



BRITISH-AMERICAN TOBACCO COMPANY LIMITED

27 February 1992

Mr Jean-Louis Mercier
Chairman & Chief Executive Officer
Imperial Tobacco Limited
3810 St Antoine Street
Montreal
CANADA
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Dear Jean Louis

DU MAURIER

The Chairman discussed with me last week Imperial's request for use of the DU MAURIER trade mark in Romania, and its use of the mark in international markets generally.

Since we first discussed a new licensing arrangement three years ago circumstances have changed. Your sales had been at that time extremely low and only just reached 100 million in 1988. It was because of these sales that we agreed initially a lower rate of royalty so as to enable you to invest and build up the market. The situation now is, however, very different in that your sales in 1991 have increased to proportions not anticipated by either of us at the time. DU MAURIER is an important trade mark for us and we have to ensure that our licensing arrangements give us a proper return. We must therefore increase the royalty to 5%. An appropriate level of volume for the higher rate to apply would be sales in excess of 500 million in any year. On this basis the 5% rate should apply in 1992 but I am prepared to concede that it should not come into effect for the first two years i.e. until 1st January 1993.

We have looked again at the markets and can agree those already included in the documentation. However, we would like to clarify your rights to supply duty free markets. These should be those markets which supply the consumer, but should not include those for trade purchases. For this reason we would exclude sales to ships' stores.

As regards Romania, BATUKE have developed brand goodwill in Eastern Europe and the Middle East and intend to exploit it in the future. For this reason, I regret that we cannot include Romania in the agreed territories and thus cannot agree to the Romanian proposal.

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In view of the importance of DU MAURIER to the BAT Group, we intend to explore new designs for a DU MAURIER label for our use world-wide. With your agreement it may include the important features of your and our DU MAURIER labels. In this regard, may I suggest that Nick Brookes speaks to Don Brown.

Apart from the additions I have mentioned, the documentation can proceed in its current form. If manufacture is to take place outside of Canada, new documentation will be required but the terms applicable to Canadian manufacture for export will apply.

I hope that we can reach agreement shortly. I will then arrange for the documentation to be prepared.

Yours sincerely



B.D. BRAMLEY

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