

Essential and Material Terms of the Settlement Agreement between and among the Settling States, House of Prince, A/S, Scandinavian Tobacco, S.I.A. Carolina Tobacco Company, Inc. and Leonidias Trading Company

1. **Background.** In August 1999, House of Prince, A/S ("HOP") became a Subsequent Participating Manufacturer ("SPM") pursuant to the 1998 Tobacco Master Settlement Agreement ("MSA"). Around the same time a partially owned subsidiary of HOP, Scandinavian Tobacco, S.I.A. ("STR"), began contract manufacturing cigarettes for two U.S. companies, Carolina Tobacco Company, Inc. ("CTC") and Leonidias Trading Company ("LTC"), under brand names, styles and formulas owned by those companies, selling and delivering the cigarettes to those companies in Riga, Latvia. (HOP and STR are from time to time collectively referred to as the "HOP Group".) Subsequently, a dispute arose between and among the HOP Group and the Settling States over whether the cigarettes manufactured and sold to CTC and LTC in Riga, Latvia by STR from 1999 through 2003 (the "Riga Cigarettes") were subject to the MSA's payment and other obligations. The dispute is now pending in the case of People of the State of California Ex Rel. Bill Lockyer, Attorney General of the State of California v. House of Prince, A/S, case no. J.C.C.P. 4041 (the "California Litigation").

In the absence of a settlement agreement, the Settling States, HOP Group, CTC and LTC (collectively the "Parties") will be involved in protracted litigation between and amongst themselves in what could be multiple forums. The Settling States and the HOP Group now desire to settle these disputes (with CTC and LTC honoring their obligations to contribute to this settlement certain funds they respectively deposited into their respective escrow accounts pursuant to Settling State escrow statutes ("Qualified Escrow Accounts") for the Riga Cigarettes (the "Qualified Escrow Funds")) and also agree to enter into definitive agreement(s) in writing with the other Parties further documenting such settlement ("Definitive Agreement(s)"). The Parties wish to describe the essential and material terms of the settlement herein with the understanding that Definitive Agreement(s) in writing encompassing those essential and material terms shall be executed by the Parties, and the Parties agree by this document ("Agreement") that the Definitive Agreement(s) shall contain those essential and material terms described herein. Capitalized terms used but not defined herein shall have the meanings ascribed to them in the MSA. All references in this Agreement to Paragraph(s) and Subparagraph(s) shall mean those paragraphs and subparagraphs in this Agreement.

2. **Settlement Amount.** The settlement amount shall be \$50,826,632.00, plus certain interest as indicated in Subparagraph 2.1 ("Settlement Funds"). The amount of the Settlement Funds is calculated as follows:

2.1 \$24,826,632.00, plus interest equal to \$919,679.28 (being the interest as calculated by the Independent Auditor at the Prime Rate through January 31, 2005, on \$24,826,632.00) and additional interest accrued at the Prime Rate from February 1, 2005, as calculated by the Independent Auditor in a manner consistent with the MSA, until the Settlement Funds are delivered for the benefit of the Settling States as directed in writing pursuant to the terms of this Agreement. The \$24,826,632.00 represents the agreed upon 2003 SPM liability for 1,250,000,000 cigarettes which the Parties, for the purpose of this Agreement, agree were the cigarettes contract manufactured by STR upon which federal excise tax was collected in 2003 (such payment to be referred to hereinafter as the "2003

Liability"); and

2.2 \$26,000,000.00, representing the agreed upon compromise amount for all cigarettes contract manufactured by STR upon which federal excise tax was collected other than those described in Subparagraph 2.1.

3. **Qualified Escrow Contribution and Customer Compliance.** The HOP Group intends to finance \$34,091,730 of the Settlement Funds (the "Qualified Escrow Contribution") from \$31,009,757 and \$3,081,973 in the Qualified Escrow Accounts established by CTC and LTC, respectively, in which Qualified Escrow Accounts the HOP Group assertedly currently holds valid perfected security interests. CTC and LTC shall cooperate with the HOP Group in finalizing and implementing the Definitive Agreement(s) by contributing amounts contained in the Qualified Escrow Accounts to create the Qualified Escrow Contribution to be applied to payment of the Settlement Funds pursuant to the Escrow Contribution Agreement described below ("Customer Compliance"). The terms of the Customer Compliance shall be substantially as follows:

3.1 **Payment.** The Settling States, CTC and LTC shall authorize and direct the escrow agents for the Qualified Escrow Accounts (Bank of America for CTC and Comerica Bank for LTC) to deliver the Qualified Escrow Contribution of \$34,091,730 from the Qualified Escrow Accounts (CTC- \$31,009,757 and LTC -\$3,081,973) to a new escrow agent reasonably acceptable to the Settling States and the HOP Group (the "Escrow Contribution Agent") pursuant to an escrow agreement (described in Subparagraph 3.2) entered into between the Escrow Contribution Agent, the Settling States and the HOP Group (the "Escrow Contribution Agreement") establishing the escrow contribution account (the "Escrow Contribution Account") to be used for the payment of the Settlement Funds. On or before five (5) business days after execution of the Definitive and Escrow Contribution Agreements by the Parties, the Qualified Escrow Contribution shall be delivered to the Escrow Contribution Agent by or for the benefit of the HOP Group for deposit into the Escrow Contribution Account. On the same date, \$16,734,902, plus certain interest as indicated in Subparagraph 2.1, shall also be delivered by the HOP Group to the Escrow Contribution Agent for deposit into the Escrow Contribution Account.

3.2 **Terms.** The amounts held in the Escrow Contribution Account are to be held and disbursed according to the terms of the Escrow Contribution Agreement, which terms (together with others customarily used in similar escrow agreements) shall be substantially as follows.

3.2.1 The Escrow Contribution Account shall be an interest bearing account, interest accruing for the benefit of the parties to whom the funds are disbursed, except as provided in Paragraph 4.

3.2.2 The Escrow Contribution Agent shall deliver the funds held in the Escrow Contribution Account to or for the benefit of the Settling States as directed in writing by the National Association of Attorneys General ("NAAG") unless, on or before the ninety-second (92nd) day, which is a business day, after it has received

all of the Qualified Escrow Contribution from the various parties depositing the same (the "Initial Holding Period"), it has received notice that either (a) circumstances exist, and identifying the same with specificity, which could cause an adverse claim to be asserted by any person or entity to some or all of the funds held in the Escrow Contribution Account, or (b) that any action has been taken by any person or entity to avoid the transactions creating the Escrow Contribution Account. If no such notice has been received during the Initial Holding Period, the Escrow Contribution Agent shall distribute the funds to or for the benefit of the Settling States within no more than five (5) business days after the Initial Holding Period and the date it receives written direction from NAAG as to how to disburse the Settlement Funds.

3.2.3 If within the Initial Holding Period, the Escrow Contribution Agent is in receipt of any one or more of the notices described in Subparagraph 3.2.2, the Escrow Contribution Agent shall continue to hold all the funds in the Escrow Contribution Account until:

3.2.3.1 The Escrow Contribution Agent is in receipt of a joint written direction of the HOP Group and the Settling States (the "Joint Direction") instructing the Escrow Contribution Agent as to how to disburse the funds held in the Escrow Contribution Account including accrued interest, which may include a direction to terminate the Escrow Contribution Account and to return the funds to the parties that contributed thereto (an "Unwind Disbursement"), or

3.2.3.2 The Escrow Contribution Agent is in receipt of a non-appealable order ("the Order") by a court of competent jurisdiction, directing the Escrow Contribution Agent as to how to disburse the funds held in the Escrow Contribution Account including accrued interest, provided, however, that if the Order provides for disbursement for Settlement Finalization, the Order must also provide for Adequate Protection, as defined in Subparagraph 3.2.3.3.

3.2.3.3 The Parties shall cooperate with each other and coordinate their efforts to promptly take all action reasonably necessary and appropriate to cause the circumstances and/or actions described in any notice(s) received pursuant to Subparagraph 3.2.2 to be overcome to the reasonable satisfaction of the HOP Group and the Settling States such that there is protection for the HOP Group from any claims that would prevent the funds in the Escrow Contribution Account from being used as part of the Settlement Funds for Settlement Finalization (as defined in Paragraph 6) ("Adequate Protection"). However, if the HOP Group and the Settling States cannot agree that Adequate Protection exists so as to be able to issue a Joint Direction to the Escrow Contribution Agent, either of them may request a court of competent jurisdiction to determine that Adequate Protection exists or order that additional steps be taken as necessary to create Adequate Protection (which provisions shall be part of the Order in

Subparagraph 3.2.3.2). Except as otherwise provided in this Agreement, no funds will be disbursed from Escrow Contribution Account to provide Settlement Finalization except by Joint Direction or this Order providing Adequate Protection for the HOP Group.

3.2.3.4 The Settling States' interest in the Qualified Escrow Accounts shall not be released until the Settlement Funds have been disbursed under either Subparagraph 3.2.2 or 3.2.3.

4. **Release of Settlement Funds.** The Settlement Funds shall be released from the Escrow Contribution Account upon delivery of notice to the Escrow Contribution Agent by the Settling States that they have received waivers of the MSA Most Favored Nation provision for the settlement reasonably satisfactory to them, and by the Settling States and the HOP Group of satisfaction of the conditions in either Subparagraph 3.2.2 or 3.2.3. If, upon release of the Settlement Funds, the interest accrued on the Settlement Funds while the Settlement Funds were in the Escrow Contribution Account is less than the accrued interest on the 2003 Liability as calculated pursuant to Subparagraph 2.1 ("Accrued Interest Deficit"), the HOP Group shall add to the amount delivered to or for the benefit of the Settling States the Accrued Interest Deficit. Any excess accrued interest beyond that required to satisfy the Accrued Interest Deficit shall be disbursed to the HOP Group.

5. **Termination of Agreement:**

5.1 **Termination of Agreement by Settling States:** If, after five (5) business days after the end of the Initial Holding Period, the Qualified Escrow Contribution has not been released by the Escrow Contribution Agent to or for the benefit of the Settling States because either (a) a notice was received pursuant to Subparagraph 3.2.2 and none of the occurrences in Subparagraph 3.2.3 have occurred or (b) the waivers referred to in Paragraph 4 have not been received by the Settling States, the Settling States may thereafter, at any time, and at their sole discretion, terminate this Agreement and any Definitive Agreement(s) at any time, and they shall thereafter be of no further force and effect. Upon such termination, all escrows created hereunder shall be dissolved and all funds shall be returned to their original depositors and status.

5.2 **Termination by HOP:** If a notice has been received pursuant to Subparagraph 3.2.2 and the Parties have not agreed to a Joint Direction pursuant to Subparagraph 3.2.3.1, the HOP Group may, at its sole discretion, terminate this Agreement and any Definitive Agreement(s), and those documents shall thereafter be of no further force and effect, if no order is entered (which order would be an Order but for the fact that the order is appealable) within six (6) months of receipt of any such notice. Upon such termination, all escrows created hereunder shall be dissolved and all funds shall be returned to their original depositors and status.

6. **NPM Adjustment.** This Agreement and the Definitive Agreement(s) shall contain a provision that, upon full payment to the Settling States of all amounts owed hereunder (referred to hereafter as "Settlement Finalization"), the HOP Group shall retain all of its rights to the potential 2003 NPM Adjustment, and shall waive any and all claims to NPM Adjustments for

years 1999-2002.

7. **Dismissal of Pending Action.** Upon Settlement Finalization, the California Litigation shall be dismissed with prejudice and without costs.

8. **Full and Complete Release.** Upon Settlement Finalization, the Settling States will release HOP, STR and any and all affiliates, including without limitation their parent corporation, Scandinavian Tobacco, A/S, CTC and LTC and all of their respective officers, directors, shareholders, employees, attorneys, agents, successors and assigns from any and all liability relating to Riga Cigarettes.

9. **Miscellaneous.**

9.1 This Agreement is binding upon the Parties, and their respective successors and assigns and inures to their benefit.

9.2 This Agreement is governed by the law of each Settling State, as it relates to that Settling State, without regard to its conflict laws.

9.3 There is no admission of liability by any Party to this Agreement.

9.4 This Agreement is without prejudice to any rights or liabilities not covered by the release referred to in Paragraph 8, and is not to be used in any other litigation or matter; other than as an absolute bar to any claims of the Settling States against the HOP Group, CTC or LTC arising out of or related to the Riga Cigarettes or for use with respect to disputes arising out of or relating to this Agreement or any of the terms herein.

9.5 The Parties agree to work in good faith toward the execution of the Definitive Agreement(s) as expeditiously as practicable.

9.6 HOP shall report 1,250,000,000 of the Riga Cigarettes referenced in Subparagraph 2.1 on which federal excise tax was deemed collected in 2003 to the Independent Auditor upon Settlement Finalization.

9.7 The Parties agree to use reasonable efforts to take such actions and to execute such documents that may be reasonably required or necessary to carry out the intent of all of the provisions of this Agreement.

House of Prince, A/S

By: _____

Print Name: _____

Date: _____

Scandinavian Tobacco, SI.A.

By: _____

Print Name: _____

Date: _____

Carolina Tobacco Company, Inc.

By: _____

Print Name: _____

Date: _____

Leonidas Trading Company

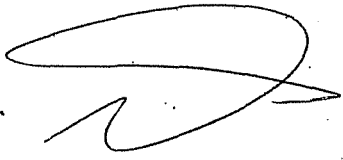
By: _____

Print Name: _____

Date: _____

Settling States

Date: _____

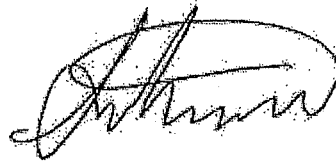
By: 

Pauls Viso cas

Date: 16. 05. 2005




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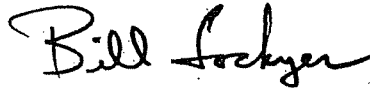
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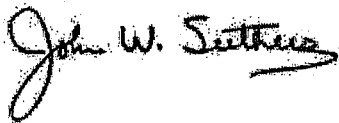
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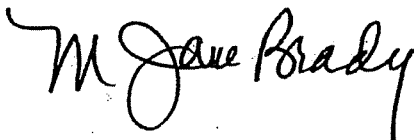
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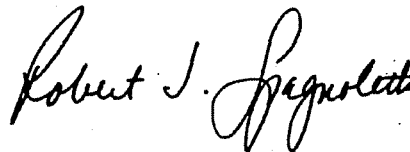
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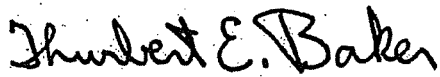
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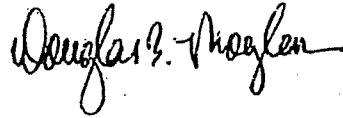
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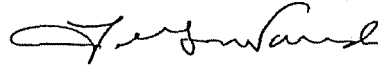
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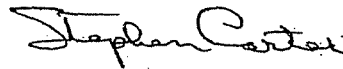
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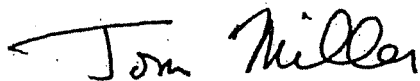
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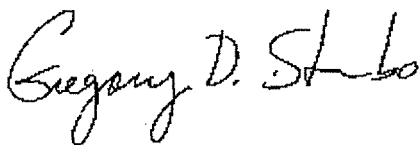
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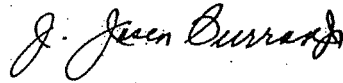
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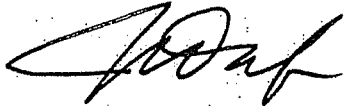
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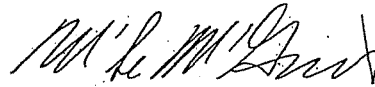
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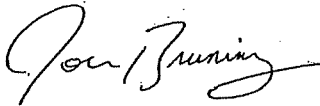
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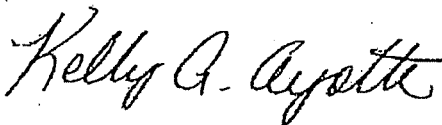
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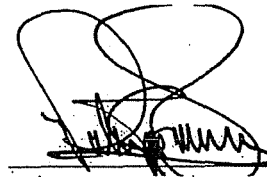
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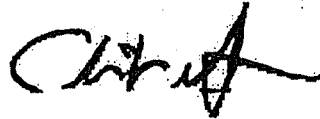
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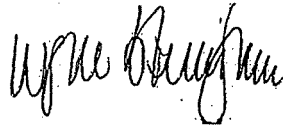
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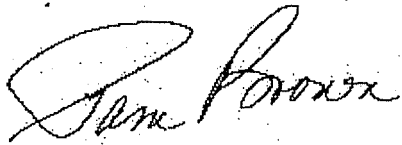
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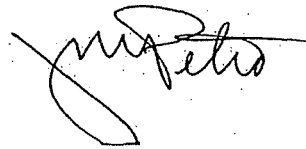
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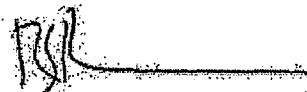
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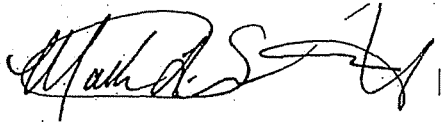
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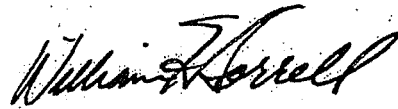
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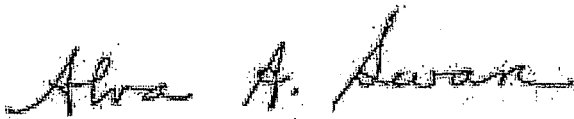
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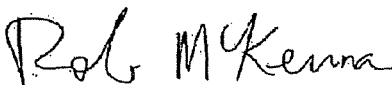
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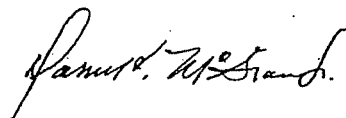
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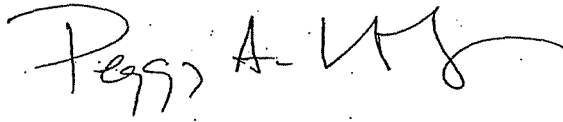
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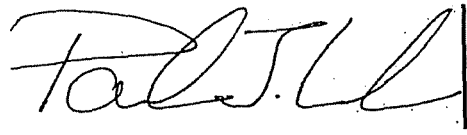
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Darrel Vivian McGraw Jr.
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Peggy A. Lautenschlager
Attorney General of Wisconsin

Handwritten signature of Pat Crank in black ink.

Pat Crank
Attorney General of Wyoming