

DRAFT

Dear Purdy,

Genstar Acquisition Goodwill

At the time of the Imasco bid for Genstar in March 1986 it was appreciated that a substantial amount of goodwill would arise and that this would to some extent weaken the B.A.T Industries balance sheet. However at this time Imasco's knowledge of the Genstar Group was very largely restricted to what was publicly available. This, together with uncertainty about sales proceeds from disposals, made it difficult to estimate with any degree of precision what the goodwill figure would be.

By early 1987 Imasco had had time to review the Genstar assets and had come to the conclusion that goodwill would amount to C\$1.2 billion which was taken up in your March 1987 accounts and was used as a basis for establishing the B.A.T Industries share of goodwill for our December 1986 accounts. This figure was substantially higher than the C\$0.9 billion suggested at the time of the acquisition.

What gives us great concern are the two separate unexpected adjustments during 1987, over a year after Imasco gained control of Genstar. Together these amount to C\$0.4 billion and have depressed the B.A.T Industries 1987 tangible equity by a further £72 million in 1987.

We understand that no more goodwill will arise from the Genstar acquisition. However all previous estimates have been described as conservative so that we would be grateful if you could confirm that there will be no further adjustments. If there are any sensitivities in this regard I would be grateful if you could explain them and quantify the downside risk.

Yours sincerely,

G L Dennis

PDL/PAC/genstar-ag
29 March 1988

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