



Imperial Tobacco Limited



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Jean-Louis Mercier  
Chairman and  
Chief Executive Officer

April 12, 1990

Mr. Alan L. Heard  
British-American Tobacco Co. Ltd.  
Westminster House  
7 Millbank  
London SW1P 3JE  
England

Dear Alan:

I would like, for the record, to inform you of my concerns regarding the recent suggested changes in the Fundamental Research Program in Southampton. My concerns arise because of the process by which these decisions were made and because of the cost implications to Imperial Tobacco. However, before going into more detail on these points, I would like to reiterate Imperial Tobacco's commitment to the need for longer-term Fundamental Research and our confusion as to the process of identifying TRST objectives and integrating them into the existing priorities. The procedure which we had agreed would best serve this purpose comes from the RPG minutes which you issued in 1987:

'ALH to make sure that Research Directors were aware of key presentations to Senior BAT and CAC management so that they were well informed for any subsequent discussions. If necessary, meetings of Research Directors should be convened to enable a consensus of BAT view to be established at the scientific level prior to a key presentation.'

It would appear that in the most recent decisions, this process has not been followed. In this regard, I would make the following points.

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BATCo document for Province of British Columbia 20 April 1999

It is my understanding that the R&D priorities outlined at the TSRT meeting of November 8-9 had been agreed at the RPG meeting in Vancouver. This appears not to be the case; indeed, the final minutes to that Vancouver meeting arrived some six weeks following their discussion at the TSRT meeting. It was equally unfortunate that the TSRT was made aware of an outline of additional priority items at the November meeting which invited neither input from, nor prior discussion with the RPG delegates. This is contrary to the above procedure.

From the TSRT '89 minutes, reference is made to fundamental research 'concentrating in Southampton - with other work being reduced in scale resulting in a significant decrease in the numbers employed there'. There is no reference to an increase in manpower and the resulting increases in cost to the Group funding as a result of this shift in employees.

Although your faxed note of March 26 (Note to Nov. '89 TSRT meeting on Proposed Group Fundamental Research Program and Budget) refers to cost increases of 15% over 1989 (i.e. 0.76 vs 0.66 for ILL contribution), our proposed Southampton expenditure for 1990 will be increased over our actual 1989 invoiced figures (i.e. Greendot and Fundamental) by 48% (i.e. .76 vs .513). This coincides with a proposed 30% increase in Imperial's contribution to the SRG (i.e. .086 vs .066) this year over 1989.

While an increase in the fundamental research activity (15%) may have been acceptable to Imperial Tobacco, this would only have been if the identified areas of research were of particular interest to us; however, I understand from Pat Dunn that these areas may not meet those criteria in specific terms, and he expresses some doubt from his most recent meetings in Southampton of their general acceptance with the other participants of that March meeting. In fact, we are not confident as to what this 48% increase in our budgeted costs will indeed yield us; there appears, from the tentative work areas outlined, to be an actual reduction in the effort in areas of greater importance to Imperial Tobacco.

You, no doubt, appreciate that the costs and the merits of this research must be justified to our other shareholders as well as our tax auditors.

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We would appreciate your immediate reaction to these comments, and would invite you to Montreal for discussion pending the outcome of the April 25-26 meeting, and prior to the upcoming TSRT meeting.

Yours sincerely,



JLM:pt

P.S. Alan - If you can't come to Montreal before the next TSRT meeting, maybe we can meet in London May 17 p.m. to discuss a proposed procedure for the formulation and approval of the Group Fundamental Research Program.

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