

POSSIBLE NEGOTIATING STRATEGY FOR 11/9 RBH MEETING

KEY NEGOTIATION OBJECTIVES

- An ultimate payment structure which, based on RBH's view of the business, generates for RBH no more than roughly a 50/50 split of Rothmans' margin after P.M.'s 40% share of RBH is taken into account. Low to mid \$30 million range for each party.
- Most favored nation pricing versus other customers (TEI) for products exported to the U.S. (Craven).
- A license on Belvedere.
- No guarantee on Rothmans' share in U.S. vis-a-vis other Canadian style brands.
- Ten year term.

CURRENT NEGOTIATING POSITIONS

- PM-USA

Our only formal offer to RBH is for pricing of Duty Paid -- \$28.90/m, Duty Free -- \$15.40; and Other Duty Free -- \$19.00/m. RBH would realize about \$18 million versus the \$33-36 million they are seeking.

- RBH

RBH appears to accept our 50/50 concept, but wants to include manufacturing costs in the fees, i.e. they want us to compensate them for 50% of their manufacturing costs. Their most recent offers to P.M. are shown below:

	<u>OPTION 1</u>	<u>OPTION 2</u>
Duty Paid	33.90/M	33.90/M
Duty Free	20.40/M	20.40/M
Other Duty Free	28.77/M	30.24/M
DP&DF Changes	50% of Price Increase	50% of Price Increase
ODF Changes	20% of Price Increase	No Price Increase
RBH Profit	\$35.2 Million	\$37.6 Million

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P.M. RESPONSE

- State that we acknowledge importance of keeping RBH "whole" -- the issue is how soon are they kept whole -- from Day 1 or some point in the near future.
- State that focus of discussion should be on Other Duty Free since nearly 90% of volume is through this channel.
- State that, upon further review, we do not believe a significant portion of Other Duty Free can be shifted to domestic. For us to profitably manage the small domestic business, we need TEI's price.
- State that we would prefer one duty free price, at a level which allows us some profit for the "retail" duty free portion.
- Other issues should be dealt with after the initial pricing and formulas for price changes are agreed upon.

P.M. NEW OFFER

	<u>ORIGINAL</u>	<u>INITIAL NEW</u>	<u>MAX NEW</u>
Duty Paid	\$28.90/M	\$18.10/M	\$18.10/M
Duty Free	15.40/M	22.60/M	28.00/M
Other Duty Free	19.00/M	22.60/M	28.00/M
RBH Profit	\$18.0 Million	\$23.8 Million	\$33.5 Million
P.M. Profit	\$43.9 Million	\$40.4 Million	\$34.6 Million
Price Changes	<u>PM/RBH</u>	<u>PM/RBH</u>	<u>PM/RBH</u>
Duty Paid	50/50	50/50	50/50
Duty Free	50/50	80/20 50/50	80/20

We should hold firm on the Duty Paid price of \$18.10/M so that we may benefit from any domestic migration that occurs.

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