

PRIMARY AGREEMENT

This Primary Agreement, dated as of September 29, 1992, is by and between Imperial Tobacco Limited, a Canadian corporation ("Imperial"), and Philip Morris Incorporated, a Virginia corporation ("PM USA").

RECITALS

(a) Imperial sells in Canada Canadian-style cigarettes and fine cut tobacco ("Canadian-style Tobacco Products") under the name "Player's"; and

(b) PM USA and Imperial are entering into a Cross-Licensing Agreement of even date, attached as Exhibit A, pursuant to which PM USA will license Trademarks, as herein defined, to Imperial for inclusion on the packaging for Product, as herein defined, to be sold to PM USA hereunder and Imperial will license to PM USA the Package Designs, as herein defined, for the packaging of Product;

(c) PM USA owns the trademarks depicted on Exhibit B in the United States (collectively, the "Trademarks") and sells U.S.-style tobacco products under the Trademarks in the Territory, as herein defined; and

(d) Imperial has applied for trademark registrations for the package designs depicted on Exhibit C in the United States (the "Package Designs"); and

(e) The parties desire to have Imperial provide Canadian-style Tobacco Products for PM USA to sell in the Territory, as herein defined, under the Trademarks and Package Designs;

NOW, THEREFORE, in consideration of the premises, and of the representations, warranties, covenants and agreements contained herein, the parties agree as follows:

1. Certain Definitions

For purposes of this Primary Agreement and the Cross-Licensing Agreement, the following terms have the meanings indicated:

"Affiliate": Any person who directly or indirectly through one or more intermediaries controls, is controlled by, or is under common control with, the person specified.

"Product": Canadian-style Tobacco Products to be manufactured and sold pursuant to the Agreement in the Canadian-style Player's brand styles listed in Exhibit D and additional Canadian-style Player's brand styles, if any, to be mutually agreed upon by the parties in the future.

"Territory": Domestic and duty-free markets of the United States, Territories and Possessions of the United States, Puerto Rico and the United States Virgin Islands.

2. Manufacture of Product

(a) Product will be manufactured in Canada by Imperial, an Affiliate of Imperial, or by a third party designated by Imperial, with the third party subject to the advance approval of PM USA, which shall not be unreasonably withheld. If Imperial determines that Product should be manufactured in the United States, Imperial will have the right to manufacture Product, directly or through an Affiliate

of Imperial as of the date of the Primary and Cross-Licensing Agreements within the United States pursuant to a contract manufacturing agreement with, PM USA. If Imperial determines to have an Affiliate manufacture Product within the United States, which Affiliate is not an Affiliate of Imperial as of the date of the Primary and Cross-Licensing Agreements, PM USA shall have the right to approve such Affiliate, which approval shall not be unreasonably withheld. The only tobacco products manufactured for sale under the Player's name at the facility at which Imperial or its Affiliate manufactures within the United States will be Product manufactured for PM USA, provided that Imperial or its Affiliate can manufacture tobacco products for sale under the Player's name which are not manufactured for PM USA on terms to be negotiated by the parties. If Imperial does not exercise its right to manufacture Product within the United States, PM USA will have a right of first refusal to manufacture Product within the United States. If PM USA does not exercise its right of first refusal within sixty days, Imperial may negotiate with third parties for the manufacture of Product within the United States on behalf of, and pursuant to a contract manufacturing agreement with, PM USA. Imperial will not grant a third party the right to manufacture Product within the United States without first offering PM USA the right to manufacture Product within the United States on the same terms. Imperial must offer the same terms to PM USA, in writing, and allow PM USA sixty days within which PM USA may accept or reject the terms offered. If PM USA rejects the terms offered, the third-party manufacturer will be subject to the advance approval of PM USA, which will not be unreasonably

withheld. PM USA must approve or refuse to approve an Affiliate or third-party manufacturer within thirty days of Imperial's request for approval. If PM USA refuses to approve an Affiliate or third-party manufacturer, PM USA shall deliver to Imperial, in writing, a reasonable basis for the refusal. The terms pursuant to which PM USA may manufacture or consent to the manufacturing of Product within the United States consistent with this paragraph will be negotiated by PM USA and Imperial and reduced to a writing.

(b) If Imperial determines that Product should be manufactured outside Canada and the United States, the manufacturing location will be subject to the advance approval of PM USA, which approval may be withheld only if the manufacturing location is contrary to U.S. law or in violation of PM USA's then existing business policy. Subject to the foregoing right of PM USA to approve the manufacturing location, Imperial will have the right to manufacture Product, directly or through an Affiliate of Imperial approved in advance by PM USA, which approval shall not be unreasonably withheld, at the approved manufacturing location. If Imperial does not exercise its right to manufacture Product at the approved manufacturing location, PM USA will have a right of first refusal to manufacture Product at the approved manufacturing location. If PM USA does not exercise its right of first refusal within sixty days, Imperial may negotiate with third parties for the manufacture of Product at the approved manufacturing location. Imperial will not grant a third party the right to manufacture Product at the approved manufacturing location without first offering PM USA the right to

manufacture Product upon the same terms. Imperial must offer the same terms to PM USA, in writing, and allow PM USA sixty days within which PM USA may accept or reject the terms offered. If PM USA rejects the terms offered, the third-party manufacturer will be subject to the advance approval of PM USA, which will not be unreasonably withheld. PM USA must approve or refuse to approve an Affiliate or third-party manufacturer within thirty days of Imperial's request for approval. If PM USA refuses to approve an Affiliate or third-party manufacturer, PM USA shall deliver to Imperial, in writing, a reasonable basis for the refusal. The terms pursuant to which PM USA may manufacture or consent to the manufacturing of Product outside the United States and Canada consistent with this paragraph will be negotiated by PM USA and Imperial and reduced to a writing.

3. Sale of Product; Pricing; Payment

Imperial agrees to sell, at prices which shall initially be those set forth on Exhibit E, and which are subject to change by Imperial at its sole discretion, to PM USA, consistent with the Marketing Plans, as herein defined, such quantities of Product as PM USA orders from time to time for ultimate sale to consumers in the Territory. Imperial will provide PM USA with thirty days advance, written notice of a change in price. PM USA may purchase no more than a six week supply of Product at the lower price during the thirty day notice period. The six week supply will be calculated on the basis of the average weekly supply of Product ordered by PM USA during the 13 week period preceding PM USA's receipt of notice of the change in price. Product will be invoiced (which invoice may be delivered by a U.S.

affiliate of Imperial) at prices prevailing on the date of shipment. PM USA shall be entitled to prompt payment discount terms from Imperial no less favorable than the terms prevailing for customers of PM USA purchasing Product, which terms are subject to change by PM USA upon reasonable notice to Imperial.

4. Packaging

Product shall be packaged in packaging identical to that depicted on Exhibit F. Changes in packaging and shipping materials must be approved by both parties. Shipping material shall bear the legends set forth on Exhibit F. PM USA will promptly inform Imperial of changes in United States federal, state or local law, rule or regulation relevant to packaging for Product. Imperial will promptly notify PM USA of changes in Canadian or provincial law, rule or regulation relevant to packaging for Product.

5. Term

This Primary Agreement shall remain in effect for twenty years after the date hereof and shall be subject to an extension of twenty years with the consent of both parties. If either party wishes to extend the Primary Agreement upon the expiration of its original term, the party will serve written notice to that effect no less than one year prior to the expiration of the original term.

6. Product and Product Modifications

The quality control standard for Product is the formulation and consistency of the current Canadian-style tobacco products manufactured by Imperial or its Affiliate in Canada and sold in Canada under the name Player's

("Quality Standard"). Imperial may, in its sole discretion, make changes in Product so as to conform to Canadian-style Tobacco Products sold under the Player's name in Canada, unless such changes would be in violation of any applicable United States state or federal law, rule or regulation or quality standards maintained by PM USA. No other changes in Product shall be made without the consent of both parties.

7. Credit Risk; Force Majeure

PM USA will assume all credit and returned goods risks for Product purchased from Imperial, with the exception of Product defective or damaged prior to its sale by Imperial, provided that PM USA may return reasonable quantities of Product to Imperial for Imperial to destroy, at PM USA's expense. Imperial will exercise reasonable diligence to ensure the prompt shipment of Product ordered by PM USA. Imperial shall not be liable for any delay due to causes beyond Imperial's control, despite Imperial's use of every reasonable effort to avoid the delay, including, but not limited to, labor disputes, fire, epidemics, floods, accidents, delays in transportation, shortage of freight cars, trucks, vessels or fuels, war, riot, civil disturbance, radiological contamination, blockades, embargoes, actions of the Canadian or United States governments, or any state, province, municipality or court thereof, acts of God or Force Majeure.

8. Duties, Taxes

PM USA will be responsible for the payment of all U.S. customs duties and U.S. federal, state and municipal excise taxes and other levies, where applicable, on Product sold to PM USA under this Primary Agreement.

9. Representations and Warranties of Each Party

Each party represents and warrants with respect to itself:

(a) It is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation.

(b) It has the requisite corporate power and authority and has taken all corporate action necessary in order to execute and deliver this Primary Agreement and the Cross-Licensing Agreement and to consummate the transactions contemplated hereby and thereby.

(c) Each of this Primary Agreement and the Cross-Licensing Agreement is a valid and binding agreement of each party enforceable against it in accordance with its terms.

(d) With the exception of routine reports and filings, no notices, reports or other filings are required to be made by it or any of its Affiliates with, nor are any consents, registrations, approvals, permits or authorizations required to be obtained by it or any of its Affiliates from, any Canadian, United States, state or provincial governmental or regulatory authority, agency, court, commission or any other entity in order to perform its obligations under this Primary Agreement and the Cross-Licensing Agreement.

(e) The execution and delivery of this Primary Agreement and the Cross-Licensing Agreement by it does not, and the consummation by it of the transactions contemplated hereby and thereby will not, constitute or result in

a breach or violation of, or a default under, any provision of any agreement, contract, arrangement or other obligation of it or any of its Affiliates or of any law, rule, ordinance or regulation or judgment, decree, order, award or governmental or non-governmental permit or license to which it or any of its Affiliates is subject with the sole exception of violations of rules, ordinances or regulations which would not have a material adverse effect on the performance of its obligations under the Primary and Cross-Licensing Agreements.

(f) Imperial shall comply with all laws and regulations of Canada and its provinces which are applicable to the manufacture, exportation and sale of tobacco products and to the use of the Trademarks and Package Designs on tobacco products.

(g) PM USA shall comply with all United States federal and state laws and regulations which are applicable to the importation, distribution and sale of tobacco products and to the use of the Trademarks and Package Designs on tobacco products.

10. Marketing and Distribution

(a) In implementing a joint marketing strategy for Product in the Territory, PM USA and Imperial will jointly develop annual "Marketing Plans," which will include Marketing Expense budgets, consistent with PM USA's overall marketing strategy and existing marketing practices and which, to the extent

possible, will secure the optimum distribution and sale of Product to be sold to customers in the Territory.

(b) The parties will provide marketing support consistent with the Marketing Plans for Product and the following expenses therefor will be "Direct Marketing Expenses:"

1. to the extent that the PM USA sales force is utilized specifically to support Product consistent with the Marketing Plans, the costs incurred as a result of the support will be Direct Marketing Expenses;

2. advertising and promotional support with the kind, scope and extent of support, including placement and penetration, subject to the approval of both parties;

3. retail consumer incentives and coupons, which will be utilized only with the approval of both parties;

4. event promotions and retail marketing programs, including permanent and temporary fixtures and displays for Product, consistent with the Marketing Plans; and,

5. expenses incurred for the production of permanent POS advertising materials consistent with the Marketing Plans.

(c) Artwork for advertising material, outdoor, print and POS will be supplied by, and at the expense of, Imperial, subject to the approval of PM USA. Outdoor, temporary POS and print advertising material will be produced by, and at the expense of, PM USA.

(d) At the sole discretion of PM USA, Product will be supported by wholesale and retail trade incentives supplied at the expense of PM USA.

(e) Annual Direct Marketing Expenses incurred or paid by PM USA will be borne by both parties each calendar year. Direct Marketing Expenses paid to

third parties will include actual costs plus mark-up, if any, paid by PM USA, without additional mark-up. PM USA's percentage share of the total annual Direct Marketing Expenses will be equal to the percentage "Realization" by PM USA on the sale of Product during the prior calendar year. For the period ending December 1993, PM USA's share of annual Direct Marketing Expenses will be 25 percent. PM USA's Realization for the period ending December 1994 and for each calendar year thereafter will be calculated using the following formula:

$$X = \frac{A - (B + C)}{C}$$

X = PM USA Realization.

A = PM USA price to wholesale, less prompt payment discount.

B = federal excise taxes and U.S. customs import duties paid by PM USA.

C = Imperial's price to PM USA, less prompt payment discount.

PM USA will invoice Imperial for 75 percent of the Direct Marketing Expenses actually incurred during each calendar quarter at the end of March, June, September and December. Within thirty days of December 31st each year, PM USA will deliver a correcting invoice or credit note to Imperial in order to adjust the actual percentage and that derived from the formula.

(f) PM USA will advise Imperial of its initial U.S. duty-paid and duty-free wholesale prices and payment terms for Product and will notify Imperial, concurrently with the notification of PM USA's customers, of any changes in such prices and payment terms.

11. Confidentiality

(a) Except to the extent required by law, Imperial will hold strictly confidential the terms of the Primary and Cross-Licensing Agreements and all confidential financial, operational and management information and materials provided by PM USA to Imperial or created or acquired by Imperial in performing the Primary and Cross-Licensing Agreements ("PM USA Confidential Information"). The PM USA Confidential Information will remain the property of PM USA. Imperial will not use or disclose the PM USA Confidential Information to third parties without the prior written consent of PM USA. Upon termination or expiration of the Primary Agreement, or within thirty days thereafter, Imperial will return all PM USA Confidential Information which has not been destroyed in accordance with Imperial's existing records retention program, to PM USA. Imperial's obligation to maintain the confidentiality of the PM USA Confidential Information will survive the termination of the Primary and Cross-Licensing Agreements.

(b) Except to the extent required by law, PM USA will hold strictly confidential the terms of the Primary and Cross-Licensing Agreements and all confidential financial, operational and management information and materials provided by Imperial to PM USA or created or acquired by PM USA in performing the Primary and Cross-Licensing Agreements ("Imperial Confidential Information"). The Imperial Confidential Information will remain the property of Imperial. PM USA will not use or disclose the Imperial Confidential Information to

third parties without the prior written consent of Imperial. Upon termination or expiration of the Primary Agreement, or within thirty days thereafter, PM USA will return all Imperial Confidential Information which has not been destroyed in accordance with PM USA's existing records retention program, to Imperial. PM USA's obligation to maintain the confidentiality of the Imperial Confidential Information will survive the termination of the Primary and Cross-Licensing Agreements.

(c) If either party is required to disclose Confidential Information to a third party in connection with a civil or criminal investigation, or any judicial or administrative proceeding, compliance will not constitute a breach of this paragraph if the disclosing party has used best efforts to obtain a protective order, in a form satisfactory to the other party, when requested by the other party.

12. Press Releases and Media Alerts

The timing, distribution and content of press releases and media alerts distributed by either party in connection with the Primary and Cross-Licensing Agreements or expressly or implicitly identifying the other party are subject to the advance approval of both parties.

13. Records

PM USA will maintain detailed and accurate records of Direct Marketing Expenses incurred in connection with the Marketing Plan. At the request of Imperial, Imperial or its designated agent may inspect, review and copy PM USA's books and records of Direct Marketing Expenses at reasonable times during

normal business hours upon reasonable advance notice to PM USA and at the expense of Imperial.

14. Indemnification

(a) Imperial will defend, indemnify and hold harmless PM USA, its Affiliates and their employees, officers and directors from and against all suits, claims, demands, causes of action, liabilities, judgments, reasonable attorneys' fees, losses, costs, penalties, damages, and expenses arising out of or by reason of acts, whether of omission or commission, of Imperial or any of its directors, officers, employees, representatives, or contractors in connection with Imperial's performance of the Primary or Cross-Licensing Agreements, including, but not limited to, those third party claims arising out of any breach of the Primary or Cross-Licensing Agreement, any defects or alleged defects in the Product, and any personal injury or property damage resulting from the use thereof; provided, however, that Imperial shall not be liable for any acts of PM USA; and, provided, further, that PM USA shall give Imperial prompt notice of any such suit or claim, and, absent notice from PM USA that it desires to defend any such suit or claim, Imperial shall have the right to control the defense thereof using counsel approved in advance by PM USA, which approval shall not be unreasonably withheld, provided, further, that no settlement thereof may be made without the approval of PM USA, which approval shall not be unreasonably withheld. Injury or reasonable likelihood of injury to the goodwill or reputation of a party hereto, or its Trademarks or Package Designs shall be deemed reasonable grounds for withholding consent. In the event

appropriate action is not taken by Imperial within thirty days, or a longer period of time which does not prejudice the rights of PM USA, after its receipt of notice of any such suit or claim from PM USA, or in the event that at any time PM USA shall give Imperial notice that PM USA desires to control the defense of any such suit or claim, PM USA shall have the right to control the defense thereof using counsel approved in advance by Imperial, which approval shall not be unreasonably withheld, but no settlement thereof may be made without the approval of Imperial, which approval shall not be unreasonably withheld. Imperial and PM USA shall keep each other fully advised of all developments and shall cooperate fully with each other in all respects in connection with whatever defense is made. The indemnification provided by this paragraph shall be deemed to apply solely to (a) the amount of the judgment, if any, against PM USA, (b) any sums paid by PM USA in settlement, and (c) the expenses incurred by PM USA in connection with its defense. If PM USA assumes the defense of any such suit or claim pursuant to notice to Imperial that PM USA desires to control the defense of a suit or claim other than by reason of Imperial's failure to take appropriate action to defend such suit or claim, the expenses incurred by PM USA in connection with its defense will be borne by PM USA. If PM USA assumes the defense of any such suit or claim pursuant to notice to Imperial that PM USA desires to control the defense of a suit or claim not arising out of any defect or alleged defect in Product, and any personal injury or property damage resulting from the use thereof, other than by reason of Imperial's failure to take appropriate action to defend such suit or claim, any

judgments against PM USA, its Affiliates and their employees, officers and directors in connection therewith will be borne by PM USA.

(b) PM USA will defend, indemnify and hold harmless Imperial, its Affiliates and their employees, officers and directors from and against all suits, claims, demands, causes of action, liabilities, judgments, reasonable attorney's fees, losses, costs, penalties, damages, and expenses arising out of or by reason of acts, whether of omission or commission, of PM USA or any of its directors, officers, employees, representatives, or contractors in connection with PM USA's performance of the Primary or Cross-Licensing Agreements, including, but not limited to, those third party claims arising out of any breach of the Primary or Cross-Licensing Agreement, any defects or alleged defects in the Product which occurred after the sale to PM USA, and any personal injury or property damage resulting from the use thereof attributable to defects or alleged defects in the Product which occurred after the sale to PM USA; provided, however, that PM USA shall not be liable for any acts of Imperial, including, without limitation, any defects or alleged defects in Product when sold to PM USA and any personal or property damages resulting from the use thereof, attributable to defects or alleged defects in the Product when sold to PM USA, and provided, further, that Imperial shall give PM USA prompt notice of any such suit or claim, and, absent notice from Imperial that it desires to defend any such suit or claim, PM USA shall have the right to control the defense thereof using counsel approved in advance by Imperial, which approval shall not be unreasonably withheld, provided, further, that no settlement thereof

may be made without the approval of Imperial, which approval shall not be unreasonably withheld. In the event appropriate action is not taken by PM USA within thirty days, or a longer period of time which does not prejudice the rights of Imperial, after its receipt of notice of any such suit or claim from Imperial, or in the event that at any time Imperial shall give PM USA notice that Imperial desires to control the defense of any such suit or claim, Imperial shall have the right to control the defense thereof using counsel approved in advance by PM USA, which approval shall not be unreasonably withheld, but no settlement thereof may be made without the approval of PM USA, which approval shall not be unreasonably withheld. Imperial and PM USA shall keep each other fully advised of all developments and shall cooperate fully with each other in all respects in connection with whatever defense is made. The indemnification provided by this paragraph shall be deemed to apply solely to (a) the amount of the judgment, if any, against Imperial, (b) any sums paid by Imperial in settlement, and (c) the expenses incurred by Imperial in connection with its defense. If Imperial assumes the defense of any such suit or claim pursuant to notice to PM USA that Imperial desires to control the defense of a suit or claim other than by reason of PM USA's failure to take appropriate action to defend such suit or claim, the expenses incurred by Imperial in connection with its defense will be borne by Imperial. If Imperial assumes the defense of any such suit or claim not arising out of any defect or alleged defect in Product which occurred after the sale to PM USA, and any personal injury or property damage resulting from the use thereof, other than by reason of PM USA's failure to take appropriate

action to defend such suit or claim, any judgments against Imperial, its Affiliates and their employees, officers and directors in connection therewith will be borne by Imperial.

15. Termination

This Primary Agreement may be terminated: (a) by the mutual consent of the parties; (b) by either party if the other party fails to perform or breaches in any material respect any representation, warranty or agreement hereunder which breach shall not have been cured within 90 days of written notice of the failure to perform or breach; (c) by Imperial if at any time after December 31, 1994, less than 100,000,000 cigarettes or cigarette equivalents of Product shall have been sold by Imperial to PM USA during any twelve-month period; or, (d) by PM USA if PM USA's average Realization is less than twenty five percent during any twelve-month period; provided that in the case of (c) and (d), the terminating party shall not be in material breach of this Primary or the Cross-Licensing Agreement.

If the Primary and Cross-Licensing Agreements are terminated, rather than expiring by their terms, PM USA will not sell a Canadian-style tobacco product bearing the Trademarks in the Territory for a period of two years beginning on the termination date and Imperial will not use the Package Designs in the Territory for a period of two years beginning on the termination date.

16. Assignment

Neither this Agreement, nor the rights and obligations of any party hereunder shall be assigned or transferred, in whole or part, by operation of law or

otherwise, with the sole exception of assignments to a directly or indirectly wholly-owned subsidiary of the parent of Imperial or PM USA capable of performing the Agreement. An assignment will not relieve the assigning party of its obligations under the Primary or Cross-Licensing Agreement.

17. Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the United States and the State of New York applicable to agreements made and to be performed entirely within the state of New York. By their signatures below, both parties agree to submit to the personal jurisdiction of a state or federal court within the Borough of Manhattan.

18. Notices

All notices or submissions of materials for approval by either party shall be sent by personal delivery with acknowledgment of receipt or postage prepaid, overnight delivery services or certified mail, return receipt requested, to the following addresses:

To Imperial: Imperial Tobacco Limited
3810 St-Antoine Street
Montreal, Quebec H4C 1B5
Attention: _____

To PM USA: Philip Morris Incorporated
120 Park Avenue
New York, NY 10017
Attention: _____

or to another address or the attention of another individual as may from time to time be designated in writing by either party. Delivery will be deemed to have occurred upon confirmation of actual receipt.


19. Entire Agreement

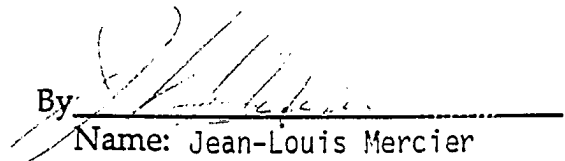
This Primary Agreement, and the exhibits hereto, sets forth the entire understanding and agreement between the parties hereto as to the subject matter of the Primary and Cross-Licensing Agreements and merges and supersedes all previous communications, negotiations, warranties, representations and agreements, either oral or written, with respect to the subject matter hereof. No addition to or modification of the Primary Agreement will be binding on either party unless reduced to writing and executed by a duly authorized representative of the party to be charged.

IN WITNESS WHEREOF, this Primary Agreement has been duly executed and delivered by the duly authorized officers of the parties hereto on the date first hereinabove written.

PHILIP MORRIS INCORPORATED

IMPERIAL TOBACCO LIMITED

By 
Name: William I. Campbell
Title: President

By 
Name: Jean-Louis Mercier
Title: Chairman & Chief Executive Officer

By 
Name: R. Donald Brown
Title: President & Chief Operating Office