

D R A F T

S E C R E T

Dear Paul,

Imasco's Dividends

I know from discussions that we have had and from the corporate objectives that Imasco sets for itself the importance that you attach to the concept of a total return to shareholders. While it is understandable that many shareholders will regard capital appreciation as being the most important element of this return, I am sure that you will understand that corporate shareholders, and in particular B.A.T Industries, will regard the rate of dividend as more important. We regard our shareholding in Imasco as being long-term so that the increase in the share price, while pleasing, is somewhat academic.

The Group is, however, crucially interested in the cash dividend payment. At the current payout of 18 cents a share per quarter the BAT dividend income amounts to C\$30 million a year after withholding tax. This is a low yield on an investment which is currently worth some C\$1200 million. On a number of occasions we have discussed with you the implications to us that might arise from financing acquisitions by means of new equity issues. Our own views on such proposals would certainly be influenced if the financing cost to us could be covered by increased dividends within a shorter time-scale.

B.A.T Industries' dividends to its own shareholders are financed from the dividends received from Operating Groups and Associated Companies, most of which is overseas income. If all our Operating Groups and Associates contributed to the BAT Group dividend paying capacity the same proportion of attributable profits as Imasco, it would not have covered our 1984 dividend. There are two problems underlying this situation: there is the risk that when sterling appreciates against overseas currencies more overseas currency dividends are required to finance our sterling dividend and this is the position for 1985. Secondly there is a tax problem in that "advanced corporation tax" has to be paid on the net dividend paid to B.A.T Industries shareholders: thus we can only pass on some C\$21 million of our Imasco dividend income in the form of B.A.T Industries net dividends.

The plans that Imasco prepares show excellent cash generation some of which we feel could be used to increase the dividend payout level towards that of other diversified tobacco companies both within and outside the B.A.T Industries Group. I have listed below the percentage of attributable profits distributed by various such companies.

AMATIL (Year to 31.12.84)	39%	Imperial Group (Year to 31.10.84)	45%
BATUS (Year to 31.12.84)	41%	Philip Morris (Year to 31.12.84)	47%
Imasco (Year to 31.03.85)	29%	R J Reynolds (Year to 31.12.84)	38%

These points confirm our earlier discussions and I would appreciate their early consideration by your Board.

G L Dennis

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