

FROM

Research & Development

March 27, 1992

Private & Confidential

JLM
30/3/92

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Mr. Jean-Louis Mercier

Response to BAT Industries' Note on Transdermal Nicotine (28.02.92)

We are not in a position to comment on claims that the nicotine transdermal patch developed by Stowic Resources Ltd. is an improvement over existing transdermal nicotine delivery systems. We are aware that studies of the efficacy of nicotine gum or transdermal patches on smoking cessation invariably show a significant benefit in the short term, but only a small advantage (if any) over placebo in the long term (6+ months). Since it is our belief that the smoking habit is not determined solely by nicotine, but also by a number of conditioned behavioural responses and organoleptic rewards, no substitute relying on nicotine alone will be 100% effective in achieving smoking cessation.

Having said that, given the large proportion of smokers wanting to quit, any device which helps even a small fraction to achieve this goal has the potential to have a negative impact on our business. One could make an argument for the industry supporting development of alternative nicotine delivery systems by considering them in the same philosophical light as brand extensions or, in this case, a business extension. The rationale is that if anyone is going to take away our business it should be us.

As mentioned in the letter, there is a growing awareness that nicotine itself can be beneficial: it can enhance mental performance, act as a therapeutic (e.g. Tourette's syndrome, ulcerative colitis etc.) or be used to prevent the onset of certain diseases (e.g. Parkinson's, endometrial cancer etc.). Although at present nicotine has more bad press than good, in the future there may be a market for a nicotine delivery system over and above its use as a quitting tool. (I'm sure the manufacturer of nicotine gum and transdermal patches won't miss too many opportunities to promote this kind of use).

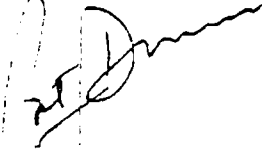
In conclusion, an effective quitting aid based on nicotine could have a serious impact on our business and it would be better for us than someone else to profit from it. But whether the Stowic Resources transdermal patch is such a device we don't know (remember the premature leap into Favor?). However there may be a market for this device as a therapeutic in the (much?) longer term.

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If we were interested in pursuing this further, and with the absence of the F.R.C. pool of resources, we should commission an independent review of the work being done in the field (both technical aspects and clinical trials), the backgrounds of the other companies involved, the patent situation and the regulatory requirements governing the sale of such products.

A handwritten signature in black ink, appearing to be 'J. D. ...', written over a faint circular stamp or mark.

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