

NYS SETTLEMENT AGREEMENT **THIRD SUPPLEMENTAL GUIDANCE**

March 15, 2016

DISCLAIMER NOTICE

The following Supplemental NYS Tobacco Settlement Supplemental Guidance (the “Supplemental Guidance”) has been prepared and made available by the Office of the Attorney General of the State of New York (“OAG”) to help interested parties to better understanding aspects of the New York State Tobacco Settlement Agreement (the “NYS Settlement Agreement”), by and among the State of New York (the “State”) and the Participating Manufacturers listed in Appendix A hereto (collectively, the “Participating Manufacturers”) that became fully effective on October 16, 2015. The Supplemental Guidance supplements the OAG’s NYS Tobacco Settlement Guidances, dated November 23, 2015 and December 21, 2015.

While OAG has posted this Supplemental Guidance on the Tobacco Settlement web page of the OAG website (www.ag.ny.gov), there should be no implication by its posting that there have been no other developments with respect to the Master Settlement Agreement, the Participating Manufacturers, the Non-Participating Manufacturers, the Tobacco Settlement Revenues (“TSRs”) or any other tobacco settlement negotiations or discussions involving the State at any time subsequent to its release date. Maintenance of this Supplemental Guidance on the OAG website is not intended as a republication of the information contained therein on any date subsequent to its release date.

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Cautionary Note: *Investors of tobacco bonds and other interested parties are advised to rely only on figures/amounts stated in the NYS Settlement Agreement or on these Guidances, and not on press releases and other non-official sources of information relating to the NYS Settlement Agreement.*

QUESTION: What is the total amount expected to be distributed on April 18, 2016 to the NYS Tobacco Settlement Distributees after application of the NYS Settlement Agreement credits?

ANSWER: The preliminary calculations of the 2016 Annual MSA §IX(c)(1) Payment, including credits, and the release of withheld funds from the Disputed Payments Account as provided for in the settlement are set forth in the following table:

<u>Tobacco Settlement Agreement Disbursements</u>	<u>Amount to be Distributed*</u>
<u>Gross</u> 2016 Annual MSA §IX(c)(1) Payment to NY	\$ 799,126,000
OPM Settlement Credits	\$ 134,183,000
SPM Settlement Credits	\$9,259,000
<u>Net</u> 2016 Annual MSA §IX(c)(1) Payment to NY	\$ <u>655,684,000</u>
Settlement Release to NY of §IX(c)(1) funds from DPA	\$ 693,228,000
TOTAL DISTRIBUTION TO NYS TOBACCO SETTLEMENT DISTRIBUTEES	<u>\$1,348,912,000</u>

* All numbers are estimated and rounded. These amounts do not include investment earnings or accrued interest due at date of distribution. .

QUESTION: Is the NY NPM Settlement Agreement between New York and the tobacco companies in the best interests of New York?

ANSWER: In the best judgment of the State, the NY NPM Settlement Agreement is a very good settlement and it was in the State’s interest to enter into it in October 2015 from a risk management perspective. Under the NY NPM Settlement Agreement, 90% of the previously-withheld Disputed Payment Fund moneys are being freed-up to New York for distribution, and future annual MSA Payments will be made according to a set formula that cannot be disputed by either the State or the tobacco companies. On a going forward basis, there will be **no** disputed withholdings and **no** drawn-out NPM arbitration proceedings. Most importantly, there will be **no** risk that New York will lose one or more of its entire annual MSA payments in future years.

QUESTION: Can the annual tribal pack credit be calculated with any degree of certainty?

ANSWER: The State believes that an investigation into the annual volume of non-taxed tribal cigarettes sold in the State can be measured and a reasonable estimate of the annual volume can be derived with reasonable accuracy. The State recognizes that the tribal pack credit is critical to the determination of future annual MSA Payments under the Settlement.