.3 million in fiscal 1986. The nature of this spending was primarily on the opening of 28 company-owned restaurants, the remodelling of 40 existing company-owned restaurants and the introduction of the new 1/4 pound hamburger.</p> <p>Peoples' capital expenditures amounted to \$54.0 million in fiscal 1986. Major expenditures were directed towards the new Fredericksburg distribution centre and the opening of 44 new retail stores.</p>
Common stock data	<p>The Corporation's common stock is listed on the Montréal, Toronto and Vancouver stock exchanges. The number of holders of common shares was 15,584 at March 31, 1986 with 108,908,146 shares outstanding.</p> <p>Dividend payments on common shares during fiscal 1986 were \$81.7 million which include \$3.5 million paid in the form of common shares in lieu of cash. The above reflects payments on a quarterly basis at a per share rate of 18 cents for each of the first three quarters and 21 cents for the fourth quarter. Fiscal 1985 dividends totalled \$67.1 million, 15.5 cents per share for each of the first three quarters of the year and 18 cents per share for the fourth quarter.</p>

---



---

**Management's Responsibility for Consolidated Financial Statements**

---

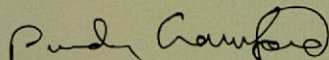
The accompanying consolidated financial statements of Imasco Limited and its subsidiaries and all information in the annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements necessarily include some amounts that are based on management's best estimates and judgments.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Financial and operating data used elsewhere in the annual report are consistent with those contained in the financial statements.

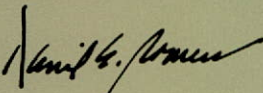
Management of Imasco and its subsidiaries in fulfilling its responsibilities has developed and maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the financial records are reliable for preparing the financial statements.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee, which consists solely of outside directors. The Audit Committee meets periodically with management and with the internal and external auditors to discuss the results of audit examinations with respect to the adequacy of internal accounting controls and to review and discuss financial reporting matters. The shareholders' auditors have full access to the Audit Committee, with and without management being present.

These financial statements have been examined by the shareholders' auditors, Deloitte Haskins & Sells, Chartered Accountants, and their report is presented below.



Purdy Crawford  
President and Chief Operating Officer



Daniel E. Somers  
Executive Vice-President, Chief Financial Officer  
and Corporate Comptroller

April 30, 1986

---

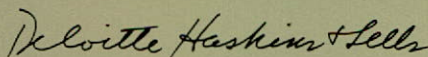
**Auditors' Report**

---

To the Shareholders  
of Imasco Limited

We have examined the consolidated balance sheets of Imasco Limited as at March 31, 1986 and 1985 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the years in the three year period ended March 31, 1986. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at March 31, 1986 and 1985 and the results of its operations and the changes in its financial position for each of the years in the three year period ended March 31, 1986 in accordance with generally accepted accounting principles applied on a consistent basis.



Chartered Accountants  
Montréal, Canada

April 30, 1986

---



---

**Summary of Accounting Policies**

	<p>The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect the following policies.</p>
Basis of consolidation	<p>The consolidated financial statements include the accounts of all subsidiaries. Acquisitions are accounted for as purchases and the results of operations of acquired businesses are included from their effective dates of acquisition. Goodwill and related costs arising from acquisitions of subsidiaries are capitalized and amortized on a straight-line basis over their estimated useful lives not exceeding 40 years.</p>
Foreign exchange	<p>The assets and liabilities of the Canadian operations denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date. Currency gains and losses are reflected in net earnings for the year. Unrealized foreign currency gains and losses on long term monetary assets and liabilities are deferred and amortized to earnings over the remaining lives of the related items on a straight-line basis.</p> <p>Unrealized foreign currency gains and losses on long term monetary liabilities effectively hedged by investments in foreign controlled operations are included in a separate component of shareholders' equity.</p> <p>The assets and liabilities denominated in a foreign currency of self-sustaining foreign operations are translated at exchange rates in effect at the balance sheet date. Revenue and expense items are translated at exchange rates prevailing during the year. The resulting gains and losses are accumulated in a separate component of shareholders' equity.</p>
Inventories	<p>Inventories are valued at the lower of cost and net realizable value. Cost is determined substantially as follows:</p> <p>Tobacco: average cost</p> <p>Drug Store – Peoples Drug Stores: first-in, first-out</p> <p>– Shoppers Drug Mart: first-in, first-out</p> <p>Restaurant: first-in, first-out</p> <p>Other – The UCS Group: retail inventory method</p>
Investments and receivables	<p>Investments and receivables are shown at cost.</p>
Fixed assets	<p>Fixed assets are accounted for at cost. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the principal classes of assets range from 14 to 45 years for buildings and from four to 25 years for equipment.</p> <p>Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful lives of the assets or the term of the respective lease.</p> <p>Leases which transfer substantially all of the benefits and risks of ownership to the Corporation are accounted for as capital leases and are recorded as if the Corporation had acquired the related assets through debt financing. Leased property under capital leases is amortized on a straight-line basis over the lesser of the estimated useful lives of the assets or the term of the lease.</p>
Deferred charges	<p>Deferred charges are stated at cost less amortization accumulated on a straight-line basis. The amortization periods for the principal elements of deferred charges are:</p> <p>Financing expenses – term of the issue to which they relate;</p> <p>Retail drug store opening costs (Shoppers Drug Mart) – three years, commencing in the thirteenth month after opening;</p> <p>Restaurant, other drug store and other retail store opening costs – first year of operation;</p> <p>Restaurant and retail leases acquired – term of the lease;</p> <p>Other deferred charges – one to 20 years.</p>

---



**Imasco Limited**  
**For the years ended March 31**

<b>Consolidated Statement of Earnings</b>		<b>1986</b>	<b>1985</b>	<b>1984</b>
		Thousands of dollars		
Revenues		<b>5,325,134</b>	4,353,254	2,873,151
Sales and excise taxes		<b>1,014,354</b>	727,281	667,820
		<b>4,310,780</b>	3,625,973	2,205,331
Operating costs		<b>3,844,910</b>	3,193,941	1,865,723
Operating earnings		<b>465,870</b>	432,032	339,608
Corporate expenses		<b>20,020</b>	17,308	16,040
Interest – net		<b>38,658</b>	49,300	21,082
Earnings before income taxes		<b>407,192</b>	365,424	302,486
Income taxes		<b>145,447</b>	131,316	108,314
Earnings before extraordinary items		<b>261,745</b>	234,108	194,172
Extraordinary items		<b>–</b>	–	10,908
Net earnings		<b>261,745</b>	234,108	205,080
Earnings per common share				
Before extraordinary items				
basic		<b>\$2.40</b>	\$2.25	\$2.03
fully diluted		<b>\$2.40</b>	\$2.25	\$1.90
After extraordinary items				
basic		<b>\$2.40</b>	\$2.25	\$2.14
fully diluted		<b>\$2.40</b>	\$2.25	\$2.01

<b>Consolidated Statement of Retained Earnings</b>		<b>1986</b>	<b>1985</b>	<b>1984</b>
		Thousands of dollars		
Retained earnings, beginning of year		<b>844,502</b>	677,815	526,862
Net earnings		<b>261,745</b>	234,108	205,080
Dividends		<b>(82,018)</b>	(67,421)	(54,127)
Retained earnings, end of year		<b>1,024,229</b>	844,502	677,815

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.



**Consolidated Balance Sheet**

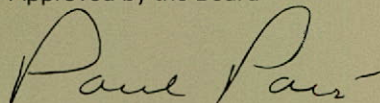
**1986**      **1985**

Thousands of dollars

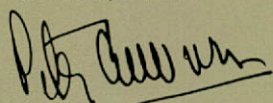
Current assets	Cash and term deposits	<b>373,905</b>	270,741
	Accounts and notes receivable	<b>232,627</b>	282,750
	Inventories	<b>1,026,881</b>	909,704
	Prepaid expenses	<b>29,347</b>	16,603
	Total current assets	<b>1,662,760</b>	1,479,798
Current liabilities	Bank and other short term loans	<b>247,408</b>	334,932
	Accounts payable and accrued liabilities	<b>439,302</b>	368,239
	Income, excise and other taxes	<b>71,450</b>	50,541
	Current portion of long term debt and capital leases	<b>26,297</b>	17,882
	Total current liabilities	<b>784,457</b>	771,594
	Working capital	<b>878,303</b>	708,204
Other assets	Investments and receivables	<b>104,609</b>	96,087
	Fixed assets	<b>921,506</b>	867,618
	Deferred charges	<b>52,844</b>	48,301
	Goodwill	<b>244,925</b>	249,768
	Total other assets	<b>1,323,884</b>	1,261,774
	Excess of assets over current liabilities	<b>2,202,187</b>	1,969,978
Other liabilities	Long term debt	<b>603,106</b>	560,008
	Long term obligations under capital leases	<b>26,406</b>	30,544
	Deferred income taxes	<b>55,584</b>	53,645
	Total other liabilities	<b>685,096</b>	644,197
	Excess of assets over liabilities	<b>1,517,091</b>	1,325,781
Shareholders' equity	Capital stock	<b>453,758</b>	453,445
	Unrealized gain on foreign currency translation	<b>39,104</b>	27,834
	Retained earnings	<b>1,024,229</b>	844,502
	Total shareholders' equity	<b>1,517,091</b>	1,325,781

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

Approved by the Board



Paul Paré, Director



Peter Kilburn, Director



**Imasco Limited**  
**For the years ended March 31**

<b>Consolidated Statement of Changes in Financial Position</b>		<b>1986</b>	<b>1985</b>	<b>1984</b>
		Thousands of dollars		
Operating activities	Earnings before extraordinary items	<b>261,745</b>	234,108	194,172
	Items not affecting working capital	<b>147,543</b>	125,376	70,040
	Working capital provided from operations	<b>409,288</b>	359,484	264,212
	Decrease (increase) in non-cash operating working capital	<b>19,201</b>	(236,462)	(39,060)
	Deferred charges	<b>(17,971)</b>	(9,375)	(1,290)
	Unrealized foreign exchange gains	<b>(2,799)</b>	(6,058)	(2,418)
	Total cash from operating activities	<b>407,719</b>	107,589	221,444
Financing activities	Issue of long term debt	<b>85,151</b>	93,092	271,974
	Repayment of long term debt	<b>(72,399)</b>	(50,915)	(28,730)
	Issue of common shares	<b>—</b>	157,250	—
	Dividends paid	<b>(82,018)</b>	(67,421)	(54,127)
	Payments under capital leases	<b>(4,576)</b>	(3,580)	(2,504)
	Treasury shares issued in excess of (less than) common shares purchased for cancellation	<b>313</b>	(287)	218
	Redemption of preference shares	<b>—</b>	—	(35)
	Total cash (used for) from financing activities	<b>(73,529)</b>	128,139	186,796
Investing activities	Extraordinary items – proceeds from sale of investments and business operations	<b>66,536</b>	—	110,755
	Business acquisitions	<b>—</b>	(173,735)	(363,202)
	Purchases of fixed assets	<b>(184,109)</b>	(202,078)	(104,074)
	Proceeds from disposal of fixed assets	<b>20,074</b>	28,350	13,395
	Disposal of investments and receivables collected	<b>31,003</b>	28,824	11,649
	Increase in investments and receivables	<b>(77,006)</b>	(13,033)	(24,882)
	Total cash used for investing activities	<b>(143,502)</b>	(331,672)	(356,359)
Cash and cash equivalents	Increase (decrease) for year	<b>190,688</b>	(95,944)	51,881
	Beginning of year	<b>(64,191)</b>	31,753	(20,128)
	End of year	<b>126,497</b>	(64,191)	31,753

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

Cash and cash equivalents include cash and term deposits, net of bank and other short term loans.



**Imasco Limited****For the years ended March 31**

All tabular figures are in thousands of dollars

**Notes to the Consolidated Financial Statements****1986****1985**

1. Significant event	<p>On March 24, 1986 the Corporation, through Imasco Enterprises Inc., a wholly owned subsidiary, commenced a tender offer for all outstanding common shares of Genstar Corporation. The purchase price established in a subsequent, amended offer is \$58.00 per share in cash. Prior to commencing the offer, the Corporation entered into option agreements with Société Générale de Belgique, S.A. and certain of its related companies under which the Corporation has been granted irrevocable options to purchase a total of 6,755,084 shares, or approximately 15.2%, of the 44,411,376 outstanding common shares of Genstar including convertible securities. As well, the Corporation had acquired, through various stock exchanges, 170,000 Genstar common shares as of March 31, 1986. In addition, the Corporation has incurred certain fees and expenses related to the acquisition. The amount paid to March 31, 1986, for common shares and acquisition fees and expenses, has been accounted for as an investment at cost.</p> <p>As of April 30, 1986, 31,266,133 common shares had been tendered pursuant to the offer. These shares, together with the shares covered by the option agreements with Société Générale de Belgique, S.A. and related companies and the 170,000 common shares previously acquired, represent approximately 86% of the outstanding common shares on a fully diluted basis.</p> <p>The Corporation has arranged commitments from a group of banks, to provide a US \$1.875 billion credit facility to finance the acquisition of the Genstar common shares.</p>		
2. Investments and receivables	Genstar Corporation	22,435	–
	Flame Energy Limited	12,114	11,110
	Canada Northwest Energy Limited:		
	Common shares	–	8,632
	6½% preference shares	–	8,000
	Scientific research contract amortized against guaranteed royalty income to be received in 1987	2,247	6,291
	Notes receivable	61,513	56,228
	Other investments and receivables	6,300	5,826
		104,609	96,087
	Notes receivable include \$22,526,000 (1985 – \$24,624,000) due from drug store associates which are non-interest bearing with no fixed maturity.		
3. Fixed assets	Land	93,046	90,257
	Buildings	275,701	254,709
	Equipment	622,301	542,574
	Leasehold improvements	348,160	314,214
		1,339,208	1,201,754
	Accumulated depreciation and amortization	434,112	353,340
		905,096	848,414
	Leased property under capital leases	40,135	41,610
	Accumulated amortization	23,725	22,406
		16,410	19,204
	Net fixed assets	921,506	867,618



**Imasco Limited**
**For the years ended March 31**

All tabular figures are in thousands of dollars

<b>Notes to the Consolidated Financial Statements</b>		<b>1986</b>	<b>1985</b>
4. Long term debt	Debentures – 15 <sup>1</sup> / <sub>2</sub> % due January 1989*	<b>69,790</b>	68,180
	Sinking fund debentures		
	8 <sup>1</sup> / <sub>2</sub> % Series A due March 1991	<b>19,250</b>	20,300
	10 <sup>7</sup> / <sub>8</sub> % Series B due August 1995	<b>20,100</b>	21,000
	10 <sup>1</sup> / <sub>4</sub> % Series C due October 1990*	<b>13,220</b>	15,690
	9% due July 1992	<b>4,110</b>	5,186
		<b>56,680</b>	62,176
	Notes payable		
	10 <sup>3</sup> / <sub>4</sub> % payable in annual instalments to September 1994*	<b>50,249</b>	54,544
	9 <sup>1</sup> / <sub>4</sub> % payable in annual instalments to October 1993*	<b>11,166</b>	12,272
		<b>61,415</b>	66,816
	Term loans*	<b>358,910</b>	325,991
	Other long term obligations*	<b>82,651</b>	54,898
		<b>629,446</b>	578,061
	Less		
	Sinking fund debentures held in treasury	<b>(2,905)</b>	(2,718)
	Payments due within one year	<b>(23,435)</b>	(15,335)
		<b>603,106</b>	560,008
*All or partly payable in US dollars. The aggregate principal amount of long term debt payable in US dollars at March 31, 1986 was \$541,147,000 (US \$387,697,000) and at March 31, 1985 was \$517,714,000 (US \$384,015,000). At March 31, 1986 all of the sinking fund debentures had been called for redemption. The net book value of properties securing mortgage and other debt obligations at March 31, 1986 was approximately \$36,723,000 (March 31, 1985, \$41,553,000). Term loans consist of unsecured promissory notes maturing within one year and are supported by non-cancellable bank term credit facilities of \$418,740,000 to 1995. Promissory notes outstanding at March 31, 1986 amounted to \$606,318,000 with an average rate of interest of 7.8% (1985 – 9.2%) and have been classified as short term loans – \$247,408,000, and long term loans – \$358,910,000 (March 31, 1985, \$334,932,000 and \$325,991,000 respectively) based on repayments expected within the year.			
5. Capital stock	Authorized:		
	a) 1,650,000 6% cumulative preference shares.		
	b) An unlimited number of first and second preference shares, issuable in series.		
	c) 120,000,000 common shares.		
	Issued and outstanding:		
	1,191,888 6% preference shares	<b>5,800</b>	5,800
	108,908,146 common shares (1985 – 108,898,364)	<b>447,958</b>	447,645
		<b>453,758</b>	453,445
	Weighted average number of shares outstanding used in the determination of earnings per common share are:	<b>1986</b>	<b>1985</b>
	Basic	<b>108,904,477</b>	104,095,256
	Fully diluted	<b>109,349,219</b>	104,095,256
During the year 130,595 common shares were issued in payment of quarterly dividends under the Shareholders' Stock Dividend Plans, at an average stated value per share of \$27.00. During the year 120,813 common shares were purchased for cancellation at an average cost of \$26.60. At March 31, 1986 there were stock options outstanding in respect of 522,000 common shares granted to certain executives of the Corporation with an average option price of \$21.68. These options expire at various dates in fiscal 1990 and fiscal 1991.			



**Imasco Limited**
**For the years ended March 31**

All tabular figures are in thousands of dollars

<b>Notes to the Consolidated Financial Statements</b>		<b>1986</b>	<b>1985</b>	<b>1984</b>
6. Operating lease commitments	The Corporation has commitments with respect to real estate operating leases, most of which are for terms of three to 20 years. The minimum annual commitments under such leases are approximately as follows:			
		Rental commitment	Assumed by franchisees	Net rental commitment
	1987	102,500	36,300	66,200
	1988	97,500	35,100	62,400
	1989	90,900	33,000	57,900
	1990	83,100	29,500	53,600
	1991	73,900	26,000	47,900
	The minimum annual rental commitments as listed above do not give effect to escalation and percentage-of-sales clauses in certain of the leases. Net rentals under leases, including escalation and percentage-of-sales payments, amounted to \$101,102,000 in 1986 (1985 – \$77,302,000; 1984 – \$30,237,000). In addition, the Corporation has operating lease commitments for equipment which are for terms of one to six years, with an annual rental of approximately \$21,700,000.			
7. Capital lease commitments	The Corporation has commitments with respect to property in the Restaurant and Drug Store segments recorded under capital leases expiring on various dates through the year 2004. The minimum annual commitments under such leases are approximately as follows:			
	1987	7,084		
	1988	6,759		
	1989	6,518		
	1990	6,159		
	1991	5,730		
	1992 and thereafter	18,965		
	Total minimum commitments	51,215		
	Less			
	Imputed interest at 12.3%	21,946		
	Payments due within one year	2,863		
	Long term obligations under capital leases	26,406		
8. Dividends	6% preference shares	<b>348</b>	348	348
	Series B preference shares (all converted or redeemed)	–	–	7,884
	Common shares	<b>81,670</b>	67,073	45,895
		<b>82,018</b>	67,421	54,127
	Dividends for the year ended March 31, 1986 consisted of cash payments of \$78,492,000 and of 130,595 common shares with an aggregate stated value of \$3,526,000. These shares were issued under the Shareholders' Stock Dividend Plans which entitle holders of both classes of shares to receive common shares in lieu of cash dividends. The trust agreements relating to the Series A, B and C sinking fund debentures contain restrictions regarding the payment of dividends on common shares. At March 31, 1986 all the Corporation's retained earnings were free from such restrictions.			
9. Interest expense – net	Interest on long term debt	<b>28,488</b>	28,064	21,762
	Interest on capital leases	<b>4,585</b>	4,616	4,534
	Other interest expense (income) – net	<b>6,434</b>	17,083	(2,735)
	Income from other investments	<b>(24)</b>	(463)	(1,921)
	Gain on securities transactions	<b>(825)</b>	–	(558)
		<b>38,658</b>	49,300	21,082
	Interest on promissory notes classified as term loans (Note 4) is included in other interest.			



**Imasco Limited**
**For the years ended March 31**

All tabular figures are in thousands of dollars

<b>Notes to the Consolidated Financial Statements</b>		<b>1986</b>	<b>1985</b>	<b>1984</b>
10. Income taxes	<p>The effective income tax rate on consolidated earnings reported in these financial statements varies from year to year due to factors such as changes in the statutory income tax rate structure, the imposition of temporary surtaxes, variations in special tax incentives made available under tax legislation and differences in the extent to which they may be claimed, and differences in the geographic and industrial mix of consolidated earnings.</p> <p>The principal factors causing the difference between the effective income tax rate and the aggregate statutory income tax rate in Canada are as follows:</p>			
		%	%	%
	Combined basic federal and provincial income tax rate	<b>47.5</b>	47.5	47.5
	Income tax allowances			
	manufacturing and processing	<b>(3.4)</b>	(3.7)	(4.3)
	inventory allowance	<b>(1.3)</b>	(1.5)	(1.7)
	Foreign income taxed at lower rates	<b>(6.1)</b>	(5.2)	(4.3)
	Other items	<b>(1.0)</b>	(1.2)	(1.4)
	Effective income tax rate	<b>35.7</b>	35.9	35.8
11. Extraordinary items	<p>During August and September 1985, in two separate transactions, the Corporation disposed of its investments in the common shares and the 6<sup>1</sup>/<sub>2</sub>% preference shares of Canada Northwest Energy Limited for a total cash consideration of \$57,874,000.</p> <p>The Corporation, during fiscal 1986, offered to eligible employees of its Imperial Tobacco division, for a limited period, an option of early retirement. The Corporation has estimated the cost of the programme to be \$27,436,000.</p> <p>During fiscal 1986 the Corporation disposed of The Tinder Box International, Ltd. for a total consideration of approximately \$8,900,000 in cash and notes. In addition, a provision has been recorded for net losses expected on the anticipated disposal of other smaller investments.</p> <p>In fiscal 1984, the Corporation disposed of Imasco Foods, Collegiate/Arlington Sports, Embassy Cleaners and other small business operations which resulted in a net gain of \$10,908,000.</p>			
	Gain on sale of investment in Canada Northwest Energy			
	Limited net of tax of \$11,194,000	<b>30,048</b>	—	—
	Provision for cost of special voluntary early retirement			
	programme net of tax recovery of \$11,035,000	<b>(16,401)</b>	—	—
	Gain (loss) on disposal of business operations and investments net of tax recovery of \$2,600,000 (1984 – \$11,826,000)	<b>(13,647)</b>	—	10,908
		—	—	10,908
12. Other information	<p>a) The current service costs of various pension and retirement plans are charged to earnings as they accrue. There was no unfunded liability for past service benefits as at March 31, 1986.</p> <p>b) Research and development costs charged to earnings during the year amounted to approximately \$4,453,000 (1985 – \$5,019,000; 1984 – \$4,815,000).</p> <p>c) The Corporation has provided guarantees to various banks in respect of borrowing by retail franchisees, associates and licensees. The total of these guarantees at March 31, 1986 was \$45,125,000 (1985 – \$41,834,000; 1984 – \$41,428,000); the outstanding indebtedness of the franchisees was \$21,800,000 (1985 – \$24,441,000; 1984 – \$22,801,000).</p> <p>d) B.A.T Industries p.l.c., through the ownership of shares of the Corporation, is defined as a related party. Transactions with B.A.T Industries p.l.c. and/or its subsidiaries were as follows:</p>			
	i) Payment of fees for research and development, marketing and manufacturing services	<b>1,225</b>	1,330	1,323
	ii) Export sales of leaf tobacco	<b>10,859</b>	7,202	14,256
	iii) Dividend income from BAC Cosmetics Inc.	—	122	1,473
	iv) Purchases of materials	<b>7,170</b>	11,051	7,374



**Imasco Limited**
**For the years ended March 31**

All tabular figures are in thousands of dollars

<b>Notes to the Consolidated Financial Statements</b>		<b>1986</b>	<b>1985</b>	<b>1984</b>
13. Segmented financial information	Financial information is presented according to the following industry segments. <sup>1</sup> Tobacco – Imperial Tobacco – manufactures and distributes tobacco products. Restaurant – Imasco USA – operates, licenses, supplies and services a system of fast service restaurants primarily in the United States. Drug Store – Peoples Drug Stores <sup>2</sup> (a U.S. drug store chain) and Shoppers Drug Mart – retail operations which specialize in prescription drugs, health and beauty aids and a broad mix of consumer products. Other – The UCS Group – retail operations specializing in tobacco products and gifts, and the operations of Imasco Resources. Divested operations – includes Imasco Foods, Collegiate/Arlington Sports, Embassy Cleaners and The Tinder Box International.			
Revenues	Tobacco Restaurant Drug Store – Peoples Drug Stores Drug Store – Shoppers Drug Mart Other Divested operations Intersegmental <sup>3</sup>	<b>1,769,776</b> <b>1,508,710</b> <b>1,831,271</b> <b>78,360</b> <b>191,146</b> – <b>(54,129)</b>	1,451,130 1,321,248 1,359,261 66,146 176,088 23,250 (43,869)	1,358,935 1,134,074 – 60,707 165,963 200,553 (47,081)
		<b>5,325,134</b>	4,353,254	2,873,151
Operating earnings	Tobacco Restaurant Drug Store – Peoples Drug Stores Drug Store – Shoppers Drug Mart Other Divested operations	<b>246,015</b> <b>118,768</b> <b>46,444</b> <b>46,555</b> <b>8,088</b> –	224,024 108,289 55,307 38,283 7,192 (1,063)	205,209 92,259 – 32,632 5,561 3,947
		<b>465,870</b>	432,032	339,608
Depreciation and amortization expense	Tobacco Restaurant Drug Store – Peoples Drug Stores Drug Store – Shoppers Drug Mart Other Divested operations	<b>14,482</b> <b>63,045</b> <b>43,267</b> <b>12,995</b> <b>1,676</b> –	12,162 53,374 31,226 11,766 1,569 1,606	10,086 47,922 – 10,753 1,412 6,706
		<b>135,465</b>	111,703	76,879
Capital expenditures	Tobacco Restaurant Drug Store – Peoples Drug Stores Drug Store – Shoppers Drug Mart Other Divested operations	<b>20,350</b> <b>87,294</b> <b>53,983</b> <b>19,211</b> <b>3,271</b> –	19,900 119,613 46,978 10,868 2,502 2,217	12,989 72,077 – 11,456 2,909 4,643
		<b>184,109</b>	202,078	104,074

<sup>1</sup> As at March 31, 1986, other than the Restaurant and the Peoples Drug Stores segments, operations outside Canada are not significant as a whole.

<sup>2</sup> Peoples Drug Stores became a wholly owned subsidiary April 1, 1984.

<sup>3</sup> Intersegmental transactions consist of sales from Imperial Tobacco to The UCS Group at normal whole-sale selling prices.



**Imasco Limited**
**For the years ended March 31**

All tabular figures are in thousands of dollars

<b>Notes to the Consolidated Financial Statements</b>		<b>1986</b>	<b>1985</b>	<b>1984</b>
13. Segmented financial information (continued)				
Net fixed assets	Tobacco	<b>108,990</b>	101,995	93,230
	Restaurant	<b>496,392</b>	474,867	392,605
	Drug Store – Peoples Drug Stores	<b>251,732</b>	225,109	–
	Drug Store – Shoppers Drug Mart	<b>53,538</b>	48,896	48,389
	Other	<b>10,854</b>	9,877	9,267
	Divested operations	–	6,874	8,554
		<b>921,506</b>	867,618	552,045
Inventories	Tobacco	<b>403,580</b>	443,769	447,770
	Restaurant	<b>49,914</b>	51,969	47,190
	Drug Store – Peoples Drug Stores	<b>536,431</b>	373,138	–
	Drug Store – Shoppers Drug Mart	<b>6,602</b>	2,602	2,200
	Other	<b>30,354</b>	28,576	28,218
	Divested operations	–	9,650	8,883
		<b>1,026,881</b>	909,704	534,261
Capital employed <sup>4</sup>	Tobacco	<b>594,633</b>	587,057	556,124
	Restaurant	<b>568,097</b>	555,458	455,808
	Drug Store – Peoples Drug Stores	<b>819,525</b>	653,461	–
	Drug Store – Shoppers Drug Mart	<b>117,873</b>	106,810	104,139
	Other	<b>37,597</b>	57,203	56,274
	Divested operations	–	16,840	16,025
		<b>2,137,725</b>	1,976,829	1,188,370
Reconciliation of capital employed and excess of assets over current liabilities	Capital employed	<b>2,137,725</b>	1,976,829	1,188,370
	Corporate assets	<b>443,267</b>	390,953	642,848
		<b>2,580,992</b>	2,367,782	1,831,218
	Less: Corporate current liabilities	<b>378,805</b>	397,804	299,098
	Excess of assets over current liabilities	<b>2,202,187</b>	1,969,978	1,532,120

<sup>4</sup> Capital employed consists of directly identifiable assets at net book value, less the current liabilities of each segment exclusive of corporate assets and corporate current liabilities.



**Selected Ten Year Financial Data**  
**For the years ended March 31**

		1986	1985
Operations	System-wide sales	<b>8,688,642</b>	7,346,472
	Revenues	<b>5,325,134</b>	4,353,254
	Depreciation expense	<b>118,834</b>	95,448
	Operating earnings	<b>465,870</b>	432,032
	Corporate expenses	<b>20,020</b>	17,308
	Interest	<b>38,658</b>	49,300
	Equity income	<b>-</b>	-
	Income taxes	<b>145,447</b>	131,316
	Earnings, before extraordinary items	<b>261,745</b>	234,108
	Net earnings, after extraordinary items	<b>261,745</b>	234,108
	Earnings per common share, before extraordinary items		
	basic	<b>2.40</b>	2.25
	fully diluted	<b>2.40</b>	2.25
Dividend record	On preference shares	<b>348</b>	348
	On common shares	<b>81,670</b>	67,073
	Per common share	<b>0.75</b>	0.645
Working capital provided	From operations	<b>409,288</b>	359,484
Capital expenditures	On fixed assets	<b>184,109</b>	202,078
Financial position	Current assets	<b>1,662,760</b>	1,479,798
	Current liabilities	<b>784,457</b>	771,594
	Working capital	<b>878,303</b>	708,204
	Fixed assets, before depreciation	<b>1,379,343</b>	1,243,364
	Fixed assets, less depreciation	<b>921,506</b>	867,618
	Total assets	<b>2,986,644</b>	2,741,572
	Long term debt	<b>603,106</b>	560,008
	Excess of assets over liabilities	<b>1,517,091</b>	1,325,781
Shareholders' equity	Preference share holders	<b>5,800</b>	5,800
	Common share holders	<b>1,472,187</b>	1,292,147
	Per common share	<b>13.52</b>	11.87



1984	1983	1982	1981	1980	1979	1978	1977
Thousands of dollars, except "per common share" statistics							
5,382,021	4,953,519	3,853,785	2,264,940	1,721,809	1,586,748	1,070,687	1,044,751
2,873,151	2,713,901	2,190,756	1,423,707	1,150,538	1,161,526	1,049,421	1,031,642
64,818	58,456	45,412	19,739	13,178	11,984	8,050	8,456
339,608	300,347	246,974	159,543	127,531	114,378	83,369	74,423
16,040	13,179	10,885	9,634	7,424	6,584	5,729	4,494
21,082	41,804	35,600	18,128	13,308	11,339	7,955	8,756
—	—	—	9,290	4,554	407	879	—
108,314	88,601	76,313	51,521	43,125	40,455	27,486	26,252
194,172	156,763	124,176	89,550	68,228	56,407	43,078	34,921
205,080	161,594	119,513	89,550	68,228	57,721	40,734	35,215
2.03	1.73	1.39	1.07	0.83	0.70	0.55	0.45
1.90	1.62	1.32	1.06	0.82	0.68	0.55	0.45
8,232	8,970	9,006	1,188	418	1,281	348	348
45,895	33,930	28,985	24,844	20,640	16,016	13,921	13,071
0.50	0.40	0.35	0.30	0.25	0.205	0.18	0.169
264,212	232,658	191,527	109,908	88,356	76,074	54,896	47,392
104,074	114,675	106,705	53,686	37,102	31,055	17,170	17,118
917,363	802,020	622,008	537,229	405,592	386,403	354,351	326,930
497,777	407,263	367,317	364,880	218,030	193,407	138,258	142,415
419,586	394,757	254,691	172,349	187,562	192,996	216,093	184,515
844,160	818,729	725,901	567,325	212,771	179,980	140,584	146,375
552,045	541,213	494,976	377,492	116,955	93,826	70,221	74,973
2,029,897	1,530,063	1,315,117	1,086,363	677,257	607,077	478,821	455,278
480,470	225,353	278,412	153,936	96,921	99,967	95,511	95,920
988,021	823,161	593,870	512,348	344,305	297,974	232,876	206,411
5,800	109,304	110,325	110,325	5,800	17,483	5,800	5,800
968,497	713,857	483,545	402,023	338,505	280,491	227,076	200,611
9.49	7.85	5.84	4.86	4.09	3.49	2.94	2.59



**Divisional Statistical Highlights****Five year review for years ended March 31**

		1986	1985	1984	1983	1982
<b>Canadian Divisions</b>		Thousands of dollars, except "Number of stores"				
Tobacco – Imperial Tobacco	Sales	<b>1,769,776</b>	1,451,130	1,358,935	1,242,899	1,120,240
	Sales and excise taxes	<b>1,014,354</b>	727,281	667,820	592,435	530,186
	Operating earnings	<b>246,015</b>	224,024	205,209	182,268	156,040
	Inventories	<b>403,580</b>	443,769	447,770	404,937	356,455
	Fixed assets – net	<b>108,990</b>	101,995	93,230	90,190	73,644
	Depreciation expense	<b>12,898</b>	10,832	9,070	8,545	7,693
	Capital expenditures	<b>20,350</b>	19,900	12,989	26,778	17,272
Drug Store – Shoppers Drug Mart	System-wide sales	<b>1,583,704</b>	1,371,324	1,290,688	1,142,906	959,520
	Revenues: sales	–	–	–	16,319	18,734
	franchise fees	<b>78,360</b>	66,146	60,707	52,976	41,814
	Operating earnings	<b>46,555</b>	38,283	32,632	28,437	21,211
	Inventories	<b>6,602</b>	2,602	2,200	2,987	3,944
	Fixed assets – net	<b>53,538</b>	48,896	48,389	45,857	45,462
	Depreciation expense	<b>9,347</b>	8,994	8,342	7,207	6,348
	Capital expenditures	<b>19,211</b>	10,868	11,456	9,023	10,898
	Number of stores	<b>434</b>	447	435	440	440
Other	Sales	<b>191,146</b>	176,088	165,963	150,713	127,337
	Operating earnings	<b>8,088</b>	7,192	5,561	2,616	4,783
	Inventories	<b>30,354</b>	28,576	28,218	26,319	18,779
	Fixed assets – net	<b>10,854</b>	9,877	9,267	8,978	7,680
	Depreciation expense	<b>1,676</b>	1,569	1,412	1,249	997
	Capital expenditures	<b>3,271</b>	2,502	2,909	2,690	2,971
	Number of stores					
	Tobacco, sundry and gift	<b>464</b>	455	457	453	440
<b>U.S. Divisions</b>		Thousands of US dollars, except "Number of restaurants" and "Number of stores"				
Restaurant – Imasco USA	System-wide sales	<b>2,440,648</b>	2,197,895	1,917,231	1,718,419	1,141,000
	Revenues					
	Sales					
	Company-owned restaurants	<b>634,990</b>	599,404	579,156	544,625	336,464
	Other	<b>418,206</b>	365,717	304,413	232,627	184,615
	Service and licence fees	<b>41,243</b>	37,058	31,685	29,565	16,445
	Operating earnings	<b>87,000</b>	82,991	75,269	60,289	42,001
	Inventories	<b>35,760</b>	38,112	36,980	33,864	27,913
	Fixed assets – net	<b>351,341</b>	343,852	302,966	285,436	264,917
	Depreciation expense	<b>43,541</b>	37,755	33,887	30,051	21,707
	Capital expenditures	<b>63,353</b>	90,650	58,114	56,581	52,421
	Number of restaurants					
	Company-owned	<b>879</b>	870	825	840	805
	Licensed	<b>1,708</b>	1,541	1,404	1,314	1,360
		<b>2,587</b>	2,411	2,229	2,154	2,165
Drug Store – Peoples Drug Stores <sup>1</sup>	Sales	<b>1,326,875</b>	1,028,742	791,147	688,409	634,292
	Operating earnings	<b>40,097</b>	47,706	29,344	25,471	22,563
	Inventories	<b>384,317</b>	273,642	153,697	129,420	103,144
	Fixed assets – net	<b>180,350</b>	165,084	51,013	44,498	40,657
	Depreciation expense	<b>25,247</b>	17,239	6,697	5,899	4,773
	Capital expenditures	<b>39,185</b>	35,423	15,183	11,117	15,751
	Number of stores	<b>832</b>	765	575	554	527

<sup>1</sup> Peoples Drug Stores, Incorporated became a wholly owned subsidiary April 1, 1984. Statistical highlights prior to the year ended March 31, 1985 are for the years ended September 1981 to 1983.



**Quarterly Consolidated Financial Information**  
(unaudited)

		<b>Fourth</b>	<b>Third</b>	<b>Second</b>	<b>First</b>
		Thousands of dollars except "per common share" statistics			
Fiscal 1986	System-wide sales	2,105,337	2,366,395	2,183,481	2,033,429
	Revenues	1,282,536	1,458,521	1,337,871	1,246,206
	Operating earnings	91,548	135,617	126,256	112,449
	Corporate expenses	6,387	4,959	4,289	4,385
	Interest – net	8,716	8,386	10,127	11,429
	Income taxes	25,065	46,378	39,487	34,517
	Net earnings	51,380	75,894	72,353	62,118
	Earnings per common share	0.47	0.70	0.66	0.57
	Dividends per common share	0.21	0.18	0.18	0.18
	Market price per common share <sup>1</sup>				
	High	35	28 <sup>3</sup> / <sub>8</sub>	28 <sup>1</sup> / <sub>4</sub>	29 <sup>3</sup> / <sub>4</sub>
	Low	24 <sup>1</sup> / <sub>4</sub>	22 <sup>5</sup> / <sub>8</sub>	23 <sup>1</sup> / <sub>2</sub>	25 <sup>1</sup> / <sub>8</sub>
Fiscal 1985	System-wide sales	1,788,529	2,041,237	1,805,356	1,711,350
	Revenues	1,067,609	1,221,949	1,047,202	1,016,494
	Operating earnings	89,745	129,083	113,116	100,088
	Corporate expenses	5,566	4,097	3,833	3,812
	Interest – net	4,527	14,666	14,215	15,892
	Income taxes	28,461	41,326	33,086	28,443
	Net earnings	51,191	68,994	61,982	51,941
	Earnings per common share	0.47	0.67	0.60	0.51
	Dividends per common share	0.18	0.155	0.155	0.155
	Market price per common share <sup>1</sup>				
	High	28 <sup>1</sup> / <sub>4</sub>	24 <sup>3</sup> / <sub>8</sub>	21 <sup>5</sup> / <sub>8</sub>	19 <sup>7</sup> / <sub>8</sub>
	Low	22 <sup>5</sup> / <sub>8</sub>	20	19	17 <sup>3</sup> / <sub>8</sub>

<sup>1</sup> Market prices reflect prices quoted on the Toronto Stock Exchange.



**Imasco Limited**  
**Officers and Divisional Information**

**Officers**

Paul Paré, O.C.  
 Chairman and  
 Chief Executive Officer  
 L. Edmond Ricard  
 Vice-Chairman  
 Purdy Crawford  
 President and  
 Chief Operating Officer  
 Roderick C. Foster, C.A.  
 Executive Vice-President  
 Daniel E. Somers  
 Executive Vice-President,  
 Chief Financial Officer and  
 Corporate Comptroller  
 Roger S. Ackman  
 Vice-President and  
 General Counsel  
 Robert C. Bégin, C.A.  
 Vice-President and Treasurer  
 William J. Harris  
 Vice-President,  
 Administration  
 Noël Pérusse  
 Vice-President,  
 Industry Relations  
 Paul K. Ryan, F.C.I.S.  
 Vice-President and Secretary  
 Roy R. Schwartz  
 Vice-President,  
 Corporate Development  
 Torrance J. Wylie  
 Vice-President, Public Affairs  
 Pierre Duhamel, C.A.  
 Assistant Treasurer  
 Richard L. Hall  
 Assistant Comptroller  
 Lise Pratte  
 Assistant Secretary

**Imperial Tobacco Limited**

3810 St. Antoine Street West  
 Montréal, Québec  
 H4C 1B5

Manufactures and distributes  
 cigarettes, fine cut tobaccos,  
 and markets pipe tobaccos.

Jean-Louis Mercier  
 Chairman and  
 Chief Executive Officer  
 Wilmat Tennyson  
 President and  
 Chief Operating Officer  
 Donald Brown  
 Vice-President,  
 Marketing  
 Michael A. Courtney  
 Vice-President,  
 Finance  
 Marius Dagneau  
 Vice-President,  
 Human Resources  
 Patrick J. Dunn  
 Vice-President,  
 Research and Development  
 André Laporte  
 Vice-President,  
 Manufacturing  
 Thomas F. Lee  
 Vice-President,  
 Materials Management  
 Clifford Warren  
 Vice-President,  
 Fundamental Research  
 Roland Bouchard  
 Secretary  
 Édouard Darche, C.A.  
 Comptroller

*General Cigar Company*  
 Montréal, Québec

Manufactures and distributes  
 cigars.

*Imperial Leaf Tobacco*

John Street North  
 Aylmer, Ontario  
 N5H 2R8

Purchases and processes leaf  
 tobacco for Imperial Tobacco  
 and for export.

**Imasco USA, Inc.**

1233 North Church Street  
 Rocky Mount, North Carolina  
 27801, U.S.A.

Operates and licenses 2,587 fast  
 service restaurants principally in  
 the United States and operates  
 manufacturing and distribution  
 facilities.

Jack A. Laughery  
 Chairman, President and  
 Chief Executive Officer  
 Ralph E. Peterson  
 Executive Vice-President and  
 Chief Financial Officer  
 Breen O. Condon  
 Senior Vice-President,  
 General Counsel and  
 Secretary  
 Jesse M. Harrington III  
 Senior Vice-President and  
 Treasurer  
 Thomas H. Sparks  
 Senior Vice-President,  
 Personnel  
 John D. Merritt  
 Vice-President,  
 Government and Public  
 Affairs  
 John F. Schmutz  
 Vice-President, Legal

*Hardee's Food Systems, Inc.*

William E. Prather, Jr.  
 President and  
 Chief Operating Officer  
 Gerald L. Richards  
 Executive Vice-President,  
 Restaurant Operations

*Fast Food Merchandisers, Inc.*

Hugh Todd, Jr.  
 President and Chief  
 Operating Officer  
 F. Winslow Goins  
 Executive Vice-President,  
 Distribution Services

*Grisanti, Inc.*

1000 East Liberty Street  
 Louisville, Kentucky, 40204  
 U.S.A.

Michael J. Grisanti  
 President and Chief  
 Operating Officer

*Burger Chef Systems, Inc.*

3500 DePauw Blvd.  
 Indianapolis, Indiana, 46268  
 U.S.A.

Robert E. Haberkamp  
 President and  
 Chief Operating Officer



### **Shoppers Drug Mart**

225 Yorkland Blvd.  
Toronto, Ontario  
M2J 4Y7

*Top Drug Mart*  
Toronto, Ontario  
*Pharmaprix*  
Montréal, Québec

A group of 434 licensed and company-owned drug stores in Canada.

Murray B. Koffler, C.M.  
Honorary Chairman  
David R. Bloom  
Chairman, President  
and Chief Executive Officer  
Herbert R. Binder  
Senior Executive Vice-  
President, Operations  
Raymond E. Guyatt  
Senior Executive Vice-  
President, Finance and  
Planning and Chief Financial  
Officer  
Stanley A. Thomas  
Senior Executive Vice-  
President, Marketing  
Irving Bain  
Executive Vice-President,  
Retail Development  
Dale C. Daley  
Executive Vice-President,  
Shoppers Drug Mart Atlantic  
Louis M. Goelman  
Executive Vice-President,  
Purchasing and Distribution  
Marvin A. Goldberg  
Executive Vice-President,  
Legal and Corporate Affairs  
Albert A. Krakauer  
Executive Vice-President,  
Shoppers Drug Mart Ontario  
East  
Michel R. Lesieur  
Executive Vice-President,  
Pharmaprix  
David H. MacDonald  
President,  
Shoppers Drug Mart West  
Brian P. Relph  
Executive Vice-President,  
Shoppers Drug Mart Ontario  
West

Malcolm G. Swartz  
Executive Vice-President,  
Administration  
Howard Trifler  
Executive Vice-President,  
Howie's Division  
Fred Van Laare  
Executive Vice-President,  
Operational Services

### **Peoples Drug Stores, Incorporated**

6315 Bren Mar Drive  
Alexandria, Virginia, 22312  
U.S.A.

A chain of 832 drug stores situated in six major metropolitan markets: Washington, DC; Atlanta, Georgia; Indianapolis, Indiana; Tidewater, Virginia; Toledo, Ohio and Harrisburg, Pennsylvania.

Sheldon W. Fantle  
Chairman, President and  
Chief Executive Officer  
Robert M. Arensmeyer  
Executive Vice-President  
and Chief Financial Officer  
David H. Eisenberg  
Executive Vice-President  
and Chief Operating Officer  
Richard L. Barker  
Senior Vice-President,  
Finance  
Nicholas J. Simon  
Senior Vice-President,  
Operations  
Charles H. Sonnenberg  
Senior Vice-President,  
Information Systems  
David C. Forman  
Vice-President,  
Human Resources  
Joseph A. Pollard  
Vice-President, Advertising  
and Public Relations  
James N. Schwarz  
Vice-President, General  
Counsel and Corporate  
Secretary  
Barry Wilen  
Vice-President,  
Retail Development  
Jerry V. Wilson  
Vice-President, Security  
John C. Cain  
Vice-President,  
Chief Operating Officer,  
Shoppers Drug Mart  
Frederick W. Edwards  
Vice-President,  
Chief Operating Officer,  
The Reed Drug Company  
Jeffrey M. Fantle  
Vice-President,  
Chief Operating Officer,  
The Lane Drug Company

Robert Gabler  
Vice-President,  
Chief Operating Officer,  
Health Mart, Inc.  
James L. Johnston  
Vice-President,  
Chief Operating Officer,  
Rea and Derick, Inc.  
John P. Manton  
Vice-President,  
Chief Operating Officer,  
Mid-Atlantic Division  
Kenneth C. Simmons  
Vice-President,  
Chief Operating Officer,  
Midwest Division  
Robert A. Seubert  
Corporate Comptroller  
G. Michael Martin  
Treasurer

### **Other operations**

#### *The UCS Group*

50 Overlea Blvd.  
Toronto, Ontario  
M4H 1B9

A chain of 464 retail tobacco and gift shops.

Norman Latowsky  
President

#### *Imasco B. V.*

J.J. Viottastraat 50,  
Amsterdam,  
1071 JT  
The Netherlands

Finances associated businesses.

Matthews Glezos  
President

Fribourg Branch  
30 St. Pierre Street  
1700 Fribourg, Switzerland

John Macnab  
General Manager



**Corporate Information**

The Corporation	Incorporated under Federal Charter April 3, 1912 Continued under the Canada Business Corporations Act August 6, 1976		
Auditors	Deloitte Haskins & Sells Chartered Accountants 1 Place Ville-Marie Montréal, Canada H3B 2W3		
Transfer agent and registrar	Montreal Trust Company Halifax, Montréal, Toronto, Winnipeg, Regina, Calgary, Vancouver		
Stock exchange listings	Montréal	Toronto	Vancouver
Symbols			Value of shares on valuation day, December 22, 1971:
Common	IMS	IMS	IMS
6% Preference	IMSC	IMSN	IMS/PR
			Common \$2.50 6% Preference \$4.60
Banks	The Royal Bank of Canada Canadian Imperial Bank of Commerce Toronto-Dominion Bank Continental Bank of Canada Morgan Guaranty Trust Company of New York First Union National Bank, Charlotte, NC First National Bank of Chicago		
Financial calendar 1986/1987	Fiscal year end: March 31 Interim reports mailed: August, November, February Dividend dates: Common shares Quarterly: June, September, December, March 6% preference shares Semiannually: September, March Debentures 15 1/2% due January 1989, interest payable January 15		
Stock dividend plans	The Corporation has two stock dividend plans available to shareholders. Holders of common shares and of 6% preference shares may elect to receive their dividends in the form of new common shares instead of in cash. Shareholders, or others, wishing to obtain more information about these plans should write to the Secretary of the Corporation or to Montreal Trust Company, Stock & Bond Transfer Department, 777 Dorchester Blvd. West, Montréal, Québec, Canada, H3B 9Z9.		
Direct dividend deposit	The Corporation offers to its Canadian shareholders a direct dividend deposit service for convenience and security. The dividend payments are transferred electronically to the shareholder's bank account on the date they become due.		
Stock holdings as at March 31, 1986		Common shares	6% Preference shares
	Canada	53.58%	73.28%
	U.S.A.	7.28%	.09%
	U.K.	36.63%	25.96%
	Other countries	2.51%	.67%
		100%	100%



## **Committees of the Board**

### **Executive Committee**

The Executive Committee meets between regular board meetings. The Board of Directors meets six times a year and in the intervals between these meetings the Executive Committee meets to advise the Chairman and Chief Executive Officer on various matters, to take action where necessary and to make recommendations to the Board.

### **Audit Committee**

The Audit Committee meets a minimum of twice a year. The Committee reviews, approves and recommends for adoption by the Board of Directors the financial statements of the Corporation; examines and recommends for payment the statements of fees of the Corporation's auditors; and in general is responsible for seeing that adequate accounting control procedures are in place.

### **Salary Committee**

The Salary Committee reviews and approves the compensation and benefits of the executive directors.

### **Nominating Committee**

The Nominating Committee recommends candidates for the Board of Directors.



