

ROTHMANS PRICING
(Per Thousand US \$)

	<u>CURRENT</u>	<u>RBH PROPOSAL</u>	<u>PM PROPOSAL</u>
U.S. Domestic	\$18.10 (to TEI)	\$30.24	\$28.90
U.S. Duty Free (1)	\$16.09 (non-Border) \$28.65 (Border)	\$27.22	\$15.40
U.S. Duty Free (2)	\$28.65 \$36.75 (10/1)	\$28.77	\$19.00

- (1) Accounts with verifiable U.S. retail sales (airports, border shops, etc.)
- (2) Other U.S Duty Free

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ADDITIONAL TERMS OF PM'S PROPOSAL

- Payments to RBH adjusted semi-annually.
- Length of contract -- 10 years.
- PM is granted a license on Belvedere.
- Marketing costs are shared by PM and RBH on a 50/50 basis.
- RBH is allowed to produce other PM brands (B&H, Mark 10, etc.) for the same payment.
- RBH's prices to TEI for Craven A cannot be lower than PM's payment to RBH.

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ROTHMANS ESTIMATED 1992 U.S. VOLUME
(Millions)

	<u>CURRENT*</u>	<u>FUTURE **</u>
U.S. Domestic	115.4	921.4
U.S. Duty Free (1)	92.0	92.0
Bahamas	84.5	84.5
Other U.S. Duty Free	<u>1612.0</u>	<u>806.0</u>
Total	1903.9	1903.9

(1) Accounts with verifiable retail sales (airports, border shops, etc.)

- * As supplied by RBH.
- ** Represents planned volume shift to domestic U.S. once PM begins managing the business.

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ESTIMATED ROTHMANS PROFITABILITY
(Millions US \$)

	<u>Current</u>	<u>RBH volume est.</u>		<u>If volume shifts</u>	
		<u>RBH</u>	<u>PM</u>	<u>RBH</u>	<u>PM</u>
	<u>Proposal</u>	<u>Proposal</u>	<u>Proposal</u>	<u>Proposal</u>	<u>Proposal</u>
° For RBH					
U.S. Domestic	\$0.96	\$2.36	\$2.20	\$18.82	\$17.59
U.S. Duty Free (1)	2.05	3.07	0.98	3.07	0.98
Other U.S. Duty Free (2)	<u>30.37</u>	<u>30.56</u>	<u>14.81</u>	<u>15.28</u>	<u>7.41</u>
Total	\$33.37	\$35.99	\$17.99	\$37.17	\$25.98
° For PM					
PM-USA	--	\$3.18	\$3.34	\$25.42	\$26.66
PMI (3)	<u>\$13.35</u>	<u>29.92</u>	<u>40.55</u>	<u>22.95</u>	<u>28.43</u>
Total	\$13.35	\$33.10	\$43.89	\$48.37	\$55.09

(1) Border and non-border accounts with verifiable retail sales, includes Bahamas.
(2) Based on pre-10/1 price. Annualized impact of 10/1 price increase generates \$12.9 million.
(3) Includes PM's 40% ownership of RBH.

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ALTERNATIVE PM PROPOSALS

Alternative Proposal #1

- Preserve RBH profitability by increasing duty free payment.
- No change in PM's proposed payment for Duty ~~Free~~ Paid.
- Limit duty free payment increases to cost justified until PM margin equals RBH's, then 50/50 sharing of price increases.
- Shorten contract term to 3 years.

Alternative Proposal #2

- Preserve RBH profitability by increasing duty free payment.
- Reduce PM's proposed payment for Duty Paid to the current TEI price, RBH shares 50/50 in future price increases.
- Limit duty free payment increases to cost justified until PM margin equals RBH's, then 50/50 sharing of price increases.
- Contract term remains at 10 years.

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ROTHMANS PRICING
(Per Thousand US \$)

	<u>Current</u>	<u>RBH Proposal</u>	<u>PM Alternative #1</u>	<u>PM Alternative #2</u>
U.S. Domestic	\$18.10 (to TEI)	\$30.24	\$28.90	\$18.10
U.S. Duty Free (1)	\$16.09 (non-Border) \$28.65 (Border)	\$27.22	\$27.00	\$28.00
U.S. Duty Free (2)	\$28.65 \$36.75 (10/1)	\$28.77	\$27.00	\$28.00

- (1) Accounts with verifiable U.S. retail sales (airports, border shops, etc.)
- (2) Other U.S Duty Free

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ESTIMATED ROTHMANS PROFITABILITY
(Millions US \$)

° For RBH

	RBH volume est.		If volume shifts	
	Current	Alt.	Alt.	Alt.
U.S. Domestic	\$0.96	\$2.20	\$17.59	\$7.64
U.S. Duty Free (1)	2.05	3.03	3.03	3.21
Other U.S. Duty Free (2)	<u>30.37</u>	<u>27.71</u>	<u>13.85</u>	<u>14.66</u>
Total	\$33.37	\$32.94	\$34.47	\$25.51

° For PM

PM-USA	--	\$3.34	\$4.63	\$26.69	\$36.94
PMI (3)	<u>\$13.35</u>	<u>31.59</u>	<u>30.02</u>	<u>23.34</u>	<u>18.76</u>
Total	\$13.35	\$34.93	\$34.65	\$50.13	\$55.70

- (1) Border and non-border accounts with verifiable retail sales, includes Bahamas.
- (2) Based on pre-10/1 price. Annualized impact of 10/1 price increase generates \$12.9 million.
- (3) Includes PM's 40% ownership of RBH.

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PLAYERS AGREEMENT

- PM is sole U.S. customer for Players domestic and duty free product.
- PM guaranteed a minimum mark-up of 25%.
- Initial PM margins are \$10.91/M domestic and \$6.17/M duty free.
- Contract term is 20 years.
- Marketing costs are shared 75% Imperial and 25% PM.
- First year volume conservatively estimated by Imperial at 500 million cigarettes.

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