

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K

Annual report pursuant to section 13 and 15(d)

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### FILER

#### PHILIP MORRIS COMPANIES INC

CIK: **764180** | IRS No.: **133260245** | State of Incorporation: **VA** | Fiscal Year End: **1231**  
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SIC: **2111** Cigarettes

Business Address  
**120 PARK AVE**  
**NEW YORK NY 10017**  
**212-880-38**

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934 [FEE REQUIRED] FOR THE FISCAL YEAR ENDED DECEMBER 31, 1993

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934 [NO FEE REQUIRED] FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-8940

PHILIP MORRIS COMPANIES INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

VIRGINIA  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

13-3260245  
(I.R.S. EMPLOYER IDENTIFICATION NO.)

120 PARK AVENUE, NEW YORK, N.Y.  
(ADDRESS OF PRINCIPAL EXECUTIVE  
OFFICES)

10017  
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: 212-880-5000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
Common Stock, \$1 par value	New York Stock Exchange

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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At February 1, 1994, the aggregate market value of the shares of Common Stock held by non-affiliates of the registrant was approximately \$52.3 billion. At such date, there were 877,255,534 shares of the registrant's Common Stock outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's annual report to stockholders for the year ended December 31, 1993 are incorporated in Item 1 of Part I, Part II and Part IV hereof and made a part hereof. The registrant's definitive proxy statement in connection with its annual meeting of stockholders to be held on April 21, 1994, filed with the Securities and Exchange Commission, is incorporated in Part III hereof and made a part hereof.

PART I

ITEM 1. BUSINESS.

GENERAL DESCRIPTION OF BUSINESS

GENERAL

Philip Morris Companies Inc. is a holding company whose principal wholly-owned subsidiaries, Philip Morris Incorporated, Philip Morris International Inc., Kraft General Foods, Inc. and Miller Brewing Company, are engaged primarily in the manufacture and sale of various consumer products. A wholly-owned subsidiary of the Company, Philip Morris Capital Corporation, engages in various financing and investment activities. As used herein, unless the context indicates otherwise, the term "Company" means Philip Morris Companies Inc. and its subsidiaries. The Company is the largest consumer packaged goods company in the world.\*

Philip Morris Incorporated ("Philip Morris U.S.A.") and its subsidiaries and affiliates are engaged primarily in the manufacture and sale of cigarettes. Philip Morris U.S.A. is the largest cigarette company in the United States. Philip Morris International Inc. ("Philip Morris International") is a holding company whose subsidiaries and affiliates and their licensees are engaged primarily in the manufacture and sale of tobacco products (mainly cigarettes); certain Latin American subsidiaries and affiliates manufacture and sell a wide variety of food products. A subsidiary of Philip Morris International is the leading United States exporter of cigarettes. Marlboro, the principal cigarette brand of these companies, has been the world's largest selling cigarette brand since 1972.

The Company's food subsidiary, Kraft General Foods, Inc. ("KGF"), is the largest processor and marketer of packaged grocery, coffee, cheese and processed meat products in the United States. A wide variety of similar products is manufactured and marketed by KGF in Europe, Canada and the Asia/Pacific region. KGF also conducts foodservice businesses and sells food ingredients.

Miller Brewing Company ("Miller") is the second largest brewing company in the United States.

SOURCE OF FUNDS -- DIVIDENDS

Because the Company is a holding company, one of its principal sources of funds is dividends from its subsidiaries. The Company's principal wholly-owned subsidiaries currently are not limited by long-term debt or other agreements in their ability to pay cash dividends or make other distributions with respect to their common stock.

INDUSTRY SEGMENTS

Tobacco products (mainly cigarettes), which accounted for 43% of the Company's operating revenues in 1993 and in 1992, food products, beer and financial services and real estate represent the Company's significant industry segments. Operating revenues, operating profit (together with a reconciliation to operating income) and identifiable assets attributable to each such segment for each of the last three years, set forth in note 11 to the Company's consolidated financial statements, are incorporated herein by reference to its annual report to stockholders for the year ended December 31, 1993.

Operating profit from tobacco operations was approximately 62% of the Company's total operating profit in 1993 compared with 69% in 1992, of which Philip Morris U.S.A. and Philip Morris International contributed 33% and 29%, respectively, in 1993 and 50% and 19%, respectively, in 1992. Food products accounted for approximately 33% of the Company's operating profit in 1993 and 27% in 1992. Beer contributed approximately 2% and financial services and real estate contributed approximately 3% of the Company's operating profit in 1993, as compared with 2% each in 1992.

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\* Claims made with respect to the Company's competitive ranking in its various businesses are based on sales data or, in the case of cigarettes and beer, shipments, unless otherwise indicated.

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During 1993, the Company provided \$741 million for the costs of restructuring its worldwide operations. In addition, the Company adopted, effective January 1, 1993, Statement of Financial Accounting Standards ("SFAS") No. 112, which resulted in additional operating expense of \$29 million. Excluding the impacts of the restructuring and SFAS No. 112, the percentages of total operating profit from tobacco, food and beer operations were 59%, 34% and 4%, respectively.

## NARRATIVE DESCRIPTION OF BUSINESS

### TOBACCO PRODUCTS

Philip Morris U.S.A. is responsible for the manufacture, marketing and sale of cigarettes in the United States (including military sales); subsidiaries and affiliates of Philip Morris International and their licensees are responsible for the manufacture, marketing and sale of tobacco products outside the United States; and a subsidiary of Philip Morris International is responsible for tobacco product exports from the United States.

The tobacco industry continues to be subject to health concerns and litigation, as well as tax increases, which could have an adverse impact on the Company.

#### Domestic Tobacco Products

In 1993, Philip Morris U.S.A.'s total shipments of cigarettes amounted to 194.7 billion units, a decrease of 19.6 billion units (9.1%) from 1992. The industry's estimated cigarette shipments in the United States decreased by 9.0% in 1993 as compared to 1992, following a decrease of 0.4% in 1992 as compared to 1991. As discussed below, in 1993, Philip Morris U.S.A. implemented a strategy which lowered the price of Marlboro and its other premium brands. This action resulted in lower shipments in 1993 as compared with 1992 when distributors bought in anticipation of price increases and higher federal excise taxes, effective January 1, 1993. The following table sets forth the industry's estimated cigarette shipments in the United States, Philip Morris U.S.A.'s shipments and its share of industry shipments (excluding in all cases

export and overseas military shipments):

<TABLE>  
<CAPTION>

YEARS ENDED DECEMBER 31 -----	INDUSTRY (a)	PHILIP MORRIS U.S.A.	PHILIP MORRIS U.S.A. SHARE OF INDUSTRY (a)
	(IN BILLIONS OF UNITS)		(%)
<S>	<C>	<C>	<C>
1993.....	461.2	194.7	42.2
1992.....	507.0	214.3	42.3
1991.....	509.1	220.7	43.4

</TABLE>

(a) Source: Wheat, First Securities, Inc. (John C. Maxwell, Jr.)

According to The Maxwell Consumer Report issued by Wheat, First Securities, Inc., Philip Morris U.S.A. has been the leading cigarette company in the United States market since 1983. Philip Morris U.S.A.'s major cigarette brands are Marlboro, Benson & Hedges 100's, Merit, Virginia Slims, Cambridge and Basic. Marlboro is the largest selling brand in the United States with shipments of 108.5 billion units in 1993 (down 12.4% from 1992, primarily the result of the differences in distributor buying patterns noted above), 23.5% of the United States market.

During the first half of 1993, domestic cigarette industry volume continued to shift from the full price (premium) segment to the lower margin discount segment. In April 1993, Philip Morris U.S.A. announced its decision to institute, in the second quarter of 1993, an extensive promotional program to reduce the average retail price of Marlboro cigarettes, a major shift in pricing strategy designed to restore lost market share and improve long-term profitability. In August 1993, Philip Morris U.S.A. lowered the price of its premium brands and raised the price of its discount products in further response to the highly price sensitive market environment. The overall effect of these changes has been lower profit margins that have not been offset entirely by higher volume. Lower profit margins will continue at least until sustained improvements in the economic environment occur. As a result of these strategic initiatives, retail sales data compiled by Nielsen Marketing Research indicate Marlboro's market share rising from 22.1% in March 1993 to 26.8% in December 1993. In addition, such retail sales data indicate that a reversal occurred in the second half of

1993 in the shift away from the premium segment (67.8% of the industry in December 1993 compared with 64.0% in March 1993) to the discount segment. These developments, and their impact on the Company's financial results, are more fully discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations (the "MD&A"), incorporated herein by reference to the Company's annual report to stockholders for the year ended December 31, 1993.

The discount segment of the industry, which consists of "generic" and lower-priced cigarettes that have a lower profit margin than premium brands, has grown markedly in recent years, constituting 36.8% of United States industry shipments in 1993, up from 30.2% in 1992, but down from 39.0% and 40.7% for the first and second quarters of 1993, respectively. Philip Morris U.S.A. accounted for 29.4% of the discount segment in 1993, up from 27.1% in 1992.

Excise taxes, sales taxes and other taxes levied by various states, counties and municipalities affecting cigarettes have been increasing. These taxes vary

considerably and, when combined with the federal excise tax, may be as high as \$1.05 per package of 20 cigarettes. The federal excise tax was increased by \$.04 to \$.24 per package of 20 cigarettes effective January 1, 1993. As part of its health care reform proposal, the administration has proposed an increase of \$.75 per package (to \$.99), effective October 1, 1994. In the opinion of the Company, the 1993 increase has had an adverse effect on sales and the proposed 1994 increase, if adopted, could result in volume declines for Philip Morris U.S.A. and further shifts from the premium segment to the discount segment.

#### International Tobacco Products

The Company estimates that world cigarette industry unit sales (excluding the United States) were approximately 5.0 trillion units in 1993, of which the Company's share, including licensees, was 9.2% in 1993 and 8.6% in 1992. Unit sales of its principal brand, Marlboro, increased 3.5% in 1993 over 1992 to 240.1 billion units, accounting for 4.8% of the world cigarette market (excluding the United States). Subsidiaries and affiliates of Philip Morris International and their licensees have cigarette market shares of at least 15%-- and in a number of instances substantially more than 15% -- in more than 30 markets, including Argentina, Australia, Belgium, the Canary Islands, the Czech Republic, the Dominican Republic, Finland, France, Germany, Hong Kong, Italy, Kuwait, Mexico, the Netherlands, the Philippines, Saudi Arabia, Singapore, Slovakia and Switzerland.

A subsidiary of Philip Morris International is the leading United States exporter of cigarettes. It exported 114.4 billion units in 1993, an increase of 3.6% from 1992.

Cigarette prices in many international markets are government-controlled, and excise and other tax increases, higher costs and government price restraints in a number of markets have restricted, and may continue to restrict, the sales and operating income of Philip Morris International.

In 1993, Philip Morris International acquired majority interests in government-owned tobacco companies in Lithuania, Russia and Kazakhstan and signed a cooperation agreement with the China National Tobacco Company to produce and sell Marlboro cigarettes for the Chinese domestic market.

#### Smoking and Health and Related Matters

Reports with respect to the alleged harmful physical effects of cigarette smoking have been publicized for many years and, in the opinion of the Company, have had and continue to have an adverse effect upon tobacco industry sales. Since 1964, the Surgeon General of the United States and the Secretary of Health and Human Services have released a number of reports which purport to link cigarette smoking with a broad range of health hazards, including various types of cancer, coronary heart disease and chronic lung disease, and recommend various governmental measures to reduce the incidence of smoking. The 1990 and 1992

reports focus upon the purported addictive nature of cigarettes, the purported effects of smoking cessation, the decrease in smoking in the United States and the economic and regulatory aspects of smoking in the Western Hemisphere. The most recent report, released in February 1994, focuses upon cigarette smoking by adolescents, particularly the purported addictive nature of cigarette smoking in adolescence.

Federal legislation requires cigarette manufacturers and importers to include the following warning statements in rotating sequence on cigarette packages and

in advertisements: SURGEON GENERAL'S WARNING: Smoking Causes Lung Cancer, Heart Disease, Emphysema, And May Complicate Pregnancy; SURGEON GENERAL'S WARNING: Quitting Smoking Now Greatly Reduces Serious Risks to Your Health; SURGEON GENERAL'S WARNING: Smoking By Pregnant Women May Result in Fetal Injury, Premature Birth, And Low Birth Weight; and SURGEON GENERAL'S WARNING: Cigarette Smoke Contains Carbon Monoxide. Such legislation also covers the size and format of warnings on cigarette packages and in cigarette advertising, and prescribes a modified version of the warnings for outdoor billboard advertisements. In addition to the warning statements, cigarette advertising in the United States must disclose the average "tar" and nicotine deliveries of the advertised brand or variety. Cigarette manufacturers and importers are also required to provide annually to the Secretary of Health and Human Services a list of ingredients added to tobacco in the manufacture of cigarettes, and the Secretary is directed to report to Congress concerning the health effects, if any, of such ingredients. Most of the cigarettes sold by the Company's subsidiaries, affiliates and their licensees are sold in countries where warning statement requirements for cigarette packages have been adopted. In countries where such statements are not legally required, the Company places the U.S. Surgeon General's warnings on all of its cigarette packages.

Studies with respect to the alleged health risk to nonsmokers of diluted and modified cigarette smoke, often referred to as environmental tobacco smoke ("ETS"), have received significant publicity. In 1986, the Surgeon General of the United States and the National Academy of Sciences reported that nonsmokers were at increased risk of lung cancer and respiratory illness due to ETS. In January 1993, the United States Environmental Protection Agency (the "EPA") issued a report concluding, among other things, that ETS is a human lung carcinogen and that ETS increases certain health risks for young children. In June 1993, Philip Morris U.S.A. joined five other representatives of the tobacco manufacturing and related industries in a lawsuit against the EPA seeking a declaration that the EPA does not have the authority to regulate ETS, and that, in view of the available scientific evidence and the EPA's failure to follow its own guidelines in making the determination, the EPA's final risk assessment be declared arbitrary and capricious. The EPA report, as well as adverse publicity on ETS, have resulted in the enactment of legislation that restricts or bans cigarette smoking in certain public places and some places of employment.

Another federal statute established the Interagency Committee on Cigarette and Little Cigar Fire Safety to direct the work of a Technical Study Group created by the same statute and to make policy recommendations to Congress. The Technical Study Group, which consisted of representatives of designated government agencies, the tobacco and furniture industries and various other organizations, studied the feasibility and consequences of developing cigarettes and little cigars that would have a minimum propensity to ignite upholstered furniture or mattresses. Based on this research, the Interagency Committee submitted its final technical report to Congress in December 1987, which contained the conclusion of the Technical Study Group that it is technically feasible and may be commercially feasible to develop cigarettes that will have a significantly reduced propensity to ignite upholstered furniture and mattresses. Legislation in August 1990 provided for further research under the direction of the Consumer Product Safety Commission (the "CPSC"), with advice from a new scientific committee, the Technical Advisory Group. The CPSC reported to Congress in August 1993 that it is practicable to develop a performance standard for cigarette ignition propensity, but that "it is unclear that such a standard will effectively address the number of cigarette-related fires."

Television and radio advertising of cigarettes is prohibited in the United States and prohibited or restricted in many other countries. Enactments by regulatory agencies and other governmental authorities have restricted or prohibited smoking areas aboard certain common carriers, in certain public

places and in some places of employment. Smoking is currently banned on all commercial airline flights, regardless of

duration, within and between the 48 contiguous states, the District of Columbia, the U.S. Virgin Islands and Puerto Rico and within Alaska and Hawaii, and on all commercial flights to or from Alaska and Hawaii scheduled for less than six hours. In addition, various foreign airlines voluntarily have banned smoking on certain flights.

Numerous other legislative and regulatory measures have been proposed at the federal, state and local levels which, if implemented, could adversely affect Philip Morris U.S.A.'s cigarette business. The most significant of such measures would increase federal, state or local taxes on cigarettes, restrict the sale and distribution of cigarettes through limitations on points of sale, further restrict cigarette advertising and promotion and further restrict or prohibit smoking aboard common carriers or in public places or places of employment.

A number of foreign countries have also taken steps to restrict or prohibit cigarette advertising and promotion, to increase taxes on cigarettes and to discourage cigarette smoking. In some cases, such restrictions are more onerous than those in the United States. Canada has enacted a ban on cigarette advertising, which is being challenged on constitutional grounds. In 1992, the European Parliament approved a proposal to ban all tobacco advertisements in the European Community. Various additional approvals must be obtained before the proposal can be enacted. It is not possible to predict the outcome of this legislative effort.

In February 1994, the Food and Drug Administration (the "FDA"), in a letter to an anti-smoking group, claimed that it may be possible for the FDA to regulate cigarettes under the drug provisions of the Food, Drug, and Cosmetic Act. The FDA's claim is based upon allegations that manufacturers may intend that their products contain nicotine to satisfy an alleged addiction on the part of some of their customers. The FDA stated that any regulation would need to be based upon an evidentiary record indicating such intent. The letter indicated that regulation of cigarettes under said Act could ultimately result in the removal from the market of products containing nicotine at levels that cause or satisfy addiction. Because of the complexity and magnitude of the issues raised by this claim, the FDA has asked Congress to provide "clear direction" to the agency. While Philip Morris U.S.A. does not believe that cigarettes are addictive and denies the allegation that its products are intended to satisfy an alleged addiction, management cannot predict the ultimate outcome of the FDA's efforts.

There is litigation pending against the leading United States cigarette manufacturers seeking compensatory and, in some cases, punitive damages for cancer and other health effects alleged to have resulted from cigarette smoking or exposure to cigarette smoking. As of December 31, 1993, there were 47 and as of February 15, 1994, 45 such actions pending against the leading United States cigarette manufacturers; 55 such cases were pending as of December 31, 1992. Philip Morris U.S.A. was a defendant in 22 actions pending as of December 31, 1993 and 21 such actions pending as of February 15, 1994; there were 27 such cases as of December 31, 1992.

Among the defenses to certain of this litigation raised by Philip Morris U.S.A. is preemption by the Federal Cigarette Labeling and Advertising Act, as amended (the "Act"). On June 24, 1992, the United States Supreme Court held that the Act, as enacted in 1965, does not preempt common law damage claims but that the Act, as amended in 1969, preempts claims arising after 1969 against



cigarette manufacturers "based on failure to warn and the neutralization of federally mandated warnings to the extent that those claims rely on omissions or inclusions in advertising or promotions." The Court also held that the 1969 Act does not preempt claims based on express warranty, fraudulent misrepresentation or conspiracy. The Court also held that claims for fraudulent concealment were preempted except "insofar as those claims relied on a duty to disclose . . . facts through channels of communication other than advertising or promotion." (The Court did not consider whether such common law damage claims were valid under state law.) The Court's ruling affirmed in part, and reversed in part, a 1990 decision of the Court of Appeals for the Third Circuit, holding that the Act preempted claims arising after 1965 that challenged the adequacy of the federally mandated warning or the propriety of cigarette manufacturers' advertising and promotional activities. The Court's decision was announced by a plurality opinion. The effect of the decision on pending and future cases will be the subject of further proceedings in the lower federal and state courts. Additional similar litigation could be

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encouraged if legislative proposals to eliminate the federal preemption defense, pending in Congress since 1991, were enacted. It is not possible to predict whether any such legislation will be enacted.

Philip Morris U.S.A. believes, and it has been so advised by counsel, that it has a number of valid defenses to all smoking and health cases, including, but not limited to, those defenses based on preemption under the Supreme Court decision referred to above. All such cases are, and will continue to be, vigorously defended. It is not possible to predict the outcome of this litigation. Litigation is subject to many uncertainties, and it is possible that some of these actions could be decided unfavorably to Philip Morris U.S.A. An unfavorable outcome of a pending action could encourage the commencement of additional similar litigation. Reference is made to note 15 to the Company's consolidated financial statements, incorporated herein by reference to the Company's annual report to stockholders for the year ended December 31, 1993.

Philip Morris U.S.A. has been advised that there is a grand jury investigation being conducted by the U.S. Attorney for the Eastern District of New York which is looking into possible violations of criminal law in connection with activities relating to the Council for Tobacco Research - USA, Inc., of which Philip Morris U.S.A. is a sponsor. The outcome of this investigation cannot be predicted.

Philip Morris U.S.A. has received a Civil Investigative Demand from the Antitrust Division of the United States Department of Justice in an investigation of possible joint activity among United States manufacturers in the production and sale of cigarettes, including possible joint activity to limit new product development. The outcome of this investigation cannot be predicted.

#### Distribution, Competition and Raw Materials

Philip Morris U.S.A. sells its tobacco products principally to wholesalers (including distributors), large retail organizations, vending machine operators and the armed services. Subsidiaries and affiliates of Philip Morris International and their licensees market cigarettes and other tobacco products worldwide, directly or through export sales organizations and other entities with which they have contractual arrangements.

The market for tobacco products is highly competitive, with product quality, price, marketing and packaging constituting significant methods of competition. Promotional activities include, in certain instances, allowances, the use of

incentive items, price reductions and other discounts. This highly competitive market, and Philip Morris U.S.A.'s 1993 initiatives therein, are more fully described in "Tobacco Products--Domestic Tobacco Products" above and in the MD&A. The tobacco products of the Company's subsidiaries, affiliates and their licensees are extensively advertised and promoted through various media, although television and radio advertising of cigarettes is prohibited in the United States and is prohibited or restricted in many other countries.

Philip Morris U.S.A. and Philip Morris International's subsidiaries and affiliates and their licensees purchase domestic burley and flue cured leaf tobaccos of various grades and types each year, primarily at domestic auction. In addition, oriental tobacco and certain other tobaccos are purchased outside the United States. The tobacco is then graded, cleaned, stemmed and redried prior to its storage for aging up to three years. Large quantities of leaf tobacco inventory are maintained to support cigarette manufacturing requirements. Tobacco is an agricultural commodity subject to United States government controls, including the tobacco price support and production adjustment programs administered by the United States Department of Agriculture (the "USDA").

As of January 1, 1994, legislation became effective requiring, subject to financial penalties, the use of at least 75% American-grown tobacco, which is more expensive than imported tobacco, in cigarettes manufactured in the United States. Due to the high content of American-grown tobacco (approximately 65% in 1993) used in Philip Morris U.S.A.'s products and those exported by subsidiaries of Philip Morris International, this new requirement is not expected to have a material adverse effect on the results of operations of Philip Morris U.S.A. or Philip Morris International.

#### FOOD PRODUCTS

KGF's reporting and management structure currently comprises Kraft General Foods North America, Kraft Foodservice and Kraft General Foods International. Kraft General Foods North America currently

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has four operating units: (i) General Foods USA, responsible for General Foods United States packaged grocery products, coffee, cereal, beverage and certain frozen foods businesses; (ii) Kraft USA, responsible for Kraft United States dry grocery foods, refrigerated foods (principally dairy products), certain frozen foods and the processed meat and poultry products businesses of Oscar Mayer Foods; (iii) Kraft Food Ingredients, responsible for United States food ingredients businesses; and (iv) Kraft General Foods Canada, responsible for all General Foods and Kraft Canadian businesses. Kraft Foodservice is responsible for United States foodservice businesses. Kraft General Foods International is responsible for all of the Company's food, coffee and confectionery businesses outside the United States, Canada and Latin America.

#### Kraft General Foods North America

General Foods USA. General Foods USA's principal products include ready-to-eat cereals, coffee and other beverages, dinners, desserts and bakery products. It is one of the largest processors and marketers of packaged grocery products in the United States and is the largest processor and marketer of coffee in the United States. Its principal brands include Maxwell House, Yuban, Sanka, Brim and Maxim coffees, General Foods international coffees, Jell-O desserts, Post and Nabisco ready-to-eat cereals, Log Cabin syrups, Kool-Aid, Tang, Crystal Light, Country Time and Capri Sun beverages, Entenmann's and Freihofer's bakery products, including the Entenmann's fat free and cholesterol free bakery line, Oroweat specialty breads, Minute rice, Stove

Top stuffing mix, Shake'n Bake coatings, Good Seasons salad dressing mixes, Lender's frozen bagels and Cool Whip toppings. In January 1993, KGF completed its acquisition of the ready-to-eat cold cereals business of RJR Nabisco Holdings Corp.

Kraft USA. Kraft USA's principal products include cheese and related products, vegetable oil-based products, such as salad dressings, margarine and related products, barbecue sauce, confections, cultured dairy products, frozen pizza, meat and poultry products and packaged pasta dinners. It is one of the largest processors and marketers of processed meat and poultry products, cheese and cheese products and salad dressings in the United States and also processes and markets mayonnaise products and certain frozen food products. In addition to Kraft, its principal brands include Velveeta, Cracker Barrel and rondele cheese products, Miracle Whip salad dressing, Philadelphia Brand cream cheese, Cheez Whiz cheese spread, Seven Seas pourable dressings, Parkay margarine, Bull's-Eye barbecue sauces, Di Giorno pastas, sauces and cheeses, The Budget Gourmet frozen entrees, side dishes and dinners, Light n' Lively, Knudsen and Breakstone's cultured dairy products, Tombstone and Jack's frozen pizzas, Oscar Mayer luncheon meats, hot dogs, bacon, ham and other meat products, Louis Rich luncheon meats, poultry franks, turkey bacon and other poultry products, Lunchables lunch combinations and Claussen pickles. During 1993, KGF sold its United States frozen desserts and frozen vegetables businesses.

Kraft Food Ingredients. Kraft Food Ingredients manufactures certain private label products as well as a variety of industrial food products for sale to other food processors, which products include edible oils, shortenings, whey products, nondairy creamers, confection products, cheese flavorings, seasonings and cheese analogs. In 1993, Kraft Food Ingredients discontinued its manufacture and marketing of commodity oils while retaining its higher margin value-added oil products business.

Kraft General Foods Canada. Kraft General Foods Canada is responsible for manufacturing and marketing packaged grocery, coffee and cheese products. Major brand names include Kraft, Miracle Whip, Philadelphia Brand, Jell-O, Post, Nabisco (ready-to-eat cereals), Kool-Aid, Baker's, Tang, Parkay, Cool Whip, Sanka, Maxwell House, Nabob and Magic Moments. The Canadian foodservice business markets coffee, salad dressings and other Kraft General Foods Canada products to restaurants, airlines, schools and other institutions. In 1993, Kraft General Foods Canada acquired Nabob Foods Limited, a manufacturer of coffee and other packaged goods.

#### Kraft Foodservice

Kraft Foodservice consists of United States foodservice businesses. Kraft Foodservice is the second largest broadline distributor of foodservice products, including food products and supplies manufactured by Kraft General Foods North America and other suppliers, in the United States.

#### Kraft General Foods International

Kraft General Foods International is responsible for manufacturing and marketing a wide variety of coffee, confectionery, cheese, packaged grocery and processed meat products in Europe and the Asia/Pacific region, and for the Company's international foodservice business. International brands include a wide variety of the products sold by General Foods USA and Kraft USA, as well as Milka, Tobler, Toblerone, Suchard, Freia, Marabou, Diam, Estrella, Callard & Bowser, Terry's, Splendid and Cote d'Or confections, Carte Noire, Gevalia, Grand'Mere, HAG, Jacobs Cafe, Jacobs Kronung, Jacques Vabre, Night & Day and Saimaza coffees, Negroni and Simmenthal meats, Miracoli pasta dinners, Dairylea

process cheese, Vegemite sandwich spread and Hollywood chewing gum. The international foodservice business markets cheese, coffee and grocery products to restaurants, airlines, schools and other institutions.

In 1993, a subsidiary of KGF completed its acquisition of Freia Marabou a.s, a Scandinavian confectionery and snack food company. In addition, KGF acquired The Terry's Group, a United Kingdom confectionery company, and companies in Poland, the Czech Republic, Lithuania, Bulgaria and China.

In Latin America, certain subsidiaries of Philip Morris International manufacture and market a wide variety of food products, including a number of the products sold by General Foods USA and Kraft USA, as well as Kibon ice cream and Suchard confections.

#### Distribution, Competition and Raw Materials

Sales of products of General Foods USA, Kraft USA and Kraft General Foods Canada are generally made on the basis of orders by supermarket chains, wholesalers, club stores, mass merchandisers, distributors and individual stores. Substantially all products are distributed through retail food outlets, including club stores and mass merchandisers. Dry grocery products are shipped to, or picked up by, customers from plants and distribution centers or shipped to customers from a number of satellite warehouses and other facilities. Frozen and refrigerated products are shipped from manufacturing locations and from intermediate company-operated and public cold storage facilities. Fresh baked goods are delivered daily to depots and then distributed to the retail trade. Selling efforts are assisted by national and regional advertising on television and radio and in magazines and newspapers, as well as by sales promotions, product displays, trade incentives, informative material offered to customers and other promotional activities. The products of Kraft Food Ingredients are distributed to food processors, foodservice operators and distributors and retail food stores. Sales are made primarily through the Kraft Food Ingredients sales force and, in some instances, independent brokers. Kraft Food Ingredients maintains warehouse and distribution centers at each of its main manufacturing facilities.

Local foodservice distribution centers support the operations of Kraft Foodservice. Each Kraft Foodservice distribution center has a warehouse, sales office and fleet of trucks to distribute products to customers in its sales regions.

Products of Kraft General Foods International are sold primarily through sales offices and agents abroad. The majority of the sales of this operating unit are derived from Europe. European regional distribution is coordinated from its headquarters offices located in Zurich, Switzerland and through facilities located throughout Europe. The Asia/Pacific area operations are headquartered in Hong Kong. KGF operations outside of the United States and Canada are directed from the Kraft General Foods International headquarters in Rye Brook, New York. Advertising is tailored by product and country to reach targeted audiences.

KGF is subject to highly competitive conditions in virtually all aspects of its business. Competitors include large national and international companies and numerous local and regional companies. Its food products also compete with generic products and private label products of food retailers, wholesalers and cooperatives. KGF competes primarily on the basis of product quality, service, marketing, advertising and price.

KGF is a major purchaser of milk, cheese, green coffee beans, poultry, meat

cuts, wheat, cocoa, rice, eggs, shortening, vegetable oil, aspartame, flour, fruits and berries, sugar, corn syrup, herbs and spices and tomato products. KGF continuously monitors worldwide supply and cost trends of these commodities to enable it to take appropriate action to obtain ingredients needed for production.

KGF purchases all of its milk requirements from outside sources, principally from cooperatives and individual producers and a substantial part of its cheddar cheese requirements from outside sources, principally cooperatives and independent cheese processors, all pursuant to both contractual relationships and informal arrangements. The prices for United States milk purchases are substantially influenced by the floor prices established by the milk price support program administered by the USDA. The prices paid for cheese in the United States are based upon or substantially influenced by weekly quotations on the National Cheese Exchange in Green Bay, Wisconsin. See "Regulation" below.

The most significant cost item in coffee products is green coffee beans, which are purchased on world markets. Green coffee bean prices are affected by the quality and availability of supply, trade agreements among producing and consuming nations, the unilateral policies of the producing nations, changes in the value of the United States dollar in relation to certain other currencies and consumer demand for coffee products.

The price paid for poultry (turkey) and meat cuts (pork, beef, turkey and chicken), the principal raw materials used in manufacturing Oscar Mayer and Louis Rich branded products, is the major factor in the cost of these products. Poultry and meat prices are affected by market demand and supply. Meats for Oscar Mayer processed products are provided primarily by bulk market purchases.

KGF is also a major user of packaging materials purchased from many suppliers.

The prices paid for food product raw materials generally reflect external forces, among which weather conditions and commodity market activities are significant. Although the prices of the principal raw materials required by KGF can be expected to fluctuate as a result of government actions and/or market forces (which would directly affect the cost of products and value of inventories), such materials are generally in adequate supply and available from numerous sources.

## Regulation

Almost all of KGF's United States food products (and packaging materials therefor) are subject to regulations administered by the Food and Drug Administration (the "FDA"), or, with respect to products containing meat and poultry, the USDA. Among other things, the FDA enforces statutory prohibitions against misbranded and adulterated foods, establishes ingredients and/or manufacturing procedures for certain standard foods, establishes standards of identity for food, determines the safety of food substances and establishes labelling standards for food products. FDA regulations may, in certain instances, affect the ability of KGF's United States operating units to develop and market new products and to utilize technological innovations in the processing of existing products. The Nutrition Labelling and Education Act of 1991 (the "NLEA") mandates nutrition labelling on a majority of the food products packaged for sale in the United States. In January 1993, the FDA adopted rules and regulations under the NLEA, including rules requiring extensive re-labelling of virtually all of the products of General Foods USA and Kraft USA. Similar rules and regulations have been adopted by the USDA to cover meat and poultry products. The effective date for the new requirements is May 1994. Management believes that compliance with the new requirements will not have a material adverse impact on the Company's results of operations.

In addition, various states regulate the business of KGF's United States operating units by licensing dairy plants, enforcing federal and state standards of identity for food, grading food products, inspecting plants, regulating certain trade practices in connection with the sale of dairy products and imposing their own labelling requirements on food products.

The prices paid for grade-A raw milk in the United States are controlled in most areas by Federal Milk Marketing Orders or state regulatory agencies. Such orders and agencies establish basic minimum prices, with adjustments based upon usage and geographic location. In some areas, prices for raw milk also include additional premiums charged by suppliers. In addition, the USDA sets a support price, which serves as a floor for the price at which the Commodity Credit Corporation (the "CCC"), an arm of the USDA, will purchase cheese, butter and milk powder. From time to time, KGF (as well as other cheese producers) sells excess cheese production to the CCC.

Almost all of the activities of Kraft General Foods International and Kraft General Foods Canada are subject to the same kinds of regulation as KGF's United States businesses. Each of the operations and locations of these units is subject to local and national and, in some cases, international (such as the European Community) regulatory provisions. The rules and regulations relate to labelling, packaging, food content, pricing, marketing and advertising and related areas.

BEER

Products

Miller's major brands are Miller Lite, which was the largest selling reduced-calorie beer and second largest selling brand in the United States in 1993; Miller High Life, which, in 1993, was repositioned as a near-premium beer in 40 states by reducing its price; Miller Genuine Draft, which is one of the fastest growing premium beers in the United States; Meister Brau and Milwaukee's Best, sold in the below-premium segment of the United States market; Lowenbrau, brewed and sold in the United States under a license agreement with Lowenbrau Munchen AG; Sharp's, a brewed non-alcohol beverage; and Miller Reserve, a super-premium beer introduced in 1992. Miller Lite, Miller Genuine Draft, Milwaukee's Best and Miller High Life are among the top ten selling beers in the United States. Shipment volume of Miller beer and brewed non-alcohol beverages (including exports) increased 4.3% in 1993 compared with 1992. This increase resulted principally from the acquisition of Molson Breweries U.S.A., Inc. and higher volumes for Miller High Life and Miller Genuine Draft. In 1993, Miller High Life shipments, in aggregate, increased 11.0%, as a result of being repositioned as a near-premium beer in 40 states. Miller shipments in the premium segment (excluding Miller High Life) were up .6%, reflecting volume growth in Miller Genuine Draft, partially offset by declines in Miller Lite. Shipments in the below-premium segment were down .9%.

The following table sets forth, based on shipments, the industry's sales of beer and brewed non-alcohol beverages as estimated by Miller, Miller's unit sales and its share of industry sales:

<TABLE>

<CAPTION>

YEARS ENDED	MILLER'S SHARE	
DECEMBER 31	INDUSTRY	MILLER OF INDUSTRY
-----	-----	-----

	(IN THOUSANDS OF BARRELS)		(%)
<S>	<C>	<C>	<C>
1993.....	197,966	44,024	22.2
1992.....	197,253	42,145	21.4
1991.....	196,156	43,556	22.2

In 1993, Miller acquired a 20% equity interest in Canada's Molson Breweries and all of the United States import operations of Molson Breweries U.S.A., Inc., including United States marketing and distribution rights for Molson brands.

#### Distribution, Competition and Raw Materials

Beer products are distributed primarily through independent beer wholesalers. The United States malt beverage industry is highly competitive, with the principal methods of competition being product quality, price, distribution, marketing and advertising. Miller engages in a wide variety of advertising and sales promotion activities. Barley, hops, corn and water represent the principal ingredients used in manufacturing Miller's beer products and are generally available in the market. The production process, which includes fermentation and aging periods, is conducted throughout the year and at any one time Miller has on hand

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only a small quantity of finished products. Containers (bottles, cans and kegs) for beer products are purchased from various suppliers.

#### Regulation

The Alcoholic Beverage Labeling Act of 1988 requires all alcoholic beverages manufactured for sale in the United States to include the following warning statement on containers: GOVERNMENT WARNING: (1) According to the Surgeon General, women should not drink alcoholic beverages during pregnancy because of the risk of birth defects; (2) Consumption of alcoholic beverages impairs your ability to drive a car or operate machinery and may cause health problems. The statute empowers the Bureau of Alcohol, Tobacco and Firearms (the "BATF") to promulgate regulations to prescribe the size and format of the warning. The BATF has published a notice in the Federal Register seeking information which will enable the BATF to report to Congress as to whether the wording of the warning statement should be amended. In addition, various legislative and regulatory proposals to prohibit or restrict the advertising and marketing of alcoholic beverages are being considered. Such warning statement requirements and any restrictions on advertising and marketing, if enacted, could have an adverse impact on Miller's sales, but it is not possible to predict their long-term effects or whether such additional restrictions will be enacted.

The federal excise tax is 32 cents per package of six 12-ounce containers. Excise taxes, sales taxes and other taxes affecting beer are also levied by various states, counties and municipalities. In the opinion of management, the federal excise tax, which doubled in 1991, has had and could continue to have an adverse effect on sales.

#### FINANCIAL SERVICES AND REAL ESTATE

Philip Morris Capital Corporation ("PMCC") invests in leveraged and single-investor leases and other tax-oriented financing transactions and third-party financial instruments and also engages in various financing activities for customers and suppliers of the Company's other subsidiaries. Total assets increased to \$5.7 billion at year-end 1993 as compared to \$5.3 billion at year-

end 1992, reflecting among other things the net investment of an additional \$70 million in finance assets and limited partnerships and \$150 million of unrealized appreciation on securities available for sale recognized pursuant to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," adopted effective December 31, 1993.

Mission Viejo Company ("Mission Viejo"), a wholly-owned subsidiary of PMCC, is engaged principally in land planning, development and sales in southern California and in the Denver, Colorado area.

#### CUSTOMERS

None of the Company's business segments is dependent upon a single customer or a few customers, the loss of which would have a material adverse effect on the Company's results of operations.

#### EMPLOYEES

At December 31, 1993, the Company employed approximately 173,000 people worldwide.

#### TRADEMARKS

Trademarks are of material importance to all three of the Company's consumer products businesses and are protected by registration or otherwise in the United States and most other markets where the related products are sold.

#### ENVIRONMENTAL REGULATION

The Company and its subsidiaries are subject to various federal, state and local laws and regulations and involved in proceedings thereunder concerning the discharge of materials into the environment or otherwise related to environmental protection, including the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act and the Comprehensive Environmental Response, Compensation and

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Liability Act (commonly known as "Superfund"). In 1993, subsidiaries (or former subsidiaries) of the Company were parties to approximately 134 proceedings involving potential liability under Superfund and for other environmental project clean-up costs. The Company and its subsidiaries expect to continue to make capital and other expenditures in connection with environmental laws and regulations. Compliance with such laws and regulations, including the payment of any monetary sanctions resulting from governmental proceedings, and the making of such expenditures are not expected to have a material adverse effect on the Company's results of operations, capital expenditures or competitive position.

#### FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

The amounts of operating revenues, operating profit and identifiable assets attributable to each of the Company's geographic regions and the amount of export sales from the United States for each of the last three fiscal years are set forth in note 11 to the Company's consolidated financial statements incorporated herein by reference to the Company's annual report to stockholders for the year ended December 31, 1993.

KGF, Miller and subsidiaries of Philip Morris International export coffee products, grocery products, cheese, processed meats, beer, tobacco and tobacco related products. In 1993 the value of all exports from the United States by



these subsidiaries amounted to approximately \$4.5 billion.

## ITEM 2. PROPERTIES.

### TOBACCO PRODUCTS

Philip Morris U.S.A. owns nine tobacco manufacturing and processing facilities -- six in the Richmond, Virginia area, two in Louisville, Kentucky and one in Cabarrus County, North Carolina. Philip Morris U.S.A. owns or leases other premises and facilities, including an operations center, a research and development facility and various administrative facilities in Richmond and an engineering center in York County, Virginia. Subsidiaries and affiliates of Philip Morris International own or lease cigarette manufacturing facilities in 28 countries outside the United States.

### FOOD PRODUCTS

The Company's subsidiaries have 122 manufacturing and processing facilities, 560 distribution centers and depots and 250 various other facilities in the United States, as well as 119 foreign manufacturing and processing facilities in 30 countries and various distribution and other facilities outside the United States. All significant plants and properties used for production of food products are owned, although the majority of the domestic distribution centers and depots are leased.

### BEER

Miller currently owns and operates eight breweries, located in Milwaukee, Wisconsin; Fulton, New York (scheduled to close in 1994); Fort Worth, Texas; Eden, North Carolina; Albany, Georgia; Irwindale, California; Trenton, Ohio; and Chippewa Falls, Wisconsin. Miller owns a malting facility, a hops conversion facility and a can and bottle carrier facility. Miller owns six distributorships and owns or leases warehouses in several locations. During 1993, Miller sold its can manufacturing plants and, in February 1994, entered into an agreement to sell its glass-making plant.

### GENERAL

The plants and properties owned and operated by the Company's subsidiaries are maintained in good condition and are believed to be suitable and adequate for present needs. In the fourth quarter of 1993, the Company provided for the costs of restructuring its worldwide operations. The charge related primarily to the downsizing or closure of approximately 40 manufacturing and other facilities (including the Fulton, New York brewery noted above). Writedowns of such facilities included in the restructuring charge were \$429 million, of which \$141 million, \$211 million and \$77 million related to tobacco, food and beer facilities, respectively.

## ITEM 3. LEGAL PROCEEDINGS.

Reference is made to "Tobacco Products -- Smoking and Health and Related Matters" under Item 1 for a description of certain litigation relating to smoking and health, to note 15 to the Company's consolidated financial statements, incorporated herein by reference to the Company's annual report to stockholders for the year ended December 31, 1993, for a description of certain pending purported shareholder class actions and to "Environmental Regulation" under Item 1 for a description of certain proceedings relating to environmental compliance.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

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EXECUTIVE OFFICERS OF THE COMPANY

The following are the executive officers of the Company as of March 1, 1994  
(a):

<TABLE>

<CAPTION>

NAME	OFFICE	AGE
----	-----	---
<S>	<C>	<C>
Michael A. Miles.....	Chairman of the Board and Chief Executive Officer	54
William Murray.....	President and Chief Operating Officer	58
Geoffrey C. Bible.....	Executive Vice President, Worldwide Tobacco	56
John M. Keenan.....	President and Chief Executive Officer of Kraft General Foods International	57
John N. MacDonough.....	Chairman and Chief Executive Officer of Miller	50
Richard P. Mayer.....	Chairman and Chief Executive Officer of Kraft General Foods North America	53
Hans G. Storr.....	Executive Vice President and Chief Financial Officer; Chairman and Chief Executive Officer of PMCC	62
Murray H. Bring.....	Senior Vice President and General Counsel	59
Craig L. Fuller.....	Senior Vice President	43
Marc S. Goldberg.....	Senior Vice President	50
John J. Tucker.....	Senior Vice President	53
Dede Thompson Bartlett..	Vice President and Secretary	50
Bruce S. Brown.....	Vice President	54
George R. Lewis.....	Vice President and Treasurer	52
Kathleen M. Linehan.....	Vice President	43
Katherine P. Wickham....	Vice President and Controller	45

</TABLE>

(a) Set forth as part of Part I pursuant to General Instruction G(3) to Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K.

All of the above-mentioned officers, with the exception of Messrs. MacDonough, Mayer and Fuller and Mrs. Bartlett, have been employed by the Company in various capacities during the past five years. Mr. MacDonough was Vice President, Brand Management of Anheuser-Busch, Inc. from 1989 to 1990, Executive Vice President, Marketing of Anheuser-Busch International, Inc. from 1991 until September 1992, when he became President and Chief Operating Officer of Miller. He assumed his current position in September 1993. Mr. Mayer was Chairman of the Board and Chief Executive Officer of Kentucky Fried Chicken Corporation from 1982 until July 1989, when he became President of General Foods USA. He assumed his current position in April 1991. Mr. Fuller was Chief of Staff for then Vice President George Bush from 1985 to 1989. In 1989, he joined Wexler, Reynolds, Harrison & Schule, Inc. and became its President. In 1990, after Wexler, Reynolds, Harrison & Schule, Inc. merged with Hill and Knowlton, he held a succession of positions with Hill and Knowlton and became President and Chief Executive Officer of Hill and Knowlton USA in October 1991. He assumed his present position in January 1992. Mrs. Bartlett was President and Director of The Mobil Foundation from 1984 to 1987, Corporate Secretary and Secretary to the Board of Directors of Mobil Corporation from 1987 to 1990 and a consultant on board of director issues, corporate governance and public affairs from 1990 to 1991. She assumed her current position in December 1991.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

ITEM 6. SELECTED FINANCIAL DATA.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The information called for by Items 5, 6 and 7 is hereby incorporated by reference to the following captioned paragraphs (at the pages indicated) in the Company's annual report to stockholders for the year ended December 31, 1993 and made a part hereof:

<TABLE>  
<CAPTION>

ITEM	PARAGRAPH CAPTION IN ANNUAL REPORT	PAGES IN ANNUAL REPORT
<C> <S>		<C>
5	Quarterly Financial Data (Unaudited).....	43
5	Short-Term Borrowings and Borrowing Arrangements.....	34
6	Selected Financial Data.....	26
7	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	20-25

</TABLE>

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information called for by this Item is hereby incorporated by reference to the Company's annual report to stockholders for the year ended December 31, 1993 as set forth under the caption "Quarterly Financial Data (Unaudited)" on page 43 and in the Index to Consolidated Financial Statements and Schedules (see Item 14) and made a part hereof.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

ITEM 11. EXECUTIVE COMPENSATION.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Except for the information relating to the executive officers of the Company set forth in Part I of this Report, the information called for by Items 10, 11, 12 and 13 is hereby incorporated by reference to the Company's definitive proxy statement in connection with its annual meeting of stockholders to be held on April 21, 1994, filed with the Securities and Exchange Commission and made a part hereof.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) Index to Consolidated Financial Statements and Schedules

<TABLE>

<CAPTION>

	REFERENCE	
	FORM 10-K ANNUAL REPORT PAGE	ANNUAL REPORT TO STOCKHOLDERS PAGE
<S>	<C>	<C>
Data incorporated by reference to the Company's annual report to stockholders for the year ended December 31, 1993:		
Consolidated Balance Sheets at December 31, 1993 and 1992	--	28 - 29
Consolidated Statements of Earnings for the years ended December 31, 1993, 1992 and 1991.....	--	30
Consolidated Statements of Stockholders' Equity for the years ended December 31, 1993, 1992 and 1991.....	--	32
Consolidated Statements of Cash Flows for the years ended December 31, 1993, 1992 and 1991.....	--	30 - 31
Notes to Consolidated Financial Statements..	--	33 - 43
Report of Independent Accountants.....	--	44
Data submitted herewith:		
Report of Independent Accountants.....	S-1	--
Financial Statement Schedules:		
VII-- Guarantees of Securities of Other Issuers.....	S-2	--
VIII-- Valuation and Qualifying Accounts..	S-3	--
IX-- Short-Term Borrowings .....	S-4	--
X-- Supplementary Income Statement Information.....	S-5	--

</TABLE>

Schedules other than those listed above have been omitted either because the required information is contained in notes to the consolidated financial statements or because such schedules are not required or are not applicable.

(b) Reports on Form 8-K: The Company filed a Current Report on Form 8-K, dated November 24, 1993 in connection with restructuring charges and the adoption of SFAS No. 112 during the last quarter of the period for which this Report is filed.

(c) The following exhibits are filed as part of this Report (Exhibit Nos. 10.1-10.24 are management contracts, compensatory plans or arrangements):

<TABLE>

<S>

<C>

- 1.1. Form of Underwriting Agreement, including form of terms agreement.
- 1.2. Form of First Amendment to Selling Agency Agreement.
- 3.1. Restated Articles of Incorporation of the Company. (1)
- 3.2. By-Laws, as amended, of the Company.
- 4.1. Plan of Exchange and Articles of Incorporation. (2)
- 4.2. Indenture between the Company and Bankers Trust Company, Trustee (Chemical

- Bank, Successor Trustee), dated as of December 1, 1985. (3)
- 4.3. Tripartite Agreement dated as of February 19, 1986 among the Company, Bankers Trust Company and Chemical Bank. (3)
  - 4.4. First Supplemental Indenture dated as of August 1, 1986 to the Indenture dated as of December 1, 1985 between the Company and Chemical Bank, Successor Trustee. (4)
  - 4.5. Second Supplemental Indenture dated as of November 1, 1986 to the Indenture dated as of December 1, 1985 between the Company and Chemical Bank, Successor Trustee. (4)
  - 4.6. Amended and Restated Indenture, dated as of April 1, 1988 between the Company and Chemical Bank, as Trustee. (5)
  - 4.7. First Supplemental Indenture dated as of December 1, 1988 to the Amended and Restated Indenture, dated as of April 1, 1988, between the Company and Chemical Bank, as Trustee. (6)
  - 4.8. Indenture dated as of August 1, 1990 between the Company and Chemical Bank, Trustee. (7)

</TABLE>

<TABLE>

<S>

<C>

- 4.9. First Supplemental Indenture dated as of February 1, 1991 to Indenture dated as of August 1, 1990 between the Company and Chemical Bank, Trustee. (8)
- 4.10. Second Supplemental Indenture dated as of January 21, 1992 to Indenture dated as of August 1, 1990 between the Company and Chemical Bank, Trustee. (9)
- 4.11. 5-Year Loan and Guaranty Agreement dated as of December 17, 1993 among the Company, the Banks named therein and Citibank, N.A., as Agent.
- 4.12. 364-Day Loan and Guaranty Agreement dated as of December 17, 1993 among the Company, the Banks named therein and Citibank, N.A., as Agent.
- 4.13. Rights Agreement, dated as of October 25, 1989, between the Company and First Chicago Trust Company of New York. (10)
- 4.14. Copies of other instruments defining the rights of holders of long-term debt of the Company and its subsidiaries are not filed herewith because the aggregate amount of securities authorized under each of such other instruments is less than 10% of the consolidated assets of the Company and its subsidiaries. The Company hereby agrees that it will furnish to the Securities and Exchange Commission a copy of each such other instrument upon the Commission's request.
- 10.3. Financial Counseling Program of Philip Morris Incorporated and the Company. (11)
- 10.4. Philip Morris Benefit Equalization Plan, as amended. (11)
- 10.5. Amendments, as of October 25, 1989, to the Philip Morris Benefit Equalization Plan, as amended. (10)
- 10.6. Automobile Policy of Philip Morris Incorporated and the Company. (11)
- 10.8. Pension Plan for Directors of the Company, effective July 1, 1989, as amended. (1)
- 10.9. 1982 Stock Option Plan, as amended. (11)
- 10.10. The Philip Morris 1987 Long Term Incentive Plan, as amended. (12)
- 10.12. Form of Executive Master Trust between the Company, Chemical Bank and Handy Associates. (10)
- 10.13. Agreement, dated October 12, 1987, between the Company and Murray H. Bring, as amended.
- 10.14. Agreement, dated November 1, 1989, between the Company and Murray H. Bring. (10)
- 10.17. Deferred Incentive Payment Agreement between the Company and Michael A. Miles, dated March 8, 1989. (13)
- 10.18. Amendment, dated November 1, 1989, to the Deferred Incentive Payment Agreement between the Company and Michael A. Miles, dated March 8, 1989. (10)
- 10.19. Agreement, dated November 1, 1989, between the Company and Michael A.

- Miles. (10)
- 10.20. Form of Employment Agreement between the Company and its executive officers. (10)
- 10.22. Supplemental Management Employees' Retirement Plan of the Company, as amended. (12)
- 10.23. The Philip Morris 1992 Incentive Compensation and Stock Option Plan. (14)
- 10.24. 1992 Compensation Plan for Non-Employee Directors, as amended. (4)
- 12. Statements re computation of ratios.
- 13. Pages 20-44 of the Company's annual report to stockholders for the year ended December 31, 1993, but only to the extent set forth in Items 1, 5, 6, 7, 8 and 14 hereof. With the exception of the aforementioned information incorporated by reference in this Annual Report on Form 10-K, the Company's annual report to stockholders for the year ended December 31, 1993 is not to be deemed "filed" as part of this Report.
- 21. Subsidiaries of the Company.
- 23. Consent of independent accountants.
- 24. Powers of attorney.

</TABLE>

- 
- (1) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.
  - (2) Incorporated by reference to the Company's Registration Statement on Form S-14 (No. 2-96149) dated March 1, 1985.

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- (3) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 33-6525) dated June 13, 1986.
- (4) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1992.
- (5) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 33-21033) dated April 7, 1988.
- (6) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 33-25906) dated December 8, 1988.
- (7) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 33-36450) dated August 22, 1990.
- (8) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 33-39059) dated February 21, 1991.
- (9) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 33-45210) dated January 22, 1992.
- (10) Incorporated by reference to the Company's Current Report on Form 8-K dated November 8, 1989.
- (11) Incorporated by reference to the Company's Registration Statement on Form 8-B dated July 1, 1985.
- (12) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1990.
- (13) Incorporated by reference to the Company's Form SE dated March 30, 1989, constituting a part of the Company's Annual Report on Form 10-K for the year ended December 31, 1988.
- (14) Incorporated by reference to the Company's Proxy Statement in connection with its annual meeting of stockholders held on April 23, 1992, filed on March 12, 1992.

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#### SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED

ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

Philip Morris Companies Inc.

/s/ Michael A. Miles

Date: March 16, 1994

By: \_\_\_\_\_  
(Michael A. Miles,  
Chairman of the Board)

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES AND ON THE DATE INDICATED:

SIGNATURE	TITLE	DATE
/s/ Michael A. Miles _____ (Michael A. Miles)	Director, Chairman of the Board and Chief Executive Officer	March 16, 1994
/s/ Hans G. Storr _____ (Hans G. Storr)	Director, Executive Vice President and Chief Financial Officer	March 16, 1994
/s/ Katherine P. Wickham _____ (Katherine P. Wickham)	Vice President and Controller	March 16, 1994

\*Elizabeth E. Bailey, Murray H. Bring, Harold Brown, Jose Antonio Cordido-Freytes, William H. Donaldson, Paul W. Douglas, Jane Evans, Robert E. R. Huntley, Hamish Maxwell, T. Justin Moore, Jr., Rupert Murdoch, William Murray, John D. Nichols, Richard D. Parsons, Roger S. Penske, John S. Reed, John M. Richman, Stephen M. Wolf,

Directors

/s/ Hans G. Storr _____ (Hans G. Storr Attorney-in-fact)	March 16, 1994
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REPORT OF INDEPENDENT ACCOUNTANTS

Our report on our audits of the consolidated financial statements of Philip Morris Companies Inc. has been incorporated by reference in this Form 10-K from the 1993 annual report to stockholders of Philip Morris Companies Inc. and appears on page 44 therein. In connection with our audits of such financial statements, we have also audited the related financial statement schedules listed in the index in Item 14(a) on page 15 of this Form 10-K.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

/s/ Coopers & Lybrand  
Coopers & Lybrand

New York, New York  
January 24, 1994

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PHILIP MORRIS COMPANIES INC. AND SUBSIDIARIES

SCHEDULE VII -- GUARANTEES OF SECURITIES OF OTHER ISSUERS  
AS OF DECEMBER 31, 1993  
(IN MILLIONS)

<TABLE>

<CAPTION>

COL. A	COL. B	COL. C (a)	COL. F
NAME OF ISSUER OF SECURITIES GUARANTEED	TITLE OF SECURITIES GUARANTEED	AMOUNT GUARANTEED AND OUTSTANDING	NATURE OF GUARANTEE
Consumer Products:			
<S> Compagnie Financiere Richemont AG	<C> (pounds) 610 million 10 1/4% Sterling Notes maturing in 1994	<C> \$909	<C> Guarantee of principal and interest
Other (b)	Various notes	\$ 23	Primarily guarantees of principal and interest
Financial Services and Real Estate:			
Various special- purpose municipal districts established in connection with the development of Highlands Ranch properties of Mission Viejo Company in Douglas County, Colorado	Various letters of credit supporting long-term bonds issued by such districts	\$130	Primarily guarantees of principal and 210 days of interest

</TABLE>

Notes:



(a) None of the above securities were owned by the Company, held in treasury of the applicable issuer, or in default. Accordingly, columns D, E and G have been omitted from this Schedule.

(b) Primarily former subsidiaries of the Company.

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PHILIP MORRIS COMPANIES INC. AND SUBSIDIARIES

SCHEDULE VIII -- VALUATION AND QUALIFYING ACCOUNTS  
FOR THE YEARS ENDED DECEMBER 31, 1993, 1992 AND 1991  
(IN MILLIONS)

<TABLE>

<CAPTION>

COL. A	COL. B	COL. C		COL. D	COL. E
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	(1) CHARGED TO COSTS AND EXPENSES	(2) CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
			(a)	(b)	
	<C>	<C>	<C>	<C>	<C>
1993:					
Consumer Products:					
Allowance for dis-					
counts.....	\$ 23	\$572	\$ --	\$577	\$ 18
Allowance for doubtful					
accounts.....	157	35	2	41	153
Allowance for returned					
goods.....	7	134	--	137	4
	-----	-----	-----	-----	-----
	\$187	\$741	\$ 2	\$755	\$175
	=====	=====	=====	=====	=====
Financial Services and					
Real Estate:					
Provision for losses..	\$ 94	\$ --	\$ --	\$ --	\$ 94
	=====	=====	=====	=====	=====
1992:					
Consumer Products:					
Allowance for dis-					
counts.....	\$ 23	\$585	\$ --	\$585	\$ 23
Allowance for doubtful					
accounts.....	133	40	26	42	157
Allowance for returned					
goods.....	6	55	--	54	7
	-----	-----	-----	-----	-----
	\$162	\$680	\$ 26	\$681	\$187
	=====	=====	=====	=====	=====
Financial Services and					
Real Estate:					
Provision for losses..	\$ 81	\$ 13	\$ --	\$ --	\$ 94
	=====	=====	=====	=====	=====
1991:					
Consumer Products:					
Allowance for dis-					
counts.....	\$ 22	\$550	\$ --	\$549	\$ 23

Allowance for doubtful accounts.....	164	46	2	79(c)	133
Allowance for returned goods.....	10	41	--	45	6
	-----	-----	-----	-----	-----
	\$196	\$637	\$ 2	\$673	\$162
	=====	=====	=====	=====	=====
Financial Services and Real Estate:					
Provision for losses..	\$ 49	\$ 32	\$ --	\$ --	\$ 81
	=====	=====	=====	=====	=====

</TABLE>

Notes:

- (a) Related to acquisitions.
- (b) Represents charges for which allowances were created.
- (c) Includes adjustments to Jacobs Suchard acquisition balance sheet of \$11 million.

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PHILIP MORRIS COMPANIES INC. AND SUBSIDIARIES  
SCHEDULE IX -- SHORT-TERM BORROWINGS  
FOR THE YEARS ENDED DECEMBER 31, 1993, 1992 AND 1991  
(IN MILLIONS)

<TABLE>

<CAPTION>

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
-----	-----	-----	-----	-----	-----
CATEGORY OF AGGREGATE SHORT-TERM BORROWINGS	BALANCE AT END OF PERIOD	WEIGHTED AVERAGE INTEREST RATE AT END OF PERIOD	MAXIMUM AMOUNT DURING THE PERIOD	AVERAGE AMOUNT DURING THE PERIOD	WEIGHTED AVERAGE INTEREST RATE DURING THE PERIOD
-----	-----	-----	-----	-----	-----
	(a)	(c)	(c)	(b)	(c)
	<C>	<C>	<C>	<C>	<C>
1993:					
Consumer Products:					
Bank loans.....	\$ 276	9.3%	\$ 276	\$ 211	10.1%
Commercial paper.....	2,288	3.4%	4,949	3,752	3.2%
Amount reclassified to long-term debt.....	(2,296)				
	-----				
	\$ 268				
	=====				
Financial Services and Real Estate:					
Commercial paper.....	\$ 929	3.3%	\$ 932	\$ 813	3.1%
	=====				
1992:					
Consumer Products:					
Bank loans.....	\$ 158	7.6%	\$ 338	\$ 201	9.2%
Commercial paper.....	1,190	3.5%	2,698	1,528	4.1%
	-----				
	\$1,348				
	=====				
Financial Services and					

Real Estate:					
Commercial paper.....	\$ 758	3.4%	\$ 911	\$ 683	3.7%
	=====				
1991:					
Consumer Products:					
Bank loans.....	\$ 338	8.9%	\$1,661	\$ 577	9.4%
Commercial paper.....	1,686	5.4%	6,209	3,562	6.5%
Amount reclassified to long-term debt.....	(1,510)				
	-----				
	\$ 514				
	=====				
Financial Services and Real Estate:					
Commercial paper.....	\$ 818	4.9%	\$ 885	\$ 723	6.0%
	=====				

</TABLE>

- - - - -

Notes:

- (a) The Company's credit facilities include a revolving bank credit agreement which enables the Company to refinance short-term debt on a long-term basis. Accordingly, short-term borrowings at December 31, 1993 and 1991 intended to be refinanced were reclassified to long-term debt.
- (b) The average amount outstanding was computed primarily on a daily average basis.
- (c) The weighted average interest rate is based on the total interest incurred for the period divided by the average amount outstanding during the period and presented in Column E.

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PHILIP MORRIS COMPANIES INC. AND SUBSIDIARIES  
SCHEDULE X--SUPPLEMENTARY INCOME STATEMENT INFORMATION  
FOR THE YEARS ENDED DECEMBER 31, 1993, 1992 AND 1991  
(IN MILLIONS)

<TABLE>

<CAPTION>

COLUMN A ----- ITEM -----	COLUMN B ----- CHARGED TO COSTS AND EXPENSES -----		
	1993	1992	1991
	<C>	<C>	<C>
1. Maintenance and repairs.....	\$ 927	\$ 964	\$ 948
2. Advertising costs (a).....	\$2,356	\$2,419	\$2,420

</TABLE>

- - - - -

Note:

- (a) Advertising comprises public media and direct mail expenses only.

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EXHIBIT INDEX

<TABLE>

<CAPTION>

EXHIBIT

NO.	DESCRIPTION	PAGE NO.
<S>	<C>	<C>
1.1.	Form of Underwriting Agreement, including form of terms agreement.	
1.2.	Form of First Amendment to Selling Agency Agreement.	
3.1.	Restated Articles of Incorporation of the Company. (1)	
3.2.	By-Laws, as amended, of the Company.	
4.1.	Plan of Exchange and Articles of Incorporation. (2)	
4.2.	Indenture between the Company and Bankers Trust Company, Trustee (Chemical Bank, Successor Trustee), dated as of December 1, 1985. (3)	
4.3.	Tripartite Agreement dated as of February 19, 1986 among the Company, Bankers Trust Company and Chemical Bank. (3)	
4.4.	First Supplemental Indenture dated as of August 1, 1986 to the Indenture dated as of December 1, 1985 between the Company and Chemical Bank, Successor Trustee. (4)	
4.5.	Second Supplemental Indenture dated as of November 1, 1986 to the Indenture dated as of December 1, 1985 between the Company and Chemical Bank, Successor Trustee. (4)	
4.6.	Amended and Restated Indenture, dated as of April 1, 1988 between the Company and Chemical Bank, as Trustee. (5)	
4.7.	First Supplemental Indenture dated as of December 1, 1988 to the Amended and Restated Indenture, dated as of April 1, 1988, between the Company and Chemical Bank, as Trustee. (6)	
4.8.	Indenture dated as of August 1, 1990 between the Company and Chemical Bank, Trustee. (7)	
4.9.	First Supplemental Indenture dated as of February 1, 1991 to Indenture dated as of August 1, 1990 between the Company and Chemical Bank, Trustee. (8)	
4.10.	Second Supplemental Indenture dated as of January 21, 1992 to Indenture dated as of August 1, 1990 between the Company and Chemical Bank, Trustee. (9)	
4.11.	5-Year Loan and Guaranty Agreement dated as of December 17, 1993 among the Company, the Banks named therein and Citibank, N.A., as Agent.	
4.12.	364-Day Loan and Guaranty Agreement dated as of December 17, 1993 among the Company, the Banks named therein and Citibank, N.A., as Agent.	
4.13.	Rights Agreement, dated as of October 25, 1989, between the Company and First Chicago Trust Company of New York. (10)	
4.14.	Copies of other instruments defining the rights of holders of long-term debt of the Company and its subsidiaries are not filed herewith because the aggregate amount of securities authorized under each of such other instruments is less than 10% of the consolidated assets of the Company and its subsidiaries. The Company hereby agrees that it will furnish to the Securities and Exchange Commission a copy of each such other instrument upon the Commission's request.	
10.3.	Financial Counseling Program of Philip Morris Incorporated and the Company. (11)	
10.4.	Philip Morris Benefit Equalization Plan, as amended. (11)	
10.5.	Amendments, as of October 25, 1989, to the Philip Morris Benefit Equalization Plan, as amended. (10)	
10.6.	Automobile Policy of Philip Morris Incorporated and the Company. (11)	
10.8.	Pension Plan for Directors of the Company, effective July 1, 1989, as amended. (1)	
10.9.	1982 Stock Option Plan, as amended. (11)	
10.10.	The Philip Morris 1987 Long Term Incentive Plan, as amended. (12)	
10.12.	Form of Executive Master Trust between the Company, Chemical Bank and Handy Associates. (10)	
10.13.	Agreement, dated October 12, 1987, between the Company and Murray H. Bring, as amended.	
10.14.	Agreement, dated November 1, 1989, between the Company and Murray H. Bring. (10)	

</TABLE>

<TABLE>  
<CAPTION>  
EXHIBIT

NO.	DESCRIPTION	PAGE NO.
-----	-----	-----
<S>	<C>	<C>
10.17.	Deferred Incentive Payment Agreement between the Company and Michael A. Miles, dated March 8, 1989. (13)	
10.18.	Amendment, dated November 1, 1989, to the Deferred Incentive Payment Agreement between the Company and Michael A. Miles, dated March 8, 1989. (10)	
10.19.	Agreement, dated November 1, 1989, between the Company and Michael A. Miles. (10)	
10.20.	Form of Employment Agreement between the Company and its executive officers. (10)	
10.22.	Supplemental Management Employees' Retirement Plan of the Company, as amended. (12)	
10.23.	The Philip Morris 1992 Incentive Compensation and Stock Option Plan. (14)	
10.24.	1992 Compensation Plan for Non-Employee Directors, as amended. (4)	
12.	Statements re computation of ratios.	
13.	Pages 20-44 of the Company's annual report to stockholders for the year ended December 31, 1993, but only to the extent set forth in Items 1, 5, 6, 7, 8 and 14 hereof. With the exception of the aforementioned information incorporated by reference in this Annual Report on Form 10-K, the Company's annual report to stockholders for the year ended December 31, 1993 is not to be deemed "filed" as part of this Report.	
21.	Subsidiaries of the Company.	
23.	Consent of independent accountants.	
24.	Powers of attorney.	

</TABLE>

- 
- (1) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.
  - (2) Incorporated by reference to the Company's Registration Statement on Form S-14 (No. 2-96149) dated March 1, 1985.
  - (3) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 33-6525) dated June 13, 1986.
  - (4) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1992.
  - (5) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 33-21033) dated April 7, 1988.
  - (6) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 33-25906) dated December 8, 1988.
  - (7) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 33-36450) dated August 22, 1990.
  - (8) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 33-39059) dated February 21, 1991.
  - (9) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 33-45210) dated January 22, 1992.
  - (10) Incorporated by reference to the Company's Current Report on Form 8-K dated November 8, 1989.
  - (11) Incorporated by reference to the Company's Registration Statement on Form 8-B dated July 1, 1985.
  - (12) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1990.
  - (13) Incorporated by reference to the Company's Form SE dated March 30, 1989, constituting a part of the Company's Annual Report on Form 10-K for the year ended December 31, 1988.
  - (14) Incorporated by reference to the Company's Proxy Statement in connection with its annual meeting of stockholders held on April 23, 1992, filed on March 12, 1992.

## PHILIP MORRIS COMPANIES INC.

DEBT SECURITIES, WARRANTS TO PURCHASE DEBT SECURITIES  
AND CURRENCY WARRANTSUNDERWRITING AGREEMENT  
-----

DATED AS OF JANUARY 1, 1994

1. Introductory. Philip Morris Companies Inc., a Virginia corporation ("Company"), proposes to issue and sell from time to time certain of its debt securities and warrants to purchase certain of its debt securities in an aggregate principal amount expressed in U.S. dollars or in such foreign currencies or currency units as the Company shall designate at the time of offering, and currency warrants representing the right to receive from the Company the cash value in U.S. dollars of the right to purchase and/or sell a designated amount of U.S. dollars for a designated amount (the "Base Currency Amount") of a specified foreign currency or currency unit (a "Base Currency") as shall be determined by the Company at the time of offering. Such debt securities, warrants, debt securities subject to such warrants and currency warrants, registered under the registration statement referred to in Section 2(a), are hereinafter collectively referred to as "Registered Securities". Registered Securities involved in any offering referred to below are hereinafter collectively referred to as "Securities", such debt securities that are Securities are hereinafter referred to as "Purchased Debt Securities", warrants to purchase debt securities that are Securities are hereinafter referred to as "Debt Warrants", debt securities subject to warrants that are Securities are hereinafter referred to as "Warrant Debt Securities", currency warrants are hereinafter collectively referred to as "Currency Warrants", Purchased Debt Securities and Warrant Debt Securities are hereinafter collectively referred to as "Debt Securities" and Purchased Debt Securities, Debt Warrants and Currency Warrants are hereinafter collectively referred to as "Purchased Securities". The Debt Securities will be issued under an Indenture, dated as of August 1, 1990, as supplemented and amended by a First Supplemental Indenture dated as of February 1, 1991 and a Second Supplemental Indenture dated as of January 21, 1992 ("Indenture"), between the Company and Chemical Bank, as Trustee, the Debt Warrants will be issued under a debt warrant agreement (the "Debt Warrant Agreement"), between the Company and a bank or trust company, as Debt Warrant Agent, specified in the Terms Agreement referred to in Section 3 and the Currency Warrants will be issued under a currency warrant agreement (the "Currency Warrant Agreement"), between the Company and a bank or trust company, as Currency Warrant Agent, specified in the applicable Terms Agreement, in one or more series or issues, which may vary as to interest rates, maturities, redemption provisions, exercise prices, expiration dates, selling prices, currency or currency units and other terms, with in each case all such terms for any particular Registered Securities being determined at the

time of sale. Particular Purchased Securities will be sold pursuant to a Terms Agreement and for resale in accordance with terms of offering determined at the time of sale.

The firm or firms which agree to purchase the Purchased Securities are hereinafter referred to as the "Underwriters" of such Purchased Securities, and the representative or representatives of the Underwriters, if any, specified in a Terms Agreement referred to in Section 3 are hereinafter referred to as the "Representatives"; provided, however, that if the Terms Agreement does not specify any representative of the Underwriters, the term "Representatives", as used in this Agreement (other than in Sections 2(b), 6 and 7 and the second sentence of Section 3), shall mean the Underwriters.

2. Representations and Warranties of the Company. The Company represents and warrants to, and agrees with, each Underwriter that:

(a) A registration statement (No. 33-49195), including a prospectus, relating to the Registered Securities has been filed with the Securities and Exchange Commission ("Commission") and has become effective. Such registration statement, as amended at the time of any Terms Agreement referred to in Section 3, is hereinafter referred to as the "Registration Statement", and the prospectus included in such Registration Statement, as supplemented as contemplated by Section 3 to reflect the terms of the Securities and the terms of offering thereof, including all material incorporated by reference therein, is hereinafter referred to as the "Prospectus".

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(b) On the effective date of the registration statement relating to the Registered Securities, such registration statement conformed in all respects to the requirements of the Securities Act of 1933 ("Act"), the Trust Indenture Act of 1939 ("Trust Indenture Act") and the rules and regulations of the Commission ("Rules and Regulations") and did not include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and, on the date of each Terms Agreement referred to in Section 3 and on each Closing Date as defined in Section 3, the Registration Statement and the Prospectus will conform in all respects to the requirements of the Act, the Trust Indenture Act and the Rules and Regulations, and neither of such documents will include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, except that the foregoing does not apply to statements in or omissions from any of such documents based upon written information furnished to the Company by any Underwriter through the Representatives, if any, specifically for use therein.

3. Purchase and Offering of Securities. The obligation of the Underwriters to purchase the Purchased Securities will be evidenced by an exchange of

telegraphic or other written communications ("Terms Agreement") at the time the Company determines to sell the Purchased Securities. The Terms Agreement will incorporate by reference the provisions of this Agreement, except as otherwise provided therein, and will specify the firm or firms which will be Underwriters, the names of any Representatives, the principal amount of Purchased Debt Securities, the number of Debt Warrants and the number of Currency Warrants to be purchased by each Underwriter, the purchase price to be paid by the Underwriters and the terms of the Purchased Securities not already specified in the Indenture, the Debt Warrant Agreement or the Currency Warrant Agreement, as the case may be, including, but not limited to, interest rate, maturity, any redemption provisions and any sinking fund requirements, the exercise price of the Debt Warrants to be purchased, the principal amount of Warrant Debt Securities issuable upon exercise of one such Debt Warrant, the date after which such Debt Warrants are exercisable, the expiration date thereof and the date, if any, such Debt Warrants are detachable and whether any of the Purchased Debt Securities or Debt Warrants may be sold to institutional investors pursuant to Delayed Delivery Contracts (as defined below), and in the event any Currency Warrants are to be sold, the conditions and procedures relating to exercise, expiration date, Base Currency, Base Currency Amount and formula for determining Cash Settlement Value (as defined in the Currency Warrant Agreement). The Terms Agreement will also specify the time and date of delivery and payment (such time and date, or such other time not later than seven full business days thereafter as the Representatives and the Company agree as the time for payment and delivery, being herein and in the Terms Agreement referred to as the "Closing Date"), the place of delivery and payment and any details of the terms of offering that should be reflected in the prospectus supplement relating to the offering of the Securities. The obligations of the Underwriters to purchase the Purchased Securities will be several and not joint. It is understood that the Underwriters propose to offer the Purchased Securities for sale as set forth in the Prospectus. The Purchased Securities delivered to the Underwriters on the Closing Date will be in fully registered or bearer form with respect to any Debt Securities, and in fully registered form with respect to Debt Warrants, in each case in such denominations and numbers and registered in such names as the Underwriters may request, and will be represented by a single global Currency Warrant in the case of Currency Warrants.

If the Terms Agreement provides for sales of Purchased Debt Securities or Debt Warrants pursuant to delayed delivery contracts, the Company authorizes the Underwriters to solicit offers to purchase Purchased Debt Securities or Debt Warrants pursuant to delayed delivery contracts substantially in the form of Annex I attached hereto ("Delayed Delivery Contracts") with such changes therein as the Company may authorize or approve. Delayed Delivery Contracts are to be with institutional investors, including commercial and savings banks, insurance companies, pension funds, investment companies and educational and charitable institutions. On the Closing Date the Company will pay, as compensation, to the Representatives for the accounts of the Underwriters, the fee set forth in such Terms Agreement in respect of the principal amount of Purchased Debt Securities and number of Debt Warrants to be sold pursuant to Delayed Delivery Contracts ("Contract Securities"). The Underwriters will not have any responsibility in respect of the validity or the performance of



Contracts, the Contract Securities will be deducted from the Securities to be purchased by the several Underwriters and the aggregate principal amount of Purchased Debt Securities and number of Debt Warrants, as the case may be, to be purchased by each Underwriter will be reduced pro rata in proportion to the principal amount of Purchased Debt Securities or number of Debt Warrants set forth opposite each Underwriter's name in such Terms Agreement, except to the extent that the Representatives determine that such reduction shall be otherwise than pro rata and so advise the Company. The Company will advise the Representatives not later than the business day prior to the Closing Date of the Purchased Debt Securities and Debt Warrants that are the Contract Securities.

4. Certain Agreements of the Company. The Company agrees with the several Underwriters that it will furnish to Simpson Thacher & Bartlett, counsel for the Underwriters, one signed copy of the registration statement relating to the Registered Securities, including all exhibits, in the form it became effective and of all amendments thereto and that, in connection with each offering of Securities:

(a) The Company will advise the Representatives promptly of any proposal to amend or supplement the Registration Statement or the Prospectus and will afford the Representatives a reasonable opportunity to comment on any such proposed amendment or supplement; and the Company will also advise the Representatives promptly of the filing of any such amendment or supplement and of the institution by the Commission of any stop order proceedings in respect of the Registration Statement or of any part thereof and will use its best efforts to prevent the issuance of any such stop order and to obtain as soon as possible its lifting, if issued.

(b) If, at any time when a prospectus relating to the Securities is required to be delivered under the Act, any event occurs as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary at any time to amend the Prospectus to comply with the Act, the Company promptly will prepare and file with the Commission an amendment or supplement which will correct such statement or omission or an amendment which will effect such compliance.

(c) As soon as practicable, but not later than 18 months, after the date of each Terms Agreement, the Company will make generally available to its securityholders an earnings statement covering a period of at least 12 months beginning after the later of (i) the most recent effective date of the registration statement relating to the Registered Securities, (ii) the

effective date of the most recent post-effective amendment to the Registration Statement to become effective prior to the date of such Terms Agreement and (iii) the date of the Company's most recent Annual Report on Form 10-K filed with the Commission prior to the date of such Terms Agreement, which will satisfy the provisions of Section 11(a) of the Act (including, at the option of the Company, Rule 158 of the Rules and Regulations under the Act).

(d) The Company will furnish to the Representatives copies of the Registration Statement, including all exhibits, any related preliminary prospectus, any related preliminary prospectus supplement, the Prospectus and all amendments and supplements to such documents, in each case as soon as available and in such quantities as are reasonably requested.

(e) The Company will arrange for the qualification of the Securities for sale and the determination of their eligibility for investment under the laws of such jurisdictions as the Representatives designate and will continue such qualifications in effect so long as required for the distribution; provided that the Company will not be required to qualify to do business in any jurisdiction where it is not now qualified or to take any action which would subject it to general or unlimited service of process in any jurisdiction where it is not now subject.

(f) During the period of five years after the date of any Terms Agreement, the Company will furnish to the Representatives and, upon request, to each of the other Underwriters, if any, as soon as practicable after the end of each fiscal year, a copy of its annual report to stockholders for such year; and the Company will furnish to the Representatives (i) as soon as available, a copy of each Annual Report on Form 10-K, Quarterly Report on Form 10-Q, Current Report on Form 8-K and definitive proxy statement of the Company filed with the Commission under the Securities Exchange Act of 1934 (the

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"Exchange Act") or mailed to stockholders, and (ii) from time to time, such other information concerning the Company as the Representatives may reasonably request.

(g) The Company will pay all expenses incident to the performance of its obligations under this Agreement and will reimburse the Underwriters for any expenses (including fees and disbursements of counsel) incurred by them in connection with qualification of the Registered Securities for sale and determination of their eligibility for investment under the laws of such jurisdictions as the Representatives may designate and the printing of memoranda relating thereto, for any fees charged by investment rating agencies for the rating of the Securities, for the filing fee of the National Association of Securities Dealers, Inc. relating to the Registered Securities and for expenses incurred in distributing the Prospectus, any preliminary prospectuses and any preliminary prospectus supplements to

Underwriters.

(h) For a period beginning at the time of execution of the Terms Agreement and ending on the Closing Date, if any Debt Securities are being issued, without the prior consent of the Representatives, the Company will not offer or contract to sell or, except pursuant to a commitment entered into prior to the date of the Terms Agreement, sell or otherwise dispose of any debt securities denominated in the currency or currency unit in which the Securities are denominated and issued or guaranteed by the Company and having a maturity of more than one year from the date of issue, or, if any Currency Warrants are being issued, any currency warrants having the same Base Currency as any such Currency Warrants.

5. Conditions to the Obligations of the Company and the Underwriters With Respect to Currency Warrants. If any Currency Warrants are to be purchased hereunder, the obligations of the Company and the obligations of the Underwriters hereunder are subject to the conditions that (i) not later than the date of the applicable Terms Agreement, a United States national securities exchange (the "Exchange") shall have approved such Currency Warrants for listing, subject to official notice of issuance, and (ii) as of the date of the applicable Terms Agreement, the Company's registration statement on Form 8-A relating to the Securities (the "Form 8-A") shall have become effective under the Exchange Act.

6. Conditions of the Obligations of the Underwriters. The obligations of the several Underwriters to purchase and pay for the Purchased Securities will be subject to the accuracy of the representations and warranties on the part of the Company herein, to the accuracy of the statements of Company officers made pursuant to the provisions hereof, to the performance by the Company of its obligations hereunder and to the following additional conditions precedent:

(a) On or prior to the date of the Terms Agreement, the Representatives, or counsel for the Underwriters, shall have received a letter of Coopers & Lybrand, confirming that they are independent certified public accountants within the meaning of the Act and the applicable published Rules and Regulations thereunder and stating in effect that:

(i) in their opinion, the financial statements and schedules of the Company audited by them and included in the prospectus contained in the registration statement relating to the Registered Securities, as amended at the date of such letter, comply as to form in all material respects with the applicable accounting requirements of the Act and the related published Rules and Regulations;

(ii) on the basis of performing the procedures specified by the American Institute of Certified Public Accountants for a review of interim financial information as described in Statement on Auditing Standards No. 71, Interim Financial Information ("SAS No. 71") on any unaudited interim condensed consolidated financial statements of the Company included in such prospectus, inquiries of officials of the Company who have responsibility for financial and accounting matters

and other specified procedures, nothing came to their attention that caused them to believe that (A) the unaudited interim condensed consolidated financial statements, if any, of the Company included in such prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Exchange Act as it applies to Quarterly Reports on Form 10-Q and the related published Rules and Regulations or (B) that any material modifications should be made for them to be in conformity with generally accepted accounting principles;

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(iii) on the basis of a reading of any unaudited pro forma condensed combined financial statements of the Company included in such prospectus, inquiries of officials of the Company who have responsibility for financial and accounting matters and other specified procedures, nothing came to their attention that caused them to believe that the unaudited pro forma condensed combined financial statements included in such prospectus do not comply in form in all material respects with the applicable accounting requirements of Rule 11-02 of Regulation S-X and that the pro forma adjustments, if any, have not been properly applied to the historical amounts in the compilation of those statements; and

(iv) they have compared specified dollar amounts (or percentages derived from such dollar amounts) and other financial information contained in such prospectus (in each case to the extent that such dollar amounts, percentages and other financial information are obtained from accounting records that are subject to the internal control structure, policies and procedures of the Company's accounting system or are derived directly from such accounting records by analysis or computation) with the results obtained from procedures specified in such letter and have found such dollar amounts, percentages and other financial information to be in agreement with such results, except as otherwise specified in such letter.

All financial statements and schedules included in material incorporated by reference into such prospectus shall be deemed included in such prospectus for purposes of this subsection.

(b) No stop order suspending the effectiveness of the Registration Statement or, if any Currency Warrants are being issued, the Form 8-A, or of any part thereof shall have been issued and no proceedings for that purpose shall have been instituted or, to the knowledge of the Company or any Underwriter, shall be contemplated by the Commission.

(c) Subsequent to the execution of the Terms Agreement, there shall not have occurred (i) any change in the capital stock or long-term debt of the Company and its subsidiaries or any change, or any development involving a

prospective change, in or affecting the general affairs, financial position, stockholders' equity or results of operations of the Company and its subsidiaries, otherwise than as set forth or contemplated in the Prospectus, the effect of which is, in the judgment of the Representatives, so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Securities on the terms and in the manner contemplated in the Prospectus; (ii) any downgrading in the rating of the Company's debt securities by any "nationally recognized statistical rating organization" (as defined for purposes of Rule 436(g) under the Act); (iii) any suspension or limitation of trading in securities generally on the New York Stock Exchange or, if any Currency Warrants are being issued, the Exchange, or any setting of minimum prices for trading on the New York Stock Exchange or, if applicable, the Exchange, or any suspension of trading of any securities of the Company on any United States exchange or in the over-the-counter market; (iv) any banking moratorium declared by Federal or New York authorities, or the authorities of any country which is the issuer of a Base Currency or in whose currency any Purchased Debt Securities or Debt Warrants are denominated under the applicable Terms Agreement; (v) any outbreak or escalation of major hostilities in which the United States or any country which is the issuer of a Base Currency or in whose currency any Purchased Debt Securities or Debt Warrants are denominated under the applicable Terms Agreement is involved, any declaration of war by Congress or any other substantial national or international calamity or emergency if, in the judgment of the Representatives, the effect of any such outbreak, escalation, declaration, calamity or emergency makes it impractical or inadvisable to proceed with completion of the sale of and payment for the Securities; or (vi) any action by any governmental authority or any change, or any development involving a prospective change, involving currency exchange rates or exchange controls, which makes it impracticable or inadvisable in the reasonable judgment of the Representatives to proceed with the public offering or delivery of the Securities on the terms and in the manner contemplated in the Prospectus.

(d) The Representatives shall have received an opinion, dated the Closing Date, of Hunton & Williams, counsel for the Company, to the effect that:

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(i) the Company has been duly incorporated and is an existing corporation in good standing under the laws of the Commonwealth of Virginia, with corporate power and authority to own its properties and conduct its business as described in the Prospectus; and the Company is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions in which it owns or leases substantial properties or in which the conduct of its business requires such qualification and in which the failure to so qualify would have a material adverse effect on the Company;

(ii) Philip Morris Incorporated, Philip Morris International Inc. and Kraft General Foods, Inc. have been duly incorporated and are existing corporations in good standing under the laws of their respective jurisdictions of incorporation, with corporate power and authority to own their respective properties and conduct their respective businesses as described in the Prospectus; all outstanding shares of capital stock of Philip Morris Incorporated, Philip Morris International Inc. and Kraft General Foods, Inc. are owned by the Company, free and clear of any lien, pledge and encumbrance or claim of any third party;

(iii) the Indenture, any Debt Warrant Agreement and any Currency Warrant Agreement have been duly authorized, executed and delivered by the Company; the Indenture has been duly qualified under the Trust Indenture Act; the Securities have been duly authorized; the Purchased Securities other than any Contract Securities have been duly executed, authenticated, issued and delivered; the Indenture, any Debt Warrant Agreement, any Currency Warrant Agreement and the Securities other than any Warrant Debt Securities and any Contract Securities constitute, and any Warrant Debt Securities, when executed, authenticated, issued and delivered in the manner provided in the Indenture and sold pursuant to any Debt Warrant Agreement, and any Contract Securities, when executed, authenticated, issued and delivered in the manner provided in the Indenture and sold pursuant to Delayed Delivery Contracts, will constitute, valid and legally binding obligations of the Company, enforceable in accordance with their terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting creditors' rights and to general equity principles; and the Securities other than any Warrant Debt Securities and any Contract Securities conform, and any Warrant Debt Securities and any Contract Securities, when so issued and delivered and sold, will conform, to the description thereof contained in the Prospectus;

(iv) no consent, approval, authorization or order of, or filing with, any governmental agency or body or any court is required for the consummation of the transactions contemplated by the Terms Agreement (including the provisions of this Agreement) in connection with the issuance or sale of the Purchased Securities by the Company, except such as have been obtained and made under the Act and the Trust Indenture Act and such as may be required under state securities laws;

(v) the execution, delivery and performance of the Indenture, the Terms Agreement (including the provisions of this Agreement), any Debt Warrant Agreement, any Currency Warrant Agreement and any Delayed Delivery Contracts and the issuance and sale of the Securities and compliance with the terms and provisions thereof will not result in a breach or violation of any of the terms and provisions of, or constitute a default under, the charter or by-laws of the Company, Philip Morris Incorporated, Philip Morris International Inc. or Kraft General Foods, Inc., or, to the best of the knowledge of such counsel, the charter or by-laws of any other subsidiary of the Company, any

statute, any rule, regulation or order of any governmental agency or body or any court having jurisdiction over the Company or any subsidiary of the Company or any of their properties or any agreement or instrument to which the Company or any such subsidiary is a party or by which the Company or any such subsidiary is bound or to which any of the properties of the Company or any such subsidiary is subject, and the Company has full power and authority to authorize, issue and sell the Securities as contemplated by the Terms Agreement (including the provisions of this Agreement);

(vi) the Registration Statement has become effective under the Act, and, to the best of the knowledge of such counsel, no stop order suspending the effectiveness of the Registration Statement or of any part thereof has been issued and no proceedings for that purpose have been instituted or

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are pending or contemplated under the Act, and the registration statement relating to the Registered Securities, as of its effective date, the Registration Statement and the Prospectus, as of the date of the Terms Agreement, and any amendment or supplement thereto, as of its date, complied as to form in all material respects with the requirements of the Act, the Trust Indenture Act and the Rules and Regulations; such counsel have no reason to believe that such registration statement, as of its effective date, or any amendment or supplement thereto, as of its date, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading or that the Prospectus or any amendment or supplement thereto contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; the descriptions in the Registration Statement and Prospectus of statutes, legal and governmental proceedings and contracts and other documents are accurate and fairly present the information required to be shown; and such counsel do not know of any legal or governmental proceedings required to be described in the Prospectus which are not described as required or of any contracts or documents of a character required to be described in the Registration Statement or Prospectus or to be filed as exhibits to the Registration Statement which are not described and filed as required; it being understood that such counsel need express no opinion as to the financial statements or other financial data contained in the Registration Statement or the Prospectus or any such amendment or supplement; and

(vii) the Terms Agreement (including the provisions of this Agreement) and any Delayed Delivery Contracts have been duly authorized, executed and delivered by the Company.

In rendering such opinion, Hunton & Williams may state that (1) in clause (iii) with respect to the validity and enforceability of the Indenture, any Debt Warrant Agreement, any Currency Warrant Agreement and the Securities, and in clause (iv) and in clause (v) with respect to any statute, rule, regulation or order of any governmental agency, body or court and the power and authority of the Company to authorize, issue and sell the Securities, such counsel has assumed that under the laws of any country in whose currency any Securities are denominated, if other than in U.S. dollars, that no consent, approval, authorization, or order of, or filing with any governmental agency, body or court is required for the consummation of the transactions contemplated hereunder in connection with the issuance and sale of the Securities and compliance with the terms and provisions thereof will not result in any breach or violation of any of the terms and provisions in any statute, rule, regulation or order of any governmental agency or body or any court, and (2) in clause (iii) with respect to the enforceability of the Indenture, no opinion is expressed with respect to Section 516 thereof. Such counsel may note that (a) a New York statute provides that with respect to a foreign currency obligation a court of the State of New York shall render a judgment or decree in such foreign currency and such judgment or decree shall be converted into currency of the United States at the rate of exchange prevailing on the date of entry of such judgment or decree and (b) with respect to a foreign currency obligation a United States Federal court in New York may award judgment in United States dollars, provided that such counsel expresses no opinion as to the rate of exchange such court would apply.

(e) The Representatives shall have received from Simpson Thacher & Bartlett, counsel for the Underwriters, such opinion or opinions, dated the Closing Date, with respect to the incorporation of the Company, the validity of the Securities, the Registration Statement, the Prospectus and other related matters as they may require, and the Company shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters. In rendering such opinion, Simpson Thacher & Bartlett may rely as to the incorporation of the Company and all other matters governed by Virginia law upon the opinion of Hunton & Williams referred to above.

(f) The Representatives shall have received a certificate, dated the Closing Date, of the President or any Vice President and a principal financial or accounting officer of the Company in which such officers, to the best of their knowledge after reasonable investigation, shall state that the representations and warranties of the Company in this Agreement are true and correct, that the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied hereunder at or prior to the Closing Date, that no stop order suspending the effectiveness of the Registration Statement

or of any part thereof has been issued and no proceedings for that purpose



have been instituted or are contemplated by the Commission and that, subsequent to the date of the most recent financial statements in the Prospectus, there has been no material adverse change in the financial position or results of operation of the Company and its subsidiaries except as set forth in or contemplated by the Prospectus or as described in such certificate.

(g) The Representatives shall have received a letter, dated the Closing Date, of Coopers & Lybrand, which reconfirms the matters set forth in their letter delivered pursuant to subsection (a) of this Section and states in effect that:

(i) in their opinion, any financial statements or schedules examined by them and included in the Prospectus and not covered by their letter delivered pursuant to subsection (a) of this Section comply in form in all material respects with the applicable accounting requirements of the Act and the related published Rules and Regulations;

(ii) on the basis of performing the procedures specified by the American Institute of Certified Public Accountants for a review of interim financial information as described in SAS No. 71, on any unaudited interim condensed consolidated financial statements of the Company included in the Prospectus and not covered by their letter delivered pursuant to subsection (a) of this Section, reading the latest available interim financial statements of the Company, inquiries of officials of the Company who have responsibility for financial and accounting matters and other specified procedures, nothing came to their attention that caused them to believe that:

(A) the unaudited interim condensed consolidated financial statements of the Company, if any, included in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Act and the related published Rules and Regulations or require any material modifications to be made for them to be in conformity with generally accepted accounting principles;

(B) at the date of the latest available consolidated balance sheet of the Company read by such accountants, or at a subsequent specified date not more than five business days prior to the Closing Date, there was any decrease in the outstanding common stock, or consolidated earnings reinvested in the business of the Company other than any decrease resulting from the declaration of regular quarterly cash dividends, or any issuance or assumption of long-term debt by the Company, Philip Morris Incorporated, Philip Morris International Inc., Kraft General Foods, Inc. or Philip Morris Capital Corporation (exclusive of any short-term borrowings reclassified as long-term based upon the Company's ability and intention to refinance these short-term borrowings on a long-term basis), or, at the date of the latest available consolidated balance sheet of the Company read by such accountants, there was any

decrease in consolidated net current assets or net assets, all as compared with amounts shown on or included in the latest balance sheet of the Company included in the Prospectus; or

(C) for the period from the date of the latest consolidated statement of earnings of the Company included in the Prospectus to the date of the latest available consolidated statement of earnings of the Company read by such accountants there were any decreases, as compared with the corresponding period of the previous year, in consolidated operating revenues, operating income, net earnings or the historical ratio of earnings to fixed charges of the Company and consolidated subsidiaries;

except in all cases set forth in clauses (B) and (C) above for issuances or assumptions or decreases which the Prospectus discloses have occurred or may occur or which are described in such letter;

(iii) with respect to the unaudited capsule information of the Company, if any, included in the Prospectus:

(A) on the basis of performing the procedures specified by the American Institute of Certified Public Accountants for a review of interim financial information as described in SAS No. 71 on the unaudited interim condensed consolidated financial statements of the Company from which such unaudited capsule information was derived, reading such unaudited capsule information, inquiries of officials of the Company who have responsibility for financial and

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accounting matters and other specified procedures, nothing came to their attention that caused them to believe that:

(1) the amounts contained in the unaudited capsule information included in the Prospectus do not agree with the amounts set forth in the unaudited interim condensed consolidated financial statements of the Company from which such amounts were derived; and

(2) the amounts contained in the unaudited capsule information included in the Prospectus were not determined on a basis substantially consistent with that of the corresponding financial information in the latest audited financial statements of the Company included in the Prospectus; or

(B) if the procedures specified by the American Institute of Certified Public Accountants for a review of interim financial information as described in SAS No. 71 have not been performed on the unaudited interim condensed consolidated financial statements of the Company from which such unaudited capsule information was

derived, they have:

(1) read the unaudited capsule information and agreed the amounts contained therein with the Company's accounting records from which it was derived; and

(2) inquired of certain officials of the Company who have responsibility for financial and accounting matters whether the unaudited capsule information was determined on a basis substantially consistent with that of the corresponding financial information in the latest audited financial statements of the Company included in the Prospectus; and

(iv) they have compared specified dollar amounts (or percentages derived from such dollar amounts) and other financial information included in the Prospectus and not covered by their letter delivered pursuant to subsection (a) of this Section (in each case to the extent that such dollar amounts, percentages and other financial information are obtained from accounting records that are subject to the internal control structure, policies and procedures of the Company's accounting system or are derived directly from such accounting records by analysis or computation) with the results obtained from procedures specified in such letter and have found such dollar amounts, percentages and other financial information to be in agreement with such results, except as otherwise specified in such letter.

All financial statements and schedules included in material incorporated by reference into the Prospectus shall be deemed included in the Prospectus for the purposes of this subsection.

(h) The Representatives shall have received, so long as financial statements audited by any independent accountants for or with respect to any entity acquired by the Company are included in the Prospectus, a letter, dated the Closing Date, of such accountants confirming that as of a specified date immediately prior to such acquisition and during the period covered by the financial statements on which they reported, they were independent accountants with respect to such entity within the meaning of the Act and the applicable published Rules and Regulations thereunder and stating in effect that:

(i) in their opinion, the consolidated financial statements audited by them and included in the Prospectus comply in form in all material respects with the applicable accounting requirements of the Act and the Exchange Act and the related published Rules and Regulations, with respect to Registration Statements on Form S-3; and

(ii) on the basis of performing the procedures specified by the American Institute of Certified Public Accountants for a review of interim financial information as described in SAS No. 71, inquiries of officials of the Company who have responsibility for financial and accounting matters and other specified procedures, nothing came to

their attention that caused them to believe that the unaudited financial statements of such entity at any date and for any period ending on or prior to the date of the latest unaudited balance sheet of such entity included in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Act

and the related published Rules and Regulations or any material modifications should be made for them to be in conformity with generally accepted accounting principles.

All financial statements and schedules included in material incorporated by reference into the Prospectus shall be deemed included in the Prospectus for purposes of this subsection.

(i) The Representatives shall have received from counsel, satisfactory to the Representatives, such opinion or opinions, dated the Closing Date, with respect to compliance with the laws of any country, other than the United States, in whose currency Purchased Debt Securities or Debt Warrants are denominated or which is the issuer of a Base Currency, the validity of the Securities, the Prospectus and other related matters as they may require, and the Company shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters.

(j) If any Currency Warrants are to be purchased, no order suspending trading or striking or withdrawing such Currency Warrants from listing and registration under the Exchange Act shall be in effect, and no proceedings for such purpose shall be pending before or threatened by the Commission or by the Exchange.

(k) If applicable to the offering of any Securities, the Representatives shall have received an opinion from Sutherland, Asbill & Brennan, special tax counsel for the Company, dated the Closing Date, confirming their opinion as to United States tax matters set forth in the Prospectus.

The Company will furnish the Representatives with such conformed copies of such opinions, certificates, letters and documents as they reasonably request.

7. Indemnification and Contribution. (a) The Company will indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, the Prospectus, or any amendment or supplement thereto, or any related preliminary prospectus or preliminary prospectus supplement, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Underwriter for any legal or

other expenses reasonably incurred by such Underwriter in connection with investigating or defending any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement in or omission or alleged omission from any of such documents in reliance upon and in conformity with written information furnished to the Company by any Underwriter through the Representatives, if any, specifically for use therein; and provided further that as to any preliminary prospectus this indemnity agreement shall not inure to the benefit of any Underwriter or any person controlling that Underwriter on account of any loss, claim, damage or liability arising from the sale of Purchased Securities to any person by that Underwriter if that Underwriter failed to send or give a copy of the Prospectus, as the same may be amended or supplemented, to that person within the time required by the Act, and the untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact in such preliminary prospectus was corrected in the Prospectus, unless such failure resulted from non-compliance by the Company with Section 4(d). For purposes of the second proviso to the immediately preceding sentence, the term Prospectus shall not be deemed to include the documents incorporated therein by reference, and no Underwriter shall be obligated to send or give any supplement or amendment to any document incorporated by reference in a preliminary prospectus or the Prospectus to any person other than a person to whom such Underwriter has delivered such incorporated documents in response to a written request therefor.

(b) Each Underwriter will indemnify and hold harmless the Company against any losses, claims, damages or liabilities to which the Company may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement,

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the Prospectus, or any amendment or supplement thereto, or any related preliminary prospectus or preliminary prospectus supplement, or arise out of or are based upon the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by such Underwriter through the Representatives, if any, specifically for use therein, and will reimburse any legal or other expenses reasonably incurred by the Company in connection with investigating or defending any such loss, claim, damage, liability or action as such expenses are incurred.

(c) Promptly after receipt by an indemnified party under this Section of notice of the commencement of any action, such indemnified party will, if a

claim in respect thereof is to be made against the indemnifying party under subsection (a) or (b) above, notify the indemnifying party of the commencement thereof; but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than under subsection (a) or (b) above. In case any such action is brought against any indemnified party and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Section for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall be liable for any settlement of any such action effected without its written consent (which consent shall not be unreasonably withheld), but if settled with its written consent or if there be a final judgment for the plaintiff in any such action, the indemnifying party agrees to indemnify and hold harmless any indemnified party from and against any loss or liability by reason of such settlement or judgment. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding.

(d) If the indemnification provided for in this Section is unavailable or insufficient to hold harmless an indemnified party under subsection (a) or (b) above, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or liabilities referred to in subsection (a) or (b) above (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other from the offering of the Securities or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Underwriters and the parties' relative intent, knowledge, access to information

and opportunity to correct or prevent such untrue statement or omission. The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities referred to in the first sentence of this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any action or claim which is the subject of this subsection (d). Notwithstanding the provisions of this subsection (d), no Underwriter shall be required to contribute any amount in excess of the amount by which the total

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price at which the Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (d) to contribute are several in proportion to their respective underwriting obligations and not joint.

(e) The obligations of the Company under this Section shall be in addition to any liability which the Company may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls any Underwriter within the meaning of the Act; and the obligations of the Underwriters under this Section shall be in addition to any liability which the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each director of the Company, to each officer of the Company who has signed the Registration Statement and to each person, if any, who controls the Company within the meaning of the Act.

8. Default of Underwriters. If any Underwriter or Underwriters default in their obligations to purchase Purchased Securities under the Terms Agreement and the aggregate amount of the Purchased Securities that such defaulting Underwriter or Underwriters agreed but failed to purchase does not exceed 10% of the aggregate amount of the Purchased Securities, the Representatives may make arrangements satisfactory to the Company for the purchase of such Purchased Securities by other persons, including any of the Underwriters, but if no such arrangements are made by the Closing Date, the non-defaulting Underwriters shall be obligated severally, in proportion to their respective commitments under this Agreement and the Terms Agreement, to purchase the Purchased Securities that such defaulting Underwriters agreed but failed to purchase. If any Underwriter or Underwriters so default and the aggregate amount of the Purchased Securities with respect to which such default or defaults occur exceeds 10% of the aggregate amount of the Purchased Securities and arrangements satisfactory to the Representatives and the Company for the purchase of such Purchased Securities by other persons are not made within 36 hours after such default, such Terms Agreement will terminate without liability on the part of any non-defaulting Underwriter or the Company, except as provided in Section 9. As used in this Agreement, the term "Underwriter"

includes any person substituted for an Underwriter under this Section. As used in this Section only, the "aggregate amount" of Purchased Securities shall mean the aggregate principal amount of any Purchased Debt Securities plus the public offering price of any Debt Warrants or Currency Warrants included in the relevant offering of Purchased Securities. Nothing herein will relieve a defaulting Underwriter from liability for its default. The respective commitments of the several Underwriters for the purposes of this Section shall be determined without regard to reduction in the respective Underwriters' obligations to purchase the amount of Purchased Debt Securities set forth opposite their names in the Terms Agreement as a result of Delayed Delivery Contracts entered into by the Company.

The foregoing obligations and agreements set forth in this Section will not apply if the Terms Agreement specifies that such obligations and agreements will not apply.

9. Survival of Certain Representations and Obligations. The respective indemnities, agreements, representations, warranties and other statements of the Company or its officers and of the several Underwriters set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation, or statement as to the results thereof, made by or on behalf of any Underwriter, the Company or any of their respective representatives, officers or directors or any controlling person and will survive delivery of and payment for the Purchased Securities. If the obligations of the Underwriters with respect to any offering of Securities are terminated pursuant to Section 8 or if for any reason the purchase of the Purchased Securities by the Underwriters under a Terms Agreement is not consummated, the Company shall remain responsible for the expenses to be paid or reimbursed by it pursuant to Section 4 and the respective obligations of the Company and the Underwriters pursuant to Section 7 shall remain in effect. If for any reason the purchase of the Purchased Securities by the Underwriters is not consummated other than because of the termination of this Agreement pursuant to Section 8 or a failure to satisfy the conditions set

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forth in Section 6(c), the Company shall reimburse the Underwriters, severally, for all out-of-pocket expenses (including fees and disbursements of counsel) reasonably incurred by them in connection with the offering of the Securities.

10. Notices. All communications hereunder will be in writing and, if sent to the Underwriters, will be mailed, delivered or telegraphed and confirmed to them at their addresses furnished to the Company in writing for the purpose of communications hereunder or, if sent to the Company, will be mailed, delivered or telegraphed and confirmed to it at 120 Park Avenue, New York, New York 10017, Attention: Dede Thompson Bartlett, Vice President and Secretary.

11. Successors. This Agreement will inure to the benefit of and be binding upon the Company and such Underwriters as are identified in Terms Agreements and their respective successors and the officers and directors and controlling



persons referred to in Section 6, and no other person will have any right or obligation hereunder.

12. Applicable Law. This Agreement and the Terms Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

(Three copies of this Delayed Delivery Contract should be signed and returned to the address shown below so as to arrive not later than 9:00 A.M., New York time, on ..... , 19....\*.)

DELAYED DELIVERY CONTRACT

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[Insert date of initial public offering]

Philip Morris Companies Inc.

c/o [Insert name and address of lead Underwriter]

Attention:

Gentlemen:

The undersigned hereby agrees to purchase from Philip Morris Companies Inc., a Virginia corporation ("Company"), and the Company agrees to sell to the undersigned, [If one delayed closing, insert--as of the date hereof, for delivery on , 19 ("Delivery Date"),]

\$. . . . .

principal amount of the Company's [Insert title of debt securities] ("Debt Securities") and

. . . . .

of the Company's [Insert title of warrants] ("Debt Warrants") (collectively, the "Securities"), offered by the Company's Prospectus dated , 19 and a Prospectus Supplement dated , 19 relating thereto, receipt of copies of which is hereby acknowledged, at % of the principal amount of the Debt Securities plus accrued interest, if any, and on the further terms and conditions set forth in this Delayed Delivery Contract ("Contract").

[If two or more delayed closings, insert the following:

The undersigned will purchase from the Company as of the date hereof, for delivery on the dates set forth below, Debt Securities and Debt Warrants in the principal amounts and number, respectively, set forth below:

<TABLE>  
<CAPTION>

DELIVERY DATE	PRINCIPAL AMOUNT OF DEBT SECURITIES	NUMBER OF DEBT WARRANTS
-----	-----	-----
<S>	<C>	<C>
.....	....	....
.....	....	....

</TABLE>

Each of such delivery dates is hereinafter referred to as a Delivery Date.]

Payment for the Securities that the undersigned has agreed to purchase for delivery on [the] [each] Delivery Date shall be made to the Company or its order by certified or official bank check in New York Clearing House (next day) funds at the office of \_\_\_\_\_ at \_\_\_\_\_ .M. on [the] [such] Delivery Date upon delivery to the undersigned of the Securities to be purchased by the undersigned [for delivery on such Delivery Date] in definitive fully registered form and in such denominations or numbers and registered in such names as the undersigned may designate by written or telegraphic communication addressed to the Company not less than five full business days prior to [the] [such] Delivery Date.

- - - - -

\* Insert date which is third full business day prior to Closing Date under the Terms Agreement.

It is expressly agreed that the provisions for delayed delivery and payment are for the sole convenience of the undersigned; that the purchase hereunder of Securities is to be regarded in all respects as a purchase as of the date of this Contract; that the obligation of the Company to make delivery of and accept payment for, and the obligation of the undersigned to take delivery of and make payment for, Securities on [the] [each] Delivery Date shall be subject only to the conditions that (1) investment in the Securities shall not at [the] [such] Delivery Date be prohibited under the laws of any jurisdiction in the United States to which the undersigned is subject and (2) the Company shall have sold to the Underwriters the total principal amount of the Debt Securities less the principal amount thereof covered by this and other similar Contracts. The undersigned represents that its investment in the Securities is not, as of the date hereof, prohibited under the laws of any jurisdiction to which the undersigned is subject and which governs such investment.

Promptly after completion of the sale to the Underwriters the Company will mail or deliver to the undersigned at its address set forth below notice to such effect, accompanied by a copy of the opinion of counsel for the Company

delivered to the Underwriters in connection therewith.

This Contract will inure to the benefit of and be binding upon the parties hereto and their respective successors, but will not be assignable by either party hereto without the written consent of the other.

It is understood that the acceptance of any such Contract is in the Company's sole discretion and, without limiting the foregoing, need not be on a first-come, first-served basis. If this Contract is acceptable to the Company, it is requested that the Company sign the form of acceptance below and mail or deliver one of the counterparts hereof to the undersigned at its address set forth below. This will become a binding contract between the Company and the undersigned when such counterpart is so mailed or delivered.

Yours very truly,

.....  
(Name of Purchaser)

By .....  
.....  
(Title of Signatory)

.....  
.....  
(Address of Purchaser)

Accepted, as of the above date.

Philip Morris Companies Inc.

By .....  
(Insert Title)

PHILIP MORRIS COMPANIES INC.  
("COMPANY")

DEBT SECURITIES, WARRANTS TO PURCHASE  
DEBT SECURITIES AND CURRENCY WARRANTS

TERMS AGREEMENT  
-----

Philip Morris Companies Inc.  
120 Park Avenue  
New York, New York 10017

Attention: Hans G. Storr,

Dear Sirs:

On behalf of the several Underwriters named in Schedule A hereto and for their respective accounts, we offer to purchase, on and subject to the terms and conditions of the Underwriting Agreement relating to Debt Securities, Warrants to Purchase Debt Securities and Currency Warrants dated as of January 1, 1994 ("Underwriting Agreement"), the following securities ("Securities") on the following terms:

DEBT SECURITIES

Title:

Principal Amount: \$

Interest Rate: % from , 199 , payable:

Maturity:

Currency of Denomination:

Currency of Payment:

Form and Denomination:

Overseas Paying Agents:

Optional Redemption:

Sinking Fund:

Delayed Delivery Contracts: [authorized] [not authorized]

Delivery Date:

Minimum Contract:

Maximum aggregate principal amount:

Fee: %

Purchase Price: %, plus accrued interest, or amortized original issue discount, if any, from 19 .

Expected Reoffering Price:

DEBT WARRANTS

Number of Debt Warrants to be issued:

Debt Warrant Agreement:

Form of Debt Warrants: Registered

Issuable jointly with Debt Securities: [Yes] [No]

[Number of Debt Warrants issued with each \$ principal amount of Debt Securities:]

[Detachable Date:]

Date from which Debt Warrants are exercisable:

Date on which Debt Warrants expire:

Exercise price of Debt Warrants:

Expected Reoffering price: \$

Purchase price: \$

Title of Warrant Debt Securities:

Principal amount of Warrant Debt Securities purchaseable upon exercise of one Debt Warrant:

Interest Rate: % from , 199 , payable:

Maturity:

Currency of Denomination:

Currency of Payment:

Form and Denomination:

Overseas Paying Agents:

Optional Redemption:

Sinking Fund:

#### CURRENCY WARRANTS

Title of Currency Warrants:

Type of Currency Warrant:

Number of Currency Warrants to be issued:

Base Currency:

Currency Warrant Agreement:

Number of Warrants issued with each \$ principal amount of Debt Securities:

Date from which Currency Warrants are exercisable:

Date on which Currency Warrants expire:

Circumstances causing automatic exercise:

Minimum exercise amount:

Base Currency Amount:

Cash Settlement Value Formula:

Strike price(s) of Currency Warrants:

Expected Reoffering price: \$

Purchase price: \$

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Names and Addresses of Representatives:

The respective principal amounts of the Debt Securities and number of Debt Warrants and or Currency Warrants to be purchased by each of the Underwriters are set forth opposite their names in Schedule A hereto.

The provisions of the Underwriting Agreement are incorporated herein by reference.

The Closing will take place at A.M., New York City time, on , 199 , at the offices of Philip Morris Companies Inc., 120 Park Avenue, New York, New York.

The Securities will be made available for checking and packaging at the office of Chemical Bank at least 24 hours prior to the Closing Date.

Please signify your acceptance by signing the enclosed response to us in the space provided and returning it to us.

Very truly yours,

SCHEDULE A

DEBT SECURITIES

UNDERWRITER  
-----

PRINCIPAL AMOUNT  
-----

DEBT WARRANTS

UNDERWRITER  
-----

NUMBER OF DEBT  
WARRANTS  
-----

CURRENCY WARRANTS

UNDERWRITER  
-----

NUMBER OF CURRENCY  
WARRANTS  
-----

Philip Morris Companies Inc.

\$1,116,450,000 Medium-Term Notes, Series C  
Due from Nine Months to Thirty Years  
From Date of Issue

First Amendment to Selling Agency Agreement  
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February \_\_, 1994  
New York, New York

Salomon Brothers Inc  
7 World Trade Center  
New York, New York 10048

Merrill Lynch & Co.  
Merrill Lynch, Pierce, Fenner &  
Smith Incorporated  
Merrill Lynch World Headquarters  
North Tower  
World Financial Center  
New York, New York 10281

Lehman Brothers  
Lehman Brothers Inc.  
3 World Financial Center  
New York, New York 10285-1200

Dear Sirs:

1. Amendments. Philip Morris Companies Inc., a Virginia corporation  
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(the "Company"), confirms its agreement with each of you that the Selling Agency Agreement, dated December 11, 1992, between the Company and you (the "Selling Agency Agreement"), be hereby amended as follows:

(a) Name Change. The name "Shearson Lehman Brothers Inc." is hereby  
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deleted wherever it appears in the Selling Agency Agreement and in the Schedules and Exhibits thereto and the name "Lehman Brothers Inc." is substituted in lieu thereof.

(b) Change of Address for Notices. Schedule I to the Selling Agency  
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Agreement is hereby amended by deleting the last paragraph thereof in its entirety and substituting, in lieu thereof, the following paragraph:

"Notices to Lehman Brothers Inc. shall be directed to it at 3 World Financial Center, 12th Floor, New York, New York 10285-1200, Attention of Medium-Term Note Department, telecopy: (212) 528-6669. Copies of Pricing Supplements shall be sent (i) by telecopy to Lehman Brothers Inc., c/o Smith Barney Shearson Inc., Prospectus Delivery Department, Attention of Andrea Springer, telecopy: (718) 921-8472,

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telephone: (718) 921-8460/1 and (ii) by hand to Lehman Brothers Inc., 3 World Financial Center, 9th Floor, New York, New York 10285-0900, Attention of Brunnie Vazquez, telephone: (212) 640-8400."

(c) Amendment of Section 5(f). Section 5(f) of the Selling Agency

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Agreement is hereby amended by deleting such Section in its entirety and substituting, in lieu thereof, the following new Section 5(f):

"(f) At the Execution Time, Coopers & Lybrand shall have furnished to each Agent a letter or letters (which may refer to letters previously delivered to the Agent), dated as of the Execution Time, in form and substance satisfactory to the Agents, confirming that they are independent certified public accountants within the meaning of the Act and the respective applicable published rules and regulations thereunder and stating in effect that:

(i) in their opinion, the financial statements and schedules audited by them and included in the Registration Statements and the Prospectus relating to the Notes comply as to form in all material respects with the applicable accounting requirements of the Act and the Exchange Act and the related published rules and regulations;

(ii) on the basis of performing the procedures specified by the American Institute of Certified Public Accountants for a review of interim financial information as described in Statement on Auditing Standards No. 71, Interim Financial Information ("SAS No. 71") on any

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unaudited interim condensed consolidated financial statements of the Company included in the Prospectus, inquiries of officials of the Company who have responsibility for financial and accounting matters and other specified procedures, nothing came to their attention that caused them to believe that (A) the unaudited financial statements, if any, of the Company included in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Exchange Act as it applies to Quarterly Reports on Form 10-Q and the related published rules and regulations or (B) any

material modifications should be made for them to be in conformity with generally accepted accounting principles;

(iii) on the basis of a reading of the latest available interim financial statements of the Company, inquiries of officials of the Company who have responsibility for financial and accounting matters and other specified procedures, nothing came to their attention that caused them to believe that:

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(A) at the date of the latest available consolidated balance sheet of the Company read by such accountants, or at a subsequent specified date not more than five business days prior to the date of the letter, there was any decrease in the outstanding common stock or consolidated earnings reinvested in the business of the Company other than any decrease resulting from the declaration of regular quarterly cash dividends, or any issuance or assumption of long-term debt by the Company, Philip Morris Incorporated, Philip Morris International Inc., Kraft General Foods, Inc. or Philip Morris Capital Corporation (exclusive of any short-term borrowings reclassified as long-term based upon the Company's ability and intention to refinance these short-term borrowings on a long-term basis), or at the date of the latest available consolidated balance sheet of the Company read by such accountants, there was any decrease in consolidated net current assets or net assets, all as compared with amounts shown on or included in the latest balance sheet of the Company included in the Prospectus; or

(B) for the period from the date of the latest consolidated statement of earnings of the Company included in the Prospectus to the date of the latest available consolidated statement of earnings of the Company read by such accountants there were any decreases, as compared with the corresponding period of the previous year, in consolidated operating revenues, operating income, net earnings or the historical ratio of earnings to fixed charges of the Company and consolidated subsidiaries;

except in all cases set forth in clauses (A) and (B) above for issuances or assumptions or decreases which the Prospectus discloses have occurred or may occur or which are described in such letter;

(iv) with respect to the unaudited capsule information of the Company, if any, included in the Prospectus:

(A) on the basis of performing the procedures specified by the American Institute of Certified Public Accountants for a review of interim financial information as described in SAS No. 71 on the unaudited interim condensed consolidated financial

statements of the Company from which such unaudited capsule information was derived, reading such unaudited capsule information, inquiries of officials of the Company

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who have responsibility for financial and accounting matters and other specified procedures, nothing came to their attention that caused them to believe that:

(1) the amounts contained in the unaudited capsule information included in the Prospectus do not agree with the amounts set forth in the unaudited interim condensed consolidated financial statements of the Company from which such amounts were derived; and

(2) the amounts contained in the unaudited capsule information included in the Prospectus were not determined on a basis substantially consistent with that of the corresponding financial information in the latest audited financial statements of the Company included in the Prospectus; or

(B) if the procedures specified by the American Institute of Certified Public Accountants for a review of interim financial information as described in SAS No. 71 have not been performed on the unaudited interim condensed consolidated financial statements of the Company from which such unaudited capsule information was derived, they have:

(1) read the unaudited capsule information and agreed the amounts contained therein with the Company's accounting records from which it was derived; and

(2) inquired of certain officers of the Company who have responsibility for financial and accounting matters whether the unaudited capsule information was determined on a basis substantially consistent with that of the corresponding financial information in the latest audited financial statements of the Company included in the Prospectus;

(v) on the basis of a reading of any unaudited pro forma condensed combined financial statements of the Company included in the Prospectus, inquiries of officials of the Company who have responsibility for financial and accounting matters and other specified procedures, nothing came to their attention that caused them to believe that the unaudited pro forma condensed combined financial statements included in the Prospectus do not comply in form in all material respects with the applicable accounting requirements of

Rule 11-02 of Regulation S-X and that the pro forma reclassifications and adjustments, if any, have not been properly applied to the historical amounts in the compilation of those statements; and

(vi) they have compared specified dollar amounts (or percentages derived from such dollar amounts) and other financial information contained in the Prospectus (in each case to the extent that such dollar amounts, percentages and other financial information are obtained from accounting records that are subject to the internal control structure, policies and procedures of the Company's accounting system or are derived directly from such accounting records by analysis or computation) with the results obtained from procedures specified in such letter and have found such dollar amounts, percentages and other financial information to be in agreement with such results, except as otherwise specified in such letter.

References to the Prospectus in this paragraph (f) include any supplement thereto at the date of the letter.

All financial statements and schedules included in material incorporated by reference into the Prospectus shall be deemed included in the Prospectus for purposes of this subsection."

(d) Amendment of Section 5(g). Section 5(g) of the Selling Agency  
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Agreement is hereby amended by deleting such Section in its entirety and substituting, in lieu thereof, the following new Section 5(g):

"(g) At the Execution Time, each Agent shall have received, so long as financial statements audited by any independent accountants for or with respect to any entity acquired by the Company are included in the Prospectus, a letter or letters of such accountants (which may refer to letters previously delivered to the Agent), dated as of the Execution Time, in form and substance satisfactory to the Agents, confirming that as of a specified date immediately prior to such acquisition and during the period covered by the financial statements on which they reported, they were independent accountants with respect to such entity within the meaning of the Act and the respective applicable published rules and regulations thereunder and stating in effect that:

(i) in their opinion, the consolidated financial statements audited by them and included in the Registration Statements and the Prospectus comply as to form in all material respects with the applicable accounting requirements of the Act and the related

published rules and regulations with respect to registration statements on Form S-3; and

(ii) on the basis of performing the procedures specified by the American Institute of Certified Public Accountants for a review of interim financial information as described in SAS No. 71 on the unaudited financial statements of such entity at any date and for any period ending on or prior to the date of the latest unaudited balance sheet of such entity included or incorporated in the Prospectus, inquiries of officials of the Company who have responsibility for financial and accounting matters and other specified procedures, nothing came to their attention that caused them to believe that the unaudited financial statements do not comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations or any material modifications should be made for them to be in conformity with generally accepted accounting principles.

All financial statements and schedules included in material incorporated by reference into the Prospectus shall be deemed included in the Prospectus for purposes of this subsection.

References to the Prospectus in this paragraph (g) include any supplement thereto at the date of the letter."

(e) Amendment of Section 8(c). Section 8(c) of the Selling Agency  
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Agreement is hereby amended by adding, at the end of such Section, the following:

"No indemnifying party shall be liable for any settlement of any such action effected without its written consent (which consent shall not be unreasonably withheld), but if settled with its written consent or if there be a final judgment for the plaintiff in any such action, the indemnifying party agrees to indemnify and hold harmless any indemnified party from and against any loss or liability by reason of such settlement or judgment. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding."

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2. Limited Effect; Suspension. Except as expressly amended by this  
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Amendment, the Selling Agency Agreement shall continue to be, and shall remain, in full force and effect in accordance with its terms. This Amendment does not,

and shall not be deemed to, waive or alter any of the provisions of the Suspension Agreement, dated July 15, 1993, between the Company and you, and such agreement shall continue to be, and shall remain, in full force and effect in accordance with its terms.

3. Applicable Law. This Amendment will be governed by and construed

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in accordance with the laws of the State of New York.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicate hereof, whereupon this letter and your acceptance shall represent a binding agreement between the Company and you.

Very truly yours,

PHILIP MORRIS COMPANIES INC.

By: \_\_\_\_\_

The foregoing Amendment is hereby confirmed and accepted as of the date hereof.

SALOMON BROTHERS INC

By: \_\_\_\_\_

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED

By: \_\_\_\_\_

LEHMAN BROTHERS INC.

By: \_\_\_\_\_

BY-LAWS  
OF  
PHILIP MORRIS COMPANIES INC.

ARTICLE I

MEETINGS OF STOCKHOLDERS

SECTION 1. ANNUAL MEETINGS. - The annual meeting of the stockholders for the election of directors and for the transaction of such other business as may properly come before the meeting, and any postponement or adjournment thereof, shall be held on such date and at such time as the Board of Directors may in its discretion determine.

SECTION 2. SPECIAL MEETINGS. - Unless otherwise provided by law, special meetings of the stockholders may be called by the chairman of the Board of Directors, the deputy chairman of the Board of Directors (if any) or the president or any vice chairman of the Board of Directors or by order of the Board of Directors whenever deemed necessary.

SECTION 3. PLACE OF MEETINGS. - All meetings of the stockholders shall be held at such place in the Commonwealth of Virginia as from time to time may be fixed by the Board of Directors.

SECTION 4. NOTICE OF MEETINGS. - Written notice, stating the place, day and hour and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given by mail not less than ten nor more than sixty days before the date of the meeting (except as a different time is specified herein or by law), to each stockholder of record having voting power in respect of the business to be transacted thereat, at his or her address as it appears on the stock transfer books of the Corporation.

Notice of a stockholders' meeting to act on an amendment of the Articles of Incorporation, a plan of merger or share exchange, a proposed sale of all, or substantially all of the Corporation's assets, otherwise than in the usual and regular course of business, or the dissolution of the Corporation shall be given, in the manner provided above, not less than twenty-five nor more than sixty days before the date of the meeting and shall be accompanied, as appropriate, by a copy of the proposed amendment, plan of merger or share exchange or sale agreement.

November 24, 1993

Notwithstanding the foregoing, a written waiver of notice signed by the

person or persons entitled to such notice, either before or after the time stated therein, shall be equivalent to the giving of such notice. A stockholder who attends a meeting shall be deemed to have (i) waived objection to lack of notice or defective notice of the meeting, unless at the beginning of the meeting he objects to holding the meeting or transacting business at the meeting, and (ii) waived objection to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, unless he objects to considering the matter when it is presented.

SECTION 5. QUORUM. - At all meetings of the stockholders, unless a greater number or voting by classes is required by law, a majority of the shares entitled to vote, represented in person or by proxy, shall constitute a quorum. If a quorum is present, action on a matter is approved if the votes cast favoring the action exceed the votes cast opposing the action, unless the vote of a greater number or voting by classes is required by law or the Articles of Incorporation, and except that in elections of directors those receiving the greatest number of votes shall be deemed elected even though not receiving a majority. Less than a quorum may adjourn.

SECTION 6. ORGANIZATION AND ORDER OF BUSINESS. - At all meetings of the stockholders the chairman of the Board of Directors or, in his absence, the deputy chairman of the Board of Directors (if any) or, in the absence of both, the president, shall act as chairman. In the absence of all of the foregoing officers or, if present, with their consent, a majority of the shares entitled to vote at such meeting, may appoint any person to act as chairman. The secretary of the Corporation or, in his absence, an assistant secretary, shall act as secretary at all meetings of the stockholders. In the event that neither the secretary nor any assistant secretary is present, the chairman may appoint any person to act as secretary of the meeting.

The chairman shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts and things as are necessary or desirable for the proper conduct of the meeting, including, without limitation, the establishment of procedures for the dismissal of business not properly presented, the maintenance of order and safety, limitations on the time allotted to questions or comments on the affairs of the Corporation, restrictions on entry to such meeting after the time prescribed for the commencement thereof and the opening and closing of the voting polls.

At each annual meeting of stockholders, only such business shall be conducted as shall have been properly brought before the meeting (a) by or at the direction of the Board of Directors or (b) by any stockholder of the Corporation who shall be entitled to vote at such meeting and who complies with the notice procedures set



forth in this Section 6. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the secretary of the Corporation. To be timely, a stockholder's notice must be given, either by personal delivery or by United States certified mail, postage prepaid, and received at the principal executive offices of the Corporation (i) not less than 120 days nor more than 150 days before the first anniversary of the date of the Corporation's proxy statement in connection with the last annual meeting of stockholders or (ii) if no annual meeting was held in the previous year or the date of the applicable annual meeting has been changed by more than 30 days from the date contemplated at the time of the previous year's proxy statement, not less than 60 days before the date of the applicable annual meeting. A stockholder's notice to the secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting, including the complete text of any resolutions to be presented at the annual meeting, and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the Corporation's stock transfer books, of such stockholder proposing such business, (c) a representation that such stockholder is a stockholder of record and intends to appear in person or by proxy at such meeting to bring the business before the meeting specified in the notice, (d) the class and number of shares of stock of the Corporation beneficially owned by the stockholder and (e) any material interest of the stockholder in such business. Notwithstanding anything in the By-Laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 6. The chairman of an annual meeting shall, if the facts warrant, determine that the business was not brought before the meeting in accordance with the procedures prescribed by this Section 6, and if he should so determine, he shall so declare to the meeting and the business not properly brought before the meeting shall not be transacted. Notwithstanding the foregoing provisions of this Section 6, a stockholder seeking to have a proposal included in the Corporation's proxy statement shall comply with the requirements of Regulation 14A under the Securities Exchange Act of 1934, as amended (including, but not limited to, Rule 14a-8 or its successor provision). The secretary of the Corporation shall deliver each such stockholder's notice that has been timely received to the Board of Directors or a committee designated by the Board of Directors for review.

SECTION 7. VOTING. - A stockholder may vote either in person or by proxy executed in writing by the stockholder or by his duly authorized attorney-in-fact. No stockholder may authorize more than four persons to act for him, and any proxy shall be delivered to the secretary of the meeting at or prior to the time designated by the chairman or in the order of business for so delivering such proxies. No proxy shall be valid after eleven months from its date,

unless otherwise provided in the proxy. Each holder of record of stock of any class shall, as to all matters in respect of which stock of such class has voting power, be entitled to such vote as is provided in the Articles of Incorporation for each share of stock of such class standing in his name on the books of the Corporation. Unless required by statute or determined by the chairman to be advisable, the vote on any questions need not be by ballot. On a vote by ballot, each ballot shall be signed by the stockholder voting or by such stockholder's proxy, if there be such proxy.

SECTION 8. INSPECTORS. - At every meeting of the stockholders for election of directors, the proxies shall be received and taken in charge, all ballots shall be received and counted and all questions touching the qualifications of voters, the validity of proxies, and the acceptance or rejection of votes shall be decided, by two inspectors. Such inspectors shall be appointed by the chairman of the meeting. They shall be sworn faithfully to perform their duties and shall in writing certify to the returns. No candidate for election as director shall be appointed or act as inspector.

## ARTICLE II

### BOARD OF DIRECTORS

SECTION 1. GENERAL POWERS. - The business and affairs of the Corporation shall be managed under the direction of the Board of Directors.

SECTION 2. NUMBER. - The number of directors shall be twenty (20).

SECTION 3. TERM OF OFFICE AND QUALIFICATION. - Each director shall serve for the term for which he shall have been elected and until his successor shall have been duly elected.

SECTION 4. NOMINATION AND ELECTION OF DIRECTORS. - At each annual meeting of stockholders, the stockholders entitled to vote shall elect the directors. No person shall be eligible for election as a director unless nominated in accordance with the procedures set forth in this Section 4. Nominations of persons for election to the Board of Directors may be made by the Board of Directors or any committee designated by the Board of Directors or by any stockholder entitled to vote for the election of directors at the applicable meeting of stockholders who complies with the notice procedures set forth in this Section 4. Such nominations, other than those made by the Board of Directors or any committee designated by the Board of Directors, may be made only if written

notice of a stockholder's intent to nominate one or more persons for election as directors at the applicable meeting of stockholders has been given,

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either by personal delivery or by United States certified mail, postage prepaid, to the secretary of the Corporation and received (i) not less than 120 days nor more than 150 days before the first anniversary of the date of the Corporation's proxy statement in connection with the last annual meeting of stockholders, or (ii) if no annual meeting was held in the previous year or the date of the applicable annual meeting has been changed by more than 30 days from the date contemplated at the time of the previous year's proxy statement, not less than 60 days before the date of the applicable annual meeting, or (iii) with respect to any special meeting of stockholders called for the election of directors, not later than the close of business on the seventh day following the date on which notice of such meeting is first given to stockholders. Each such stockholder's notice shall set forth (a) as to the stockholder giving the notice, (i) the name and address, as they appear on the Corporation's stock transfer books, of such stockholder, (ii) a representation that such stockholder is a stockholder of record and intends to appear in person or by proxy at such meeting to nominate the person or persons specified in the notice, (iii) the class and number of shares of stock of the Corporation beneficially owned by such stockholder, and (iv) a description of all arrangements or understandings between such stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by such stockholder; and (b) as to each person whom the stockholder proposes to nominate for election as a director, (i) the name, age, business address and, if known, residence address of such person, (ii) the principal occupation or employment of such person, (iii) the class and number of shares of stock of the Corporation which are beneficially owned by such person, (iv) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors or is otherwise required by the rules and regulations of the Securities and Exchange Commission promulgated under the Securities Exchange Act of 1934, as amended, and (v) the written consent of such person to be named in the proxy statement as a nominee and to serve as a director if elected. The secretary of the Corporation shall deliver each such stockholder's notice that has been timely received to the Board of Directors or a committee designated by the Board of Directors for review. Any person nominated for election as director by the Board of Directors or any committee designated by the Board of Directors shall, upon the request of the Board of Directors or such committee, furnish to

the secretary of the Corporation all such information pertaining to such person that is required to be set forth in a stockholder's notice of nomination. The chairman of the meeting of stockholders shall, if the facts warrant, determine that a nomination was not made in accordance with the procedures prescribed by this Section 4, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

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SECTION 5. ORGANIZATION. - At all meetings of the Board of Directors, the chairman of the Board of Directors or, in his absence, the deputy chairman of the Board of Directors (if any) or, in the absence of both, the president shall act as chairman of the meeting. The secretary of the Corporation or, in his absence, an assistant secretary shall act as secretary of meetings of the Board of Directors. In the event that neither the secretary nor any assistant secretary shall be present at such meeting, the chairman of the meeting shall appoint any person to act as secretary of the meeting.

SECTION 6. VACANCIES. - Any vacancy occurring in the Board of Directors, including a vacancy resulting from amending these By-Laws to increase the number of directors by thirty percent or less, may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors.

SECTION 7. PLACE OF MEETING. - Meetings of the Board of Directors, regular or special, may be held either within or without the Commonwealth of Virginia.

SECTION 8. ORGANIZATIONAL MEETING. - The annual organizational meeting of the Board of Directors shall be held immediately following adjournment of the annual meeting of stockholders and at the same place, without the requirement of any notice other than this provision of the By-Laws.

SECTION 9. REGULAR MEETINGS: NOTICE. - Regular meetings of the Board of Directors shall be held at such times and places as it may from time to time determine. Notice of such meetings need not be given if the time and place have been fixed at a previous meeting.

SECTION 10. SPECIAL MEETINGS. - Special meetings of the Board of Directors shall be held whenever called by order of the chairman of the Board of Directors, the deputy chairman of the Board of Directors (if any) or of the president or of two of the directors. Notice of each such meeting, which need not specify

the business to be transacted thereat, shall be mailed to each director, addressed to his residence or usual place of business, at least two days before the day on which the meeting is to be held, or shall be sent to such place by telegraph, telex or telecopy or be delivered personally or by telephone, not later than the day before the day on which the meeting is to be held.

SECTION 11. WAIVER OF NOTICE. - Whenever any notice is required to be given to a director of any meeting for any purpose under the provisions of law, the Articles of Incorporation or these By-Laws, a waiver thereof in writing signed by the person or persons entitled to such notice, either before or after the time stated therein, shall be equivalent to the giving of such notice.

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A director's attendance at or participation in a meeting waives any required notice to him of the meeting unless he at the beginning of the meeting or promptly upon his arrival objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

SECTION 12. QUORUM AND MANNER OF ACTING. - Except where otherwise provided by law, a majority of the directors fixed by these By-Laws at the time of any regular or special meeting shall constitute a quorum for the transaction of business at such meeting, and the act of a majority of the directors present at any such meeting at which a quorum is present shall be the act of the Board of Directors. In the absence of a quorum, a majority of those present may adjourn the meeting from time to time until a quorum be had. Notice of any such adjourned meeting need not be given.

SECTION 13. ORDER OF BUSINESS. - At all meetings of the Board of Directors business may be transacted in such order as from time to time the Board of Directors may determine.

SECTION 14. COMMITTEES. - In addition to the executive committee authorized by Article III of these By-Laws, other committees, consisting of two or more directors, may be designated by the Board of Directors by a resolution adopted by the greater number of (i) a majority of all directors in office at the time the action is being taken or (ii) the number of directors required to take action under Article II, Section 12 hereof. Any such committee, to the extent provided in the resolution of the Board of Directors designating the committee, shall have and may exercise the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, except

as limited by law.

## ARTICLE III

### EXECUTIVE COMMITTEE

SECTION 1. HOW CONSTITUTED AND POWERS. - The Board of Directors, by resolution adopted pursuant to Article II, Section 14 hereof, may designate, in addition to the chairman of the Board of Directors, one or more directors to constitute an executive committee, who shall serve during the pleasure of the Board of Directors. The executive committee, to the extent provided in such resolution and permitted by law, shall have and may exercise all of the authority of the Board of Directors.

SECTION 2. ORGANIZATION, ETC. - The executive committee may choose a chairman and secretary. The executive committee shall keep a record of its acts and proceedings and report the same from time to time to the Board of Directors.

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SECTION 3. MEETINGS. - Meetings of the executive committee may be called by any member of the committee. Notice of each such meeting, which need not specify the business to be transacted thereat, shall be mailed to each member of the committee, addressed to his residence or usual place of business, at least two days before the day on which the meeting is to be held or shall be sent to such place by telegraph, telex or telecopy or be delivered personally or by telephone, not later than the day before the day on which the meeting is to be held.

SECTION 4. QUORUM AND MANNER OF ACTING. - A majority of the executive committee shall constitute a quorum for transaction of business, and the act of a majority of those present at a meeting at which a quorum is present shall be the act of the executive committee. The members of the executive committee shall act only as a committee, and the individual members shall have no powers as such.

SECTION 5. REMOVAL. - Any member of the executive committee may be removed, with or without cause, at any time, by the Board of Directors.

SECTION 6. VACANCIES. - Any vacancy in the executive committee shall be filled by the Board of Directors.

## ARTICLE IV

## OFFICERS

SECTION 1. NUMBER. - The officers of the Corporation shall be a chairman of the Board of Directors, a deputy chairman of the Board of Directors (if elected by the Board of Directors), a president, one or more vice chairmen of the Board of Directors (if elected by the Board of Directors), one or more vice presidents (one or more of whom may be designated executive vice president or senior vice president), a treasurer, a controller, a secretary, one or more assistant treasurers, assistant controllers and assistant secretaries and such other officers as may from time to time be chosen by the Board of Directors. Any two or more offices may be held by the same person.

SECTION 2. ELECTION, TERM OF OFFICE AND QUALIFICATIONS. - All officers of the Corporation shall be chosen annually by the Board of Directors, and each officer shall hold office until his successor shall have been duly chosen and qualified or until he shall resign or shall have been removed in the manner hereinafter provided. The chairman of the Board of Directors, the deputy chairman of the Board of Directors (if any), the president and the vice chairmen of the Board of Directors (if any) shall be chosen from among the directors.

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SECTION 3. VACANCIES. - If any vacancy shall occur among the officers of the Corporation, such vacancy shall be filled by the Board of Directors.

SECTION 4. OTHER OFFICERS, AGENTS AND EMPLOYEES - THEIR POWERS AND DUTIES. - The Board of Directors may from time to time appoint such other officers as the Board of Directors may deem necessary, to hold office for such time as may be designated by it or during its pleasure, and the Board of Directors or the chairman of the Board of Directors may appoint, from time to time, such agents and employees of the Corporation as may be deemed proper, and may authorize any officers to appoint and remove agents and employees. The Board of Directors or the chairman of the Board of Directors may from time to time prescribe the powers and duties of such other officers, agents and employees of the Corporation.

SECTION 5. REMOVAL. - Any officer, agent or employee of the Corporation may be removed, either with or without cause, by a vote of a majority of the Board of Directors or, in the case of any agent or employee not appointed by the Board of Directors, by a superior officer upon whom such power of removal may be conferred by the Board of Directors or the chairman of the Board of Directors.

SECTION 6. CHAIRMAN OF THE BOARD OF DIRECTORS. - The chairman of the Board of Directors shall preside at meetings of the stockholders and of the Board of Directors and shall be a member of the executive committee. He shall be the chief executive officer of the Corporation and shall be responsible to the Board of Directors. Subject to the Board of Directors, he shall be responsible for the general management and control of the business and affairs of the Corporation. He shall see that all orders and resolutions of the Board of Directors are carried into effect. He shall from time to time report to the Board of Directors on matters within his knowledge which the interests of the Corporation may require be brought to its notice. He shall do and perform such other duties from time to time as may be assigned to him by the Board of Directors.

SECTION 7. DEPUTY CHAIRMAN OF THE BOARD OF DIRECTORS. - In the absence of the chairman of the Board of Directors, the deputy chairman of the Board of Directors shall preside at meetings of the stockholders and of the Board of Directors. He shall be a member of the executive committee. He shall be responsible to the chairman of the Board of Directors and shall perform such duties as shall be assigned to him by the chairman of the Board of Directors. He shall from time to time report to the chairman of the Board of Directors on matters within his knowledge which the interests of the Corporation may require be brought to his notice.

SECTION 8. PRESIDENT. - In the absence of the chairman of the Board of Directors and the deputy chairman of the Board of Directors (if any), the president shall preside at meetings of the

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stockholders and of the Board of Directors. He shall be a member of the executive committee. He shall be the chief operating officer of the Corporation, responsible to the chairman of the Board of Directors and shall devote himself to the Corporation's operations under the basic policies set by the Board of Directors and the chairman of the Board of Directors. He shall from time to time report to the chairman of the Board of Directors on matters within his knowledge which the interests of the Corporation may require be brought to his notice. In the absence of the chairman of the Board of Directors and the deputy chairman of the Board of Directors (if any), he shall have all of the powers and the duties of the chairman of the Board of Directors. He shall do and perform such other duties from time to time as may be assigned to him by the Board of Directors or by the chairman of the Board of Directors.

SECTION 9. VICE CHAIRMEN OF THE BOARD OF DIRECTORS. - In the absence of the chairman of the Board of Directors, the deputy



chairman of the Board of Directors (if any) and the president, the vice chairman of the Board of Directors designated for such purpose by the chairman of the Board of Directors shall preside at meetings of the stockholders and of the Board of Directors. Each vice chairman of the Board of Directors shall be responsible to the chairman of the Board of Directors. Each vice chairman of the Board of Directors shall from time to time report to the chairman of the Board of Directors on matters within his knowledge which the interests of the Corporation may require be brought to his notice. In the absence or inability to act of the chairman of the Board of Directors, the deputy chairman of the Board of Directors (if any) and the president, such vice chairman of the Board of Directors as the chairman of the Board of Directors may designate for the purpose shall have the powers and discharge the duties of the chairman of the Board of Directors. In the event of the failure or inability of the chairman of the Board of Directors to so designate a vice chairman of the Board of Directors, the Board of Directors may designate a vice chairman of the Board of Directors who shall have the powers and discharge the duties of the chairman of the Board of Directors.

SECTION 10. VICE PRESIDENTS. - The vice presidents of the Corporation shall assist the chairman of the Board of Directors, the deputy chairman of the Board of Directors, the president and the vice chairmen of the Board of Directors in carrying out their respective duties and shall perform those duties which may from time to time be assigned to them.

SECTION 11. TREASURER. - The treasurer shall have charge of the funds, securities, receipts and disbursements of the Corporation. He shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such banks or trust companies or with such bankers or other depositaries as the Board of Directors may from time to time designate. He shall render to the Board of Directors, the chairman of the Board of Directors, the deputy chairman of the Board of Directors, the president, the vice chairmen of the Board of Directors, and the chief financial

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officer, whenever required by any of them, an account of all of his transactions as treasurer. If required, he shall give a bond in such sum as the Board of Directors may designate, conditioned upon the faithful performance of the duties of his office and the restoration to the Corporation at the expiration of his term of office or in case of his death, resignation or removal from office, of all books, papers, vouchers, money or other property of whatever kind in his possession or under his control belonging to the Corporation. He shall perform such other duties as from time to time may be assigned to him.

SECTION 12. ASSISTANT TREASURERS. - In the absence or disability of the treasurer, one or more assistant treasurers shall perform all the duties of the treasurer and, when so acting, shall have all the powers of, and be subject to all restrictions upon, the treasurer. Each assistant treasurer shall also perform such other duties as from time to time may be assigned to him.

SECTION 13. SECRETARY. - The secretary shall keep the minutes of all meetings of the stockholders and of the Board of Directors in a book or books kept for that purpose. He shall keep in safe custody the seal of the Corporation, and shall affix such seal to any instrument requiring it. The secretary shall have charge of such books and papers as the Board of Directors may direct. He shall attend to the giving and serving of all notices of the Corporation and shall also have such other powers and perform such other duties as pertain to his office, or as the Board of Directors, the chairman of the Board of Directors, the deputy chairman of the Board of Directors, the president or any vice chairman of the Board of Directors may from time to time prescribe.

SECTION 14. ASSISTANT SECRETARIES. - In the absence or disability of the secretary, one or more assistant secretaries shall perform all of the duties of the secretary and, when so acting, shall have all of the powers of, and be subject to all the restrictions upon, the secretary. Each assistant secretary shall also perform such other duties as from time to time may be assigned to him.

SECTION 15. CONTROLLER. - The controller shall be administrative head of the controller's department. He shall be in charge of all functions relating to accounting, auditing and the preparation and analysis of budgets and statistical reports and shall establish, through appropriate channels, recording and reporting procedures and standards pertaining to such matters. He shall report to the chief financial officer and shall aid in developing internal corporate policies whereby the business of the Corporation shall be conducted with the maximum safety, efficiency and economy, and he shall be available to all departments of the Corporation for advice and guidance in the interpretation and application of policies which are within the scope of his authority. He shall perform such other duties as from time to time may be assigned to him.

SECTION 16. ASSISTANT CONTROLLERS. - In the absence or

disability of the controller, one or more assistant controllers shall perform all of the duties of the controller and, when so acting, shall have all of the powers of, and be subject to all the restrictions upon, the controller. Each assistant controller shall also perform such other duties as from time to time may be assigned to him.

## ARTICLE V

### CONTRACTS, CHECKS, DRAFTS, BANK ACCOUNTS, ETC.

SECTION 1. CONTRACTS. - The chairman of the Board of Directors, the deputy chairman of the Board of Directors, the president, any vice chairman of the Board of Directors, any vice president, the treasurer and such other persons as the Board of Directors may authorize shall have the power to execute any contract or other instrument on behalf of the Corporation; no other officer, agent or employee shall, unless otherwise in these By-Laws provided, have any power or authority to bind the Corporation by any contract or acknowledgement, or pledge its credit or render it liable pecuniarily for any purpose or to any amount.

SECTION 2. LOANS. - The chairman of the Board of Directors, the deputy chairman of the Board of Directors, the president, any vice chairman of the Board of Directors, any vice president, the treasurer and such other persons as the Board of Directors may authorize shall have the power to effect loans and advances at any time for the Corporation from any bank, trust company or other institution, or from any corporation, firm or individual, and for such loans and advances may make, execute and deliver promissory notes or other evidences of indebtedness of the Corporation, and, as security for the payment of any and all loans, advances, indebtedness and liability of the Corporation, may pledge, hypothecate or transfer any and all stocks, securities and other personal property at any time held by the Corporation, and to that end endorse, assign and deliver the same.

SECTION 3. VOTING OF STOCK HELD. - The chairman of the Board of Directors, the deputy chairman of the Board of Directors, the president, any vice chairman of the Board of Directors, any vice president or the secretary may from time to time appoint an attorney or attorneys or agent or agents of the Corporation to cast the votes that the Corporation may be entitled to cast as a stockholder or otherwise in any other corporation, any of whose stock or securities may be held by the Corporation, at meetings of the holders of the stock or other securities of such other corporation, or to consent in writing to any action by any other such corporation, and may instruct the person or persons so

appointed as to the manner of casting such votes or giving such consent, and may execute or cause to be executed on behalf of the Corporation such written proxies, consents, waivers

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or other instruments as such officer may deem necessary or proper in the premises; or the chairman of the Board of Directors, the president, any vice chairman of the Board of Directors, any vice president or the secretary may himself attend any meeting of the holders of stock or other securities of such other corporation and thereat vote or exercise any and all powers of the Corporation as the holder of such stock or other securities of such other corporation.

#### ARTICLE VI

##### CERTIFICATES REPRESENTING SHARES

Certificates representing shares of the Corporation shall be signed by the chairman of the Board of Directors, the deputy chairman of the Board of Directors, or the president of the Corporation and the secretary or an assistant secretary. Any and all signatures on such certificates, including signatures of officers, transfer agents and registrars, may be facsimile.

#### ARTICLE VII

##### DIVIDENDS

The Board of Directors may declare dividends from funds of the Corporation legally available therefor.

#### ARTICLE VIII

##### SEAL

The Board of Directors shall provide a suitable seal or seals, which shall be in the form of a circle, and shall bear around the circumference the words "Philip Morris Companies Inc." and in the center the word and figures "Virginia, 1985".

#### ARTICLE IX

##### FISCAL YEAR

The fiscal year of the Corporation shall be the calendar year.

ARTICLE X

AMENDMENTS

The power to alter, amend or repeal the By-Laws of the Corporation or to adopt new By-Laws shall be vested in the Board of Directors, but By-Laws made by the Board of Directors may be repealed or changed by the stockholders, or new By-Laws may be adopted by the stockholders, and the stockholders may prescribe that any By-Laws made by them shall not be altered, amended or repealed by the directors.

ARTICLE XI

EMERGENCY BY-LAWS

If a quorum of the Board of Directors cannot be readily assembled because of some catastrophic event, and only in such event, these By-Laws shall, without further action by the Board of Directors, be deemed to have been amended for the duration of such emergency, as follows:

SECTION 1. SECTION 6 OF ARTICLE II SHALL READ AS FOLLOWS:

Any vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the directors present at a meeting of the Board of Directors called in accordance with these By-Laws.

SECTION 2. THE FIRST SENTENCE OF SECTION 10 OF ARTICLE II SHALL READ AS FOLLOWS:

Special meetings of the Board of Directors shall be held whenever called by order of the chairman of the Board of Directors or of the president or of any vice chairman of the Board of Directors or of any director or of any person having the powers and duties of the chairman of the Board of Directors, the president or any vice chairman of the Board of Directors.

SECTION 3. SECTION 12 OF ARTICLE II SHALL READ AS FOLLOWS:

The directors present at any regular or special meeting called in accordance with these By-Laws shall constitute a quorum for the transaction of business at such meeting, and the action of a majority of such directors shall be the act of the Board of Directors, provided, however, that in the event that only one director is present at any such meeting no action except the election of directors shall be taken until

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at least two additional directors have been elected and are in attendance.

#### ARTICLE XII

##### RESTRICTIONS ON TRANSFER

The restrictions on transfer of Rights to purchase Common Stock contained in the Rights Agreement between the Company and First Chicago Trust Company of New York, as Rights Agent, dated as of October 25, 1989, are hereby authorized and imposed by these By-Laws.

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U.S. \$8,000,000,000

5-YEAR LOAN AND GUARANTY AGREEMENT

Dated as of December 17, 1993

among

PHILIP MORRIS COMPANIES INC.

and

THE BANKS NAMED HEREIN

and

CITIBANK, N.A.

as Agent  
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5-YEAR LOAN AND GUARANTY AGREEMENT

Dated as of December 17, 1993

PHILIP MORRIS COMPANIES INC., a Virginia corporation ("PM Companies"), the banks (the "Banks") listed on the signature pages hereof, and CITIBANK, N.A. ("Citibank"), as agent (the "Agent") for the Lenders hereunder, agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.01. Certain Defined Terms. As used in this

Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"A Advance" means an advance by a Lender to a Borrower

as part of an A Borrowing by such Borrower consisting of A Advances of the same Type from each of the Lenders pursuant to Section 2.01 and refers to a Base Rate Advance, an Adjusted CD Rate Advance or a Eurodollar Rate Advance, each of which shall be a Type of A Advance.

"A Borrowing" means a borrowing consisting of

simultaneous A Advances of the same Type from each of the Lenders to a Borrower pursuant to Section 2.01.

"Adjusted CD Rate" means, for the Interest Period for

each Adjusted CD Rate Advance comprising part of the same A Borrowing, an interest rate per annum equal to the sum of:

- (a) the rate per annum obtained by dividing (i) the rate of interest determined by the Agent to be the average (rounded upward to the nearest whole multiple of 1/100 of 1% per annum, if such average is not such a multiple) of the consensus bid rate determined by each of the Reference Banks for the bid rates per annum, at 9:00 A.M. (New York City time) (or as soon thereafter as practicable) on the first day of such Interest Period, of New York certificate of deposit dealers of recognized standing selected by such Reference Bank for the purchase at face value of certificates of deposit of such Reference Bank in an amount

approximately equal to such Reference Bank's Adjusted CD Rate Advance comprising part

of such A Borrowing and with a maturity equal to such Interest Period, by (ii) a percentage equal to 100% minus the Adjusted CD Rate Reserve Percentage (as defined below) for such Interest Period, plus

(b) the Assessment Rate (as defined below) for such Interest Period.

The "Adjusted CD Rate Reserve Percentage" for the Interest Period for each Adjusted CD Rate Advance comprising part of the same A Borrowing means the reserve percentage applicable on the first day of such Interest Period under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, but not limited to, any emergency, supplemental or other marginal reserve requirement) for a member bank of the Federal Reserve System in New York City with deposits exceeding one billion dollars with respect to liabilities consisting of or including (among other liabilities) U.S. dollar nonpersonal time deposits in the United States with a maturity equal to such Interest Period. The "Assessment Rate" for the Interest Period for such

Adjusted CD Rate Advance comprising part of the same A Borrowing means the annual assessment rate estimated by the Agent on the first day of such Interest Period for determining the then current annual assessment payable by Citibank to the Federal Deposit Insurance Corporation (or any successor) for insuring U.S. dollar deposits of Citibank in the United States. The Adjusted CD Rate for the Interest Period for each Adjusted CD Rate Advance comprising part of the same A Borrowing shall be determined by the Agent on the basis of applicable rates furnished to and received by the Agent from the Reference Banks on the first day of such Interest Period, subject, however, to

the provisions of Section 2.09.

"Adjusted CD Rate Advance" means an A Advance which bears interest as provided in Section 2.07(b).

"Advance" means an A Advance or a B Advance.

"Applicable Facility Fee Rate" means for any period a percentage per annum equal to the percentage set forth below determined by reference to the higher of (i) the rating of PM Companies' long-term senior unsecured Debt from Standard & Poor's Corporation and (ii) the rating of PM Companies' long-term senior unsecured Debt from Moody's Investors Service, in each case in effect from time to time during such period:

Long-Term Senior Unsecured Debt Rating	Applicable Facility Fee Rate
A- and A3 (or higher)	0.1250%
BBB and Baa2 or higher, but lower than A- and A3	0.1875%
Lower than BBB and Baa2	0.2500%;

provided that if no rating is available on any date of determination from Moody's Investors Service and Standard & Poor's Corporation or any other nationally recognized statistical rating organization designated by PM Companies and approved in writing by the Majority Lenders, the Applicable Facility Fee Rate shall be 0.25%.

"Applicable Interest Rate Margin" means for any

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Interest Period a percentage per annum equal to the percentage set forth below determined by reference to the higher of (i) the rating of PM Companies' long-term senior unsecured Debt from Standard & Poor's Corporation and (ii) the rating of PM Companies' long-term senior unsecured Debt from Moody's Investors Service, in each case from time to time during such Interest Period:

Long-Term Senior Unsecured Debt Rating -----	Applicable Interest Rate Margin -----
A- and A3 (or higher)	0.3000%
BBB and Baa2 or higher, but lower than A- and A3	0.3750%
Lower than BBB and Baa2	0.5000%;

provided that if no rating is available on any date of  
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determination from Moody's Investors Service and Standard & Poor's Corporation or any other nationally recognized statistical rating organization designated by PM Companies and approved in writing by the Majority Lenders, the Applicable Interest Rate Margin shall be 0.50%.

"Applicable Lending Office" means, with respect to  
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each Lender, such Lender's Domestic Lending Office in the case of a Base Rate Advance, such Lender's CD Lending Office in the case of an Adjusted CD Rate Advance, and such Lender's

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Eurodollar Lending Office in the case of a Eurodollar Rate Advance and, in the case of a B Advance, the office of such Lender notified by such Lender to the Agent with respect to such B Advance.

"Applicable Usage Fee Rate" means for any period a  
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percentage per annum equal to 0.1250%.

"Asset Disposition" means any sale, lease, transfer,  
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spin-off or other disposition ("Disposition") to any Person (including any shareholder of PM Companies), voluntarily or involuntarily, of any of the Tobacco Assets (whether now owned or hereafter acquired) of PM Companies and its directly and indirectly owned subsidiaries, provided that "Asset

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Disposition" shall not mean (i) any Disposition of Tobacco  
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Assets to PM Companies or any subsidiary directly or indirectly wholly-owned by PM Companies, (ii) any sale and lease-back of Tobacco Assets which, together with all such sale and lease-back transactions occurring from and after September 30, 1993, does not exceed an aggregate amount equal to \$500,000,000, provided that the lease term related to such sale and lease-back transaction has a duration approximately equal to the useful life of such Tobacco Assets, (iii) any Disposition of Tobacco Assets in the ordinary course of business and (iv) any Disposition which, together with all such other Dispositions (excluding all Dispositions described in clauses (i), (ii) and (iii) of this definition) occurring from and after September 30, 1993, does not exceed an aggregate amount equal to \$1,100,000,000 net after-tax proceeds calculated in accordance with the provisions of Section 2.05(b).

"Assignment and Acceptance" means an assignment and  
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acceptance entered into by a Lender and an Eligible Assignee, and accepted by the Agent, in substantially the form of Exhibit C hereto.

"B Advance" means an advance by a Lender to a Borrower  
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as part of a B Borrowing by such Borrower resulting from the

auction bidding procedure described in Section 2.03(a).

"B Borrowing" means a borrowing consisting of  
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simultaneous B Advances to a Borrower from each of the Lenders whose offer to make one or more B Advances as part of such borrowing has been accepted by such Borrower under the auction bidding procedure described in Section 2.03(a).

"B Note" means a promissory note of a Borrower payable  
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to the order of any Lender, in substantially the form

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of Exhibit A hereto, evidencing the indebtedness of such Borrower to such Lender resulting from a B Advance to such Borrower, together with, if such Borrower is a subsidiary of PM Companies, a guaranty of the Guarantor endorsed thereon, substantially in the form of Exhibit A hereto.

"B Reduction" has the meaning assigned to that term in  
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Section 2.01.

"Base Rate" means, for any Interest Period or any  
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other period, a fluctuating interest rate per annum as shall be in effect from time to time which rate per annum shall at all times be equal to the highest of:

(a) The rate of interest announced publicly by Citibank in New York, New York, from time to time, as Citibank's base rate;

(b) 1/2 of one percent per annum above the latest three-week moving average of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States money market banks, such three-week moving average being determined weekly on each Monday (or if such day is not a Business Day, on the next succeeding Business Day) for the three-week period ending on the previous Friday by Citibank on the basis of such rates reported by certificate of deposit dealers to and published by the Federal Reserve Bank of New York or, if such publication shall be suspended or terminated, on the basis of quotations for such rates received by Citibank from three New York certificate of deposit dealers of recognized standing selected by Citibank, in either case adjusted to the nearest 1/4 of one percent or, if there is no nearest 1/4 of one percent, to the next higher 1/4 of one percent; or

(c) for any day 1/2 of one percent per annum above the Federal Funds Rate.

"Base Rate Advance" means an A Advance which bears  
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interest as provided in Section 2.07(a).

"Borrower" means PM Companies or any subsidiary of PM  
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Companies with respect to which a Notice of Acceptance has been given, and whenever in this Agreement the term "Borrower" is used in the singular, it shall refer to the appropriate Borrower, or to all Borrowers, as the context may require.

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"Borrowing" means an A Borrowing or a B Borrowing.  
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"Business Day" means a day of the year on which banks  
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are not required or authorized to close in New York City and, if the applicable Business Day relates to any Eurodollar Rate Advance, on which dealings are carried on in the London interbank market.

"CD Lending Office" means, with respect to any Lender,  
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the office of such Lender specified as its "CD Lending Office" opposite its name on Schedule I hereto or in the Assignment and

Acceptance pursuant to which it became a Lender (or, if no such office is specified, its Domestic Lending Office) or such other office of such Lender as such Lender may from time to time specify to PM Companies and the Agent.

"Commitment" has the meaning specified in Section  
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2.01.

"Consolidated Tangible Assets" means all assets  
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properly appearing on a consolidated balance sheet of PM Companies and its subsidiaries after deducting goodwill, trademarks, patents, other like intangibles, and the minority interests of other Persons in such subsidiaries, all as determined in accordance with generally accepted accounting principles, except that if there has been a material change in an accounting principle as compared to that applied in the preparation of the financial statements of PM Companies and its subsidiaries as at and for the nine months ended September 30, 1993, then such new accounting principle shall not be used in the determination of Consolidated Tangible Assets. A material change in an accounting principle is one that in the year of its adoption changes Consolidated Tangible Assets at such year-end by more than 10%.

"Debt" means (i) indebtedness for borrowed money or  
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for the deferred purchase price of property or services, or obligations evidenced by bonds, debentures, notes or similar instruments, (ii) obligations as lessee under leases which shall have been or should be, in accordance with generally accepted accounting principles, recorded as capital leases, and (iii) obligations under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clause (i) or (ii) above.

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"Domestic Lending Office" means, with respect to any  
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Lender, the office of such Lender specified as its "Domestic Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Lender or such other office of such Lender as such Lender may from time to time specify to PM Companies and the Agent.

"Eligible Assignee" means (i) a commercial bank  
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organized under the laws of the United States, or any State thereof, and having total assets in excess of \$5,000,000,000; (ii) a commercial bank organized under the laws of any other country which is a member of the OECD, or a political subdivision of any such country, and having total assets in excess of \$5,000,000,000, provided that such bank is acting through a branch or agency located in the country in which it is organized or another country which is also a member of the OECD or the Cayman Islands; (iii) the central bank of any country which is a member of the OECD; (iv) a commercial finance company or finance subsidiary of a corporation organized under the laws of the United States, or any State thereof, and having total assets in excess of \$3,000,000,000; (v) an insurance company organized under the laws of the United States, or any State thereof, and having total assets in excess of \$5,000,000,000; (vi) any Bank; and (vii) an affiliate of any Lender.

"ERISA" means the Employee Retirement Income Security  
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Act of 1974, as amended from time to time and the regulations promulgated and the rulings issued thereunder.

"ERISA Affiliate" means any Person who for purposes of  
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Title IV of ERISA is a member of any Borrower's or PM Companies' controlled group, or under common control with such Borrower or PM Companies, within the meaning of Section 414 of the Internal Revenue Code of 1986, as amended from time to time.

"ERISA Event" means (i) the occurrence with respect to

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a Plan of a Reportable Event, within the meaning of Section 4043 of ERISA, unless the 30-day notice requirement with respect thereto has been waived by the PBGC; (ii) the provision by the administrator of any Plan of a notice of intent to terminate such Plan, pursuant to Section 4041(a) (2) of ERISA (including any such notice with respect to a plan amendment referred to in Section 4041(e) of ERISA); (iii) the cessation of operations at a facility of any Borrower or PM Companies or any of their ERISA Affiliates in the circumstances described in Section 4068(f) of ERISA; (iv) the withdrawal by any Borrower or PM Companies or any of their

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ERISA Affiliates from a Multiple Employer Plan during a plan year for which it was a substantial employer, as defined in Section 4001(a) (2) of ERISA; (v) the conditions set forth in Section 302(f) (1) (A) and (B) of ERISA to the creation of a lien upon property or rights to property of any Borrower or PM Companies or any of their ERISA Affiliates for failure to make a required payment to a Plan are satisfied; (vi) the adoption of an amendment to a Plan requiring the provision of security to such Plan, pursuant to Section 307 of ERISA; or (vii) the occurrence of any event or condition described in Section 4042 of ERISA that constitutes grounds for the termination of, or the appointment of a trustee to administer, a Plan.

"Eurocurrency Liabilities" has the meaning assigned to

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that term in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Eurodollar Lending Office" means, with respect to any

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Lender, the office of such Lender specified as its "Eurodollar Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Lender (or, if no such office is specified, its Domestic Lending Office) or such other office of such Lender as such Lender may from time to time specify to PM Companies and the Agent.

"Eurodollar Rate" means, for the Interest Period for

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each Eurodollar Rate Advance comprising part of the same A Borrowing, an interest rate per annum equal to the average (rounded upward to the nearest whole multiple of 1/16 of 1% per annum, if such average is not such a multiple) of the rate per annum at which deposits in U.S. dollars are offered by the principal office of each of the Reference Banks in London, England to prime banks in the London interbank market at 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount approximately equal to such Reference Bank's Eurodollar Rate Advance comprising part of such A Borrowing and for a period equal to such Interest Period. The Eurodollar Rate for the Interest Period for each Eurodollar Rate Advance comprising part of the same A Borrowing shall be determined by the Agent on the basis of applicable rates furnished to and received by the Agent from the Reference Banks two Business Days before the first day of such Interest Period, subject, however, to the provisions of Section 2.09.

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"Eurodollar Rate Advance" means an A Advance which

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bears interest as provided in Section 2.07(c).

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"Eurodollar Rate Reserve Percentage" of any Lender for

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the Interest Period for any Eurodollar Rate Advance means the reserve percentage applicable during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the reserve requirement (including, without limitation, any emergency, supplemental or other

marginal reserve requirement) for such Lender with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Interest Period.

"Events of Default" has the meaning specified in  
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Section 6.01.

"Federal Bankruptcy Code" means the Bankruptcy Reform  
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Act of 1978, as amended from time to time.

"Federal Funds Rate" means, for any period, a  
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fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by it.

"Fixed Charges" means, for any accounting period, the  
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sum of (i) interest, whether expensed or capitalized, in respect of any Debt outstanding during such period, plus (ii) amortization of debt expense and discount or premium relating to any Debt outstanding during such period, whether expensed or capitalized, plus (iii) such portion of rental expense as can be demonstrated to be representative of the interest factor in the particular case, all as to be applicable to continuing operations and determined in accordance with generally accepted accounting principles, except that if there has been a material change in an accounting principle as compared to that applied in the preparation of the financial statements of PM Companies as at and for the nine months ended September 30, 1993, then such new accounting principle shall not be used in the determination of Fixed

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Charges. A material change in an accounting principle is one that, in the year of its adoption, changes Net Income Before Tax or Fixed Charges for any quarter in such year by more than 10%.

"Guarantor" means PM Companies.  
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"Guaranty" has the meaning specified in Section 8.01.  
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"Insufficiency" means, with respect to any Plan, the  
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amount of "unfunded benefit liabilities" (as defined in Section 4001(a)(18) of ERISA), if any, for such Plan.

"Interest Period" means, for each A Advance comprising  
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part of the same A Borrowing, the period commencing on the date of such A Advance and ending on the last day of the period selected by PM Companies pursuant to the provisions below. The duration of each such Interest Period shall be (a) in the case of an Adjusted CD Rate Advance, 30, 60, 90 or 180 days, (b) in the case of a Base Rate Advance, 1, 2, 3 or 6 months and (c) in the case of a Eurodollar Rate Advance, 1, 2, 3 or 6 months, in each case as PM Companies may, upon notice received by the Agent not later than 12:00 Noon (New York City time) on the third Business Day with respect to a Eurodollar Rate Advance, on the second Business Day with respect to an Adjusted CD Rate Advance and on the Business Day with respect to a Base Rate Advance, prior to the first day of such Interest Period, select; provided, however, that:  
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(i) the duration of any Interest Period which commences before the Termination Date and would otherwise end after the Termination Date shall end on the Termination Date;

(ii) Interest Periods commencing on the same date for A

Advances comprising part of the same A Borrowing shall be of the same duration; and

(iii) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day, provided, in the case of any Interest

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Period for a Eurodollar Rate Advance, that if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day.

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"Lenders" means the Banks listed on the signature  
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pages hereof and each Eligible Assignee that shall become a party hereto pursuant to Section 10.07.

"Major Plan" means, at any time, a Plan with an  
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Insufficiency of \$10,000,000 or more.

"Major Subsidiary" means any subsidiary (a) more than  
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50% of the voting securities of which is owned directly or indirectly by PM Companies, (b) which is organized and existing under, or has its principal place of business in, the United States or any political subdivision thereof, Canada or any political subdivision thereof, any country which is a member of the European Economic Community on the date hereof (other than Greece, Portugal or Spain) or any political subdivision thereof, Sweden, Switzerland, Norway or Australia or any of their respective political subdivisions, and (c) which has at any time total assets (after intercompany eliminations) exceeding \$500,000,000. Notwithstanding the foregoing, Mission Viejo Company (a California corporation) and any of its subsidiaries engaged in the business of community development, commercial real estate development, real estate investment or related activities shall not be a Major Subsidiary.

"Majority Lenders" means at any time Lenders holding  
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at least 66-2/3% of the aggregate unpaid principal amount of the A Advances then outstanding, or, if no such principal amount is then outstanding, Lenders having at least 66-2/3% of the Commitments (provided that, for purposes hereof, neither PM Companies or any Borrower, nor any of their respective affiliates, if a Lender, shall be included in (i) the Lenders holding such amount of the A Advances or having such amount of the Commitments or (ii) determining the aggregate unpaid principal amount of the A Advances or the total Commitments).

"Multiemployer Plan" means a "multiemployer plan" as  
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defined in Section 4001(a)(3) of ERISA to which any Borrower or PM Companies or any ERISA Affiliate is making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions, such plan being maintained pursuant to one or more collective bargaining agreements.

"Multiple Employer Plan" means a single employer plan,  
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as defined in Section 4001(a)(15) of ERISA, that (i) is maintained for employees of any Borrower or PM Companies or any ERISA Affiliate and at least one Person other than any

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Borrower or PM Companies and its ERISA Affiliates or (ii) was so maintained and in respect of which any Borrower or PM Companies or any ERISA Affiliate could have liability under Section 4064 or 4069 of ERISA in the event such plan has been or were to be terminated.

"Net Income Before Tax" means, for any accounting  
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period, income or loss from continuing operations for such period, as determined in accordance with generally accepted accounting principles, plus total federal, state and foreign



income taxes which have been included in the determination of income or loss from continuing operations for such period in accordance with generally accepted accounting principles and amounts which, in the determination of income or loss from continuing operations for such period, have been deducted for the items referred to in the definition of Fixed Charges in this Section, except that if there has been a material change in an accounting principle as compared to that applied in the preparation of the financial statements of PM Companies as at and for the nine months ended September 30, 1993, then such new accounting principle shall not be used in the determination of Net Income Before Tax. A material change in an accounting principle is one that, in the year of its adoption, changes Net Income Before Tax or Fixed Charges for any quarter in such year by more than 10%.

"1991 Loan Agreement" has the meaning specified in  
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Section 3.05(a).

"Notice of A Borrowing" has the meaning specified in  
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Section 2.02(a).

"Notice of Acceptance" has the meaning specified in  
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Section 9.01(a).

"Notice of B Borrowing" has the meaning assigned to  
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that term in Section 2.03(a).

"Notice of Borrowing" means either a Notice of A  
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Borrowing or a Notice of B Borrowing.

"Obligations" has the meaning specified in Section  
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8.01.

"OECD" means the Organization for Economic Cooperation  
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and Development.

"Other Taxes" has the meaning specified in Section  
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2.13(b).

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"PBGC" means the Pension Benefit Guaranty Corporation  
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or any successor corporation thereto.

"Person" means an individual, partnership, corporation  
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(including a business trust), joint stock company, trust, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof.

"Philip Morris" means Philip Morris Incorporated, a  
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Virginia corporation wholly-owned by PM Companies.

"Plan" means a Single Employer Plan or a Multiple  
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Employer Plan.

"Reference Banks" means Citibank, Mellon Bank N.A.,  
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Barclays Bank PLC and Dresdner Bank AG.

"Register" has the meaning specified in Section  
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10.07(c).

"Significant Plan" means a Plan whose assets have a  
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current value in excess of \$100,000,000.

"Single Employer Plan" means a single employer plan,  
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as defined in Section 4001(a)(15) of ERISA, that (i) is maintained for employees of any Borrower, PM Companies or an ERISA Affiliate and no Person other than such Borrower or PM Companies or any of their ERISA Affiliates or (ii) was so maintained and in respect of which any Borrower or PM Companies or an ERISA Affiliate could have liability under Section 4069 of ERISA in the event such plan has been or were to be terminated.

"Termination Date" means December 31, 1998, or the

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earlier date of termination in whole of the Commitments pursuant to Section 2.05 or Section 6.01.

"Tobacco Assets" means all assets consisting of

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tobacco and tobacco related assets, including, without limitation, all tobacco inventory, aging warehouses, cigarette manufacturing facilities, distribution warehouses, trademarks, tradenames and know-how and which relate to the domestic and United States export business of PM Companies and its subsidiaries.

"Type" means, with reference to an A Advance, an

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Adjusted CD Rate Advance, a Base Rate Advance or a Eurodollar Rate Advance.

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"Withdrawal Liability" shall have the meaning given

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such term under Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Additional Definitions. For purposes

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of this Agreement, "subsidiary" means, with respect to any Person, any corporation of which more than 50% of the outstanding capital stock having voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether or not at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned by such Person, by such Person and one or more other subsidiaries, or by one or more other subsidiaries.

SECTION 1.03. Computation of Time Periods. In this

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Agreement in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to but excluding".

SECTION 1.04. Accounting Terms. All accounting terms

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not specifically defined herein shall be construed in accordance with generally accepted accounting principles, except that if there has been a material change in an accounting principle, including the accounting for post-employment benefits as prescribed by Statement of Financial Accounting Standards No. 112, affecting the definition of an accounting term as compared to that applied in the preparation of the financial statements of PM Companies as at and for the nine months ended September 30, 1993, then such new accounting principle shall not be used in the determination of the amount associated with that accounting term. A material change in an accounting principle is one that, in the year of its adoption, changes the amount associated with the relevant accounting term for such year by more than 10%.

## ARTICLE II

### AMOUNTS AND TERMS OF THE ADVANCES

SECTION 2.01. The A Advances. Each Lender severally

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agrees, on the terms and conditions hereinafter set forth, to make A Advances to any Borrower from time to time on any Business Day during the period from the date hereof until the

Termination Date in an aggregate amount for all of the Borrowers not to exceed at any time outstanding the amount set opposite such Lender's name on the signature pages

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hereof or, if such Lender has entered into one or more Assignments and Acceptances, set forth for such Lender in the Register maintained by the Agent pursuant to Section 10.07(c), as such amount may be reduced pursuant to Section 2.05 (such Lender's "Commitment"), provided that the aggregate amount of

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the Commitments of the Lenders shall be deemed to be used from time to time to the extent of the aggregate amount of the B Advances then outstanding and such deemed use of the aggregate amount of the Commitments shall be applied to the Lenders ratably according to their respective Commitments (each such deemed use of the aggregate amount of the Commitments being a "B Reduction"). Each A Borrowing shall be in an aggregate amount not less than \$50,000,000 and shall consist of A Advances of the same Type made to the same Borrower on the same day by the Lenders ratably according to their respective Commitments and one or more A Borrowings may be made on the same day. Within the limits of each Lender's Commitment, the Borrowers may borrow, repay pursuant to Section 2.06, prepay pursuant to Section 2.10(b), and reborrow under this Section 2.01.

SECTION 2.02. Making the A Advances. (a) Each A

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Borrowing shall be made on notice, given not later than 12:00 Noon (New York City time) on the third Business Day prior to the date of the proposed A Borrowing in the case of Eurodollar Rate Advances, on the second Business Day prior to the date of the proposed A Borrowing in the case of Adjusted CD Rate Advances, and on the Business Day prior to the date of the proposed A Borrowing in the case of Base Rate Advances, by PM Companies to the Agent, which shall give to each Lender prompt notice thereof by telex or cable. Each such notice of an A Borrowing (a "Notice of A Borrowing") shall be by telex or cable, confirmed immediately in writing, in substantially the form of Exhibit B-1 hereto, specifying therein the requested (i) date of such A Borrowing, (ii) Type of A Advances comprising such A Borrowing, (iii) aggregate amount of such A Borrowing, (iv) Interest Period for each such A Advance, and (v) name of the Borrower. In the case of a proposed A Borrowing comprised of Adjusted CD Rate Advances or Eurodollar Rate Advances, the Agent shall promptly notify each Lender of the applicable interest rate under Section 2.07(b) or (c). Each Lender shall, before 11:00 A.M. (New York City time) on the date of such A Borrowing, make available for the account of its Applicable Lending Office to the Agent at its address referred to in Section 10.02, in same day funds, such Lender's ratable portion of such A Borrowing. After the Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Agent will make such funds available to the applicable Borrower at the Agent's aforesaid address.

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(b) Anything in subsection (a) above to the contrary notwithstanding,

(i) if any Lender shall, at least one Business Day before the date of any requested A Borrowing, notify the Agent that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful, or that any central bank or other governmental authority asserts that it is unlawful, for such Lender or its Eurodollar Lending Office to perform its obligations hereunder to make Eurodollar Rate Advances or to fund or maintain Eurodollar Rate Advances hereunder, the right of PM Companies to select Eurodollar Rate Advances for such A Borrowing or any subsequent A Borrowing shall be suspended until such Lender shall notify the Agent that the circumstances causing such suspension no longer exist, and each A Advance comprising such requested A Borrowing shall be a Base Rate Advance. Each Lender agrees that it shall notify the Agent and PM Companies of any such introduction, change, interpretation or assertion referred to above promptly after such Lender becomes aware of the occurrence

thereof;

(ii) if less than two Reference Banks furnish timely information to the Agent for determining the Adjusted CD Rate for Adjusted CD Rate Advances, or the Eurodollar Rate for Eurodollar Rate Advances, comprising any requested A Borrowing, the right of any Borrower to select Adjusted CD Rate Advances or Eurodollar Rate Advances, as the case may be, for such A Borrowing or any subsequent A Borrowing shall be suspended until the Agent shall notify PM Companies and the Lenders that the circumstances causing such suspension no longer exist, and each A Advance comprising such A Borrowing shall be a Base Rate Advance; and

(iii) if the Majority Lenders shall, at least one Business Day before the date of any requested A Borrowing, notify the Agent that the Eurodollar Rate for Eurodollar Rate Advances comprising such A Borrowing will not adequately reflect the cost to such Majority Lenders of making or funding their respective Eurodollar Rate Advances for such A Borrowing, the right of PM Companies to select Eurodollar Rate Advances for such A Borrowing or any subsequent A Borrowing shall be suspended until the Agent, after its receipt of notice from such Majority Lenders that the circumstances causing such suspension no longer exist, shall notify PM Companies and the Lenders to such effect, and each A Advance comprising such A Borrowing shall be a Base Rate Advance.

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(c) Each Notice of A Borrowing shall be irrevocable and binding on PM Companies and, if the Borrower named therein is not PM Companies, such Borrower. In the case of any A Borrowing which the related Notice of A Borrowing specifies is to be comprised of Adjusted CD Rate Advances or Eurodollar Rate Advances, PM Companies and, if the Borrower named therein is not PM Companies, such Borrower severally agree to indemnify each Lender against any loss, cost or expense incurred by such Lender as a result of any failure to fulfill on or before the date specified in such Notice of A Borrowing for such A Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Advance to be made by such Lender as part of such A Borrowing when such A Advance, as a result of such failure, is not made on such date.

(d) Unless the Agent shall have received notice from a Lender prior to the date of any A Borrowing that such Lender will not make available to the Agent such Lender's ratable portion of such A Borrowing, the Agent may assume that such Lender has made such portion available to the Agent on the date of such A Borrowing in accordance with subsection (a) of this Section 2.02 and the Agent may, in reliance upon such assumption, make available to the Borrower thereof on such date a corresponding amount. If and to the extent that such Lender shall not have so made such ratable portion available to the Agent, such Lender and such Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to such Borrower until the date such amount is repaid to the Agent, at (i) in the case of such Borrower, the interest rate applicable at the time to the A Advances comprising such A Borrowing and (ii) in the case of such Lender, the Federal Funds Rate. If such Lender shall repay to the Agent such corresponding amount, such amount so repaid shall constitute such Lender's A Advance as part of such A Borrowing for purposes of this Agreement.

(e) The failure of any Lender to make the A Advance to be made by it as part of any A Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make its A Advance on the date of such A Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the A Advance to be made by such other Lender on the date of any A Borrowing.

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severally agrees that any Borrower may make B Borrowings under this Section 2.03 from time to time on any Business Day during the period from the date hereof until the date occurring 7 days prior to the Termination Date in the manner set forth below; provided that, following the making of each B Borrowing the

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aggregate amount of the Advances then outstanding shall not exceed the aggregate amount of the Commitments of the Lenders (computed without regard to any B Reduction).

(i) PM Companies may request a B Borrowing under this Section 2.03 by delivering to the Agent, by telex or cable, confirmed immediately in writing, a notice of a B Borrowing (a "Notice of B Borrowing"), in substantially the form of Exhibit B-2 hereto, specifying the name of the Borrower, the date and aggregate amount of the proposed B Borrowing, the maturity date for repayment of each B Advance to be made as part of such B Borrowing (which maturity date, in the case of a Notice of B Borrowing delivered pursuant to clause (A) of this paragraph (i), may not be earlier than the date occurring 7 days after the date of such B Borrowing or later than the date occurring 180 days after the date of such B Borrowing and, in the case of a Notice of B Borrowing delivered pursuant to clause (B) of this paragraph (i), may not be earlier than the date occurring 14 days after the date of such B Borrowing or later than the date occurring 180 days after the date of such B Borrowing, and in no event may the maturity date for any B Borrowing be later than the Termination Date), the interest payment date or dates relating thereto, the interest rate basis on which the Lenders may make offers to make B Advances to such Borrower (which basis may be a fixed or floating rate) and any other terms to be applicable to such B Borrowing, not later than 10:00 A.M. (New York City time) (A) at least two Business Days prior to the date of the proposed B Borrowing, if PM Companies shall specify in the Notice of B Borrowing that the rates of interest to be offered by the Lenders shall be fixed rates per annum and (B) at least four Business Days prior to the date of the proposed B Borrowing, if PM Companies shall instead specify in the Notice of B Borrowing the basis to be used by the Lenders in determining the rates of interest to be offered by them. The Agent shall in turn promptly notify each Lender of each request for a B Borrowing received by it by sending such Lender a copy of the related Notice of B Borrowing.

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(ii) Each Lender may, if, in its sole discretion, it elects to do so, irrevocably offer to make one or more B Advances to the Borrower named in any such Notice of B Borrowing as part of the proposed B Borrowing at a rate or rates of interest specified by such Lender in its sole discretion, by notifying the Agent (which shall give prompt notice thereof to the Borrower), before 10:00 A.M. (New York City time) (A) on the Business Day prior to the date of such proposed B Borrowing, in the case of a Notice of B Borrowing delivered pursuant to clause (A) of paragraph (i) above, and (B) three Business Days before the date of such proposed B Borrowing, in the case of a Notice of B Borrowing delivered pursuant to clause (B) of paragraph (i) above, of the minimum amount and maximum amount of each B Advance which such Lender would be willing to make as part of such proposed B Borrowing (which amounts may, subject to the proviso to the first sentence of this Section 2.03(a), exceed such Lender's Commitment), the rate or rates of interest therefor and such Lender's Applicable Lending Office with respect to such B Advance; provided

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that if the Agent in its capacity as a Lender shall, in its sole discretion, elect to make any such offer, it shall notify the Borrower of such offer before 9:00 A.M. (New York City time) on the Business Day prior to the date of such proposed B Borrowing, in the case referred to in clause (A) of this paragraph (ii), and three Business Days before the date of such proposed B Borrowing, in the case referred to in clause (B) of this paragraph (ii). If any Lender shall elect not to make such an offer, such Lender shall so notify the Agent before 10:00 A.M. (New York City

time) on the Business Day prior to the date of such proposed B Borrowing, in the case of a Notice of B Borrowing delivered pursuant to clause (A) of paragraph (i) above, and three Business Days before the date of such proposed B Borrowing, in the case of a Notice of B Borrowing delivered pursuant to clause (B) of paragraph (i) above, and such Lender shall not be obligated to, and shall not, make any B Advance as part of such B Borrowing; provided that the failure of any Lender to give such notice

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shall not cause such Lender to be obligated to make any B Advance as part of such proposed B Borrowing.

(iii) The Borrower named in any such Notice of B Borrowing shall, in turn, (A) before 12:00 Noon (New York City time) on the Business Day prior to the date of such proposed B Borrowing, in the case of a Notice of B Borrowing delivered pursuant to clause (A) of paragraph (i) above and (B) before 12:00 Noon (New York City time)

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three Business Days before the date of such proposed B Borrowing, in the case of a Notice of B Borrowing delivered pursuant to clause (B) of paragraph (i) above, either

(A) cancel such B Borrowing by giving the Agent notice to that effect, or

(B) accept one or more of the offers made by any Lender or Lenders pursuant to paragraph (ii) above by giving notice to the Agent of the amount of each B Advance (which amount shall be equal to or greater than the minimum amount, and equal to or less than the maximum amount, notified to such Borrower by the Agent on behalf of such Lender for such B Advance pursuant to paragraph (ii) above) to be made by each Lender as part of such B Borrowing, and reject any remaining offers made by Lenders pursuant to paragraph (ii) above by giving the Agent notice to that effect.

The acceptance of offers by such Borrower pursuant to this clause (B) shall be on the basis of ascending rates of interest contained in the offers made by Lenders pursuant to paragraph (ii) above; provided that, in the event that

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two or more of such offers contain the same rate of interest for a greater aggregate principal amount than the amount specified in such Notice of B Borrowing less the aggregate principal amount of all such offers containing lower rates of interest that have been accepted by such Borrower pursuant to this clause (B), such Borrower shall have sole discretion (subject to any minimum and maximum amount specified in any such offer) to accept one or more of the offers at such rate of interest and to reject any remaining offers at such rate of interest.

(iv) If the Borrower named in any such Notice of B Borrowing notifies the Agent that such B Borrowing is cancelled pursuant to paragraph (iii)(A) above, the Agent shall give prompt notice thereof to the Lenders and such B Borrowing shall not be made.

(v) If the Borrower named in any such Notice of B Borrowing accepts one or more of the offers made by any Lender or Lenders pursuant to paragraph (iii)(B) above, the Agent shall in turn promptly notify (A) each Lender which has made an offer as described in paragraph (ii) above, of the date and aggregate amount of such B Borrowing and whether or not any offer or offers made

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by such Lender pursuant to paragraph (ii) above have been accepted by such Borrower, (B) each Lender that is to make a B Advance as part of such B Borrowing, of the amount of each B Advance to be made by such Lender as part of such B Borrowing, and (C) each Lender that is to make a B Advance as part of such B Borrowing, upon receipt, that the Agent has received forms of documents appearing to fulfill the applicable conditions set forth in Article III. Each Lender that is to make a B Advance as part of such B Borrowing shall, before 12:00 Noon (New York City time)

on the date of such B Borrowing specified in the notice received from the Agent pursuant to clause (A) of the preceding sentence or any later time when such Lender shall have received notice from the Agent pursuant to clause (C) of the preceding sentence, make available for the account of its Applicable Lending Office to the Agent at its address set forth in Section 10.02 such Lender's portion of such B Borrowing, in same day funds. Upon fulfillment of the applicable conditions set forth in Article III and after receipt by the Agent of such funds, the Agent will make such funds available to such Borrower as soon as practicable on such date at the Agent's aforesaid address. Promptly after each B Borrowing the Agent will notify each Lender of the amount of the B Borrowing, the consequent B Reduction and the dates upon which such B Reduction commenced and will terminate.

(b) Each B Borrowing shall be in an aggregate amount not less than \$100,000,000 or an integral multiple of \$1,000,000 in excess thereof and, following the making of each B Borrowing, the Borrower thereof shall be in compliance with the limitation set forth in the proviso to the first sentence of subsection (a) above.

(c) Within the limits and on the conditions set forth in this Section 2.03, each Borrower may from time to time borrow under this Section 2.03, repay or prepay pursuant to subsection (d) below, and reborrow under this Section 2.03, provided that a B Borrowing shall not be made within three -----  
Business Days of the date of any other B Borrowing.

(d) Each Borrower shall repay to the Agent for the account of each Lender which has made a B Advance to such Borrower, or each other holder of a B Note, on the maturity date of each B Advance made to it (such maturity date being that specified for repayment of such B Advance in the related Notice of B Borrowing delivered pursuant to subsection (a) (i) above or as provided in the B Note evidencing such B Advance) the then unpaid principal amount of such B Advance. No

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Borrower shall have the right to prepay any principal amount of any B Advance unless, and then only on the terms, specified by PM Companies for such B Advance in the related Notice of B Borrowing delivered pursuant to subsection (a) (i) above and provided in the B Note evidencing such B Advance.

(e) Each Borrower shall pay interest on the unpaid principal amount of each B Advance made to it from the date of such B Advance to the date the principal amount of such B Advance is repaid in full, at the rate of interest for such B Advance specified by the Lender making such B Advance in its notice with respect thereto delivered pursuant to subsection (a) (ii) above, payable on the interest payment date or dates specified by PM Companies for such B Advance in the related Notice of B Borrowing delivered pursuant to subsection (a) (i) above, as provided in the B Note evidencing such B Advance.

(f) The indebtedness of each Borrower resulting from each B Advance made to such Borrower as part of a B Borrowing shall be evidenced by a separate B Note of such Borrower payable to the order of the Lender making such B Advance.

(g) Any notice given to any party under this Section 2.03 shall be in writing, or may be by telephone or telex, in each case confirmed immediately in writing.

SECTION 2.04. Fees. (a) PM Companies agrees to pay

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to each Lender a facility fee on the principal amount of such Lender's Commitment (whether or not unused and without giving effect to any B Reduction) from the date hereof in the case of each Bank (unless otherwise agreed to by PM Companies with such Bank) and from the effective date specified in the Assignment and Acceptance pursuant to which it became a Lender in the case of each other Lender until the Termination Date at the Applicable Facility Fee Rate, in each case payable on the last day of each March, June, September and December until the Termination Date and on the Termination Date.

(b) For any period in which the aggregate principal amount of Advances exceeds an amount equal to 50% of the total

Commitments, PM Companies agrees to pay to each Lender a usage fee on the excess of (i) the average daily aggregate amount of Advances made by such Lender outstanding during such period over (ii) 50% of such Lender's Commitment at the Applicable Usage Fee Rate, in each case payable in arrears on the last day of each March, June, September and December occurring during such period and on the Termination Date, if applicable.

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(c) PM Companies agrees to pay to the Agent the agency fee, arrangement fee and competitive bid fee in the amounts and at the times set forth in the engagement letter dated November 24, 1993 from the Agent to PM Companies, as amended from time to time.

SECTION 2.05. Reduction of the Commitments. (a) PM  
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Companies shall have the right, upon five Business Days' notice to the Agent, to terminate in whole or reduce ratably in part the unused portions of the respective Commitments of the Lenders, provided that the aggregate amount of the Commitments  
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of the Lenders shall not be reduced to an amount which is less than the aggregate principal amount of the B Advances then outstanding and provided further that each partial reduction  
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shall be in the aggregate amount of at least \$50,000,000.

(b) In the event that there shall be an Asset Disposition, the respective Commitments of the Lenders shall be reduced ratably by an aggregate amount equal to 100% of the net after-tax proceeds of such Asset Disposition. For the purpose of this subsection (b) any net after-tax non-cash proceeds or spin-off shall be valued at (i) the greater of (x) the book value and (y) the fair market value (as determined in good faith by the Board of Directors of PM Companies) of the assets subject to such Asset Disposition, less (ii) the cash proceeds, if any, received as a result of such Asset Disposition. In the event that the purchase price of assets subject to an Asset Disposition is subject to adjustment, as a result of which PM Companies reasonably believes that the proceeds ultimately to be received therefrom will be reduced, then until such time as such adjustment is finalized, for purposes of this subsection (b) the "net after-tax proceeds" shall include only the amount of those proceeds actually received by PM Companies or any affiliate of PM Companies, less an adjustment reserve in an amount reasonably determined by PM Companies to be equivalent to such adjustment therein. As soon as such adjustment is finalized, any further reduction in the Commitments shall be made as above provided in this subsection (b). Any reduction pursuant to this subsection (b) shall be effective on a date selected by PM Companies but in any event no later than the last day of the calendar quarter during which the Asset Disposition occurs; provided that any reduction which would be  
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in amount less than \$50,000,000 shall not be made but shall be included in the calculation of the subsequent reduction or reductions provided for in this subsection (b) until the aggregate amount of any such subsequent reduction shall be at least equal to \$50,000,000, and such reduction shall then be made as above provided in this subsection (b).

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SECTION 2.06. Repayment of A Advances. Each Borrower  
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shall repay the principal amount of each A Advance made to it by each Lender on the last day of the Interest Period for such A Advance.

SECTION 2.07. Interest on A Advances. Each Borrower  
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shall pay interest on the unpaid principal amount of each A Advance made to it by each Lender from the date of such A Advance until such principal amount shall be paid in full, at the following rates per annum:

(a) Base Rate Advances. If such A Advance is a Base  
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Rate Advance, a rate per annum equal at all times to the Base Rate in effect from time to time, payable monthly on



the 20th day of each month, and on the date such Base Rate Advance shall be paid in full; provided that any amount of

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principal which is not paid when due (whether at stated maturity, by acceleration or otherwise) shall bear interest, from the date on which such amount is due until such amount is paid in full, payable on demand, at a rate per annum equal at all times to 1% per annum plus the Base Rate in effect from time to time.

(b) Adjusted CD Rate Advances. If such A Advance is

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an Adjusted CD Rate Advance, a rate per annum equal at all times during the Interest Period for such A Advance to the sum of the Adjusted CD Rate for such Interest Period plus the Applicable Interest Rate Margin, payable on the last day of such Interest Period and, if such Interest Period has a duration of 180 days, on the 90th day of such Interest Period; provided that any amount of principal

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which is not paid when due (whether at stated maturity, by acceleration or otherwise) shall bear interest, from the date on which such amount is due until such amount is paid in full, payable on demand, at a rate per annum equal at all times to 1% per annum plus the Base Rate in effect from time to time.

(c) Eurodollar Rate Advances. If such A Advance is a

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Eurodollar Rate Advance, a rate per annum equal at all times during the Interest Period for such A Advance to the sum of the Eurodollar Rate for such Interest Period plus the Applicable Interest Rate Margin, payable on the last day of such Interest Period and, if such Interest Period has a duration of six months, on the last day of the third month of such Interest Period; provided that any amount of

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principal which is not paid when due (whether at stated maturity, by acceleration or otherwise) shall bear interest, from the date on which

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such amount is due until such amount is paid in full, payable on demand, at a rate per annum equal at all times to 1% per annum plus the Base Rate in effect from time to time.

SECTION 2.08. Additional Interest on Eurodollar Rate

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Advances. Each Borrower shall pay to each Lender, so long as

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such Lender shall be required under regulations of the Board of Governors of the Federal Reserve System to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency Liabilities, additional interest on the unpaid principal amount of each Eurodollar Rate Advance of such Lender to such Borrower, from the date of such Advance until such principal amount is paid in full, at an interest rate per annum equal at all times to the remainder obtained by subtracting (i) the Eurodollar Rate for the Interest Period for such Advance from (ii) the rate obtained by dividing such Eurodollar Rate by a percentage equal to 100% minus the Eurodollar Rate Reserve Percentage of such Lender for such Interest Period, payable on each date on which interest is payable on such Advance. Such additional interest shall be determined by such Lender and notified to PM Companies through the Agent.

SECTION 2.09. Interest Rate Determination. (a) Each

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Reference Bank agrees to furnish to the Agent timely information for the purpose of determining each Adjusted CD Rate or Eurodollar Rate, as applicable. If any one or more of the Reference Banks shall not furnish such timely information to the Agent for the purpose of determining any such interest rate, the Agent shall determine such interest rate on the basis of timely information furnished by the remaining Reference Banks.

(b) The Agent shall give prompt notice to PM Companies and the Lenders of the applicable interest rate determined by the Agent for purposes of Section 2.07(a), (b) or (c), and the applicable rate, if any, furnished by each

Reference Bank for the purpose of determining the applicable interest rate under Section 2.07(b) or (c).

SECTION 2.10. Prepayment of A Advances. (a) No

Borrower shall have the right to prepay any principal amount of any A Advances other than as provided in subsection (b) below.

(b) Any Borrower may, upon at least four Business Days' notice to the Agent stating the proposed date and aggregate principal amount of the prepayment, and if such notice is given such Borrower shall, prepay the outstanding

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principal amounts of A Advances comprising part of the same A Borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid; provided, however, that (i) each partial prepayment

shall be in an aggregate principal amount not less than \$50,000,000 and (ii) in the event of any such prepayment of an Adjusted CD Rate Advance or a Eurodollar Rate Advance, such Borrower shall be obligated to reimburse the Lenders in respect thereof pursuant to Section 10.04(b) hereof.

(c) If any Lender shall notify the Agent of any introduction, change, interpretation or assertion referred to in Section 2.02(b)(i), or shall claim payment of increased costs pursuant to Section 2.11(a) or (c) or payment of any additional amounts payable pursuant to Section 2.13, PM Companies may, upon at least five Business Days' notice to the Agent stating that the Borrowers intend to repay the A Advances made by such Lender and terminate such Lender's Commitment, and if such notice is given the Borrowers shall forthwith, on the date specified in such notice, prepay in full all A Advances made by such Lender with accrued interest thereon to the date of such prepayment and all other amounts payable to such Lender by PM Companies and the other Borrowers hereunder (including, without limitation, any amounts payable pursuant to Section 10.04(b)), and upon such notice from PM Companies the Commitment of such Lender to make further A Advances, and the obligation of PM Companies to pay facility fees to such Lender, shall terminate.

(d) In the event that there shall be a reduction of the Commitments pursuant to Section 2.05(b), the Borrowers shall on the date of such reduction (or as soon thereafter as the Borrowers can do so without incurring liability to any Lender pursuant to Section 10.04(b)) repay or prepay ratably A Advances made as part of the same A Borrowings (together with interest accrued thereon to such date) to the extent necessary so that the aggregate principal amount of outstanding A Advances made by each Lender shall not exceed such Lender's Commitment, as reduced on such date.

SECTION 2.11. Increased Costs. (a) If, due to

either (i) the introduction of or any change (other than any change by way of imposition or increase of reserve requirements, in the case of Adjusted CD Rate Advances, included in the Adjusted CD Rate Reserve Percentage or, in the case of Eurodollar Rate Advances, included in the Eurodollar Rate Reserve Percentage) in or in the interpretation of any law or regulation or (ii) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having

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the force of law), there shall be any increase in the cost to any Lender of agreeing to make or making, funding or maintaining Adjusted CD Rate Advances or Eurodollar Rate Advances, then the Borrower of the affected Advances shall from time to time, upon demand by such Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender additional amounts sufficient to compensate such Lender for such increased cost, provided that before making any such

demand, such Lender shall designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such increased cost and will not, in the reasonable judgment of such Lender, be otherwise

disadvantageous to such Lender. A certificate as to the amount of such increased cost, submitted to PM Companies, such Borrower and the Agent by such Lender, shall be conclusive and binding for all purposes, absent manifest error.

(b) If, in the case of any Adjusted CD Rate Advance, the Assessment Rate for the Interest Period for such Adjusted CD Rate Advance shall be less than the annual assessment for such Interest Period actually paid by such Lender to the Federal Deposit Insurance Corporation (or any successor) for insuring U.S. dollar deposits of such Lender in the United States, then the Borrower of the affected Advance shall, upon demand of such Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender additional amounts sufficient to compensate such Lender for such increased assessment. A certificate as to the amounts of such increased assessment, submitted to PM Companies, such Borrower and the Agent by such Lender, shall be conclusive and binding for all purposes, absent manifest error.

(c) In the event that after the date hereof the implementation of or any change in any law or regulation, or any guideline or directive (whether or not having the force of law) or the interpretation or administration thereof by any central bank or other authority charged with the administration thereof, imposes, modifies or deems applicable any capital adequacy or similar requirement (including, without limitation, a request or requirement which affects the manner in which any Lender allocates capital resources to its commitments, including its obligations hereunder) and as a result thereof, in the sole opinion of such Lender, the rate of return on such Lender's capital as a consequence of its obligations hereunder is reduced to a level below that which such Lender could have achieved but for such circumstances, but reduced to the extent that Borrowings are outstanding from time to time, then in each such case upon

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demand from time to time PM Companies shall pay to such Lender such additional amount or amounts as shall compensate such Lender for such reduction in rate of return, provided that, in

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the case of each Lender, such additional amount or amounts shall not exceed 0.15 of 1% per annum on such Lender's Commitment. A certificate of such Lender as to any such additional amount or amounts shall be conclusive and binding for all purposes, absent manifest error. Except as provided below, in determining any such amount or amounts each Lender may use any reasonable averaging and attribution methods. Notwithstanding the foregoing, each Lender shall take all reasonable actions to avoid the imposition of, or reduce the amounts of, such increased costs, provided that such actions, in the reasonable judgment of such Lender, will not be otherwise disadvantageous to such Lender, and, to the extent possible, each Lender will calculate such increased costs based upon the capital requirements for its commitment hereunder and not upon the average or general capital requirements imposed upon such Lender.

SECTION 2.12. Payments and Computations. (a) PM

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Companies and each Borrower shall make each payment hereunder not later than 11:00 A.M. (New York City time) on the day when due in U.S. dollars to the Agent at its address referred to in Section 10.02 in same day funds. The Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal or interest or fees ratably (other than amounts payable pursuant to Section 2.02(c), 2.03, 2.08, 2.10(b)(ii) or (c), 2.11, 2.13 or 10.04(b)) to the Lenders for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Lender to such Lender for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon its acceptance of an Assignment and Acceptance and recording of the information contained therein in the Register pursuant to Section 10.07(d), from and after the effective date specified in such Assignment and Acceptance, the Agent shall make all payments hereunder and under the B Notes in respect of the interest assigned thereby to the Lender assignee thereunder, and the parties to such Assignment and Acceptance shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(b) Each Borrower hereby authorizes each Lender, if and to the extent payment owed to such Lender is not made to the Agent for the account of such Lender when due hereunder, to charge from time to time against any or all of such Borrower's accounts with such Lender any amount so due.

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(c) All computations of interest based on the Base Rate shall be made by the Agent on the basis of a year of 365 or 366 days, as the case may be, and all computations of interest based on the Adjusted CD Rate, the Eurodollar Rate or the Federal Funds Rate and of fees shall be made by the Agent, and all computations of interest pursuant to Section 2.08 shall be made by a Lender, on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest or fees are payable. Each determination by the Agent (or, in the case of Section 2.08, by a Lender) of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(d) Whenever any payment hereunder shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or fees, as the case may be; provided,

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however, if such extension would cause payment of interest on -----  
or principal of Eurodollar Rate Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(e) Unless the Agent shall have received notice from any Borrower prior to the date on which any payment is due from such Borrower to the Lenders hereunder that such Borrower will not make such payment in full, the Agent may assume that such Borrower has made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such date an amount equal to the amount then due such Lender. If and to the extent that such Borrower shall not have so made such payment in full to the Agent, each Lender shall repay to the Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Agent, at the Federal Funds Rate.

SECTION 2.13. Taxes. (a) Any and all payments by -----  
each Borrower and PM Companies hereunder shall be made, in accordance with Section 2.12, free and clear of and without deductions for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, (i) in the case of -----  
each Lender and the Agent, taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction under the laws of which such Lender or the Agent (as the case may

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be) is organized or any political subdivision thereof, (ii) in the case of each Lender, taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction of such Lender's Applicable Lending Office or any political subdivision thereof, and (iii) in the case of each Lender and the Agent, taxes imposed by the United States by means of withholding tax if and to the extent that such taxes shall be in effect and shall be applicable on the date hereof, to payments to be made to such Lender's Applicable Lending Office or to the Agent (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If any Borrower or PM Companies shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to any Lender or the Agent, (A) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.13) such Lender or the Agent (as the case may be) receives an amount equal to the

sum it would have received had no such deductions been made, (B) such Borrower and PM Companies shall make such deductions and (C) such Borrower and PM Companies shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, each Borrower and PM Companies agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement (hereinafter referred to as "Other Taxes").

(c) Each Borrower and PM Companies will indemnify each Lender and the Agent for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 2.13) paid by such Lender or the Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. This indemnification shall be made within 30 days from the date such Lender or the Agent (as the case may be) makes written demand therefor.

(d) Within 30 days after the date of any payment of Taxes, each Borrower and PM Companies will furnish to the Agent, at its address referred to in Section 10.02, the original or a certified copy of a receipt evidencing payment thereof by such Borrower or PM Companies.

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(e) Without prejudice to the survival of any other agreement of any Borrower or PM Companies hereunder, the agreements and obligations of each Borrower and PM Companies contained in this Section 2.13 shall survive the payment in full of principal and interest hereunder.

(f) Prior to the date of the initial Borrowing hereunder, and from time to time thereafter if requested by any Borrower, PM Companies or the Agent, each Lender organized under the laws of a jurisdiction outside the United States shall provide the Agent, PM Companies and such Borrower with the forms prescribed by the Internal Revenue Service of the United States certifying such Lender's exemption from United States withholding taxes with respect to all payments to be made to such Lender hereunder. Unless the Borrower, PM Companies and the Agent have received forms or other documents satisfactory to them indicating that payments hereunder are not subject to United States withholding tax or are subject to such tax at a rate reduced by an applicable tax treaty, such Borrower, PM Companies or the Agent shall withhold taxes from such payments at the applicable statutory rate in the case of payments to or for any Lender organized under the laws of a jurisdiction outside the United States.

(g) Any Lender claiming any additional amounts payable pursuant to this Section 2.13 shall use its best efforts (consistent with its internal policy and legal and regulatory restrictions) to change the jurisdiction of its Applicable Lending Office so as to eliminate the amount of any such costs or additional amounts which may thereafter accrue; provided that no such change shall be made if, in the

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reasonable judgment of such Lender, such change would be disadvantageous to such Lender.

SECTION 2.14. Sharing of Payments, Etc. If any

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Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the A Advances made by it (other than pursuant to Section 2.02(c), 2.08, 2.10(b)(ii) or (c), 2.11, 2.13 or 10.04(b)) in excess of its ratable share of payments on account of the A Advances obtained by all the Lenders, such Lender shall forthwith purchase from the other Lenders such participations in the A Advances made by them as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; provided, however, that if

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all or any portion of such excess payment is thereafter

recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to

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the extent of such recovery together with an amount equal to such Lender's ratable share (according to the proportion of (i) the amount of such Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. Each Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 2.14 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of such Borrower in the amount of such participation.

SECTION 2.15. Evidence of Debt. (a) Each Lender

shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of each Borrower to such Lender resulting from each A Advance made to such Borrower owing to such Lender from time to time, including the amounts of principal thereof and interest thereon payable and paid to such Lender from time to time hereunder.

(b) The Register maintained by the Agent pursuant to Section 10.07(c) shall include a control account, and a subsidiary account for each Lender, in which accounts (taken together) shall be recorded (i) the date and amount of each A Borrowing made hereunder, the Type of Advances comprising such Borrowing and the Interest Period applicable thereto, (ii) the terms of each Assignment and Acceptance delivered to and accepted by it, (iii) the amount of any principal or interest due and payable or to become due and payable from each Borrower to each Lender hereunder, and (iv) the amount of any sum received by the Agent from such Borrower hereunder and each Lender's share thereof.

(c) The entries made in the Register shall be conclusive and binding for all purposes, absent manifest error.

ARTICLE III

CONDITIONS OF LENDING

SECTION 3.01. Condition Precedent to Initial

Advances. The obligation of each Lender to make an Advance on

the occasion of the initial Borrowing by each Borrower is subject to the condition precedent that the Agent shall have received on or before the day of such initial Borrowing the

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following, each dated such day, in form and substance satisfactory to the Agent and in sufficient copies for each Lender:

(a) Certified copies of the resolutions of each of the Board of Directors of such Borrower and (unless PM Companies is the Borrower) the Guarantor approving this Agreement, and of all documents evidencing other necessary corporate action and governmental approvals, if any, on behalf of such company or companies with respect to this Agreement.

(b) A certificate of the Secretary or an Assistant Secretary of each of such Borrower and (unless PM Companies is the Borrower) the Guarantor certifying the names and true signatures of the officers of such company or companies authorized to sign this Agreement and the other documents to be delivered on behalf of such company or companies hereunder.

(c) A favorable opinion of Hunton & Williams, counsel for PM Companies, substantially in the form of Exhibit D hereto and as to such other matters as any Lender through the Agent may reasonably request.

(d) A favorable opinion of Shearman & Sterling, special counsel for the Agent, substantially in the form of Exhibit E hereto.

(e) A certificate of the chief financial officer of PM Companies certifying that as of September 30, 1993 (i) the aggregate amount of Debt, payment of which is secured by any lien, security interest or other charge or encumbrance referred to in clause (iii) of Section 5.02(a) hereof, does not exceed \$400,000,000 and (ii) the aggregate amount of Debt included in clause (i) of this subsection (e), payment of which is secured by any lien, security interest or other charge or encumbrance referred to in clause (iv) of Section 5.02(a), does not exceed \$200,000,000.

SECTION 3.02. Conditions Precedent to Each  
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A Borrowing. The obligation of each Lender to make an  
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A Advance on the occasion of each A Borrowing (including the initial A Borrowing) shall be subject to the further conditions precedent that on the date of such A Borrowing, before and after giving effect thereto and to the application of the proceeds therefrom (a) the following statements shall be true (and each of the giving of the applicable Notice of A Borrowing and the acceptance by the Borrower named therein

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of the proceeds of such A Borrowing shall constitute a representation and warranty by such Borrower and (unless PM Companies is the Borrower) the Guarantor that on the date of such A Borrowing, before and after giving effect thereto and to the application of the proceeds therefrom, such statements are true):

(i) The representations and warranties contained in Section 4.01 (excluding those contained in subsections (e) and (f) thereof) are correct on and as of the date of such Borrowing as though made on and as of such date;

(ii) No event has occurred and is continuing, or would result from such A Borrowing, which constitutes an Event of Default; and

(iii) If such A Borrowing is in an aggregate principal amount equal to or greater than \$500,000,000 and is being made in connection with any purchase of shares of such Borrower's or the Guarantor's capital stock or the capital stock of any other Person, or any purchase of all or substantially all of the assets of any Person (whether in one transaction or a series of transactions) or any transaction of the type referred to in Section 5.02(b), the statements in (i) and (ii) above shall also be true on a pro forma basis as if such transaction or purchase shall have been completed;

and (b) the Agent shall have received such other approvals, opinions or documents as any Lender through the Agent may reasonably request.

SECTION 3.03. Condition Precedent to Certain A  
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Borrowings. The obligation of each Lender to make that portion  
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of an A Advance on the occasion of any A Borrowing (including the initial A Borrowing) which would increase the aggregate outstanding amount of A Advances owing to such Lender over the aggregate amount of such A Advances outstanding immediately prior to the making of such A Advance shall be subject to the further condition precedent that on the date of such A Borrowing, before and after giving effect thereto and to the application of the proceeds therefrom, the following statement shall be true (and each of the giving of the applicable Notice of A Borrowing and the acceptance by the Borrower named therein of the proceeds of such A Borrowing shall constitute a representation and warranty by such Borrower and (unless PM Companies is the Borrower) the Guarantor that on the date of such A Borrowing, before and after giving effect thereto and to the application of the

proceeds therefrom, such statement is true): no event has occurred and is continuing, or would result from such A Borrowing, which would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

SECTION 3.04. Conditions Precedent to Each  
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B Borrowing. The obligation of each Lender which is to make a B  
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Advance on the occasion of a B Borrowing (including the initial B Borrowing) to make such B Advance as part of such B Borrowing is subject to the conditions precedent that (i) at least two Business Days before the date of such B Borrowing in the case of a B Borrowing under subsection (a) (i) (A) of Section 2.03 and at least four Business Days before the date of such B Borrowing in the case of a B Borrowing under subsection (a) (i) (B) of Section 2.03, the Agent shall have received the written confirmatory Notice of B Borrowing with respect thereto, (ii) on or before the date of such B Borrowing, but prior to such B Borrowing, the Agent shall have received a B Note of the Borrower thereof payable to the order of such Lender for each of the one or more B Advances to be made by such Lender as part of such B Borrowing, in a principal amount equal to the principal amount to be evidenced thereby and otherwise on such terms as were agreed to for such B Advance by such Borrower and such Lender in accordance with Section 2.03, and (iii) on the date of such B Borrowing, before and after giving effect thereto and to the application of the proceeds therefrom, the following statements shall be true (and each of the giving of the applicable Notice of B Borrowing and the acceptance by such Borrower of the proceeds of such B Borrowing shall constitute a representation and warranty by such Borrower and (unless PM Companies is the Borrower) the Guarantor that on the date of such B Borrowing, before and after giving effect thereto and to the application of the proceeds therefrom, such statements are true):

(a) The representations and warranties contained in Section 4.01 are correct on and as of the date of such B Borrowing as though made on and as of such date; and

(b) No event has occurred and is continuing, or would result from such B Borrowing, which constitutes an Event of Default or which would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

SECTION 3.05. Conditions Precedent to Effectiveness  
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of this Agreement. This Agreement shall not become effective  
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until:

(a) The Agent shall have received on or before the date of effectiveness a letter from PM Companies dated on or before such day, terminating in whole the commitments of the banks parties to the Loan and Guaranty Agreement dated as of October 1, 1991, as amended (the "1991 Loan Agreement") among PM Companies, the banks named therein and Citibank, as agent, and each of the Banks that is a party to the 1991 Loan Agreement hereby waives, upon execution of this Agreement, the five Business Days' notice required by Section 2.05(a) of the 1991 Loan Agreement relating to the termination of the commitments under the 1991 Loan Agreement; and

(b) PM Companies and its subsidiaries shall have satisfied all of their respective obligations under the 1991 Loan Agreement including, without limitation, the payment of all fees under such agreement.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

SECTION 4.01. Representations and Warranties of PM  
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(a) It is a corporation duly organized, validly existing and in good standing under the laws of Virginia.

(b) The execution, delivery and performance of this Agreement and the B Notes (including the guaranties hereunder and under the B Notes) are within its corporate powers, have been duly authorized by all necessary corporate action, and do not contravene (i) its charter or by-laws or (ii) any law, rule, regulation or order of any court or governmental agency or any contractual restriction binding on or affecting it.

(c) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by it of this Agreement or the B Notes (including the guaranties hereunder and under the B Notes).

(d) This Agreement (including the guaranty hereunder) is, and each of the B Notes (including the guaranties under the B Notes) when delivered hereunder will be, a legal, valid and binding obligation of PM Companies enforceable against PM Companies in accordance

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with its terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally and to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(e) The consolidated balance sheet of PM Companies and its consolidated subsidiaries as at September 30, 1993 and the consolidated statements of earnings of PM Companies and its consolidated subsidiaries for the nine months then ended fairly present, subject to year-end audit adjustments, the consolidated financial condition of PM Companies and its consolidated subsidiaries as at such date and the consolidated results of the operations of PM Companies and its consolidated subsidiaries for the period ended on such date, all in accordance with generally accepted accounting principles consistently applied, and, except as disclosed in PM Companies' quarterly report on Form 10-Q for the quarter ended September 30, 1993 and its current report on Form 8-K dated November 24, 1993, since September 30, 1993, there has been no material adverse change in such condition or operations.

(f) There is no pending or threatened action or proceeding affecting it or any of its subsidiaries before any court, governmental agency or arbitrator, which may materially adversely affect the financial condition or operations of PM Companies and its subsidiaries taken as a whole or which purports to affect the legality, validity or enforceability of this Agreement (including the guaranties hereunder and under the B Notes).

(g) It owns directly or indirectly 100% of the capital stock of each other Borrower and 100% of the capital stock of Philip Morris.

(h) No ERISA Event (other than a reportable event described in Section 2615.23 of Title 29 of the Code of Federal Regulations) has occurred nor is any ERISA Event reasonably expected to occur with respect to any Major Plan, or any Significant Plan.

(i) Schedule B (Actuarial Information) to the most recently completed annual report (Form 5500 Series) with respect to each Plan which is a Major Plan or a Significant Plan, copies of which have been filed with the Internal Revenue Service and furnished to each Bank, is complete and accurate and fairly presents the funding

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status of such Plan, and since the date of such Schedule B

there has been no material adverse change in such funding status; provided that no change in the funding status of

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any such Plan shall be deemed to be materially adverse from that disclosed on such Schedule B unless there is an Insufficiency which, when aggregated with the Insufficiency of each other Plan, exceeds \$100,000,000.

(j) Neither any Borrower nor PM Companies nor any of their ERISA Affiliates has incurred or reasonably expects to incur any Withdrawal Liability under ERISA to any Multiemployer Plan requiring payments to such Multiemployer Plan in an annual amount which, when aggregated together with all other payments required to be made to Multiemployer Plans as a result of Withdrawal Liabilities incurred or reasonably expected to be incurred by the Borrowers, PM Companies and their ERISA Affiliates, exceeds \$25,000,000.

## ARTICLE V

### COVENANTS OF PM COMPANIES

#### SECTION 5.01. Affirmative Covenants. So long as any

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Advance shall remain unpaid or any Lender shall have any Commitment hereunder, PM Companies will, unless the Majority Lenders shall otherwise consent in writing:

##### (a) Compliance with Laws, Etc. Comply, and cause

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each Major Subsidiary to comply, in all material respects with all applicable laws, rules, regulations and orders (such compliance to include, without limitation, paying before the same become delinquent all taxes, assessments and governmental charges imposed upon it or upon its property except to the extent contested in good faith), noncompliance with which would materially adversely affect its business or credit.

##### (b) Maintenance of Ratio of Net Income Before Tax to

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Fixed Charges. Maintain a ratio of aggregate consolidated

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Net Income Before Tax for the four most recent fiscal quarters for which consolidated statements of earnings have been delivered pursuant to Section 5.01(c) (i) or (ii) hereof to consolidated Fixed Charges for such four most recent fiscal quarters of not less than 2.5 to 1.0.

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##### (c) Reporting Requirements. Furnish to the Lenders:

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(i) as soon as available and in any event within 60 days after the end of each of the first three quarters of each fiscal year of PM Companies, a consolidated balance sheet of PM Companies and its consolidated subsidiaries as of the end of such quarter and consolidated statements of earnings of PM Companies and its consolidated subsidiaries for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, certified by the chief financial officer of PM Companies;

(ii) as soon as available and in any event within 90 days after the end of each fiscal year of PM Companies, a copy of the financial statements for such year for PM Companies and its consolidated subsidiaries, audited by Coopers & Lybrand (or other independent accountants which, as of the date of this Agreement, are one of the "big six" accounting firms);

(iii) as soon as possible and in any event within five days after the occurrence of each Event of Default and each event which, with the giving of notice or lapse of time, or both, would constitute an Event of Default, continuing on the date of such statement, a statement of the chief financial officer of PM Companies setting forth details of such Event of

Default or event and the action which PM Companies has taken and proposes to take with respect thereto;

(iv) promptly after the sending or filing thereof, copies of all reports which PM Companies sends to any of its shareholders, and copies of all periodic reports on Forms 10-K, 10-Q and 8-K (or any successor forms adopted by the Securities and Exchange Commission) which PM Companies files with the Securities and Exchange Commission;

(v) as soon as possible and in any event (A) within 30 days after any Borrower or PM Companies or any of their ERISA Affiliates knows or has reason to know that any ERISA Event described in clause (i) of the definition of ERISA Event (other than a Reportable Event described in Section 2615.23 of Title 29 of the Code of Federal Regulations) with respect to any Major Plan or any Significant Plan

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has occurred and (B) within 10 days after any Borrower or PM Companies or any of their ERISA Affiliates knows or has reason to know that any other ERISA Event with respect to any Major Plan or any Significant Plan has occurred, a statement of the chief financial officer of PM Companies describing such ERISA Event and the action, if any, which such Borrower or PM Companies or such ERISA Affiliate proposes to take with respect thereto;

(vi) promptly and in any event within two Business Days after receipt thereof by any Borrower or PM Companies or any of their ERISA Affiliates from the PBGC, copies of each notice received by such Borrower or PM Companies or any such ERISA Affiliate of the PBGC's intention to terminate any Plan or to have a trustee appointed to administer any Plan;

(vii) promptly and in any event within 30 days after the filing thereof with the Internal Revenue Service, copies of each Schedule B (Actuarial Information) to the annual report (Form 5500 Series) with respect to each Major Plan and each Significant Plan;

(viii) promptly and in any event within five Business Days after receipt thereof by any Borrower or PM Companies or any of their ERISA Affiliates from a Multiemployer Plan sponsor, a copy of each notice received by such Borrower or PM Companies or any of their ERISA Affiliates concerning the imposition of Withdrawal Liability where the aggregate annual payments for such Withdrawal Liability exceeds \$10,000,000;

(ix) promptly and in any event within 60 days after the date on which a Plan which is not a Major Plan or a Significant Plan on the date hereof becomes a Major Plan or Significant Plan, copies of each Schedule B (Actuarial Information) to the most recent Annual Report (Form 5500 Series) filed with the Internal Revenue Service with respect to such Plan, together with a statement of the chief financial officer of PM Companies describing any material adverse change in the funding status of such Plan since the date of such Schedule B; and

(x) such other information respecting the condition or operations, financial or otherwise, of

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PM Companies or any Major Subsidiary as any Lender through the Agent may from time to time reasonably request.

SECTION 5.02. Negative Covenants. So long as any

Advance shall remain unpaid or any Lender shall have any Commitment hereunder, PM Companies will not, without the written consent of the Majority Lenders:

(a) Liens, Etc. Create or suffer to exist, or permit

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any Major Subsidiary to create or suffer to exist, any lien, security interest or other charge or encumbrance, or any other type of preferential arrangement, upon or with respect to any of its properties, whether now owned or hereafter acquired, or assign, or permit any Major Subsidiary to assign, any right to receive income, in each case to secure or provide for the payment of any Debt of any Person, other than (i) purchase money liens or purchase money security interests upon or in any property acquired or held by it or any Major Subsidiary in the ordinary course of business to secure the purchase price of such property or to secure indebtedness incurred solely for the purpose of financing the acquisition of such property, (ii) liens or security interests existing on such property at the time of its acquisition (other than any such lien or security interest created in contemplation of such acquisition), (iii) liens or security interests existing on the date hereof securing Debt, (iv) liens or security interests on property financed through the issuance of industrial revenue bonds in favor of the holders of such bonds or any agent or trustee therefor, (v) liens or security interests existing on property of any Person acquired by it or any Major Subsidiary, (vi) liens or security interests securing Debt in an aggregate amount not in excess of 5% of PM Companies' Consolidated Tangible Assets, or (vii) liens or security interests upon or with respect to "margin stock" as that term is defined in Regulation U issued by the Board of Governors of the Federal Reserve System.

(b) Mergers, Etc. Merge or consolidate with or into,

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or convey, transfer, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to, or acquire all or substantially all of the assets of, any Person, or permit any subsidiary directly or indirectly owned by it to do so, unless, immediately after giving effect thereto, no Event of Default or event which, with the

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giving of notice or lapse of time, or both, would constitute an Event of Default would exist and, in the case of any merger or consolidation to which it is a party, it is the surviving corporation and, in the case of any merger or consolidation to which a Borrower other than PM Companies is a party, the corporation formed by such consolidation or into which such Borrower shall be merged shall be a corporation organized and existing under the laws of the United States of America or any State thereof, or the District of Columbia, and shall assume such Borrower's obligations under this Agreement by the execution and delivery of an instrument in form and substance satisfactory to the Majority Lenders and a Notice of Acceptance.

(c) Compliance with ERISA. Permit to exist any

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occurrence of any Reportable Event (as defined in Title IV of ERISA), or any other event or condition, which presents a material risk of termination by the PBGC of any Major Plan.

(d) Maintenance of Ownership of Philip Morris. Sell

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or otherwise dispose of any shares of capital stock of Philip Morris.

(e) Dividends, Etc. Declare and make any dividend

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payment or other distribution of assets, properties, cash, rights, obligations or securities on account of any shares of any class of capital stock of PM Companies, or purchase, redeem or otherwise acquire for value (or permit any of its subsidiaries to do so) any shares of any class of capital stock of PM Companies or any warrants, rights or options to acquire any such shares, now or hereafter outstanding, except that PM Companies may (i) declare and make any dividend payment or other distribution payable in common stock of PM Companies and (ii) declare or pay cash dividends to its stockholders and purchase, redeem or otherwise acquire shares of its capital stock or warrants, rights or options to acquire any such shares for cash if after giving effect thereto the aggregate amount of such

dividends, purchases, redemptions, retirements and acquisitions paid or made after October 12, 1993 would be less than an amount equal to \$5,000,000,000 plus 60% of income from continuing operations or less 60% of loss from continuing operations (in either case after deduction of income taxes properly attributable to continuing operations) and plus 100% of the proceeds from any sale or issuance of additional shares of its capital stock, in each case as determined on a cumulative basis and in accordance with generally

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accepted accounting principles, for the period commencing September 30, 1993 and terminating on the date of such dividend, purchase, redemption, retirement or acquisition, except that (A) the effects on deferred taxes of any changes in tax law as disclosed in any PM Companies annual report to stockholders and calculated in accordance with Statement of Financial Accounting Standards No. 106 shall not be included in the determination of income or loss from continuing operations and (B) if there has been a material change in an accounting principle, including the accounting for post-employment benefits as prescribed by Statement of Financial Accounting Standards No. 112, as compared to that applied in the preparation of the financial statements of PM Companies as at and for the nine months ended September 30, 1993, then such new accounting principle shall not be used in the determination of income or loss from continuing operations; provided that the provisions of this Section 5.02(e) shall not prevent the payment of any dividend within sixty days after the date of declaration thereof, if at the date of declaration thereof such declaration complied with the provisions of this Section 5.02(e), unless, immediately after giving effect to such proposed declaration or payment, an Event of Default or event which, with the giving of notice or lapse of time, or both, would constitute an Event of Default would exist under any of the provisions of this Agreement other than this Section 5.02(e). For purposes of this Section 5.02(e), a material change in an accounting principle is one that in the year of its adoption changes income or loss from continuing operations for any quarter in such year by more than 10%.

#### ARTICLE VI

##### EVENTS OF DEFAULT

SECTION 6.01. Events of Default. If any of the

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following events ("Events of Default") shall occur and be continuing:

(a) Any Borrower or PM Companies shall fail to pay any principal of, or interest on, any Advance, or PM Companies shall fail to pay any fees payable under Section 2.04, when the same become due and payable; or

(b) Any representation or warranty made or deemed to have been made by any Borrower or PM Companies herein

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or by any Borrower or PM Companies (or any of their respective officers) in connection with this Agreement shall prove to have been incorrect in any material respect when made or deemed to have been made; or

(c) Any Borrower or PM Companies shall fail to perform or observe (i) any term, covenant or agreement contained in Section 5.01(b) or 5.02, or (ii) any other term, covenant or agreement contained in this Agreement on its part to be performed or observed if such failure shall remain unremedied for 10 days after written notice thereof shall have been given to PM Companies by the Agent or any Lender; or

(d) Any Borrower or PM Companies or any Major Subsidiary shall fail to pay any principal of or premium or interest on any Debt which is outstanding in a principal amount of at least \$50,000,000 in the aggregate (but excluding Debt arising

under this Agreement) of such Borrower or PM Companies or such Major Subsidiary (as the case may be), when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt unless adequate provision for any such payment has been made in form and substance satisfactory to the Majority Lenders; or any other event shall occur or condition shall exist under any agreement or instrument relating to any such Debt which is outstanding in a principal amount of at least \$100,000,000 in the aggregate and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate, or to permit the acceleration of, the maturity of such Debt (other than any such Debt owed to a Lender or an affiliate of a Lender if such event or condition shall relate solely to a restriction on margin stock, as that term is defined in Regulation U issued by the Board of Governors of the Federal Reserve System) unless adequate provision for the payment of such Debt has been made in form and substance satisfactory to the Majority Lenders; or any Debt of any Borrower or PM Companies or any Major Subsidiary which is outstanding in a principal amount of at least \$50,000,000 in the aggregate (but excluding Debt arising under this Agreement) shall be declared to be due and payable, or required to be prepaid (other than by a scheduled required prepayment), redeemed, purchased or defeased, or an offer to prepay, redeem, purchase or defease such Debt

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shall be required to be made, in each case prior to the stated maturity thereof unless adequate provision for the payment of such Debt has been made in form and substance satisfactory to the Majority Lenders; or

(e) Any Borrower or PM Companies or any Major Subsidiary shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against any Borrower or PM Companies or any Major Subsidiary seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, or other similar official for it or for any substantial part of its property, and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 45 days or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against it or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property) shall occur; or any Borrower or PM Companies or any Major Subsidiary shall take any corporate action to authorize any of the actions set forth above in this subsection (e); or

(f) Any judgment or order for the payment of money in excess of \$50,000,000 shall be rendered against any Borrower or PM Companies or any Major Subsidiary and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of 10 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(g) Any ERISA Event with respect to Plan (a "Subject ERISA Event") shall have occurred, and, 30 days after notice thereof shall have been given to PM Companies by any Lender, (i) such Subject ERISA Event (if correctible) shall not have been corrected and (ii) the Insufficiency of any such Plan, when aggregated with the

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Insufficiencies (determined as of the date of the Subject ERISA Event) of all other Plans, if any, which were Plans on or after the date hereof and with respect to which an ERISA Event has occurred, exceeds \$100,000,000; or

(h) Any Borrower or PM Companies or any of their ERISA Affiliates shall have made a complete or partial withdrawal from a Multiemployer Plan and the plan sponsor of such Multiemployer Plan shall have notified such withdrawing employer that such employer has incurred a Withdrawal Liability in an annual amount which, when aggregated together with all other payments required to be made to Multiemployer Plans whose plan sponsors have notified such Borrower, PM Companies or any of their ERISA Affiliates that a Withdrawal Liability has been incurred by such Borrower, PM Companies or any of their ERISA Affiliates under such Multiemployer Plans, exceeds \$25,000,000; or

(i) The guaranty provided by PM Companies under Article VIII hereof or any guaranty endorsed by PM Companies on any B Note after delivery thereof under Section 3.04 shall for any reason cease to be valid and binding on PM Companies or PM Companies shall so state in writing;

then, and in any such event, the Agent (i) shall at the request, or may with the consent, of the Majority Lenders, by notice to PM Companies and the Borrowers, declare the obligation of each Lender to make Advances to be terminated, whereupon the same shall forthwith terminate, and (ii) shall at the request, or may with the consent, of the Majority Lenders, by notice to PM Companies and the Borrowers, declare all the Advances then outstanding, all interest thereon and all other amounts payable under this Agreement to be forthwith due and payable, whereupon the Advances then outstanding, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrowers; provided, however, that in the event of an

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actual or deemed entry of an order for relief with respect to any Borrower, PM Companies or any Major Subsidiary under the Federal Bankruptcy Code, (A) the obligation of each Lender to make Advances shall automatically be terminated and (B) the Advances then outstanding, all such interest and all such amounts shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrowers.

ARTICLE VII

THE AGENT

SECTION 7.01. Authorization and Action. Each Lender

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hereby appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement (including, without limitation, enforcement or collection of the Debt resulting from the Advances), the Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Majority Lenders, and such instructions shall be binding upon all Lenders; provided, however, that the

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Agent shall not be required to take any action which exposes the Agent to personal liability or which is contrary to this Agreement or applicable law. The Agent agrees to give to each Lender prompt notice of each notice given to it by PM Companies or any Borrower pursuant to the terms of this Agreement.

SECTION 7.02. Agent's Reliance, Etc. Neither the

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Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement, except for its or their own gross negligence or wilful misconduct. Without limitation of the generality of the foregoing, the Agent: (i) may treat the Lender that made any Advance as the holder of the Debt resulting therefrom until the Agent receives and accepts an Assignment and Acceptance entered into by such Lender, as assignor, and an Eligible Assignee, as assignee, as

provided in Section 10.07; (ii) may consult with legal counsel (including counsel for the Borrowers and PM Companies), independent accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (iii) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations made in or in connection with this Agreement; (iv) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement on the part of any Borrower or PM Companies or to inspect the property (including the books and records) of any Borrower or PM Companies; (v) shall not be responsible to any Lender for the due execution, legality, validity,

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enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; and (vi) shall incur no liability under or in respect of this Agreement by acting upon any notice, consent, certificate or, other instrument or writing (which may be by telegram, cable or telex) believed by it to be genuine and signed or sent by the proper party or parties.

SECTION 7.03. Citibank and Affiliates. With respect

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to any Commitment of, or any Advance made by, Citibank or any of its affiliates, Citibank shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not the Agent; and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated, include Citibank in its individual capacity. Citibank and its affiliates may accept deposits from, lend money to, act as trustee under indentures of, and generally engage in any kind of business with, any Borrower, PM Companies, any of their respective subsidiaries and any Person who may do business with or own securities of any Borrower or PM Companies or any such subsidiary, all as if Citibank were not the Agent and without any duty to account therefor to the Lenders.

SECTION 7.04. Lender Credit Decision. Each Lender

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acknowledges that it has, independently and without reliance upon the Agent or any other Lender and based on the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate, made its own credit analysis, and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

SECTION 7.05. Indemnification. The Lenders agree to

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indemnify the Agent (to the extent not reimbursed by PM Companies or any Borrower), ratably according to the respective principal amounts of Advances then owing to each of them (or if no such Advances are at the time outstanding or if any such Advances are then owing to Persons which are not Lenders, ratably according to the respective amounts of their Commitments), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Agent in any way relating to or arising out of this Agreement or any action taken or omitted by the Agent

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under this Agreement, provided that no Lender shall be liable

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for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Agent's gross negligence or wilful misconduct. Without limitation of the foregoing, each Lender agrees to reimburse the Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including counsel fees and expenses) incurred by the Agent in connection with the preparation, execution, delivery, administration,



modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, to the extent that the Agent is not reimbursed for such expenses by PM Companies or any Borrower.

SECTION 7.06. Successor Agent. The Agent may resign

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at any time by giving written notice thereof to the Lenders and PM Companies and may be removed at any time with or without cause by the Majority Lenders. Upon any such resignation or removal, the Majority Lenders shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by the Majority Lenders, and shall have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation or the Majority Lenders' removal of the retiring Agent, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent, which shall be a Lender having and acting through a New York office, or a commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least \$500,000,000 which is not a Lender. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

ARTICLE VIII

GUARANTY

SECTION 8.01. Guaranty. The Guarantor hereby

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unconditionally and irrevocably guarantees (the undertaking

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of the Guarantor contained in this Article VIII being the "Guaranty") the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of each Borrower now or hereafter existing under this Agreement (other than such obligations under Section 2.03(d) and (e) which are covered by the guaranty under the B Notes), whether for principal, interest, fees, expenses or otherwise (such obligations being the "Obligations"), and any and all expenses (including counsel fees and expenses) incurred by the Agent or the Lenders in enforcing any rights under the Guaranty.

SECTION 8.02. Guaranty Absolute. The Guarantor

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guarantees that the Obligations will be paid strictly in accordance with the terms of this Agreement, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the Agent or the Lenders with respect thereto. The liability of the Guarantor under this Guaranty shall be absolute and unconditional irrespective of:

- (i) any lack of validity, enforceability or genuineness of any provision of this Agreement or any other agreement or instrument relating thereto;
- (ii) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to departure from this Agreement;
- (iii) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any other guaranty, for all or any of the Obligations; or
- (iv) any other circumstance which might otherwise constitute a defense available to, or a discharge of, a Borrower or the Guarantor.

This Guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Obligations is rescinded or must otherwise be returned by the

Agent or any Lender upon the insolvency, bankruptcy or reorganization of a Borrower or otherwise, all as though such payment had not been made.

SECTION 8.03. Waivers. (a) The Guarantor hereby

waives promptness, diligence, notice of acceptance and any other notice with respect to any of the Obligations and this

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Guaranty and any requirement that the Agent or any Lender protect, secure, perfect or insure any security interest or lien or any property subject thereto or exhaust any right or take any action against a Borrower or any other Person or any collateral.

(b) The Guarantor hereby irrevocably waives any claims or other rights that it may now or hereafter acquire against any Borrower that arise from the existence, payment, performance or enforcement of the Guarantor's obligations under this Guaranty or this Agreement, including, without limitation, any right of subrogation, reimbursement, exoneration, contribution or indemnification and any right to participate in any claim or remedy of the Agent or any Lender against such Borrower or any collateral, whether or not such claim, remedy or right arises in equity or under contract, statute or common law, including, without limitation, the right to take or receive from such Borrower, directly or indirectly, in cash or other property or by set-off or in any other manner, payment or security on account of such claim, remedy or right. If any amount shall be paid to the Guarantor in violation of the preceding sentence at any time prior to the later of the cash payment in full of the Obligations and all other amounts payable under this Guaranty and the Termination Date, such amount shall be held in trust for the benefit of the Agent and the Lenders and shall forthwith be paid to the Agent to be credited and applied to the Obligations and all other amounts payable under this Guaranty, whether matured or unmatured, in accordance with the terms of this Agreement and this Guaranty, or to be held as collateral for any Obligations or other amounts payable under this Guaranty thereafter arising. The Guarantor acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by this Agreement and this Guaranty and that the waiver set forth in this subsection is knowingly made in contemplation of such benefits.

SECTION 8.04. Payments Free and Clear of Taxes, Etc.

(a) Any and all payments made by the Guarantor hereunder shall be made in accordance with Section 2.12 (concerning payments) of this Agreement free and clear of and without deduction for any and all present or future Taxes. If the Guarantor shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to any Lender or the Agent, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) such Lender or the Agent (as the case may

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be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Guarantor shall make such deductions and (iii) the Guarantor shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, the Guarantor agrees to pay any present or future Other Taxes which arise from any payment made under this Guaranty or from the execution, delivery or registration of, or otherwise with respect to, this Guaranty.

(c) The Guarantor will indemnify each Lender and the Agent for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section) paid by such Lender or the Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. This indemnification shall be made within 30 days from the date such Lender or the

Agent (as the case may be) makes written demand therefor.

(d) Within 30 days after the date of any payment of Taxes, the Guarantor will furnish to the Agent, at its address referred to in Section 10.02, the original or a certified copy of a receipt evidencing payment thereof.

(e) Without prejudice to the survival of any other agreement of the Guarantor hereunder, the agreements and obligations of the Guarantor contained in this Section 8.04 shall survive the payment in full of the principal of and interest on the Advances.

(f) Unless in accordance with Section 2.13(f) a Borrower, PM Companies and the Agent have received forms and other documents satisfactory to them indicating that payments hereunder are not subject to United States withholding tax or are subject to such tax at a rate reduced by an applicable tax treaty, the Guarantor or the Agent shall withhold taxes from such payments at the applicable statutory rate in the case of payments to or for any Lender organized under the laws of a jurisdiction outside the United States.

SECTION 8.05. No Waiver; Remedies. No failure on the  
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part of the Agent or any Lender to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder, preclude any other or further exercise

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thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 8.06. Continuing Guaranty. This Guaranty is a  
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continuing guaranty and shall (i) remain in full force and effect until payment in full (after the Termination Date) of the Obligations and all other amounts payable under this Guaranty, (ii) be binding upon the Guarantor, its successors and assigns, and (iii) inure to the benefit of and be enforceable by the Lenders, the Agents and their respective successors, transferees and assigns.

## ARTICLE IX

### SUBSIDIARY BORROWER

SECTION 9.01. Subsidiary Borrower. Any domestic or  
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foreign subsidiary of the Guarantor shall have the right to become a "Borrower" hereunder, and to borrow any unused Commitments under this Agreement subject to the terms and conditions hereof applicable to a Borrower and to the following additional conditions:

(a) PM Companies shall deliver a notice in the form of Exhibit F hereto (a "Notice of Acceptance") signed by such subsidiary and countersigned by the Guarantor to the Agent stating that such subsidiary desires to become a "Borrower" under this Agreement and agrees to be bound by the terms hereof. From the time of receipt of such Notice of Acceptance by the Agent, such subsidiary shall be a "Borrower" hereunder with all of the rights and obligations of a Borrower hereunder. No Notice of Acceptance relating to a subsidiary may be revoked as to amounts owed by such subsidiary to the Lenders under this Agreement or when a Notice of Borrowing naming such subsidiary has been given by PM Companies and is effective.

(b) Each Notice of Acceptance shall be accompanied by an opinion of counsel for PM Companies to the effect of clause (iv) below and shall contain the following representations and warranties with respect to such subsidiary:

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

(ii) The execution, delivery and performance by the subsidiary of any B Notes executed and delivered and to be executed and delivered by it, this Agreement and such Notice of Acceptance are within the subsidiary's corporate powers, have been duly authorized by all necessary corporate action, and do not contravene (i) the subsidiary's charter or by-laws or (ii) any law, rule, regulation or order of any court or governmental agency or any contractual restriction binding on or affecting the subsidiary.

(iii) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by the subsidiary of any B Notes executed and delivered and to be executed and delivered by it, this Agreement or such Notice of Acceptance.

(iv) This Agreement is, and any B Notes of such subsidiary when delivered under this Agreement will be, the legal, valid and binding obligation of the subsidiary enforceable against the subsidiary in accordance with their respective terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors rights generally and to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(v) There is no pending or threatened action or proceeding affecting the subsidiary or any of its subsidiaries before any court, governmental agency or arbitrator which purports to affect the legality, validity or enforceability of this Agreement or any B Note.

(vi) PM Companies owns directly or indirectly 100% of the capital stock of the subsidiary.

(c) For the purposes of Sections 3.02, 3.03 and 3.04, each of the representations and warranties in the foregoing Section 9.01(b) shall be deemed to be a representation and warranty contained in Section 4.01.

## ARTICLE X

## MISCELLANEOUS

## SECTION 10.01. Amendments, Etc. No amendment or

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 waiver of any provision of this Agreement, nor consent to any departure by any Borrower or the Guarantor therefrom, shall in any event be effective unless the same shall be in writing and signed by the Majority Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no

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 amendment, waiver or consent shall, unless in writing and signed by all the Lenders, do any of the following: (a) waive any of the conditions specified in Section 3.01, 3.02 (if and to the extent that the Borrowing which is the subject of such waiver would involve an increase in the aggregate outstanding amount of Advances over the aggregate amount of Advances outstanding immediately prior to such Borrowing) or 3.03, (b) increase the Commitments of the Lenders or subject the Lenders to any additional obligations, (c) reduce the principal of, or interest on, the A Advances or any fees or other amounts payable hereunder, (d) postpone any date fixed for any payment of principal of, or interest on, the A Advances or any fees or other amounts payable hereunder, (e) change the percentage of the Commitments or of the aggregate unpaid principal amount of A Advances, or the number of Lenders which shall be required for the Lenders or any of them to take any action hereunder, (f) release the Guarantor from any of its obligations under Article VIII or (g) amend this Section 10.01; provided further that no

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 waiver of the conditions specified in Section 3.04 in

connection with any B Borrowing shall be effective unless consented to by all Lenders making B Advances as part of such B Borrowing; and provided further that no amendment, waiver or

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consent shall, unless in writing and signed by the Agent in addition to the Lenders required above to take such action, affect the rights or duties of the Agent under this Agreement or any A Advance.

SECTION 10.02. Notices, Etc. Except as provided in

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Section 2.03(a) or (g), all notices and other communications provided for hereunder shall be in writing (including telegraphic, telecopy, telex or cable communication) and mailed, telegraphed, telecopied, telexed, cabled or delivered, if to any Borrower, at its address at c/o Philip Morris Companies Inc., 120 Park Avenue, New York, New York 10017, Attention: Treasurer; if to the Guarantor, at its address at 120 Park Avenue, New York, New York 10017, Attention: Secretary; if to any Bank, at its Domestic Lending Office specified opposite its name on Schedule I

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hereto; if to any other Lender, at its Domestic Lending Office specified in the Assignment and Acceptance pursuant to which it became a Lender; and if to the Agent, at its address at One Court Square, Long Island City, New York 11120, Attention: John Sahr; or, as to each party, at such other address as shall be designated by such party in a written notice to PM Companies or the Agent and, in the case of any such notice by any Borrower, PM Companies or the Agent, to each other party hereto. All such notices and communications shall, when mailed, telegraphed, telecopied, telexed or cabled, be effective when deposited in the mails, delivered to the telegraph company, transmitted by telecopier, confirmed by telex answerback or delivered to the cable company, respectively, except that notices and communications to the Agent pursuant to Article II or VII shall not be effective until received by the Agent.

SECTION 10.03. No Waiver; Remedies. No failure on

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the part of any Lender or the Agent to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 10.04. Costs, Expenses and Taxes. (a) PM

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Companies agrees to pay on demand all costs and expenses in connection with the preparation, execution, delivery, administration (excluding any cost or expenses for administration related to the Agent's overhead), modification and amendment of this Agreement and the other documents to be delivered hereunder, including, without limitation, the reasonable fees and out-of-pocket expenses of counsel for the Agent with respect thereto and with respect to advising the Agent as to its rights and responsibilities under this Agreement, and all costs and expenses of the Lenders and the Agent, if any (including, without limitation, reasonable counsel fees and expenses of the Lenders and the Agent), in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Agreement and the other documents to be delivered hereunder.

(b) If any payment of principal of any Adjusted CD Rate Advance or Eurodollar Rate Advance is made other than on the last day of the Interest Period for such Advance, as a result of a payment pursuant to Section 2.10, acceleration of the maturity of the Advances pursuant to Section 6.01, an assignment made as a result of a demand by PM Companies

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pursuant to Section 10.07(a) or for any other reason, PM Companies shall, upon demand by any Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender any amounts required to compensate such Lender for any additional losses, costs or expenses which it may reasonably incur as a result of such payment, including, without

limitation, any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender to fund or maintain such Advance. Without prejudice to the survival of any other agreement of any Borrower or PM Companies hereunder, the agreements and obligations of each Borrower and PM Companies contained in Section 2.02(c), 2.08, 2.10(b)(ii) or (c), 2.11 or this Section 10.04(b) shall survive the payment in full of principal and interest hereunder.

(c) Each Borrower and the Guarantor jointly and severally agree to indemnify and hold harmless the Agent and each Lender and each of their respective affiliates, control persons, directors, officers, employees, attorneys and agents (each, an "Indemnified Party") from and against any and all claims, damages, losses, liabilities and expenses (including, without limitation, reasonable fees and disbursements of counsel) which may be incurred by or asserted against any Indemnified Party, in each case in connection with or arising out of, or in connection with the preparation for or defense of, any investigation, litigation, or proceeding (i) related to any transaction or proposed transaction (whether or not consummated) in which any proceeds of any Borrowing are applied or proposed to be applied, directly or indirectly, by any Borrower, whether or not such Indemnified Party is a party to such transaction or (ii) related to any Borrower's or the Guarantor's entering into this Agreement, or to any actions or omissions of any Borrower or the Guarantor, any of their respective subsidiaries or affiliates or any of its or their respective officers, directors, employees or agents in connection therewith, in each case whether or not an Indemnified Party is a party thereto and whether or not such investigation, litigation or proceeding is brought by the Guarantor or any Borrower or any other Person; provided,

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however, that neither any Borrower nor the Guarantor shall be

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required to indemnify any such Indemnified Party from or against any portion of such claims, damages, losses, liabilities or expenses that is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from the gross negligence or wilful misconduct of such Indemnified Party.

SECTION 10.05. Right of Set-off. Upon (i) the

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occurrence and during the continuance of any Event of Default and (ii) the making of the request or the granting of the consent specified by Section 6.01 to authorize the Agent to declare the Advances due and payable pursuant to the provisions of Section 6.01, each Lender is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender to or for the credit or the account of any Borrower or the Guarantor against any and all of the obligations of such Borrower or the Guarantor now or hereafter existing under this Agreement, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations may be unmatured. Each Lender agrees promptly to notify the appropriate Borrower or the Guarantor, as the case may be, after any such setoff and application made by such Lender, provided that the failure to give such notice shall not affect

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the validity of such set-off and application. The rights of each Lender under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) which such Lender may have.

SECTION 10.06. Binding Effect. This Agreement shall

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become effective when it shall have been executed by PM Companies and the Agent and when the Agent shall have been notified by each Bank that such Bank has executed it and thereafter shall be binding upon and inure to the benefit of each Borrower, the Guarantor, the Agent and each Lender and their respective successors and assigns, except that neither any Borrower nor the Guarantor shall have the right to assign its rights hereunder or any interest herein without prior written consent of the Lenders.

SECTION 10.07. Assignments and Participations. (a)

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Each Lender may and, if demanded by PM Companies upon at least 5 Business Days' notice to such Lender and the Agent, will assign to one or more banks or other entities all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment and the A Advances owing to it); provided, however, that (i) each such

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assignment shall be of a constant, and not a varying, percentage of all of the assigning Lender's rights and obligations under this Agreement (other than, except in the case of an assignment made as a result of a demand by PM Companies pursuant to this Section 10.07(a), any B Advances owing to such Bank or any B

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Notes held by it), (ii) the amount of the Commitment of the assigning Lender being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than \$25,000,000 and shall be an integral multiple of \$1,000,000, (iii) each such assignment shall be to an Eligible Assignee, (iv) each such assignment made as a result of a demand by PM Companies pursuant to this Section 10.07(a) shall be arranged by PM Companies after consultation with the Agent and shall be either an assignment of all of the rights and obligations of the assigning Lender under this Agreement or an assignment of a portion of such rights and obligations made concurrently with another such assignment or other such assignments which together cover all of the rights and obligations of the assigning Lender under this Agreement, (v) no Lender shall be obligated to make any such assignment as a result of a demand by PM Companies pursuant to this Section 10.07(a) unless and until such Lender shall have received one or more payments from either the Borrowers to which it has outstanding Advances or one or more Eligible Assignees in an aggregate amount at least equal to the aggregate outstanding principal amount of the Advances owing to such Lender, together with accrued interest thereon to the date of payment of such principal amount and all other amounts payable to such Lender under this Agreement and (vi) the parties to each such assignment shall execute and deliver to the Agent, for its acceptance and recording in the Register, an Assignment and Acceptance, together with a processing and recordation fee of \$3,000, provided that, if such assignment is made as a result

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of a demand by PM Companies under this Section 10.07(a), PM Companies shall pay or cause to be paid such \$3,000 fee; provided further that nothing in this Section 10.07 shall

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prevent or prohibit any Lender from pledging its Advances hereunder or any B Notes held by it to a Federal Reserve Bank in support of borrowings by such Lender from such Federal Reserve Bank. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Lender hereunder and (y) the Lender assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights (other than those provided under Section 10.04) and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto).

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(b) By executing and delivering an Assignment and Acceptance, the Lender assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution,

legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; (ii) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of any Borrower or PM Companies or the performance or observance by any Borrower or PM Companies of any of their respective obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee confirms that it is an Eligible Assignee; (vi) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(c) The Agent shall maintain at its address referred to in Section 10.02 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Commitment of, and principal amount of the Advances owing to, each Lender from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and PM Companies, the Borrowers, the Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by PM Companies or any Lender at any reasonable time and from time to time upon reasonable prior notice.

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(d) Upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an assignee representing that it is an Eligible Assignee, the Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit C hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to PM Companies.

(e) Each Lender may sell participations to one or more banks or other entities in or to all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment and the Advances owing to it and any B Note or Notes held by it); provided,

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however, that (i) such Lender's obligations under this

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Agreement (including, without limitation, its Commitment to PM Companies hereunder) shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Lender shall remain the holder of any such B Note for all purposes of this Agreement, and (iv) PM Companies, the other Borrowers, the Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement.

(f) Any Lender may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 10.07, disclose to the assignee or participant or proposed assignee or participant, any information relating to PM Companies or any Borrower furnished to such Lender by or on behalf of PM Companies or any Borrower; provided that, prior to any such disclosure, the assignee or

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participant or proposed assignee or participant shall agree to preserve the confidentiality of any confidential information relating to PM Companies received by it from such Lender.



SECTION 10.08. Governing Law. This Agreement and any

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B Notes shall be governed by, and construed in accordance with,  
the laws of the State of New York.

SECTION 10.09. Execution in Counterparts. This

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Agreement may be executed in any number of counterparts and by  
different parties hereto in separate counterparts, each of  
which when so executed shall be deemed to be an original and  
all of which taken together shall constitute one and the same  
agreement. Delivery of an executed counterpart of a signature  
page to this Agreement by telecopier shall be effective as  
delivery of a manually executed counterpart of this Agreement.

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IN WITNESS WHEREOF, the parties hereto have caused  
this Agreement to be executed by their respective officers  
thereunto duly authorized, as of the date first above written.

PHILIP MORRIS COMPANIES INC.

By: /s/ George R. Lewis  
-----  
Vice President and  
Treasurer

CITIBANK, N.A., as Agent

By:/s/ Paolo de Alessandrini  
-----  
Vice President

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THE BANKS  
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Commitment:  
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U.S. \$466,666,666.63                   CITIBANK, N.A.

By: /s/ Paolo de Alessandrini  
-----  
Vice President

U.S. \$333,333,333.33                   CHEMICAL BANK

By: /s/ Robert C. Kennedy  
-----  
Vice President

U.S. \$333,333,333.33                   CREDIT SUISSE

By: /s/ Robert B. Potter  
-----  
Associate

By: /s/ Carole A. Lustig  
-----  
Associate

U.S. \$250,000,000.00                   MORGAN GUARANTY TRUST  
COMPANY OF NEW YORK.

By: /s/ John A. Payne  
-----  
Managing Director

U.S. \$ 50,000,000.00

J.P. MORGAN DELAWARE

By: /s/ David J. Morris  
-----  
Vice President

64

U.S. \$293,333,333.33

UNION BANK OF SWITZERLAND

By: /s/ Peter B. Yearly  
-----  
Vice President

By: /s/ James P. Kelleher  
-----  
Assistant Treasurer

U.S. \$286,666,666.67

DEUTSCHE BANK AG NEW YORK  
BRANCH AND/OR CAYMAN  
ISLAND BRANCHES

By: /s/ Ross A. Howard  
-----  
Assistant Vice President

By: /s/ Rolf-Peter Mikolayczyk  
-----  
Director

U.S. \$266,666,666.67

ABN AMRO BANK NV, NEW YORK  
BRANCH

By: /s/ Laura G. Fazio  
-----  
Vice President

By: /s/ Margaret P. Hannahoe  
-----  
Assistant Vice President

U.S. \$266,666,666.67

SOCIETE GENERALE

By: /s/ Bruce H. Drossman  
-----  
Vice President

65

U.S. \$240,000,000.00

SWISS BANK CORPORATION,  
NEW YORK AND CAYMAN  
ISLANDS BRANCHES

By: /s/ Marcia L. Thatcher  
-----  
Vice President

By: /s/ Philippe M. Goossens  
-----

Associate Director

U.S. \$230,000,000.00

THE DAI-ICHI KANGYO BANK,  
LTD. - NEW YORK BRANCH

By: /s/ Timothy White  
-----  
Assistant Vice President

U.S. \$226,666,666.67

BANK OF AMERICA NT & SA

By: /s/ John Pocalyko  
-----  
Vice President

U.S. \$226,666,666.67

DRESDNER BANK AG NEW YORK  
AND GRAND CAYMAN BRANCHES

By: /s/ J. Michael Leffler  
-----  
First Vice President

By: /s/ A. Richard Morris  
-----  
Vice President

6277I/105

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U.S. \$213,333,333.33

NATIONSBANK OF NORTH  
CAROLINA, N.A.

By: /s/ Sally L. Hazard  
-----  
Senior Vice President

U.S. \$200,000,000.00

THE SUMITOMO BANK, LIMITED  
NEW YORK BRANCH

By: /s/ Y. Kawamura  
-----  
Joint General Manager

U.S. \$186,666,666.67

BAYERISCHE HYPOTHEKEN - UND  
WECHSEL-BANK, NEW YORK  
BRANCH

By: /s/ E.S. Atwell  
-----  
Assistant Vice President

By: /s/ David Rockwell  
-----  
First Vice President

U.S. \$186,666,666.67

THE CHASE MANHATTAN BANK,  
N.A.

By: /s/ Elyse O'Hora

-----  
Managing Director

U.S. \$186,666,666.67

SANWA BANK LIMITED

By: /s/ Stephen C. Small

-----  
Vice President &  
Area Manager

6277I/105

67

U.S. \$160,000,000.00

CREDIT LYONNAIS  
CAYMAN ISLAND BRANCH

By: /s/ Robert Ivosevich

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Authorized Signatory

CREDIT LYONNAIS  
NEW YORK BRANCH

By: /s/ Robert Ivosevich

-----  
Senior Vice President

U.S. \$150,000,000.00

THE BANK OF TOKYO TRUST  
TRUST CO.

By: /s/ G. Stewart

-----  
Vice President &  
Deputy Manager

U.S. \$150,000,000.00

THE FUJI BANK, LIMITED

By: /s/ Y. Shitsugu

-----  
Vice President & Manager

U.S. \$124,666,666.67

BANQUE NATIONALE DE PARIS  
NEW YORK BRANCH

By: /s/ Pierre-Nicholas Rogers  
-----  
Vice President

By: /s/ Robert S. Taylor, Jr.  
-----  
Senior Vice President

6277I/105

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BANQUE NATIONALE DE PARIS  
GEORGETOWN BRANCH

By: /s/ Pierre-Nicholas Rogers  
-----  
Vice President

By: /s/ Robert S. Taylor, Jr.  
-----  
Senior Vice President

U.S. \$116,666,666.67

MIDLAND BANK PLC

By: /s/ Derek Lunt  
-----  
Corporate Banking Director

U.S. \$106,666,666.67

THE BANK OF NEW YORK

By: /s/ Howard F. Bascom, Jr.  
-----  
Vice President

U.S. \$ 90,000,000.00

MELLON BANK N.A.

By: /s/ Diane P. Durnin  
-----  
Vice President

U.S. \$ 90,000,000.00

THE TORONTO-DOMINION BANK

By: /s/ Lisa Allison  
-----  
Manager  
Credit Administration

6277I/105

U.S. \$ 83,333,333.33

BAYERISCHE LANDESBANK  
GIROZENTRALE

By: /s/ Wilfried Freudenberger  
-----  
Executive Vice President  
and General Manager

By: /s/ Peter Obermann  
-----  
First Vice President  
Manager Corporate Finance

U.S. \$ 83,333,333.33

DEUTSCHE GENOSSENSCHAFTSBANK

By: /s/ Karen A. Brinkman  
-----  
Vice President

By: /s/ John L. Dean  
-----  
Senior Vice President

U.S. \$ 83,333,333.33

ISTITUTO BANCARIO SAN  
PAOLO DI TORINO S.P.A.

By: /s/ W. Jones  
-----  
Vice President

By: /s/ Ettore Viazzo  
-----  
Vice President

U.S. \$ 83,333,333.33

THE SAKURA BANK, LTD.

By: /s/ Y. Terada  
-----  
VP & AGM

6277I/105

U.S. \$ 80,000,000.00

NATIONAL AUSTRALIA BANK  
LIMITED

By: /s/ Robert S. Emerson  
-----

Vice President

U.S. \$ 76,666,666.67

BANQUE PARIBAS

By: /s/ S. Kelly  
-----  
Group Vice President

By: /s/ Mary T. Finnegan  
-----  
Vice President

U.S. \$ 76,666,666.67

CANADIAN IMPERIAL BANK  
COMMERCE

By: /s/ Mary Kate Miller  
-----  
Authorized Signatory

U.S. \$ 76,666,666.67

CONTINENTAL BANK N.A.

By: /s/ Kathryn W. Robinson  
-----  
Vice President

6277I/105

71

U.S. \$ 76,666,666.67

NORDDEUTSCHE LANDESBANK  
GIROZENTRALE NEW YORK  
BRANCH AND/OR CAYMAN ISLAND  
BRANCH

By: /s/ Stephen K. Hunter  
-----  
Senior Vice President

By: /s/ Stephanie Hoevermann  
-----  
Vice President

U.S. \$ 76,666,666.67

RABOBANK NEDERLAND, NEW YORK  
BRANCH

By: /s/ Johannes F. Breukhoven  
-----  
Vice President

By: /s/ Ian Reece  
-----  
Vice President & Manager

U.S. \$ 76,666,666.67

ROYAL BANK OF CANADA

By: /s/ Linda M. Murrer  
-----  
Senior Manager

U.S. \$ 76,666,666.67

WACHOVIA BANK OF GEORGIA,  
N.A.

By: /s/ Linda M. Harris  
-----  
Senior Vice President

6277I/105

72

U.S. \$ 70,000,000.00

THE BANK OF NOVA SCOTIA

By: /s/ John Campbell  
-----  
Vice President & Agent

U.S. \$ 66,666,666.67

BANCA DI ROMA, NEW YORK  
BRANCH

By: /s/ Ralph W. Riehle  
-----  
First Vice President

By: /s/ T. Howell  
-----  
Vice President

U.S. \$ 66,666,666.67

BANK BRUSSELS LAMBERT,  
NEW YORK BRANCH

By: /s/ John Kippax  
-----  
Vice President

By: /s/ Eric Hollanders  
-----  
Senior Vice President  
Credit Department

U.S. \$ 66,666,666.67

THE FIRST NATIONAL BANK OF  
CHICAGO

By: /s/ James W. Peterson  
-----  
Vice President

U.S. \$ 66,666,666.67

FIRST INTERSTATE BANK OF  
CALIFORNIA

By: /s/ Roy H. Roberts  
-----  
Vice President



By: /s/ David E. Grimes  
-----  
Vice President

6277I/105

73

U.S. \$ 66,666,666.67 THE MITSUBISHI BANK, LIMITED  
NEW YORK BRANCH

By: /s/ J. Bruce Meredith  
-----  
Senior Vice President  
and Manager

U.S. \$ 66,666,666.67 THE TOKAI BANK, LIMITED

By: /s/ Masaharu Muto  
-----  
Deputy General Manager

U.S. \$ 66,666,666.67 TRUST COMPANY BANK

By: /s/ Craig W. Farnsworth  
-----  
Vice President

U.S. \$ 66,666,666.67 THE YASUDA TRUST AND  
BANKING COMPANY, LIMITED  
NEW YORK BRANCH

By: /s/ Neil T. Chau  
-----  
Vice President

U.S. \$ 53,333,333.33 DAIWA BANK LIMITED

By: /s/ Masafumi Asai  
-----  
Second Vice President

U.S. \$ 53,333,333.33 DEN DANSKE BANK

By: /s/ Bent V. Christensen  
-----  
Vice President

By: /s/ Peter L. Hargraves  
-----  
Vice President

6277I/105

74

U.S. \$ 53,333,333.33

THE INDUSTRIAL BANK OF  
JAPAN, LIMITED, NEW YORK  
BRANCH

By: /s/ Junri Oda  
-----  
Senior Vice President  
and Senior Manager

U.S. \$ 50,000,000.00

BANCA NAZIONALE DEL LAVORO  
S.P.A. - NEW YORK BRANCH

By: /s/ Giuliano Violetta  
-----  
First Vice President

By: /s/ Giulio Giovine  
-----  
Vice President

U.S. \$ 43,333,333.33

THE FIRST NATIONAL BANK OF  
BOSTON

By: /s/ Ellen H. Allen  
-----  
Director

U.S. \$ 40,000,000.00

COMPAGNIE FINANCIERE DE CIC  
ET DE L'UNION EUROPEENNE

By: /s/ Sean Mounier  
-----  
Vice President

By: /s/ Alain Merle d'Aubigne  
-----  
Vice President

6277I/105

75

U.S. \$ 40,000,000.00

INTERNATIONALE NEDERLANDEN  
BANK N.V., DUBLIN BRANCH

By: /s/ C. Vincent Reilly  
-----  
Senior General Manager

By: /s/ Vaughn Richtor  
-----  
General Manager

U.S. \$ 40,000,000.00

LLOYDS BANK PLC.

By: /s/ T. Walser  
-----

Senior Vice President

By: /s/ Paul Briamonte  
-----  
Vice President

U.S. \$ 34,666,666.67

BANK OF HAWAII

By: /s/ Scott G. Balke  
-----  
Vice President

U.S. \$ 33,333,333.33

BANCA COMMERCIALE  
ITALIANA-NEW YORK BRANCH

By: /s/ J. Mimi Welch  
-----  
Assistant Vice President

By: /s/ Edward C. Bermant  
-----  
First Vice President

6277I/105

76

U.S. \$ 33,333,333.33

BANK OF MONTREAL

By: /s/ Thruston W. Pettus  
-----  
Director

U.S. \$ 33,333,333.33

BANKERS TRUST COMPANY

By: /s/ Priscilla Newbury  
-----  
Vice President

U.S. \$ 33,333,333.33

FIRST BANK NATIONAL  
ASSOCIATION

By: /s/ Mark R. Olmon  
-----  
Vice President

U.S. \$ 33,333,333.33

FIRST FIDELITY BANK, N.A.  
NEW JERSEY

By: /s/ Susan Dimmick  
-----  
Vice President

U.S. \$ 33,333,333.33

FIRST UNION NATIONAL BANK OF  
NORTH CAROLINA

By: /s/ Michael T. Grady  
-----  
Vice President

U.S. \$ 33,333,333.33

GENERALE BANK, NEW YORK  
BRANCH

By: /s/ Alain Verschueren  
-----  
Senior Vice President

By: /s/ Eddie Matthews  
-----  
Senior Vice President

U.S. \$ 33,333,333.33

THE LONG-TERM CREDIT BANK  
OF JAPAN, LIMITED

By: /s/ H. Sasaki  
-----  
Deputy General Manager

U.S. \$ 33,333,333.33

THE MITSUBISHI TRUST AND BANKING  
CORPORATION, LOS ANGELES AGENCY

By: /s/ Takashi Sugita  
-----  
Senior Vice President

U.S. \$ 33,333,333.33

WESTDEUTSCHE LANDESBANK  
GIROZENTRALE, NEW YORK  
AND CAYMAN ISLANDS  
BRANCHES

By:/s/ Roland W. Chalons-Browne  
-----  
Managing Director

By: /s/ Salvatore Battinelli  
-----  
Vice President

U.S. \$ 26,666,666.67

BANCO BILBAO VIZCAYA, S.A.

By: /s/ Adolfo Martinez  
-----  
Vice President -  
Corporate Banking Manager

By: /s/ Ahmad Abouzeid  
-----  
Vice President -

Credit Manager

U.S. \$ 23,333,333.33

CARIPL0 - CASSA DI  
RISPARMIO DELLE PROVINCE  
LOMBARDE S.P.A.

By: /s/ Giuseppe Zanotti-Fregonara  
-----  
Senior Vice President

By: /s/ Charles W. Kennedy  
-----  
Vice President

U.S. \$ 23,333,333.33

THE MITSUI TRUST AND BANKING  
COMPANY LIMITED

By: /s/ Kiichiro Kondo  
-----  
Senior Vice President &  
Manager

U.S. \$ 16,666,666.67

BANCO ESPANOL DE CREDITO, NEW  
YORK BRANCH

By: /s/ Fernando Artaza  
-----  
General Manager

By: /s/ Juan Galan  
-----  
Senior Vice President

6277I/105

79

U.S. \$ 16,666,666.67

CREDIT COMMERCIAL DE FRANCE

By: /s/ Steven Broad  
-----  
Senior Vice President

By: /s/ Kathryn Hudson  
-----  
Assistant Vice President

U.S. \$ 16,666,666.67

FLEET BANK

By: /s/ Deane M. Driscoll  
-----  
Vice President

U.S. \$ 16,666,666.67

THE NORTHERN TRUST COMPANY

By: /s/ Deborah W. Thomas  
-----  
Vice President

U.S. \$ 16,666,666.67

THE ROYAL BANK OF SCOTLAND PLC

By: /s/ David Dougan

-----  
Vice President

U.S. \$ 16,666,666.67

SIGNET BANK /VIRGINIA

By: /s/ J. Charles Link

-----  
Senior Vice President

6277I/105

80

U.S. \$ 16,666,666.67

THE SUMITOMO TRUST & BANKING  
CO., LTD., LOS ANGELES AGENCY

By: /s/ Yutaka Itoh

-----  
Deputy General Manager

U.S. \$ 16,666,666.67

SVENSKA HANDELSBANKEN

By: /s/ Guy Rudberg

-----  
Vice President

By: /s/ Kjell Arvidsson

-----  
Vice President

U.S. \$ 16,666,666.67

THE TOYO TRUST & BANKING CO.,  
LTD.

By: /s/ Tomoshige Kimura

-----  
Vice President

U.S. \$ 16,000,000.00

CRESTAR BANK

By: /s/ Keith Hubbard

-----  
Senior Vice President

U.S. \$ 13,333,333.33

STATE STREET BANK & TRUST CO.

By: /s/ Patrick K. Armstrong

-----  
Vice President

6277I/105

U.S. \$ 7,333,333.33

CENTRAL FIDELITY BANK

By: /s/ Harry A. Turton, Jr.

-----  
Assistant Vice President

U.S. \$ 7,333,333.33

M&amp;I MARSHALL &amp; ILSLEY BANK

By: /s/ Philip M. McGoohan

-----  
Vice President

U.S. \$ 6,666,666.67

FIRSTSTAR BANK MILWAUKEE, N.A.

By: /s/ Thomas A. Rave

-----  
Vice President

6277I/105

## SCHEDULE I

<TABLE> <CAPTION> BANK -----	DOMESTIC LENDING OFFICE -----	CD LENDING OFFICE ----- (IF OTHER THAN DOMESTIC LENDING OFFICE) -----	EURODOLLAR LENDING OFFICE ----- (IF OTHER THAN DOMESTIC LENDING OFFICE) -----
<S> ABN AMRO Bank N.V., New York Branch	<C> Laura Fazio Vice President 500 Park Avenue, 2nd Fl. New York, NY 10022 (212) 832-7129 (Facsimile)	<C>	<C> AMB AMRO Bank N.V. Cayman Islands Branch c/o ABN AMRO Bank N.V. 500 Park Avenue, 2nd Fl. New York, NY 10022 (212) 832-7129 (Facsimile)
Banca Commerciale Italiana- New York Branch	Sarah Kim Assistant Treasurer 1 William Street New York, NY 10004 (212) 809-2124 (Facsimile)		
Banca Nazionale Del Lavoro S.P.A.-New York Branch	Giulio Giovine, V.P. 25 West 51st Street New York, NY 10019 (212) 765-2978 (Facsimile)		
Banca di Roma, New York Branch	Ralph Riehle First Vice President 100 Wall Street New York, NY 10005 (212) 607-6421 (Facsimile)		
Banco Bilbao Vizcaya, S.A.	Juan Urquiola Account Officer 116 East 55th Street New York, NY 10022 (212) 826-3107 (Facsimile)		
Banco Espanol de Credito, New York Branch	Edna S. Difffoot-Cabrera Assistant Treasurer 630 Fifth Ave Suite 514 New York, NY 10111		

(212) 262-3119 (Facsimile)

Bank Brussels Lambert,  
New York Branch

John Kippax  
Vice President  
630 Fifth Avenue  
New York, NY 10111  
(212) 333-5786 (Facsimile)

</TABLE>

2

<TABLE> <CAPTION>	DOMESTIC LENDING OFFICE	CD LENDING OFFICE	EURODOLLAR LENDING OFFICE
BANK	-----	(IF OTHER THAN DOMESTIC LENDING OFFICE)	(IF OTHER THAN DOMESTIC LENDING OFFICE)
<S>	<C>	<C>	<C>
Bank of America NT & SA	Robert Simpson 1850 Gateway Blvd. Concord, CA 94520 (510) 675-7531 (Facsimile)		
Bank of Hawaii	Scott Balke Vice President 130 Merchant Street, 20th FL Honolulu, HI 96846 (808) 537-8301 (Facsimile)		
Bankers Trust Company	Priscilla Newbury Vice President 280 Park Avenue New York, NY 10017 (212) 454-2605 (Facsimile)		
Bank of Montreal	Thruston W. Pettus Director 430 Park Avenue New York, NY 10022 (212) 605-1454 (Facsimile)		
Banque Nationale de Paris New York Branch Banque Nationale de Paris Georgetown Branch	Pierre-Nicholas Rogers Vice President 499 Park Avenue New York, NY 10022 (212) 415-9606 (Facsimile)		Banque Nationale de Paris Georgetown Branch c/o Banque Nationale de Paris New York Branch 499 Park Avenue New York, NY 10022 (212) 415-9695 (Facsimile)
Banque Paribas	Mary T. Finnegan Vice President 787 Seventh Avenue New York, NY 10019 (212) 841-2333 (Facsimile)		Banque Paribas Grand Cayman Branch c/o Banque Paribas NY Park Avenue Plaza New York, NY 10055 (212) 841-2333 (Facsimile)
Bayerische Hypotheken - Und Wechsel-Bank, New York Branch	Steve Atwell, A.V.P. Financial Square 32 Old Slip New York, NY 10005 (212) 440-0741 (Facsimile)		

</TABLE>

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<TABLE> <CAPTION>	DOMESTIC LENDING OFFICE	CD LENDING OFFICE	EURODOLLAR LENDING OFFICE
BANK	-----	(IF OTHER THAN DOMESTIC LENDING OFFICE)	(IF OTHER THAN DOMESTIC LENDING OFFICE)
<S>	<C>	<C>	<C>
Bayerische Landesbank Girozentrale	Joanne Cicino Second Vice President 560 Lexington Ave New York, NY 10022 (212) 310-9865 (Facsimile)		
Canadian Imperial Bank of	Mary Kate Miller		



Commerce	Vice President 425 Lexington Avenue, 6th Fl. New York, NY 10017 (212) 856-3559/3600 (Facsimile)
Cariplo - Cassa di Risparmio Delle Provincie Lombarde S.P.A.	Charles Kennedy Vice President 650 Fifth Avenue New York, NY 10019 (212) 603-7840 (Facsimile)
Central Fidelity Bank	Harry A. Turton, Jr. Central Fidelity Bank Asst. Vice President P.O. Box 27602 Richmond, VA 23261 (804) 697-6869 (Facsimile)
Chemical Bank	Robert P. Kemas Vice President 270 Park Avenue, 9th Fl. New York, NY 10017 (212) 270-7138 (Facsimile)
Compagnie Financiere de CIC et de L'Union Europeene	Sean Mounier Vice President 520 Madison Avenue, 37th Fl. New York, NY 10022 (212) 715-4535 (Facsimile)
Citibank, N.A.	Paolo de Alessandrini 399 Park Avenue 8th Floor New York, NY 10043 (212) 793-3963 (Facsimile)
Continental Bank N.A.	Ken Washington 231 S. LaSalle Street Chicago, IL 60697 (312) 828-5140 (Facsimile)

</TABLE>

<TABLE> <CAPTION> BANK - - - - -	DOMESTIC LENDING OFFICE -----	CD LENDING OFFICE ----- (IF OTHER THAN DOMESTIC LENDING OFFICE) -----	EURODOLLAR LENDING OFFICE ----- (IF OTHER THAN DOMESTIC LENDING OFFICE) -----
<S> Credit Commercial de France	<C> Steven Broad Senior Vice President 450 Park Ave New York, NY 10022 (212) 832-7469 (Facsimile)	<C>	<C>
Credit Lyonnais Cayman Island Branch Credit Lyonnais New York Branch	Robert Bostani Vice President 1301 Avenue of the Americas New York, NY 10019 (212) 459-3179 (Facsimile)		Credit Lyonnais Cayman Island Branch c/o Credit Lyonnais NY Branch 1301 Avenue of the Americas New York, NY 10019 (212) 459-3179
Credit Suisse	Robert B. Potter 12 E. 49th St., 44th FL. New York, NY 10017 (212) 238-5439 (Facsimile)		Credit Suisse Cayman Island Branch c/o Credit Suisse 12 East 49th Street New York, NY 10017 (212) 238-5439
Crestar Bank	Keith A. Hubbard Senior Vice President 919 East Main Street Richmond, VA 23219 (804) 782-5413 (Facsimile)		
Daiwa Bank Limited	Mr. Asai 75 Rockefeller Plaza New York, NY 10019 (212) 554-7210 (Facsimile)		

Den Danske Bank	P. Hargraves Vice President 280 Park Ave New York, NY 10017 (212) 370-9239 (Facsimile)	
Deutsche Bank AG, New York Branch and/or Cayman Island Branches	Rolf-Peter Mikolayczyk Vice President Deutsche Bank AG, New York Branch 31 West 52nd Street New York, NY 10019 (212) 474-8212 (Facsimile)	Rolf-Peter Mikolayczyk Cayman Islands Branch c/o Deutsche Bank AG 31 West 52nd Street New York, NY 10019 (212) 474-8212 (Facsimile)
Deutsche Genossenschaftsbank	Robert B. Herber Vice President 609 Fifth Avenue New York, NY 10017-1021 (212) 745-1556 (Facsimile)	

</TABLE>

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<TABLE> <CAPTION> BANK - - - - -	DOMESTIC LENDING OFFICE -----	CD LENDING OFFICE ----- (IF OTHER THAN DOMESTIC LENDING OFFICE) -----	EURODOLLAR LENDING OFFICE ----- (IF OTHER THAN DOMESTIC LENDING OFFICE) -----
---	----------------------------------	---	---

<S> Dresdner Bank AG New York and Grand Cayman Branches	<C> J. Michael Leffler First Vice President Dresdner Bank AG New York Branch 75 Wall Street New York, NY 10005 (212) 574-0130 (Facsimile)	<C>	<C> Dresdner Bank AG New York or Grand Cayman Branch c/o New York Branch 75 Wall Street New York, NY 10005 (212) 574-0130 (Facsimile)
First Bank National Association	Mark R. Olmon Vice President 601 Second Ave. So. Minneapolis, MN 55602 (612) 973-0825 (Facsimile)		
First Fidelity Bank, N.A. New Jersey	Susan J. Dimmick First Fidelity Bank, N.A. New Jersey 550 Broad Street Newark, NJ 07102 (201) 565-6681 (Facsimile)		
First Interstate Bank of California	Roy Roberts Vice President 885 Third Avenue, 5th Fl. New York, NY 10020 (212) 593-5238 (Facsimile)		
First Union National Bank of North Carolina	Allison Zollicoffer Vice President One First Union Center Charlotte, NC 28202-0745 (704) 374-2802 (Facsimile)		
Firststar Bank Milwaukee, N.A.	Robert A. Flosbach Vice President 777 E. Wisconsin Avenue Milwaukee, WI 53202 (414) 765-5062 (Facsimile)		
Fleet Bank	Deane M. Driscoll Vice President 56 East 42nd St. New York, NY 10017 (212) 907-5633		
Generale Bank, New York Branch	Florence J. Mauchant Vice President 520 Madison Avenue, 41st Fl. New York, NY 10022 (212) 838-7492 (Facsimile)		

</TABLE>

<TABLE> <CAPTION> BANK - - - - -	DOMESTIC LENDING OFFICE -----	CD LENDING OFFICE -----	EURODOLLAR LENDING OFFICE -----
		(IF OTHER THAN DOMESTIC LENDING OFFICE) -----	(IF OTHER THAN DOMESTIC LENDING OFFICE) -----
<S> Istituto Bancario San Paolo di Torino S.P.A.	<C> Wendell H. Jones 245 Park Avenue New York, NY 10167 (212) 599-5303 (Facsimile)	<C>	<C>
Internationale Nederlanden Bank N.V., Dublin Branch	Enda Allen Manager, Financial Services 49 St. Stephen's Green Dublin 2 (3531) 662-1916 (Facsimile)		
Lloyds Bank Plc	Theodore Walser, V.P. 199 Water Street New York, NY 10038 (212) 607-4999 (Facsimile)		
M&I Marshall and Ilsey Bank	Philip M. McGoohan Vice President 770 N. Water Street Milwaukee, WI 53202 (414) 765-7625 (Facsimile)		
Mellon Bank N.A.	Diane P. Durnin Vice President Mellon Bank 65 East 55th Street New York, NY 10022 (212) 702-5269 (Facsimile)		
Midland Bank PLC	Derek Lunt Corporate Banking Dir. Consumer Industries Grp, Corp. & Institutional Banking 27-32 Poultry London EC2P 2BX		
The Mitsui Trust and Banking Company Limited	Gerard Machado Asst. Vice President 1 World Financial Center 200 Liberty Street New York, NY 10281 (212) 945-4171 (Facsimile)		
Morgan Guaranty Trust Company of New York	Charles R. Pardue Vice President 60 Wall Street New York, NY 10260-0060 (212) 648-5018		Morgan Guaranty Trust Company of New York Nassau, Bahamas Office c/o J.P. Morgan Services 500 Stanton Christiana Road Newark, Delaware 19713

&lt;/TABLE&gt;

<TABLE> <CAPTION> BANK - - - - -	DOMESTIC LENDING OFFICE -----	CD LENDING OFFICE -----	EURODOLLAR LENDING OFFICE -----
		(IF OTHER THAN DOMESTIC LENDING OFFICE) -----	(IF OTHER THAN DOMESTIC LENDING OFFICE) -----
<S> J.P. Morgan Delaware	<C> David J. Morris Vice President 902 Market Street Wilmington, DE 19801 (302) 654-5336 (Facsimile)	<C>	<C>
National Australia Bank Limited	Robert S. Emerson Vice President National Australia Bank 200 Park Avenue, 34th Fl.		

	New York, NY 10166 (212) 983-1969 (Facsimile)
NationsBank of North Carolina, N.A.	Lisa McClelland 1 Nationsbank Plaza Mail Code NC 1002-19-21 Charlotte, NC 28255 (704) 386-8694 (Facsimile)
Norddeutsche Landesbank Girozentrale New York Branch and/or Cayman Island Branch	Norddeutsche Landesbank Girozentrale New York Branch Stephanie Hoevermann, A.V.P. 1270 Ave of the Americas New York, NY 10020 (212) 332-8660 (Facsimile)
Rabobank Nederland, New York Branch	Hans F. Breukhoven Vice President 245 Park Avenue New York, NY 10167 (212) 916-7837 (Facsimile)
Royal Bank of Canada	Grand Cayman (North America No. 1) Branch c/o Royal Bank of Canada New York Operations Center Pierrepont Plaza 300 Cadman Plaza West Attn: Manager, Loans Administration (718) 522-6292/3 (Facsimile)
	with a copy to: Linda M. Murrer Senior Manager Financial Square New York, NY 10005-3531 (212) 809-7468 (Facsimile)

</TABLE>

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<TABLE>  
<CAPTION>  
BANK

BANK -----	DOMESTIC LENDING OFFICE -----	CD LENDING OFFICE ----- (IF OTHER THAN DOMESTIC LENDING OFFICE) -----	EURODOLLAR LENDING OFFICE ----- (IF OTHER THAN DOMESTIC LENDING OFFICE) -----
<S> Sanwa Bank Limited	<C> Stephen C. Small Vice President Sanwa Bank Limited 55 East 52nd Street New York, NY 10055 (212) 754-1304 (Facsimile)	<C>	<C>
Signet Bank/Virginia	J. Charles Link Senior Vice President 800 East Main Street Richmond, VA 23219 (804) 771-7151 (Facsimile)		
Societe Generale	Bruce Drossman Societe Generale Vice President 50 Rockefeller Plaza New York, NY 10020 (212) 581-8752 (Facsimile)		
State Street Bank & Trust Co.	Patrick K. Armstrong Vice President 225 Franklin Street Boston, MA 02110 (617) 654-4176 (Facsimile)		
Svenska Handelsbanken	Kjell Arvidsson Vice President 599 Lexington Avenue New York, NY 10022 (212) 326-2725 (Facsimile)		
Swiss Bank Corporation, New York and Cayman Islands	Marcia L. Thatcher Director		

Branches	10 East 50th Street New York, NY 10022 (212) 574-3852 (Facsimile)	
The Bank of New York	Mary Anne Zagroba Vice President The Bank of New York One Wall Street, 8th Fl. (212) 635-1480 (Facsimile)	One Wall Street, 17th Fl. New York, NY 10286 (212) 635-6397/6399 (Facsimile)

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<TABLE> <CAPTION> BANK - - - -	DOMESTIC LENDING OFFICE -----	CD LENDING OFFICE ----- (IF OTHER THAN DOMESTIC LENDING OFFICE) -----	EURODOLLAR LENDING OFFICE ----- (IF OTHER THAN DOMESTIC LENDING OFFICE) -----
---	----------------------------------	---	---

<S> The Bank of Nova Scotia	<C> Walter Jackson Representative One Liberty Plaza, 26th Floor (212) 225-5091 (Facsimile)	<C>	<C> The Bank of Nova Scotia International Limited Bernard Sunley Building Bay Street P.O. Box N7545 Nassau, Bahamas (22) 255-5090
--------------------------------	--	-----	--

The Bank of Tokyo Trust Co.	Jean Reilly Assistant Vice President The Bank of Tokyo 1251 Ave. of the Americas New York, NY 10116-3138 (212) 782-6441 (Facsimile)
-----------------------------	--

The Chase Manhattan Bank, N.A.	Elyse O'Hora Managing Director One Chase Plaza New York, NY 10081 (212) 552-1041 (Facsimile)
--------------------------------	--

The Dai-Ichi Kangyo Bank, Ltd. - New York Branch	Tim White Assistant Vice President The Dai-Ichi Kangyo Bank, Ltd. One World Trade Center 48th Floor New York, NY 10048 (212) 524-0579 (Facsimile)
---	---

The First National Bank of Boston	Cindy Chen Vice President Bank of Boston 100 Federal Street Mail Stop 1-21-3 Boston, MA 02110 (617) 434-0601 (Facsimile)
--------------------------------------	--

The First National Bank of Chicago	Stephen McDonald Vice President 153 West 51st Street Suite 4000, 8th Fl. New York, NY 10019 (212) 373-138- (Facsimile)
---------------------------------------	---

The Fuji Bank, Limited	Masatoshi Abe Assistant Treasurer 2 World Trade Center, 79th Fl. USCF I New York, NY 10048 (212) 321-9407 (Facsimile)
------------------------	--

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<TABLE> <CAPTION> BANK - - - -	DOMESTIC LENDING OFFICE -----	CD LENDING OFFICE ----- (IF OTHER THAN DOMESTIC LENDING OFFICE) -----	EURODOLLAR LENDING OFFICE ----- (IF OTHER THAN DOMESTIC LENDING OFFICE) -----
---	----------------------------------	---	---

<S> The Industrial Bank of Japan, Limited, New York Branch	<C> Hiroshi Masaki, A.V.P. Karel Pravec, Jr., A.V.P. Acquisition Finance Dept. 245 Park Avenue New York, NY 10167 (212) 692-9075 (Facsimile)
The Long-Term Credit Bank of Japan, Limited	Yumiko Noda Vice President & Manager 165 Broadway, 49th Fl. New York, NY 10006 (212) 608-2371 (Facsimile)
The Mitsubishi Bank, Limited New York Branch	J. Bruce Meredith Sr. Vice President 225 Liberty Street Two World Financial Center New York, NY 10281 (212) 667-3562 (Facsimile)
The Mitsubishi Trust and Banking Corporation, Los Angeles Agency	Jill Kato Loan Officer 801 S. Figueroa St. #2400 Los Angeles, CA 90017 (213) 687-4631 (Facsimile)
The Northern Trust Company	Deborah D. Thomas Vice President 50 S. LaSalle Street Chicago, IL 60675 (312) 444-3508 (Facsimile)
The Royal Bank of Scotland plc	D. Dougan Vice President 63 Wall Street New York, NY 10005 (212) 269-8929 (Facsimile)
The Sakura Bank, Ltd.	Yoshokazu Nagura VP and Manager 277 Park Avenue New York, NY 10172 (212) 888-7651 (Facsimile)

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<C>	-----	<C>
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</TABLE>

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<TABLE> <CAPTION> BANK - - - - -	DOMESTIC LENDING OFFICE -----	CD LENDING OFFICE ----- (IF OTHER THAN DOMESTIC ----- LENDING OFFICE) -----	EURODOLLAR LENDING OFFICE ----- (IF OTHER THAN DOMESTIC ----- LENDING OFFICE) -----
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<S> The Sumitomo Bank, Limited New York Branch	<C> Harry Musakawi AT One World Trade Center Suite 9651 New York, NY 10048 (212) 553-0118 (Facsimile)
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<C>	-----	<C>
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The Sumitomo Trust & Banking Co., LTD., Los Angeles Agency	Karen Ryan Assistant Vice President 333 So. Grand Avenue Suite 5300 Los Angeles, CA 90071 (213) 613-1083 (Facsimile)
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The Tokai Bank, Limited	William Strackell Vice President 55 East 52nd Street Park Avenue Plaza New York, NY 10055 (212) 754-2171 (Facsimile)
-------------------------	---

The Toronto-Dominion Bank	Eric I. Skilling Director, Corporate Accounts The Toronto-Dominion Bank 31 West 52nd Street
---------------------------	--

The Toronto-Dominion Bank 909 Fannin, Suite 1700 Houston, Texas 77010
---

The Toyo Trust & Banking Co., Ltd. Gregory W. Blaszczyński  
Assistant Treasurer  
The Toyo Trust & Banking  
Co., Ltd.  
437 Madison Avenue - 37th Flr.  
New York, NY 10027  
(212) 371-4963 (Facsimile)

Trust Company Bank Craig W. Farnsworth  
Vice President  
711 5th Avenue, 5th Fl.  
New York, NY 10023  
(212) 371-9386 (Facsimile)

Union Bank of Switzerland Peter B. Yearley  
Corporate & Institutional  
Banking  
299 Park Avenue  
New York, NY 10171  
(212) 821-3383 (Facsimile)

</TABLE>

<TABLE>  
<CAPTION>

BANK	DOMESTIC LENDING OFFICE	CD LENDING OFFICE	EURODOLLAR LENDING OFFICE
-----	-----	-----	-----
		(IF OTHER THAN DOMESTIC LENDING OFFICE)	(IF OTHER THAN DOMESTIC LENDING OFFICE)
		-----	-----

<S>	<C>	<C>	<C>
Wachovia Bank of Georgia, N.A.	Ms. Sandy MacQuarrie Vice President 191 Peachtree Street Atlanta, GA 30303 (404) 332-6898 (Facsimile)		

Westdeutsche Landesbank Girozentrale, New York and Cayman Islands Branches	Robert R. Wieszarek, II Associate 1211 Avenue of the Americas 23rd Floor New York, NY 10036 (212) 852-6107 (Facsimile)		
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The Yasuda Trust & Banking Co., Limited, New York Branch	Neil T. Chau Vice President 666 Fifth Avenue New York, NY 10103 (212) 373-5796 (Facsimile)		
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EXHIBIT A

FORM OF B NOTE

\$ \_\_\_\_\_ Dated: \_\_\_\_\_, 19\_\_

FOR VALUE RECEIVED, the undersigned, [Name of Borrower] (the "Borrower"), HEREBY PROMISES TO PAY to the order of [Name of Lender] (the "Lender"), on \_\_\_\_\_, 19\_\_ the principal amount of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_).

The Borrower promises to pay interest on the unpaid principal amount thereof from the date hereof until such principal amount is repaid in full, at the interest rate and payable on the interest payment date or dates provided below:

Interest Rate: \_\_\_\_\_% per annum (calculated on the basis of a year of 360 days for the actual number of days elapsed).

Interest Payment Date or Dates: \_\_\_\_\_.

Both principal and interest are payable in lawful money of the United States of America to Citibank, N.A. for the

account of the Lender at the office of Citibank, N.A. at One Court Square, Long Island City, New York 11120, United States of America, in same day funds, free and clear of and without any deduction, with respect to the payee named above, for any and all present and future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding any taxes imposed by the United States by -----

means of withholding tax if and to the extent that such taxes shall be in effect and shall be applicable, on the date hereof, to payments to be made by the Borrower hereon.

This Promissory Note is one of the B Notes referred to in, and is entitled to the benefits of, the 5-Year Loan and Guaranty Agreement dated as of December 17, 1993 (the "5-Year Agreement") among PM Companies, the Lender and certain other lenders parties thereto, and Citibank, N.A., as Agent for the Lender and such other lenders. The 5-Year Agreement, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events.

The Borrower hereby waives presentment, demand, protest and notice of any kind. No failure to exercise, and no delay in exercising, any rights hereunder on the part of the holder hereof shall operate as a waiver of such rights.

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This Promissory Note shall be governed by, and construed in accordance with, the laws of the State of New York, United States.

[Name of Borrower]

By: \_\_\_\_\_  
Title:



GUARANTY

(Only for B Notes issues by a Borrower other than  
PM Companies)

SECTION 1. Guaranty. The undersigned, PHILIP MORRIS

-----  
COMPANIES INC., a Virginia corporation (the "Guarantor"), hereby unconditionally and irrevocably guarantees the punctual payment when due of all obligations of the Borrower under the above Promissory Note (the "Note") (such obligations being the "Obligations"), and any and all expenses (including counsel fees and expenses) incurred by the holder of the Note in enforcing any rights under the Note or this Guaranty.

SECTION 2. Guaranty Absolute. The Guarantor

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guarantees that the Obligations will be paid strictly in accordance with the terms of the Note, regardless of any law, rule, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the holder of the Note with respect thereto. The liability of the Guarantor under this Guaranty shall be absolute and unconditional irrespective of (i) any law of validity, enforceability or genuineness of the Note or any other agreement or instrument relating thereto; (ii) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to departure from the Note; (iii) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any other guaranty, for all or any of the Obligations; or (iv) any other circumstance which might otherwise constitute a defense available to, or a discharge of, the Borrower or a guarantor.

This Guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Obligations is rescinded or must otherwise be returned by the Lender upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, all as though such payment has not been made.

SECTION 3. Waiver. (a) The Guarantor hereby waives

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promptness, diligence, notice of acceptance and any other notice with respect to any of the Obligations and this Guaranty and any requirement that the holder of the Note protect, secure, perfect or insure any security interest or lien or any property subject thereto or exhaust any right of

take any action against the Borrower or any other person or entity or any collateral.

(b) The Guarantor hereby irrevocably waives any claims or other rights that it may now or hereafter acquire against the Borrower that arise from the existence, payment, performance or enforcement of the Guarantor's obligations under this Guaranty or this Note; including, without limitation, the right to take or receive from the Borrower, directly or indirectly, in cash or other property or by set-off or in any other manner, payment or security on account of such claim, remedy or right. If any amount shall be paid to the Guarantor in violation of the preceding sentence at any time prior to the cash payment in full of the Obligations, such amount shall be held in trust for the benefit of the holder of this Note and shall forthwith be paid to the holder of this Note to be credited and applied to the Obligations and all other amounts payable under this Guaranty, whether matured or unmatured, in accordance with the terms of this Note and this Guaranty, or to be held as collateral for any Obligations or other amounts payable under this Guaranty thereafter arising. The Guarantor acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by this Note and this Guaranty and that the waiver set forth in this subsection is knowingly made in contemplation of such benefits.

SECTION 4. Payments Free and Clear of Taxes, Etc.  
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Any and all payments made by the Guarantor hereunder to the payee named in the Note shall be made in accordance with the Note free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding taxes imposed by the United States by means of withholding tax if and to the extent that such taxes shall be in effect and shall be applicable, on the date hereof, to payments to be made by the Guarantor herein.

SECTION 5. No Waiver. No failure to exercise, and no  
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delay in exercising, any right hereunder on the part of the holder of the Note shall operate as a waiver of such rights; nor shall any single or partial exercise of any right hereunder, preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

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SECTION 6. Continuous Guaranty; Transfer of Note.  
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This Guaranty is a continuing guaranty and shall (i) remain in full force and effect until payment in full of the Obligations and all other amounts payable under this Guaranty, (ii) be binding upon the Guarantor, its successors and assigns, and (iii) inure to the benefit of and be enforceable by the Lender and its successors, transferees and assigns. Without limiting the generality of the foregoing clause (iii), the Lender may assign or otherwise transfer the Note to any other person or entity, and such other person or entity shall thereupon become vested with all the rights in respect thereof granted to the Lender herein or otherwise.

This Guaranty shall be governed by, and construed in accordance with, the laws of the State of New York, United States.

IN WITNESS WHEREOF, the Guarantor has caused this Guaranty to be executed by its officer thereunto duly authorized on the date first above written.

By \_\_\_\_\_  
Title

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EXHIBIT B-1

NOTICE OF A BORROWING

Citibank, N.A., as Agent  
for the Lenders parties  
to the 5-Year Agreement  
referred to below  
One Court Square  
Long Island City, New York 11120

[Date]

Attention:

Gentlemen:

The undersigned, Philip Morris Companies Inc., refers to the 5-Year Loan and Guaranty Agreement, dated as of December 17, 1993 (the "5-Year Agreement", the terms defined therein being used herein as therein defined), among Philip Morris Companies Inc., certain lenders parties thereto and Citibank, N.A., as Agent for said Lenders, and hereby gives you notice, irrevocably, pursuant to Section 2.02 of the 5-Year Agreement that the undersigned hereby requests an A Borrowing under the 5-Year Agreement, and in that connection sets forth below the information relating to such A Borrowing (the "Proposed A Borrowing") as required by Section 2.02(a) of the 5-Year Agreement:

(i) The Business Day of the Proposed A Borrowing is \_\_\_\_\_, 199\_\_.

(ii) The Type of A Advances comprising the Proposed A Borrowing is [Adjusted CD Rate Advances] [Base Rate Advances] [Eurodollar Rate Advances].

(iii) The aggregate amount of the Proposed A Borrowing is \$\_\_\_\_\_.

(iv) The Interest Period for each A Advance made as

part of the Proposed A Borrowing is [ \_\_\_\_\_ days]  
[ \_\_\_\_\_ month[s]].

(v) The name of the Borrower is \_\_\_\_\_.

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The undersigned hereby certifies that the following statements will be true on the date of the Proposed A Borrowing, before and after giving effect thereto and to the application of the proceeds therefrom: (a) the representations and warranties contained in Section 4.01 of the 5-Year Agreement (excluding those contained in subsections (e) and (f) thereof) and, if the Borrower is a subsidiary of PM Companies, Section 9.01(b) of the 5-Year Agreement are correct on and as of such date as though made on and as of such date, (b) no event has occurred and is continuing, or would result from the Proposed A Borrowing, which constitutes an Event of Default or would constitute an Event of Default but for the requirement that notice be given or time elapse or both, (c) if such Proposed A Borrowing is in an aggregate principal amount equal to or greater than \$500,000,000 and is being made in connection with any purchase of shares of the Borrower's or the Guarantor's capital stock or the capital stock of any other Person, or any purchase of all or substantially all of the assets of any Person (whether in one transaction or a series of transactions) or any transaction of the type referred to in Section 5.02(b) of the 5-Year Agreement, the statements in (a) and (b) above will be true and correct after giving effect to such transaction or purchase, and (d) the aggregate principal amount of the Proposed A Borrowing and all other Borrowings to be made on the same day under the 5-Year Agreement is within the applicable unused Commitments of the Lenders.

Very truly yours,

PHILIP MORRIS COMPANIES, INC.

By: \_\_\_\_\_  
Title:

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EXHIBIT B-2

FORM OF NOTICE OF B BORROWING

Citibank, N.A., as Agent  
for the Lenders parties  
to the 5-Year Agreement  
referred to below  
One Court Square  
Long Island City, New York 11120

Attention:

Gentlemen:

The undersigned, Philip Morris Companies Inc., refers to the 5-Year Loan and Guaranty Agreement, dated as of December 17, 1993 (the "5-Year Agreement"; the terms defined therein being used herein as therein defined), among PM Companies, certain lenders parties thereto (the "Lenders") and Citibank, N.A., as Agent for the Lenders, and hereby gives you notice pursuant to Section 2.03 of the 5-Year Agreement that the undersigned hereby requests a B Borrowing under the 5-Year Agreement, and in that connection sets forth the terms on which such B Borrowing (the "Proposed B Borrowing") is requested to be made:

- (A) Date of B Borrowing \_\_\_\_\_
- (B) Amount of B Borrowing \_\_\_\_\_
- (C) Maturity Date \_\_\_\_\_
- (D) Interest Rate Basis \_\_\_\_\_
- (E) Interest Payment Date(s) \_\_\_\_\_
- (F) Name of Borrower \_\_\_\_\_

The undersigned hereby certifies that the following statements will be true on the date of the Proposed B Borrowing, before and after giving effect thereto and to the application of the proceeds therefrom: (a) the representations and warranties contained in Section 4.01 of the 5-Year Agreement and, if the Borrower is a subsidiary of PM Companies, Section 9.01(b) of the 5-Year Agreement are correct on and as of such date as though made on and as of such date, (b) no event has occurred and is continuing, or would result from the Proposed B Borrowing, which constitutes an Event of Default or would constitute an Event of Default but for the requirement that notice be given or time elapse or both, and (c) the aggregate principal amount of the Proposed B Borrowing and all other Borrowings to be made on the same day under the 5-Year Agreement is within the applicable unused Commitments of the Lenders.

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The undersigned hereby confirms that you are to make the Proposed B Borrowing available to us in accordance with Section 2.03(a)(v) of the 5-Year Agreement by crediting the amount of the Proposed B Borrowing to [be provided].

Dated: \_\_\_\_\_, 19\_\_

Very truly yours,

PHILIP MORRIS COMPANIES INC.

By: \_\_\_\_\_  
Title:

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EXHIBIT C  
ASSIGNMENT AND ACCEPTANCE

Dated \_\_\_\_\_, 199\_

Reference is made to the 5-Year Loan and Guaranty Agreement dated as of December 17, 1993 (the "5-Year Agreement") among Philip Morris Companies Inc., a Virginia corporation, the Lenders (as defined in the 5-Year Agreement) and Citibank, N.A., as Agent for the Lenders (the "Agent"). Terms defined in the 5-Year Agreement are used herein with the same meaning.

\_\_\_\_\_ (the "Assignor") and \_\_\_\_\_ (the "Assignee") agree as follows:

1. The Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, the percentage interest specified on Schedule 1 hereto in and to all (other than any B Advances owing to the Assignor or any B Notes held by it) of the Assignor's rights and objections under the 5-Year Agreement as of the date hereof (after giving effect to any other assignments thereof made prior to the date hereof, whether or not such assignments have become effective, but without giving effect to any other assignments thereof also made on the date hereof), including, without limitation, such percentage interest in the Assignor's Commitment and the A Advances owing to the Assignor.

2. The Assignor (i) represents and warrants that as of the date hereof its Commitment (after giving effect to other assignments thereof made prior to the date hereof, whether or not such assignments have become effective, but without giving effect to any other assignments thereof also made on the date hereof) is in the dollar amount specified as the Assignor's Commitment on Schedule 1 hereto and the aggregate outstanding principal amount of Advances owing to it (after giving effect to any other assignments thereof made prior to the date hereof, whether or not such assignments have become effective, but without giving effect to any other assignments thereof also made on the date hereof) is in the dollar amount specified as the aggregate outstanding principal amount of Advances owing to the Assignor on Schedule 1 hereto; (ii) represents and warrants that it is the legal and beneficial owner of the

interest being assigned by it hereunder and that such interest is free

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and clear of any adverse claim; (iii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the 5-Year Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the 5-Year Agreement or any other instrument or document furnished pursuant thereto; and (iv) makes no representation or warranty and assumes no responsibility with respect to the financial condition of PM Companies or any Borrower or the performance or observance by PM Companies or any Borrower of any of their obligations under the 5-Year Agreement or any other instrument or document furnished pursuant thereto.

3. The Assignee (i) confirms that it has received a copy of the 5-Year Agreement, together with copies of the financial statements referred to in Section 4.01 thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Agreement and Acceptance; (ii) agrees that it will, independently and without reliance upon the Agent, the Assignor or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the 5-Year Agreement; (iii) confirms that it is an Eligible Assignee; (iv) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the 5-Year Agreement as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto; (v) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the 5-Year Agreement are required to be performed by it as a Lender; [and] (vi) specifies as its CD Lending Office, Domestic Lending Office (and address for notices) and Eurodollar Lending Office the offices set forth beneath its name on the signature pages hereof [and (vii) attaches the forms prescribed by the Internal Revenue Service of the United States certifying as to the Assignee's status for purposes of determining exemption from United States withholding taxes with respect to all payments to be made to the Assignee under the 5-Year Agreement or such other documents as are necessary to indicate that all such payments are subject to such rates at a rate reduced by an applicable tax treaty].\*

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\* If the Assignee is organized under the laws of a jurisdiction outside the United States.

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4. Following the execution of this Assignment and Acceptance by the Assignor and the Assignee, it will be delivered to the Agent for acceptance and recording by the

Agent. The effective date for this Assignment and Acceptance shall be the date of acceptance thereof by the Agent, unless otherwise specified on Schedule 1 hereto (the "Effective Date").

5. Upon such acceptance and recording by the Agent, as of the Effective Date, (i) the Assignee shall be a party to the 5-Year Agreement and, to the extent provided in this Assignment and Acceptance, have the rights and obligations of a Lender thereunder and (ii) the Assignor shall, to the extent provided in this Assignment and Acceptance, relinquish its rights and be released from its obligations under the 5-Year Agreement.

6. Upon such acceptance and recording by the Agent, from and after the Effective Date, the Agent shall make all payments under the 5-Year Agreement in respect of the interest assigned hereby (including, without limitation, all payments of principal, interest and fees with respect thereto) to the Assignee. The Assignor and the Assignee shall make all appropriate adjustments in payments under the 5-Year Agreement for periods prior to the Effective Date directly between themselves.

7. This Assignment and Acceptance shall be governed by, and construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Assignment and Acceptance to be executed by their respective officers thereunto duly authorized, as of the date first above written, such execution being made on Schedule 1 hereto.

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Schedule I  
to  
Assignment and Acceptance

Dated \_\_\_\_\_ 19\_\_

Section 1.  
-----

Percentage Interest \_\_\_\_\_ %

Section 2.  
-----

Assignor's Commitment: \$ \_\_\_\_\_  
Aggregate Outstanding Principal  
Amount of Advances owing to the Assignor: \$ \_\_\_\_\_

Section 3.  
-----

Effective Date\*: \_\_\_\_\_, 19\_\_

[NAME OF ASSIGNOR]

By: \_\_\_\_\_  
Title:



[NAME OF ASSIGNEE]

By: \_\_\_\_\_  
Title:

CD Lending Office:  
[Address]

\* This date should be no earlier than the date of acceptance  
by the Agent.

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Domestic Lending Office  
(and address for notices):  
[Address]

Eurodollar Lending Office:  
[Address]

Accepted this \_\_\_\_ day  
of \_\_\_\_\_, 19\_\_

CITIBANK, N.A.

By: \_\_\_\_\_  
Title:

EXHIBIT D

[Form of Opinion of Counsel for Philip Morris Companies Inc.]

[Date of initial Borrowing]

To each of the Lenders parties  
to the 5-Year Loan and Guaranty  
Agreement dated as of  
December 17, 1993 among  
Philip Morris Companies Inc.,  
said Lenders and Citibank, N.A.,  
as Agent, and to Citibank, N.A.,  
as Agent

Philip Morris Companies Inc.  
-----

Gentlemen:

This opinion is furnished to you pursuant to Section 3.01(c) of the 5-Year Loan and Guaranty Agreement dated as of December 17, 1993 (the "5-Year Agreement") among Philip Morris Companies Inc. ("PM Companies"), the Lenders parties thereto and Citibank, N.A., as Agent for said Lenders. Unless otherwise defined herein, terms defined in the 5-Year Agreement are used herein as therein defined.

We have acted as counsel for PM Companies and its subsidiaries [, including \_\_\_\_\_ (the "Borrower"),] in connection with the preparation, execution and delivery of, and the initial Borrowing made under, the 5-Year Agreement.

In that connection we have examined:

- (1) The 5-Year Agreement.
- (2) The documents furnished by PM Companies [and the Borrower] pursuant to Article III of the 5-Year Agreement.
- (3) The [Articles] [Certificate] of Incorporation of PM Companies [and the Borrower] and all amendments thereto (the "Charter[s]").
- (4) The by-laws of PM Companies [and the Borrower] and all amendments thereto (the "By-laws").

We have also examined the originals, or copies certified to our satisfaction, of such corporate records of PM Companies [and the Borrower], certificates of public officials and of officers of PM Companies [and the Borrower], and agreements, instruments and documents, as we have deemed necessary as a basis for the

opinions hereinafter expressed. As to questions of fact material to such opinions, we have, when relevant facts were not independently established by us, relied upon certificates of PM Companies [and the Borrower] or their [respective] officers or of public officials. We have assumed the due execution and delivery, pursuant to due authorization, of the 5-Year Agreement by the Lenders parties thereto and the Agent.

Based upon the foregoing and upon such investigation as we have deemed necessary, we are of the following opinion:

1. PM Companies is a corporation duly organized, validly existing and in good standing under the laws of Virginia. [The Borrower is a corporation duly organized, validly existing and in good standing under the laws of \_\_\_\_\_.]

2. The execution, delivery and performance by PM Companies of the 5-Year Agreement [and the B Notes] are within PM Companies' corporate powers,\* have been duly authorized by all necessary corporate action, and do not contravene (i) the Charter[s] or the By-laws or (ii) any law, rule or regulation applicable to PM Companies [or the Borrower] (including, without limitation, Regulation X of the Federal Reserve Board) or (iii) to the best of our knowledge, any contractual or legal restriction binding on or affecting PM Companies [or the Borrower]. The B Notes have been duly executed and delivered on behalf of [PM Companies] [the Borrower] [,] [and] the 5-Year Agreement [has] [and the guaranties endorsed on the B Notes have] been duly executed and delivered on behalf of PM Companies [and the Notice of Acceptance of the Borrower has been duly executed and delivered on behalf of the Borrower].

\* If a subsidiary is the Borrower, "The execution, delivery and performance by PM Companies of the 5-Year Agreement [and the guaranties endorsed on the B Notes], and by the Borrower of its Notice of Acceptance [and the B Notes], are within PM Companies' and the Borrower's corporate powers".

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3. No authorization, approval, or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by PM Companies of the 5-Year Agreement [or the B Notes] [or the guaranties endorsed on the B Notes] [or by the Borrower of its Notice of Acceptance or the B Notes to be executed and delivered on its behalf].

4. The 5-Year Agreement is the legal, valid and binding obligation of PM Companies enforceable against PM Companies in accordance with its terms. [The B Notes issued on the date hereof [and the guaranties endorsed thereon] are the legal, valid and binding obligations of [PM Companies] [the Borrower] [the Borrower and PM Companies, respectively,] enforceable against [PM Companies] [the Borrower] [the Borrower and PM Companies, respectively,] in accordance with their respective terms.]

5. Except as disclosed in the Form 10-K of Philip Morris for the fiscal year ended December 31, 1992, there is, to the best of our knowledge, no pending or threatened action or proceeding against PM Companies [or the Borrower] or any of [its] [their] subsidiaries before any court, governmental agency or arbitrator which is likely to have a material adverse effect upon the financial condition or

operations of PM Companies and its subsidiaries taken as a whole.

6. PM Companies directly or indirectly owns 100% of the capital stock of [the Borrower and of] Philip Morris.

The opinions set forth above are subject to the following qualifications:

(a) Our opinion in paragraph 4 above is subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally.

(b) Our opinion in paragraph 4 above is subject to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Very truly yours,

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EXHIBIT E

[Form of Opinion of Special Counsel for the Agent]

[Date of initial Borrowing]

To the Banks listed on  
Exhibit A hereto and  
to Citibank, N.A.,  
as Agent

Philip Morris Companies Inc.  
-----

Gentlemen:

We have acted as special New York counsel to Citibank, N.A., acting for itself and as Agent, in connection with the preparation, execution and delivery of, and the initial Borrowing made under, the 5-Year Loan and Guaranty Agreement dated as of December 17, 1993 (the "5-Year Agreement") among Philip Morris Companies Inc. and each of you. Unless otherwise defined herein, terms defined in the 5-Year Agreement are used herein as therein defined.

In that connection, we have examined the following documents:

(1) A counterpart of the 5-Year Agreement, executed by each of the parties thereto.

(2) The documents furnished pursuant to Article III of the 5-Year Agreement and listed on Exhibit B hereto, including the opinion of Hunton & Williams, counsel for PM Companies and its subsidiaries.

In our examination of the documents referred to above, we have assumed the authenticity of all such documents submitted to us as originals, the genuineness of all signatures, the due authority of the parties executing such documents, and the conformity to the originals of all such documents submitted to us as copies. We have also assumed that each of the Banks parties to the 5-Year Agreement and the Agent has duly executed and delivered, with all necessary power and authority (corporate and otherwise), the 5-Year Agreement.

To the extent that our opinions expressed below involve conclusions as to the matters set forth in paragraphs 1, 2, 3 and 6 of the above-mentioned opinion of Hunton & Williams, we have assumed without independent investigation the correctness of the matters set forth in such paragraphs, our opinion being subject to the assumptions, qualifications and limitations set forth in such opinion of Hunton & Williams with respect thereto.

Based upon the foregoing examination of documents and assumptions and upon such other investigation as we have deemed necessary, we are of the following opinion:

1. The 5-Year Agreement is, and the guaranties endorsed on the B Notes when delivered under the Loan Agreement will be, the legal, valid and binding obligation of PM Companies enforceable against PM Companies in accordance with its terms.

2. The B Notes of [PM Companies] [\_\_\_\_\_] (the "Borrower"), if any, issued on the date hereof are the legal, valid and binding obligations of [PM Companies] [the Borrower] enforceable against [PM Companies] [the Borrower] in accordance with their respective terms.

3. The opinion of Hunton & Williams, counsel for PM Companies and its subsidiaries, and the other documents referred to in item (2) above are substantially responsive to the requirements of the 5-Year Agreement.

Our opinions in paragraphs 1 and 2 above are subject to the following qualifications:

(a) Our opinions in paragraphs 1 and 2 above are subject to the effect of general principles of equity including (without limitation) concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law). Further, pursuant to such equitable principles, (i) Section 8.02 of the 5-Year Agreement, which Section provides that the Guarantor's liability thereunder shall not be affected by changes in or amendments to the 5-Year Agreement, and (ii) Section 2 of the guaranty endorsed on the B Notes, which Section provides that the Guarantor's liability thereunder shall not be affected by changes in or amendments to the B Notes, might be enforceable only to the extent that such changes or amendments were not so material as to constitute a new contract among the parties.

(b) Our opinions in paragraphs 1 and 2 above are also subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally.

(c) Our opinions expressed above are limited to the law of the State of New York and the Federal law of the United States, and we do not express any opinion herein concerning any other law. Without limiting the generality of the foregoing, we express no opinion as to the effect of the law of any jurisdiction other than the State of New York wherein any Lender may be located or wherein enforcement of the 5-Year Agreement or the B Notes may be sought which limits the rates of interest legally chargeable or collectible.

Very truly yours,

SHEARMAN & STERLING

6353I/105

EXHIBIT A

to the Opinion dated \_\_\_\_\_, 1991  
of Shearman & Sterling

Banks  
-----

6353I/105

EXHIBIT B

to the Opinion dated \_\_\_\_\_, 1991  
of Shearman & Sterling

Documents  
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EXHIBIT F

NOTICE OF ACCEPTANCE

Dated \_\_\_\_\_, 199\_

The undersigned, \_\_\_\_\_, a \_\_\_\_\_ corporation and a subsidiary of PM Companies (as defined below) (the "Subsidiary"), hereby:

1. Confirms that this Notice of Acceptance is being delivered pursuant to Section 9.01 of that certain 5-Year Loan and Guaranty Agreement dated as of December 17, 1993 (the "5-Year Agreement", terms defined therein being used herein with the same meaning), among Philip Morris Companies Inc. ("PM Companies"), the lenders parties thereto (the "Lenders") and Citibank, N.A., as agent for the Lenders (the "Agent").

2. States that the Subsidiary desires to become a "Borrower" under the Agreement and agrees to be bound by the terms and provisions of the 5-Year Agreement as a "Borrower" thereunder.

3. Represents and warrants as follows:

(a) The Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of \_\_\_\_\_.

(b) The execution, delivery and performance by the Subsidiary of the B Notes, if any, executed and delivered and to be executed and delivered by it, the 5-Year Agreement and this Notice of Acceptance are within the Subsidiary's corporate powers, have been duly authorized by all necessary corporate action, and do not contravene (i) the Subsidiary's charter or by-laws or (ii) any law, rule, regulation or order of any court or governmental agency or any contractual restriction binding on or affecting the Subsidiary.

(c) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by the Subsidiary of the B Notes executed and delivered and to be executed and delivered by it, the 5-Year Agreement or this Notice of Acceptance.

(d) The 5-Year Agreement is, and the B Notes of such Subsidiary if delivered under the 5-Year Agreement will be, the legal, valid and binding obligations of the Subsidiary enforceable against the Subsidiary in accordance with their terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting



creditors' rights generally and to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(e) There is no pending or threatened action or proceeding affecting the Subsidiary or any of its subsidiaries before any court, governmental agency or arbitrator which purports to affect the legality, validity or enforceability of the 5-Year Agreement or any Note.

(f) PM Companies owns directly or indirectly 100% of the capital stock of the Subsidiary.

4. Delivers with this Notice of Acceptance an opinion of counsel for PM Companies, pursuant to Section 9.01(b) of the Agreement, in the form of Schedule 1 hereto.

[(Name of Borrower)]

-----

By \_\_\_\_\_  
Title:

The undersigned, as Guarantor under the Agreement, hereby confirms and agrees to the foregoing Notice of Acceptance pursuant to Section 9.01(a) of the Agreement.

PHILIP MORRIS COMPANIES INC.

By \_\_\_\_\_  
Title:

6353I/105

Schedule 1  
to  
Notice of Acceptance

[OPINION OF COUNSEL FOR PM COMPANIES]

[Date of Notice of Acceptance]

To each of the Lenders parties  
to the 5-Year Loan and Guaranty  
Agreement dated as of December 17,  
1993 among Philip Morris Companies  
Inc., said Lenders and Citibank, N.A.,  
as Agent, and to Citibank, N.A., as  
Agent

Philip Morris Companies Inc.  
-----

Gentlemen:

This opinion is furnished to you pursuant to Section 9.01(b) of the 5-Year Loan and Guaranty Agreement, dated as of December 17, 1993 (the "5-Year Agreement"), among Philip Morris Companies Inc. ("PM Companies"), the Lenders parties thereto and Citibank, N.A., as Agent for said Lenders. Unless otherwise defined herein, terms defined in the 5-Year Agreement are used herein as therein defined.

We have acted as counsel for PM Companies and its subsidiary, \_\_\_\_\_ (the "Subsidiary"), in connection with the preparation, execution and delivery of the Notice of Acceptance by the Subsidiary delivered pursuant to Section 9.01 of the 5-Year Agreement.

In that connection, we have examined the 5-Year Agreement, the B Notes, if any, to be executed and delivered by the Subsidiary and such other agreements, instruments and documents as we have deemed necessary as a basis for the opinion expressed below. As to questions of fact material to such opinion, we have, when relevant facts were not independently established by us, relied upon certificates of PM Companies and the Subsidiary or their respective officers or of public officials. We have assumed the due execution and delivery, pursuant to due authorization, of the 5-Year Agreement by the Lenders parties thereto and the Agent.

6353I/105

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Based upon the foregoing and upon such investigation as we have deemed necessary, we are of the opinion that the 5-Year Agreement is, and the B Notes of the Subsidiary if delivered under the 5-Year Agreement will be, the legal, valid and binding obligations of the Subsidiary enforceable against the Subsidiary in accordance with their respective terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally and to the effect of general principles of equity, including (without limitation) concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Very truly yours,



U.S. \$4,000,000,000

364-DAY LOAN AND GUARANTY AGREEMENT

Dated as of December 17, 1993

among

PHILIP MORRIS COMPANIES INC.

and

THE BANKS NAMED HEREIN

and

CITIBANK, N.A.

as Agent

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(i)

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364-DAY LOAN AND GUARANTY AGREEMENT

Dated as of December 17, 1993

PHILIP MORRIS COMPANIES INC., a Virginia corporation ("PM Companies"), the banks (the "Banks") listed on the signature pages hereof, and CITIBANK, N.A. ("Citibank"), as agent (the "Agent") for the Lenders hereunder, agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.01. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"A Advance" means an advance by a Lender to a Borrower

as part of an A Borrowing by such Borrower consisting of A Advances of the same Type from each of the Lenders pursuant to Section 2.01 and refers to a Base Rate Advance, an Adjusted CD Rate Advance or a Eurodollar Rate Advance, each of which shall be a Type of A Advance.

"A Borrowing" means a borrowing consisting of

simultaneous A Advances of the same Type from each of the Lenders to a Borrower pursuant to Section 2.01.

"Adjusted CD Rate" means, for the Interest Period for

each Adjusted CD Rate Advance comprising part of the same A Borrowing, an interest rate per annum equal to the sum of:

- (a) the rate per annum obtained by dividing (i) the rate of interest determined by the Agent to be the average (rounded upward to the nearest whole multiple of 1/100 of 1% per annum, if such average is not such a multiple) of the consensus bid rate determined by each of the Reference Banks for the bid rates per annum, at 9:00 A.M. (New York City time) (or as soon thereafter as practicable) on the first day of such Interest Period, of New York certificate of deposit dealers of recognized standing selected by such Reference Bank for the purchase at face value of certificates of deposit of such Reference Bank in an amount approximately equal to such Reference Bank's Adjusted CD Rate Advance comprising part of such A Borrowing and with a maturity equal to such

Interest Period, by (ii) a percentage equal to 100% minus the Adjusted CD Rate Reserve Percentage (as defined below) for such Interest Period, plus

(b) the Assessment Rate (as defined below) for such Interest Period.

The "Adjusted CD Rate Reserve Percentage" for the

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Interest Period for each Adjusted CD Rate Advance comprising part of the same A Borrowing means the reserve percentage applicable on the first day of such Interest Period under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, but not limited to, any emergency, supplemental or other marginal reserve requirement) for a member bank of the Federal Reserve System in New York City with deposits exceeding one billion dollars with respect to liabilities consisting of or including (among other liabilities) U.S. dollar nonpersonal time deposits in the United States with a maturity equal to such Interest Period. The "Assessment Rate" for the Interest Period for such

-----  
Adjusted CD Rate Advance comprising part of the same A Borrowing means the annual assessment rate estimated by the Agent on the first day of such Interest Period for determining the then current annual assessment payable by Citibank to the Federal Deposit Insurance Corporation (or any successor) for insuring U.S. dollar deposits of Citibank in the United States. The Adjusted CD Rate for the Interest Period for each Adjusted CD Rate Advance comprising part of the same A Borrowing shall be determined by the Agent on the basis of applicable rates furnished to and received by the Agent from the Reference Banks on the first day of such Interest Period, subject, however, to  
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the provisions of Section 2.09.

"Adjusted CD Rate Advance" means an A Advance which  
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bears interest as provided in Section 2.07(b).

"Advance" means an A Advance or a B Advance.  
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"Applicable Facility Fee Rate" means for any period a  
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percentage per annum equal to the percentage set forth below determined by reference to the higher of (i) the rating of PM Companies' long-term senior unsecured Debt from Standard & Poor's Corporation and (ii) the rating of PM Companies' long-term senior unsecured Debt from Moody's Investors Service, in each case in effect from time to time during such period:

Long-Term Senior Unsecured Debt Rating -----	Applicable Facility Fee Rate -----
A- and A3 (or higher)	0.1000%
BBB and Baa2 or higher, but lower than A- and A3	0.1500%
Lower than BBB and Baa2	0.2000%;

provided that if no rating is available on any date of  
-----

determination from Moody's Investors Service and Standard & Poor's Corporation or any other nationally recognized statistical rating organization designated by PM Companies and approved in writing by the Majority Lenders, the Applicable Facility Fee Rate shall be 0.20%.

"Applicable Interest Rate Margin" means for any  
-----  
Interest Period a percentage per annum equal to the percentage

set forth below determined by reference to the higher of (i) the rating of PM Companies' long-term senior unsecured Debt from Standard & Poor's Corporation and (ii) the rating of PM Companies' long-term senior unsecured Debt from Moody's Investors Service, in each case from time to time during such Interest Period:

Long-Term Senior Unsecured Debt Rating -----	Applicable Interest Rate Margin -----
A- and A3 (or higher)	0.3000%
BBB and Baa2 or higher, but lower than A- and A3	0.3750%
Lower than BBB and Baa2	0.5000%;

provided that if no rating is available on any date of  
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determination from Moody's Investors Service and Standard & Poor's Corporation or any other nationally recognized statistical rating organization designated by PM Companies and approved in writing by the Majority Lenders, the Applicable Interest Rate Margin shall be 0.50%.

"Applicable Lending Office" means, with respect to  
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each Lender, such Lender's Domestic Lending Office in the case of a Base Rate Advance, such Lender's CD Lending Office in the case of an Adjusted CD Rate Advance, and such Lender's

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Eurodollar Lending Office in the case of a Eurodollar Rate Advance and, in the case of a B Advance, the office of such Lender notified by such Lender to the Agent with respect to such B Advance.

"Applicable Usage Fee Rate" means for any period a  
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percentage per annum equal to 0.1250%.

"Asset Disposition" means any sale, lease, transfer,  
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spin-off or other disposition ("Disposition") to any Person (including any shareholder of PM Companies), voluntarily or involuntarily, of any of the Tobacco Assets (whether now owned or hereafter acquired) of PM Companies and its directly and indirectly owned subsidiaries, provided that "Asset  
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Disposition" shall not mean (i) any Disposition of Tobacco  
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Assets to PM Companies or any subsidiary directly or indirectly wholly-owned by PM Companies, (ii) any sale and lease-back of Tobacco Assets which, together with all such sale and lease-back transactions occurring from and after September 30, 1993, does not exceed an aggregate amount equal to \$500,000,000, provided that the lease term related to such sale and lease-back transaction has a duration approximately equal to the useful life of such Tobacco Assets, (iii) any Disposition of Tobacco Assets in the ordinary course of business and (iv) any Disposition which, together with all such other Dispositions (excluding all Dispositions described in clauses (i), (ii) and (iii) of this definition) occurring from and after September 30, 1993, does not exceed an aggregate amount equal to \$1,100,000,000 net after-tax proceeds calculated in accordance with the provisions of Section 2.05(b).

"Assignment and Acceptance" means an assignment and  
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acceptance entered into by a Lender and an Eligible Assignee, and accepted by the Agent, in substantially the form of Exhibit C hereto.

"B Advance" means an advance by a Lender to a Borrower  
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as part of a B Borrowing by such Borrower resulting from the auction bidding procedure described in Section 2.03(a).

"B Borrowing" means a borrowing consisting of  
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simultaneous B Advances to a Borrower from each of the Lenders



whose offer to make one or more B Advances as part of such borrowing has been accepted by such Borrower under the auction bidding procedure described in Section 2.03(a).

"B Note" means a promissory note of a Borrower payable  
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to the order of any Lender, in substantially the form

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of Exhibit A hereto, evidencing the indebtedness of such Borrower to such Lender resulting from a B Advance to such Borrower, together with, if such Borrower is a subsidiary of PM Companies, a guaranty of the Guarantor endorsed thereon, substantially in the form of Exhibit A hereto.

"B Reduction" has the meaning assigned to that term in  
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Section 2.01.

"Base Rate" means, for any Interest Period or any  
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other period, a fluctuating interest rate per annum as shall be in effect from time to time which rate per annum shall at all times be equal to the highest of:

(a) The rate of interest announced publicly by Citibank in New York, New York, from time to time, as Citibank's base rate;

(b) 1/2 of one percent per annum above the latest three-week moving average of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States money market banks, such three-week moving average being determined weekly on each Monday (or if such day is not a Business Day, on the next succeeding Business Day) for the three-week period ending on the previous Friday by Citibank on the basis of such rates reported by certificate of deposit dealers to and published by the Federal Reserve Bank of New York or, if such publication shall be suspended or terminated, on the basis of quotations for such rates received by Citibank from three New York certificate of deposit dealers of recognized standing selected by Citibank, in either case adjusted to the nearest 1/4 of one percent or, if there is no nearest 1/4 of one percent, to the next higher 1/4 of one percent; or

(c) for any day 1/2 of one percent per annum above the Federal Funds Rate.

"Base Rate Advance" means an A Advance which bears  
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interest as provided in Section 2.07(a).

"Borrower" means PM Companies or any subsidiary of PM  
-----  
Companies with respect to which a Notice of Acceptance has been given, and whenever in this Agreement the term "Borrower" is used in the singular, it shall refer to the appropriate Borrower, or to all Borrowers, as the context may require.

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"Borrowing" means an A Borrowing or a B Borrowing.  
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"Business Day" means a day of the year on which banks  
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are not required or authorized to close in New York City and, if the applicable Business Day relates to any Eurodollar Rate Advance, on which dealings are carried on in the London interbank market.

"CD Lending Office" means, with respect to any Lender,  
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the office of such Lender specified as its "CD Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Lender (or, if no such office is specified, its Domestic Lending Office) or such other office of such Lender as such Lender may from time to time specify to PM Companies and the Agent.

"Commitment" has the meaning specified in Section

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2.01.

"Consolidated Tangible Assets" means all assets

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properly appearing on a consolidated balance sheet of PM Companies and its subsidiaries after deducting goodwill, trademarks, patents, other like intangibles, and the minority interests of other Persons in such subsidiaries, all as determined in accordance with generally accepted accounting principles, except that if there has been a material change in an accounting principle as compared to that applied in the preparation of the financial statements of PM Companies and its subsidiaries as at and for the nine months ended September 30, 1993, then such new accounting principle shall not be used in the determination of Consolidated Tangible Assets. A material change in an accounting principle is one that in the year of its adoption changes Consolidated Tangible Assets at such year-end by more than 10%.

"Debt" means (i) indebtedness for borrowed money or

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for the deferred purchase price of property or services, or obligations evidenced by bonds, debentures, notes or similar instruments, (ii) obligations as lessee under leases which shall have been or should be, in accordance with generally accepted accounting principles, recorded as capital leases, and (iii) obligations under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clause (i) or (ii) above.

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"Domestic Lending Office" means, with respect to any

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Lender, the office of such Lender specified as its "Domestic Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Lender or such other office of such Lender as such Lender may from time to time specify to PM Companies and the Agent.

"Eligible Assignee" means (i) a commercial bank

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organized under the laws of the United States, or any State thereof, and having total assets in excess of \$5,000,000,000; (ii) a commercial bank organized under the laws of any other country which is a member of the OECD, or a political subdivision of any such country, and having total assets in excess of \$5,000,000,000, provided that such bank is acting through a branch or agency located in the country in which it is organized or another country which is also a member of the OECD or the Cayman Islands; (iii) the central bank of any country which is a member of the OECD; (iv) a commercial finance company or finance subsidiary of a corporation organized under the laws of the United States, or any State thereof, and having total assets in excess of \$3,000,000,000; (v) an insurance company organized under the laws of the United States, or any State thereof, and having total assets in excess of \$5,000,000,000; (vi) any Bank; and (vii) an affiliate of any Lender.

"ERISA" means the Employee Retirement Income Security

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Act of 1974, as amended from time to time and the regulations promulgated and the rulings issued thereunder.

"ERISA Affiliate" means any Person who for purposes of

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Title IV of ERISA is a member of any Borrower's or PM Companies' controlled group, or under common control with such Borrower or PM Companies, within the meaning of Section 414 of the Internal Revenue Code of 1986, as amended from time to time.

"ERISA Event" means (i) the occurrence with respect to

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a Plan of a Reportable Event, within the meaning of Section 4043 of ERISA, unless the 30-day notice requirement with respect thereto has been waived by the PBGC; (ii) the provision

by the administrator of any Plan of a notice of intent to terminate such Plan, pursuant to Section 4041(a)(2) of ERISA (including any such notice with respect to a plan amendment referred to in Section 4041(e) of ERISA); (iii) the cessation of operations at a facility of any Borrower or PM Companies or any of their ERISA Affiliates in the circumstances described in Section 4068(f) of ERISA; (iv) the withdrawal by any Borrower or PM Companies or any of their ERISA Affiliates from a Multiple Employer Plan during a plan

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year for which it was a substantial employer, as defined in Section 4001(a)(2) of ERISA; (v) the conditions set forth in Section 302(f)(1)(A) and (B) of ERISA to the creation of a lien upon property or rights to property of any Borrower or PM Companies or any of their ERISA Affiliates for failure to make a required payment to a Plan are satisfied; (vi) the adoption of an amendment to a Plan requiring the provision of security to such Plan, pursuant to Section 307 of ERISA; or (vii) the occurrence of any event or condition described in Section 4042 of ERISA that constitutes grounds for the termination of, or the appointment of a trustee to administer, a Plan.

"Eurocurrency Liabilities" has the meaning assigned to

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that term in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Eurodollar Lending Office" means, with respect to any

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Lender, the office of such Lender specified as its "Eurodollar Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Lender (or, if no such office is specified, its Domestic Lending Office) or such other office of such Lender as such Lender may from time to time specify to PM Companies and the Agent.

"Eurodollar Rate" means, for the Interest Period for

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each Eurodollar Rate Advance comprising part of the same A Borrowing, an interest rate per annum equal to the average (rounded upward to the nearest whole multiple of 1/16 of 1% per annum, if such average is not such a multiple) of the rate per annum at which deposits in U.S. dollars are offered by the principal office of each of the Reference Banks in London, England to prime banks in the London interbank market at 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount approximately equal to such Reference Bank's Eurodollar Rate Advance comprising part of such A Borrowing and for a period equal to such Interest Period. The Eurodollar Rate for the Interest Period for each Eurodollar Rate Advance comprising part of the same A Borrowing shall be determined by the Agent on the basis of applicable rates furnished to and received by the Agent from the Reference Banks two Business Days before the first day of such Interest Period, subject, however, to the provisions of Section 2.09.

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"Eurodollar Rate Advance" means an A Advance which

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bears interest as provided in Section 2.07(c).

9

"Eurodollar Rate Reserve Percentage" of any Lender for

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the Interest Period for any Eurodollar Rate Advance means the reserve percentage applicable during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for such Lender with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Interest Period.

"Events of Default" has the meaning specified in

"Federal Bankruptcy Code" means the Bankruptcy Reform  
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Act of 1978, as amended from time to time.

"Federal Funds Rate" means, for any period, a  
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fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by it.

"Fixed Charges" means, for any accounting period, the  
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sum of (i) interest, whether expensed or capitalized, in respect of any Debt outstanding during such period, plus (ii) amortization of debt expense and discount or premium relating to any Debt outstanding during such period, whether expensed or capitalized, plus (iii) such portion of rental expense as can be demonstrated to be representative of the interest factor in the particular case, all as to be applicable to continuing operations and determined in accordance with generally accepted accounting principles, except that if there has been a material change in an accounting principle as compared to that applied in the preparation of the financial statements of PM Companies as at and for the nine months ended September 30, 1993, then such new accounting principle shall not be used in the determination of Fixed Charges. A material change in an accounting principle is one

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that, in the year of its adoption, changes Net Income Before Tax or Fixed Charges for any quarter in such year by more than 10%.

"Guarantor" means PM Companies.  
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"Guaranty" has the meaning specified in Section 8.01.  
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"Insufficiency" means, with respect to any Plan, the  
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amount of "unfunded benefit liabilities" (as defined in Section 4001(a)(18) of ERISA), if any, for such Plan.

"Interest Period" means, for each A Advance comprising  
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part of the same A Borrowing, the period commencing on the date of such A Advance and ending on the last day of the period selected by PM Companies pursuant to the provisions below. The duration of each such Interest Period shall be (a) in the case of an Adjusted CD Rate Advance, 30, 60, 90 or 180 days, (b) in the case of a Base Rate Advance, 1, 2, 3 or 6 months and (c) in the case of a Eurodollar Rate Advance, 1, 2, 3 or 6 months, in each case as PM Companies may, upon notice received by the Agent not later than 12:00 Noon (New York City time) on the third Business Day with respect to a Eurodollar Rate Advance, on the second Business Day with respect to an Adjusted CD Rate Advance and on the Business Day with respect to a Base Rate Advance, prior to the first day of such Interest Period, select; provided, however, that:  
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(i) the duration of any Interest Period which commences before the Termination Date and would otherwise end after the Termination Date shall end on the Termination Date;

(ii) Interest Periods commencing on the same date for A Advances comprising part of the same A Borrowing shall be of the same duration; and

(iii) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next

succeeding Business Day, provided, in the

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case of any Interest Period for a Eurodollar Rate Advance, that if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day.

"Lenders" means the Banks listed on the signature

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pages hereof and each Eligible Assignee that shall become a party hereto pursuant to Section 10.07.

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"Major Plan" means, at any time, a Plan with an

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Insufficiency of \$10,000,000 or more.

"Major Subsidiary" means any subsidiary (a) more than

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50% of the voting securities of which is owned directly or indirectly by PM Companies, (b) which is organized and existing under, or has its principal place of business in, the United States or any political subdivision thereof, Canada or any political subdivision thereof, any country which is a member of the European Economic Community on the date hereof (other than Greece, Portugal or Spain) or any political subdivision thereof, Sweden, Switzerland, Norway or Australia or any of their respective political subdivisions, and (c) which has at any time total assets (after intercompany eliminations) exceeding \$500,000,000. Notwithstanding the foregoing, Mission Viejo Company (a California corporation) and any of its subsidiaries engaged in the business of community development, commercial real estate development, real estate investment or related activities shall not be a Major Subsidiary.

"Majority Lenders" means at any time Lenders holding

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at least 66-2/3% of the aggregate unpaid principal amount of the A Advances then outstanding, or, if no such principal amount is then outstanding, Lenders having at least 66-2/3% of the Commitments (provided that, for purposes hereof, neither PM Companies or any Borrower, nor any of their respective affiliates, if a Lender, shall be included in (i) the Lenders holding such amount of the A Advances or having such amount of the Commitments or (ii) determining the aggregate unpaid principal amount of the A Advances or the total Commitments).

"Multiemployer Plan" means a "multiemployer plan" as

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defined in Section 4001(a)(3) of ERISA to which any Borrower or PM Companies or any ERISA Affiliate is making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions, such plan being maintained pursuant to one or more collective bargaining agreements.

"Multiple Employer Plan" means a single employer plan,

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as defined in Section 4001(a)(15) of ERISA, that (i) is maintained for employees of any Borrower or PM Companies or any ERISA Affiliate and at least one Person other than any Borrower or PM Companies and its ERISA Affiliates or (ii) was so maintained and in respect of which any Borrower or PM Companies or any ERISA Affiliate could have liability under Section 4064 or 4069 of ERISA in the event such plan has been or were to be terminated.

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"Net Income Before Tax" means, for any accounting

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period, income or loss from continuing operations for such period, as determined in accordance with generally accepted accounting principles, plus total federal, state and foreign income taxes which have been included in the determination of income or loss from continuing operations for such period in accordance with generally accepted accounting principles and amounts which, in the determination of income or loss from continuing operations for such period, have been deducted for

the items referred to in the definition of Fixed Charges in this Section, except that if there has been a material change in an accounting principle as compared to that applied in the preparation of the financial statements of PM Companies as at and for the nine months ended September 30, 1993, then such new accounting principle shall not be used in the determination of Net Income Before Tax. A material change in an accounting principle is one that, in the year of its adoption, changes Net Income Before Tax or Fixed Charges for any quarter in such year by more than 10%.

"1991 Loan Agreement" has the meaning specified in  
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Section 3.05(a).

"Notice of A Borrowing" has the meaning specified in  
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Section 2.02(a).

"Notice of Acceptance" has the meaning specified in  
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Section 9.01(a).

"Notice of B Borrowing" has the meaning assigned to  
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that term in Section 2.03(a).

"Notice of Borrowing" means either a Notice of A  
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Borrowing or a Notice of B Borrowing.

"Obligations" has the meaning specified in Section  
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8.01.

"OECD" means the Organization for Economic Cooperation  
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and Development.

"Other Taxes" has the meaning specified in Section  
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2.13(b).

"PBGC" means the Pension Benefit Guaranty Corporation  
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or any successor corporation thereto.

"Person" means an individual, partnership, corporation  
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(including a business trust), joint stock company, trust,  
unincorporated association, joint venture or

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other entity, or a government or any political subdivision or agency thereof.

"Philip Morris" means Philip Morris Incorporated, a  
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Virginia corporation wholly-owned by PM Companies.

"Plan" means a Single Employer Plan or a Multiple  
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Employer Plan.

"Reference Banks" means Citibank, Mellon Bank N.A.,  
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Barclays Bank PLC and Dresdner Bank AG.

"Register" has the meaning specified in Section  
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10.07(c).

"Significant Plan" means a Plan whose assets have a  
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current value in excess of \$100,000,000.

"Single Employer Plan" means a single employer plan,  
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as defined in Section 4001(a)(15) of ERISA, that (i) is maintained for employees of any Borrower, PM Companies or an ERISA Affiliate and no Person other than such Borrower or PM Companies or any of their ERISA Affiliates or (ii) was so maintained and in respect of which any Borrower or PM Companies

or an ERISA Affiliate could have liability under Section 4069 of ERISA in the event such plan has been or were to be terminated.

"Termination Date" means December 16, 1994, or the  
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earlier date of termination in whole of the Commitments pursuant to Section 2.05 or Section 6.01.

"Tobacco Assets" means all assets consisting of  
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tobacco and tobacco related assets, including, without limitation, all tobacco inventory, aging warehouses, cigarette manufacturing facilities, distribution warehouses, trademarks, tradenames and know-how and which relate to the domestic and United States export business of PM Companies and its subsidiaries.

"Type" means, with reference to an A Advance, an  
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Adjusted CD Rate Advance, a Base Rate Advance or a Eurodollar Rate Advance.

"Withdrawal Liability" shall have the meaning given  
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such term under Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Additional Definitions. For purposes  
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of this Agreement, "subsidiary" means, with respect to any Person, any corporation of which more than 50% of the

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outstanding capital stock having voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether or not at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned by such Person, by such Person and one or more other subsidiaries, or by one or more other subsidiaries.

SECTION 1.03. Computation of Time Periods. In this  
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Agreement in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to but excluding".

SECTION 1.04. Accounting Terms. All accounting terms  
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not specifically defined herein shall be construed in accordance with generally accepted accounting principles, except that if there has been a material change in an accounting principle, including the accounting for post-employment benefits as prescribed by Statement of Financial Accounting Standards No. 112, affecting the definition of an accounting term as compared to that applied in the preparation of the financial statements of PM Companies as at and for the nine months ended September 30, 1993, then such new accounting principle shall not be used in the determination of the amount associated with that accounting term. A material change in an accounting principle is one that, in the year of its adoption, changes the amount associated with the relevant accounting term for such year by more than 10%.

## ARTICLE II

### AMOUNTS AND TERMS OF THE ADVANCES

SECTION 2.01. The A Advances. Each Lender severally  
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agrees, on the terms and conditions hereinafter set forth, to make A Advances to any Borrower from time to time on any Business Day during the period from the date hereof until the Termination Date in an aggregate amount for all of the Borrowers not to exceed at any time outstanding the amount set opposite such Lender's name on the signature pages hereof or, if such Lender has entered into one or more Assignments and Acceptances, set forth for such Lender in the Register maintained by the Agent pursuant to Section 10.07(c), as such amount may be reduced pursuant to Section 2.05 (such Lender's

"Commitment"), provided that the aggregate amount of the

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Commitments of the Lenders shall be

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deemed to be used from time to time to the extent of the aggregate amount of the B Advances then outstanding and such deemed use of the aggregate amount of the Commitments shall be applied to the Lenders ratably according to their respective Commitments (each such deemed use of the aggregate amount of the Commitments being a "B Reduction"). Each A Borrowing shall be in an aggregate amount not less than \$50,000,000 and shall consist of A Advances of the same Type made to the same Borrower on the same day by the Lenders ratably according to their respective Commitments and one or more A Borrowings may be made on the same day. Within the limits of each Lender's Commitment, the Borrowers may borrow, repay pursuant to Section 2.06, prepay pursuant to Section 2.10(b), and reborrow under this Section 2.01.

SECTION 2.02. Making the A Advances. (a) Each A

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Borrowing shall be made on notice, given not later than 12:00 Noon (New York City time) on the third Business Day prior to the date of the proposed A Borrowing in the case of Eurodollar Rate Advances, on the second Business Day prior to the date of the proposed A Borrowing in the case of Adjusted CD Rate Advances, and on the Business Day prior to the date of the proposed A Borrowing in the case of Base Rate Advances, by PM Companies to the Agent, which shall give to each Lender prompt notice thereof by telex or cable. Each such notice of an A Borrowing (a "Notice of A Borrowing") shall be by telex or cable, confirmed immediately in writing, in substantially the form of Exhibit B-1 hereto, specifying therein the requested (i) date of such A Borrowing, (ii) Type of A Advances comprising such A Borrowing, (iii) aggregate amount of such A Borrowing, (iv) Interest Period for each such A Advance, and (v) name of the Borrower. In the case of a proposed A Borrowing comprised of Adjusted CD Rate Advances or Eurodollar Rate Advances, the Agent shall promptly notify each Lender of the applicable interest rate under Section 2.07(b) or (c). Each Lender shall, before 11:00 A.M. (New York City time) on the date of such A Borrowing, make available for the account of its Applicable Lending Office to the Agent at its address referred to in Section 10.02, in same day funds, such Lender's ratable portion of such A Borrowing. After the Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Agent will make such funds available to the applicable Borrower at the Agent's aforesaid address.

(b) Anything in subsection (a) above to the contrary notwithstanding,

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(i) if any Lender shall, at least one Business Day before the date of any requested A Borrowing, notify the Agent that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful, or that any central bank or other governmental authority asserts that it is unlawful, for such Lender or its Eurodollar Lending Office to perform its obligations hereunder to make Eurodollar Rate Advances or to fund or maintain Eurodollar Rate Advances hereunder, the right of PM Companies to select Eurodollar Rate Advances for such A Borrowing or any subsequent A Borrowing shall be suspended until such Lender shall notify the Agent that the circumstances causing such suspension no longer exist, and each A Advance comprising such requested A Borrowing shall be a Base Rate Advance. Each Lender agrees that it shall notify the Agent and PM Companies of any such introduction, change, interpretation or assertion referred to above promptly after such Lender becomes aware of the occurrence thereof;

(ii) if less than two Reference Banks furnish timely information to the Agent for determining the Adjusted CD Rate for Adjusted CD Rate Advances, or the Eurodollar Rate for Eurodollar Rate Advances, comprising any requested A Borrowing, the right of any Borrower to select Adjusted CD Rate Advances or Eurodollar Rate Advances, as the case may



be, for such A Borrowing or any subsequent A Borrowing shall be suspended until the Agent shall notify PM Companies and the Lenders that the circumstances causing such suspension no longer exist, and each A Advance comprising such A Borrowing shall be a Base Rate Advance; and

(iii) if the Majority Lenders shall, at least one Business Day before the date of any requested A Borrowing, notify the Agent that the Eurodollar Rate for Eurodollar Rate Advances comprising such A Borrowing will not adequately reflect the cost to such Majority Lenders of making or funding their respective Eurodollar Rate Advances for such A Borrowing, the right of PM Companies to select Eurodollar Rate Advances for such A Borrowing or any subsequent A Borrowing shall be suspended until the Agent, after its receipt of notice from such Majority Lenders that the circumstances causing such suspension no longer exist, shall notify PM Companies and the Lenders to such effect, and each A Advance comprising such A Borrowing shall be a Base Rate Advance.

(c) Each Notice of A Borrowing shall be irrevocable and binding on PM Companies and, if the Borrower named

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therein is not PM Companies, such Borrower. In the case of any A Borrowing which the related Notice of A Borrowing specifies is to be comprised of Adjusted CD Rate Advances or Eurodollar Rate Advances, PM Companies and, if the Borrower named therein is not PM Companies, such Borrower severally agree to indemnify each Lender against any loss, cost or expense incurred by such Lender as a result of any failure to fulfill on or before the date specified in such Notice of A Borrowing for such A Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Advance to be made by such Lender as part of such A Borrowing when such A Advance, as a result of such failure, is not made on such date.

(d) Unless the Agent shall have received notice from a Lender prior to the date of any A Borrowing that such Lender will not make available to the Agent such Lender's ratable portion of such A Borrowing, the Agent may assume that such Lender has made such portion available to the Agent on the date of such A Borrowing in accordance with subsection (a) of this Section 2.02 and the Agent may, in reliance upon such assumption, make available to the Borrower thereof on such date a corresponding amount. If and to the extent that such Lender shall not have so made such ratable portion available to the Agent, such Lender and such Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to such Borrower until the date such amount is repaid to the Agent, at (i) in the case of such Borrower, the interest rate applicable at the time to the A Advances comprising such A Borrowing and (ii) in the case of such Lender, the Federal Funds Rate. If such Lender shall repay to the Agent such corresponding amount, such amount so repaid shall constitute such Lender's A Advance as part of such A Borrowing for purposes of this Agreement.

(e) The failure of any Lender to make the A Advance to be made by it as part of any A Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make its A Advance on the date of such A Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the A Advance to be made by such other Lender on the date of any A Borrowing.

SECTION 2.03. The B Advances. (a) Each Lender  
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severally agrees that any Borrower may make B Borrowings

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under this Section 2.03 from time to time on any Business Day during the period from the date hereof until the date occurring 7 days prior to the Termination Date in the manner set forth below; provided that, following the making of each B Borrowing

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the aggregate amount of the Advances then outstanding shall not exceed the aggregate amount of the Commitments of the Lenders (computed without regard to any B Reduction).

(i) PM Companies may request a B Borrowing under this Section 2.03 by delivering to the Agent, by telex or cable, confirmed immediately in writing, a notice of a B Borrowing (a "Notice of B Borrowing"), in substantially the form of Exhibit B-2 hereto, specifying the name of the Borrower, the date and aggregate amount of the proposed B Borrowing, the maturity date for repayment of each B Advance to be made as part of such B Borrowing (which maturity date, in the case of a Notice of B Borrowing delivered pursuant to clause (A) of this paragraph (i), may not be earlier than the date occurring 7 days after the date of such B Borrowing or later than the date occurring 180 days after the date of such B Borrowing and, in the case of a Notice of B Borrowing delivered pursuant to clause (B) of this paragraph (i), may not be earlier than the date occurring 14 days after the date of such B Borrowing or later than the date occurring 180 days after the date of such B Borrowing, and in no event may the maturity date for any B Borrowing be later than the Termination Date), the interest payment date or dates relating thereto, the interest rate basis on which the Lenders may make offers to make B Advances to such Borrower (which basis may be a fixed or floating rate) and any other terms to be applicable to such B Borrowing, not later than 10:00 A.M. (New York City time) (A) at least two Business Days prior to the date of the proposed B Borrowing, if PM Companies shall specify in the Notice of B Borrowing that the rates of interest to be offered by the Lenders shall be fixed rates per annum and (B) at least four Business Days prior to the date of the proposed B Borrowing, if PM Companies shall instead specify in the Notice of B Borrowing the basis to be used by the Lenders in determining the rates of interest to be offered by them. The Agent shall in turn promptly notify each Lender of each request for a B Borrowing received by it by sending such Lender a copy of the related Notice of B Borrowing.

(ii) Each Lender may, if, in its sole discretion, it elects to do so, irrevocably offer to make one or more B Advances to the Borrower named in any such Notice of

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B Borrowing as part of the proposed B Borrowing at a rate or rates of interest specified by such Lender in its sole discretion, by notifying the Agent (which shall give prompt notice thereof to the Borrower), before 10:00 A.M. (New York City time) (A) on the Business Day prior to the date of such proposed B Borrowing, in the case of a Notice of B Borrowing delivered pursuant to clause (A) of paragraph (i) above, and (B) three Business Days before the date of such proposed B Borrowing, in the case of a Notice of B Borrowing delivered pursuant to clause (B) of paragraph (i) above, of the minimum amount and maximum amount of each B Advance which such Lender would be willing to make as part of such proposed B Borrowing (which amounts may, subject to the proviso to the first sentence of this Section 2.03(a), exceed such Lender's Commitment), the rate or rates of interest therefor and such Lender's Applicable Lending Office with respect to such B Advance; provided

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that if the Agent in its capacity as a Lender shall, in its sole discretion, elect to make any such offer, it shall notify the Borrower of such offer before 9:00 A.M. (New York City time) on the Business Day prior to the date of such proposed B Borrowing, in the case referred to in clause (A) of this paragraph (ii), and three Business Days before the date of such proposed B Borrowing, in the case referred to in clause (B) of this paragraph (ii). If any Lender shall elect not to make such an offer, such Lender shall so notify the Agent before 10:00 A.M. (New York City time) on the Business Day prior to the date of such proposed B Borrowing, in the case of a Notice of B Borrowing delivered pursuant to clause (A) of paragraph (i) above, and three Business Days before the date of such proposed B Borrowing, in the case of a Notice of B Borrowing delivered pursuant to clause (B) of paragraph (i) above, and such Lender shall not be obligated to, and shall not, make any B Advance as part of such B Borrowing;

provided that the failure of any Lender to give such notice

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shall not cause such Lender to be obligated to make any B Advance as part of such proposed B Borrowing.

(iii) The Borrower named in any such Notice of B Borrowing shall, in turn, (A) before 12:00 Noon (New York City time) on the Business Day prior to the date of such proposed B Borrowing, in the case of a Notice of B Borrowing delivered pursuant to clause (A) of paragraph (i) above and (B) before 12:00 Noon (New York City time) three Business Days before the date of such proposed B Borrowing, in the case of a Notice of B Borrowing delivered pursuant to clause (B) of paragraph (i) above, either

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(A) cancel such B Borrowing by giving the Agent notice to that effect, or

(B) accept one or more of the offers made by any Lender or Lenders pursuant to paragraph (ii) above by giving notice to the Agent of the amount of each B Advance (which amount shall be equal to or greater than the minimum amount, and equal to or less than the maximum amount, notified to such Borrower by the Agent on behalf of such Lender for such B Advance pursuant to paragraph (ii) above) to be made by each Lender as part of such B Borrowing, and reject any remaining offers made by Lenders pursuant to paragraph (ii) above by giving the Agent notice to that effect.

The acceptance of offers by such Borrower pursuant to this clause (B) shall be on the basis of ascending rates of interest contained in the offers made by Lenders pursuant to paragraph (ii) above; provided that, in the event that

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two or more of such offers contain the same rate of interest for a greater aggregate principal amount than the amount specified in such Notice of B Borrowing less the aggregate principal amount of all such offers containing lower rates of interest that have been accepted by such Borrower pursuant to this clause (B), such Borrower shall have sole discretion (subject to any minimum and maximum amount specified in any such offer) to accept one or more of the offers at such rate of interest and to reject any remaining offers at such rate of interest.

(iv) If the Borrower named in any such Notice of B Borrowing notifies the Agent that such B Borrowing is cancelled pursuant to paragraph (iii)(A) above, the Agent shall give prompt notice thereof to the Lenders and such B Borrowing shall not be made.

(v) If the Borrower named in any such Notice of B Borrowing accepts one or more of the offers made by any Lender or Lenders pursuant to paragraph (iii)(B) above, the Agent shall in turn promptly notify (A) each Lender which has made an offer as described in paragraph (ii) above, of the date and aggregate amount of such B Borrowing and whether or not any offer or offers made by such Lender pursuant to paragraph (ii) above have been accepted by such Borrower, (B) each Lender that is to make a B Advance as part of such B Borrowing, of the amount of each B Advance to be made by such Lender as part of such B Borrowing, and (C) each Lender that is to

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make a B Advance as part of such B Borrowing, upon receipt, that the Agent has received forms of documents appearing to fulfill the applicable conditions set forth in Article III. Each Lender that is to make a B Advance as part of such B Borrowing shall, before 12:00 Noon (New York City time) on the date of such B Borrowing specified in the notice received from the Agent pursuant to clause (A) of the preceding sentence or any later time when such Lender shall have received notice from the Agent pursuant to clause (C) of the preceding sentence, make available for the account of its Applicable Lending Office to the Agent at its address set forth in Section 10.02 such Lender's portion of such B Borrowing, in same day funds. Upon fulfillment of

the applicable conditions set forth in Article III and after receipt by the Agent of such funds, the Agent will make such funds available to such Borrower as soon as practicable on such date at the Agent's aforesaid address. Promptly after each B Borrowing the Agent will notify each Lender of the amount of the B Borrowing, the consequent B Reduction and the dates upon which such B Reduction commenced and will terminate.

(b) Each B Borrowing shall be in an aggregate amount not less than \$100,000,000 or an integral multiple of \$1,000,000 in excess thereof and, following the making of each B Borrowing, the Borrower thereof shall be in compliance with the limitation set forth in the proviso to the first sentence of subsection (a) above.

(c) Within the limits and on the conditions set forth in this Section 2.03, each Borrower may from time to time borrow under this Section 2.03, repay or prepay pursuant to subsection (d) below, and reborrow under this Section 2.03, provided that a B Borrowing shall not be made within three ----- Business Days of the date of any other B Borrowing.

(d) Each Borrower shall repay to the Agent for the account of each Lender which has made a B Advance to such Borrower, or each other holder of a B Note, on the maturity date of each B Advance made to it (such maturity date being that specified for repayment of such B Advance in the related Notice of B Borrowing delivered pursuant to subsection (a)(i) above or as provided in the B Note evidencing such B Advance) the then unpaid principal amount of such B Advance. No Borrower shall have the right to prepay any principal amount of any B Advance unless, and then only on the terms, specified by PM Companies for such B Advance in the related Notice of B Borrowing delivered pursuant to subsection (a)(i) above and provided in the B Note evidencing such B Advance.

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(e) Each Borrower shall pay interest on the unpaid principal amount of each B Advance made to it from the date of such B Advance to the date the principal amount of such B Advance is repaid in full, at the rate of interest for such B Advance specified by the Lender making such B Advance in its notice with respect thereto delivered pursuant to subsection (a)(ii) above, payable on the interest payment date or dates specified by PM Companies for such B Advance in the related Notice of B Borrowing delivered pursuant to subsection (a)(i) above, as provided in the B Note evidencing such B Advance.

(f) The indebtedness of each Borrower resulting from each B Advance made to such Borrower as part of a B Borrowing shall be evidenced by a separate B Note of such Borrower payable to the order of the Lender making such B Advance.

(g) Any notice given to any party under this Section 2.03 shall be in writing, or may be by telephone or telex, in each case confirmed immediately in writing.

SECTION 2.04. Fees. (a) PM Companies agrees to pay

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to each Lender a facility fee on the principal amount of such Lender's Commitment (whether or not unused and without giving effect to any B Reduction) from the date hereof in the case of each Bank (unless otherwise agreed to by PM Companies with such Bank) and from the effective date specified in the Assignment and Acceptance pursuant to which it became a Lender in the case of each other Lender until the Termination Date at the Applicable Facility Fee Rate, in each case payable on the last day of each March, June, September and December until the Termination Date and on the Termination Date.

(b) For any period in which the aggregate principal amount of Advances exceeds an amount equal to 50% of the total Commitments, PM Companies agrees to pay to each Lender a usage fee on the excess of (i) the average daily aggregate amount of Advances made by such Lender outstanding during such period over (ii) 50% of such Lender's Commitment at the Applicable Usage Fee Rate, in each case payable in arrears on the last day of each March, June, September and December occurring during such period and on the Termination Date, if applicable.

(c) PM Companies agrees to pay to the Agent the

agency fee, arrangement fee and competitive bid fee in the amounts and at the times set forth in the engagement letter dated November 24, 1993 from the Agent to PM Companies, as amended from time to time.

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SECTION 2.05. Reduction of the Commitments. (a) PM

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Companies shall have the right, upon five Business Days' notice to the Agent, to terminate in whole or reduce ratably in part the unused portions of the respective Commitments of the Lenders, provided that the aggregate amount of the Commitments

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of the Lenders shall not be reduced to an amount which is less than the aggregate principal amount of the B Advances then outstanding and provided further that each partial reduction

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shall be in the aggregate amount of at least \$50,000,000.

(b) In the event that there shall be an Asset Disposition, the respective Commitments of the Lenders shall be reduced ratably by an aggregate amount equal to 100% of the net after-tax proceeds of such Asset Disposition. For the purpose of this subsection (b) any net after-tax non-cash proceeds or spin-off shall be valued at (i) the greater of (x) the book value and (y) the fair market value (as determined in good faith by the Board of Directors of PM Companies) of the assets subject to such Asset Disposition, less (ii) the cash proceeds, if any, received as a result of such Asset Disposition. In the event that the purchase price of assets subject to an Asset Disposition is subject to adjustment, as a result of which PM Companies reasonably believes that the proceeds ultimately to be received therefrom will be reduced, then until such time as such adjustment is finalized, for purposes of this subsection (b) the "net after-tax proceeds" shall include only the amount of those proceeds actually received by PM Companies or any affiliate of PM Companies, less an adjustment reserve in an amount reasonably determined by PM Companies to be equivalent to such adjustment therein. As soon as such adjustment is finalized, any further reduction in the Commitments shall be made as above provided in this subsection (b). Any reduction pursuant to this subsection (b) shall be effective on a date selected by PM Companies but in any event no later than the last day of the calendar quarter during which the Asset Disposition occurs; provided that any reduction which would be

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in amount less than \$50,000,000 shall not be made but shall be included in the calculation of the subsequent reduction or reductions provided for in this subsection (b) until the aggregate amount of any such subsequent reduction shall be at least equal to \$50,000,000, and such reduction shall then be made as above provided in this subsection (b).

SECTION 2.06. Repayment of A Advances. Each Borrower

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shall repay the principal amount of each A Advance made to it by each Lender on the last day of the Interest Period for such A Advance.

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SECTION 2.07. Interest on A Advances. Each Borrower

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shall pay interest on the unpaid principal amount of each A Advance made to it by each Lender from the date of such A Advance until such principal amount shall be paid in full, at the following rates per annum:

(a) Base Rate Advances. If such A Advance is a Base

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Rate Advance, a rate per annum equal at all times to the Base Rate in effect from time to time, payable monthly on the 20th day of each month, and on the date such Base Rate Advance shall be paid in full; provided that any amount of

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principal which is not paid when due (whether at stated maturity, by acceleration or otherwise) shall bear interest, from the date on which such amount is due until such amount is paid in full, payable on demand, at a rate per annum equal at all times to 1% per annum plus the Base Rate in effect from time to time.

(b) Adjusted CD Rate Advances. If such A Advance is

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an Adjusted CD Rate Advance, a rate per annum equal at all times during the Interest Period for such A Advance to the sum of the Adjusted CD Rate for such Interest Period plus the Applicable Interest Rate Margin, payable on the last day of such Interest Period and, if such Interest Period has a duration of 180 days, on the 90th day of such Interest Period; provided that any amount of principal

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which is not paid when due (whether at stated maturity, by acceleration or otherwise) shall bear interest, from the date on which such amount is due until such amount is paid in full, payable on demand, at a rate per annum equal at all times to 1% per annum plus the Base Rate in effect from time to time.

(c) Eurodollar Rate Advances. If such A Advance is a

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Eurodollar Rate Advance, a rate per annum equal at all times during the Interest Period for such A Advance to the sum of the Eurodollar Rate for such Interest Period plus the Applicable Interest Rate Margin, payable on the last day of such Interest Period and, if such Interest Period has a duration of six months, on the last day of the third month of such Interest Period; provided that any amount of

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principal which is not paid when due (whether at stated maturity, by acceleration or otherwise) shall bear interest, from the date on which such amount is due until such amount is paid in full, payable on demand, at a rate per annum equal at all times to 1% per annum plus the Base Rate in effect from time to time.

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SECTION 2.08. Additional Interest on Eurodollar Rate

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Advances. Each Borrower shall pay to each Lender, so long as

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such Lender shall be required under regulations of the Board of Governors of the Federal Reserve System to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency Liabilities, additional interest on the unpaid principal amount of each Eurodollar Rate Advance of such Lender to such Borrower, from the date of such Advance until such principal amount is paid in full, at an interest rate per annum equal at all times to the remainder obtained by subtracting (i) the Eurodollar Rate for the Interest Period for such Advance from (ii) the rate obtained by dividing such Eurodollar Rate by a percentage equal to 100% minus the Eurodollar Rate Reserve Percentage of such Lender for such Interest Period, payable on each date on which interest is payable on such Advance. Such additional interest shall be determined by such Lender and notified to PM Companies through the Agent.

SECTION 2.09. Interest Rate Determination. (a) Each

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Reference Bank agrees to furnish to the Agent timely information for the purpose of determining each Adjusted CD Rate or Eurodollar Rate, as applicable. If any one or more of the Reference Banks shall not furnish such timely information to the Agent for the purpose of determining any such interest rate, the Agent shall determine such interest rate on the basis of timely information furnished by the remaining Reference Banks.

(b) The Agent shall give prompt notice to PM Companies and the Lenders of the applicable interest rate determined by the Agent for purposes of Section 2.07(a), (b) or (c), and the applicable rate, if any, furnished by each Reference Bank for the purpose of determining the applicable interest rate under Section 2.07(b) or (c).

SECTION 2.10. Prepayment of A Advances. (a) No

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Borrower shall have the right to prepay any principal amount of any A Advances other than as provided in subsection (b) below.

(b) Any Borrower may, upon at least four Business Days' notice to the Agent stating the proposed date and aggregate principal amount of the prepayment, and if such notice is given such Borrower shall, prepay the outstanding

principal amounts of A Advances comprising part of the same A Borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid; provided, however, that (i) each partial prepayment

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shall be in an aggregate principal amount not less

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than \$50,000,000 and (ii) in the event of any such prepayment of an Adjusted CD Rate Advance or a Eurodollar Rate Advance, such Borrower shall be obligated to reimburse the Lenders in respect thereof pursuant to Section 10.04(b) hereof.

(c) If any Lender shall notify the Agent of any introduction, change, interpretation or assertion referred to in Section 2.02(b)(i), or shall claim payment of increased costs pursuant to Section 2.11(a) or (c) or payment of any additional amounts payable pursuant to Section 2.13, PM Companies may, upon at least five Business Days' notice to the Agent stating that the Borrowers intend to repay the A Advances made by such Lender and terminate such Lender's Commitment, and if such notice is given the Borrowers shall forthwith, on the date specified in such notice, prepay in full all A Advances made by such Lender with accrued interest thereon to the date of such prepayment and all other amounts payable to such Lender by PM Companies and the other Borrowers hereunder (including, without limitation, any amounts payable pursuant to Section 10.04(b)), and upon such notice from PM Companies the Commitment of such Lender to make further A Advances, and the obligation of PM Companies to pay facility fees to such Lender, shall terminate.

(d) In the event that there shall be a reduction of the Commitments pursuant to Section 2.05(b), the Borrowers shall on the date of such reduction (or as soon thereafter as the Borrowers can do so without incurring liability to any Lender pursuant to Section 10.04(b)) repay or prepay ratably A Advances made as part of the same A Borrowings (together with interest accrued thereon to such date) to the extent necessary so that the aggregate principal amount of outstanding A Advances made by each Lender shall not exceed such Lender's Commitment, as reduced on such date.

SECTION 2.11. Increased Costs. (a) If, due to

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either (i) the introduction of or any change (other than any change by way of imposition or increase of reserve requirements, in the case of Adjusted CD Rate Advances, included in the Adjusted CD Rate Reserve Percentage or, in the case of Eurodollar Rate Advances, included in the Eurodollar Rate Reserve Percentage) in or in the interpretation of any law or regulation or (ii) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law), there shall be any increase in the cost to any Lender of agreeing to make or making, funding or maintaining Adjusted CD Rate Advances or Eurodollar Rate Advances, then the Borrower of the affected Advances shall from time to time, upon demand by such Lender (with a copy of

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such demand to the Agent), pay to the Agent for the account of such Lender additional amounts sufficient to compensate such Lender for such increased cost, provided that before making any

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such demand, such Lender shall designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such increased cost and will not, in the reasonable judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate as to the amount of such increased cost, submitted to PM Companies, such Borrower and the Agent by such Lender, shall be conclusive and binding for all purposes, absent manifest error.

(b) If, in the case of any Adjusted CD Rate Advance, the Assessment Rate for the Interest Period for such Adjusted CD Rate Advance shall be less than the annual assessment for such Interest Period actually paid by such Lender to the Federal Deposit Insurance Corporation (or any successor) for insuring U.S. dollar deposits of such Lender in the United States, then the Borrower of the affected Advance shall, upon

demand of such Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender additional amounts sufficient to compensate such Lender for such increased assessment. A certificate as to the amounts of such increased assessment, submitted to PM Companies, such Borrower and the Agent by such Lender, shall be conclusive and binding for all purposes, absent manifest error.

(c) In the event that after the date hereof the implementation of or any change in any law or regulation, or any guideline or directive (whether or not having the force of law) or the interpretation or administration thereof by any central bank or other authority charged with the administration thereof, imposes, modifies or deems applicable any capital adequacy or similar requirement (including, without limitation, a request or requirement which affects the manner in which any Lender allocates capital resources to its commitments, including its obligations hereunder) and as a result thereof, in the sole opinion of such Lender, the rate of return on such Lender's capital as a consequence of its obligations hereunder is reduced to a level below that which such Lender could have achieved but for such circumstances, but reduced to the extent that Borrowings are outstanding from time to time, then in each such case upon demand from time to time PM Companies shall pay to such Lender such additional amount or amounts as shall compensate such Lender for such reduction in rate of return, provided that, in the case of each Lender, such additional  
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amount or amounts shall not exceed 0.15 of 1% per annum on such

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Lender's Commitment. A certificate of such Lender as to any such additional amount or amounts shall be conclusive and binding for all purposes, absent manifest error. Except as provided below, in determining any such amount or amounts each Lender may use any reasonable averaging and attribution methods. Notwithstanding the foregoing, each Lender shall take all reasonable actions to avoid the imposition of, or reduce the amounts of, such increased costs, provided that such actions, in the reasonable judgment of such Lender, will not be otherwise disadvantageous to such Lender, and, to the extent possible, each Lender will calculate such increased costs based upon the capital requirements for its commitment hereunder and not upon the average or general capital requirements imposed upon such Lender.

SECTION 2.12. Payments and Computations. (a) PM  
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Companies and each Borrower shall make each payment hereunder not later than 11:00 A.M. (New York City time) on the day when due in U.S. dollars to the Agent at its address referred to in Section 10.02 in same day funds. The Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal or interest or fees ratably (other than amounts payable pursuant to Section 2.02(c), 2.03, 2.08, 2.10(b) (ii) or (c), 2.11, 2.13 or 10.04(b)) to the Lenders for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Lender to such Lender for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon its acceptance of an Assignment and Acceptance and recording of the information contained therein in the Register pursuant to Section 10.07 (d), from and after the effective date specified in such Assignment and Acceptance, the Agent shall make all payments hereunder and under the B Notes in respect of the interest assigned thereby to the Lender assignee thereunder, and the parties to such Assignment and Acceptance shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(b) Each Borrower hereby authorizes each Lender, if and to the extent payment owed to such Lender is not made to the Agent for the account of such Lender when due hereunder, to charge from time to time against any or all of such Borrower's accounts with such Lender any amount so due.

(c) All computations of interest based on the Base Rate shall be made by the Agent on the basis of a year of 365 or 366 days, as the case may be, and all computations of interest based on the Adjusted CD Rate, the Eurodollar Rate



or the Federal Funds Rate and of fees shall be made by the Agent, and all computations of interest pursuant to Section 2.08 shall be made by a Lender, on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest or fees are payable. Each determination by the Agent (or, in the case of Section 2.08, by a Lender) of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(d) Whenever any payment hereunder shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or fees, as the case may be; provided, -----  
 however, if such extension would cause payment of interest on -----  
 or principal of Eurodollar Rate Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(e) Unless the Agent shall have received notice from any Borrower prior to the date on which any payment is due from such Borrower to the Lenders hereunder that such Borrower will not make such payment in full, the Agent may assume that such Borrower has made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such date an amount equal to the amount then due such Lender. If and to the extent that such Borrower shall not have so made such payment in full to the Agent, each Lender shall repay to the Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Agent, at the Federal Funds Rate.

SECTION 2.13. Taxes. (a) Any and all payments by

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 each Borrower and PM Companies hereunder shall be made, in accordance with Section 2.12, free and clear of and without deductions for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, (i) in the case of

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 each Lender and the Agent, taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction under the laws of which such Lender or the Agent (as the case may be) is organized or any political subdivision thereof, (ii) in the case of each Lender, taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction of such Lender's Applicable Lending Office or any political

subdivision thereof, and (iii) in the case of each Lender and the Agent, taxes imposed by the United States by means of withholding tax if and to the extent that such taxes shall be in effect and shall be applicable on the date hereof, to payments to be made to such Lender's Applicable Lending Office or to the Agent (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If any Borrower or PM Companies shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to any Lender or the Agent, (A) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.13) such Lender or the Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (B) such Borrower and PM Companies shall make such deductions and (C) such Borrower and PM Companies shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, each Borrower and PM Companies agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with

respect to, this Agreement (hereinafter referred to as "Other Taxes").

(c) Each Borrower and PM Companies will indemnify each Lender and the Agent for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 2.13) paid by such Lender or the Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. This indemnification shall be made within 30 days from the date such Lender or the Agent (as the case may be) makes written demand therefor.

(d) Within 30 days after the date of any payment of Taxes, each Borrower and PM Companies will furnish to the Agent, at its address referred to in Section 10.02, the original or a certified copy of a receipt evidencing payment thereof by such Borrower or PM Companies.

(e) Without prejudice to the survival of any other agreement of any Borrower or PM Companies hereunder, the agreements and obligations of each Borrower and PM Companies

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contained in this Section 2.13 shall survive the payment in full of principal and interest hereunder.

(f) Prior to the date of the initial Borrowing hereunder, and from time to time thereafter if requested by any Borrower, PM Companies or the Agent, each Lender organized under the laws of a jurisdiction outside the United States shall provide the Agent, PM Companies and such Borrower with the forms prescribed by the Internal Revenue Service of the United States certifying such Lender's exemption from United States withholding taxes with respect to all payments to be made to such Lender hereunder. Unless the Borrower, PM Companies and the Agent have received forms or other documents satisfactory to them indicating that payments hereunder are not subject to United States withholding tax or are subject to such tax at a rate reduced by an applicable tax treaty, such Borrower, PM Companies or the Agent shall withhold taxes from such payments at the applicable statutory rate in the case of payments to or for any Lender organized under the laws of a jurisdiction outside the United States.

(g) Any Lender claiming any additional amounts payable pursuant to this Section 2.13 shall use its best efforts (consistent with its internal policy and legal and regulatory restrictions) to change the jurisdiction of its Applicable Lending Office so as to eliminate the amount of any such costs or additional amounts which may thereafter accrue; provided that no such change shall be made if, in the

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reasonable judgment of such Lender, such change would be disadvantageous to such Lender.

SECTION 2.14. Sharing of Payments, Etc. If any

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Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the A Advances made by it (other than pursuant to Section 2.02(c), 2.08, 2.10(b)(ii) or (c), 2.11, 2.13 or 10.04(b)) in excess of its ratable share of payments on account of the A Advances obtained by all the Lenders, such Lender shall forthwith purchase from the other Lenders such participations in the A Advances made by them as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; provided, however, that if

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all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender's ratable share (according to the proportion of (i) the amount of such Lender's required repayment to (ii)

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the total amount so recovered from the purchasing Lender) of

any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. Each Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 2.14 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of such Borrower in the amount of such participation.

SECTION 2.15. Evidence of Debt. (a) Each Lender  
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shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of each Borrower to such Lender resulting from each A Advance made to such Borrower owing to such Lender from time to time, including the amounts of principal thereof and interest thereon payable and paid to such Lender from time to time hereunder.

(b) The Register maintained by the Agent pursuant to Section 10.07(c) shall include a control account, and a subsidiary account for each Lender, in which accounts (taken together) shall be recorded (i) the date and amount of each A Borrowing made hereunder, the Type of Advances comprising such Borrowing and the Interest Period applicable thereto, (ii) the terms of each Assignment and Acceptance delivered to and accepted by it, (iii) the amount of any principal or interest due and payable or to become due and payable from each Borrower to each Lender hereunder, and (iv) the amount of any sum received by the Agent from such Borrower hereunder and each Lender's share thereof.

(c) The entries made in the Register shall be conclusive and binding for all purposes, absent manifest error.

ARTICLE III

CONDITIONS OF LENDING

SECTION 3.01. Condition Precedent to Initial  
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Advances. The obligation of each Lender to make an Advance on  
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the occasion of the initial Borrowing by each Borrower is subject to the condition precedent that the Agent shall have received on or before the day of such initial Borrowing the following, each dated such day, in form and substance satisfactory to the Agent and in sufficient copies for each Lender:

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(a) Certified copies of the resolutions of each of the Board of Directors of such Borrower and (unless PM Companies is the Borrower) the Guarantor approving this Agreement, and of all documents evidencing other necessary corporate action and governmental approvals, if any, on behalf of such company or companies with respect to this Agreement.

(b) A certificate of the Secretary or an Assistant Secretary of each of such Borrower and (unless PM Companies is the Borrower) the Guarantor certifying the names and true signatures of the officers of such company or companies authorized to sign this Agreement and the other documents to be delivered on behalf of such company or companies hereunder.

(c) A favorable opinion of Hunton & Williams, counsel for PM Companies, substantially in the form of Exhibit D hereto and as to such other matters as any Lender through the Agent may reasonably request.

(d) A favorable opinion of Shearman & Sterling, special counsel for the Agent, substantially in the form of Exhibit E hereto.

(e) A certificate of the chief financial officer of PM Companies certifying that as of September 30, 1993 (i) the aggregate amount of Debt, payment of which is secured by any lien, security interest or other charge or encumbrance referred to in clause (iii) of Section 5.02(a) hereof, does not exceed \$400,000,000 and (ii) the aggregate amount of Debt included in clause (i) of this subsection (e),

payment of which is secured by any lien, security interest or other charge or encumbrance referred to in clause (iv) of Section 5.02(a), does not exceed \$200,000,000.

SECTION 3.02. Conditions Precedent to Each

A Borrowing. The obligation of each Lender to make an

Advance on the occasion of each A Borrowing (including the initial A Borrowing) shall be subject to the further conditions precedent that on the date of such A Borrowing, before and after giving effect thereto and to the application of the proceeds therefrom (a) the following statements shall be true (and each of the giving of the applicable Notice of A Borrowing and the acceptance by the Borrower named therein of the proceeds of such A Borrowing shall constitute a representation and warranty by such Borrower and (unless PM Companies is the Borrower) the Guarantor that on the date of such A Borrowing, before and after giving effect thereto and

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to the application of the proceeds therefrom, such statements are true):

(i) The representations and warranties contained in Section 4.01 (excluding those contained in subsections (e) and (f) thereof) are correct on and as of the date of such Borrowing as though made on and as of such date;

(ii) No event has occurred and is continuing, or would result from such A Borrowing, which constitutes an Event of Default; and

(iii) If such A Borrowing is in an aggregate principal amount equal to or greater than \$500,000,000 and is being made in connection with any purchase of shares of such Borrower's or the Guarantor's capital stock or the capital stock of any other Person, or any purchase of all or substantially all of the assets of any Person (whether in one transaction or a series of transactions) or any transaction of the type referred to in Section 5.02(b), the statements in (i) and (ii) above shall also be true on a pro forma basis as if such transaction or purchase shall have been completed;

and (b) the Agent shall have received such other approvals, opinions or documents as any Lender through the Agent may reasonably request.

SECTION 3.03. Condition Precedent to Certain A

Borrowings. The obligation of each Lender to make that portion

of an A Advance on the occasion of any A Borrowing (including the initial A Borrowing) which would increase the aggregate outstanding amount of A Advances owing to such Lender over the aggregate amount of such A Advances outstanding immediately prior to the making of such A Advance shall be subject to the further condition precedent that on the date of such A Borrowing, before and after giving effect thereto and to the application of the proceeds therefrom, the following statement shall be true (and each of the giving of the applicable Notice of A Borrowing and the acceptance by the Borrower named therein of the proceeds of such A Borrowing shall constitute a representation and warranty by such Borrower and (unless PM Companies is the Borrower) the Guarantor that on the date of such A Borrowing, before and after giving effect thereto and to the application of the proceeds therefrom, such statement is true): no event has occurred and is continuing, or would result from such A Borrowing, which would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

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SECTION 3.04. Conditions Precedent to Each

B Borrowing. The obligation of each Lender which is to make a B

Advance on the occasion of a B Borrowing (including the initial B Borrowing) to make such B Advance as part of such B Borrowing is subject to the conditions precedent that (i) at least two

Business Days before the date of such B Borrowing in the case of a B Borrowing under subsection (a) (i) (A) of Section 2.03 and at least four Business Days before the date of such B Borrowing in the case of a B Borrowing under subsection (a) (i) (B) of Section 2.03, the Agent shall have received the written confirmatory Notice of B Borrowing with respect thereto, (ii) on or before the date of such B Borrowing, but prior to such B Borrowing, the Agent shall have received a B Note of the Borrower thereof payable to the order of such Lender for each of the one or more B Advances to be made by such Lender as part of such B Borrowing, in a principal amount equal to the principal amount to be evidenced thereby and otherwise on such terms as were agreed to for such B Advance by such Borrower and such Lender in accordance with Section 2.03, and (iii) on the date of such B Borrowing, before and after giving effect thereto and to the application of the proceeds therefrom, the following statements shall be true (and each of the giving of the applicable Notice of B Borrowing and the acceptance by such Borrower of the proceeds of such B Borrowing shall constitute a representation and warranty by such Borrower and (unless PM Companies is the Borrower) the Guarantor that on the date of such B Borrowing, before and after giving effect thereto and to the application of the proceeds therefrom, such statements are true):

(a) The representations and warranties contained in Section 4.01 are correct on and as of the date of such B Borrowing as though made on and as of such date; and

(b) No event has occurred and is continuing, or would result from such B Borrowing, which constitutes an Event of Default or which would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

SECTION 3.05. Conditions Precedent to Effectiveness  
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of this Agreement. This Agreement shall not become effective  
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until:

(a) The Agent shall have received on or before the date of effectiveness a letter from PM Companies dated on or before such day, terminating in whole the commitments of the banks parties to the Loan and Guaranty Agreement dated as of October 1, 1991, as amended (the "1991 Loan

Agreement") among PM Companies, the banks named therein and Citibank, as agent, and each of the Banks that is a party to the 1991 Loan Agreement hereby waives, upon execution of this Agreement, the five Business Days' notice required by Section 2.05(a) of the 1991 Loan Agreement relating to the termination of the commitments under the 1991 Loan Agreement; and

(b) PM Companies and its subsidiaries shall have satisfied all of their respective obligations under the 1991 Loan Agreement including, without limitation, the payment of all fees under such agreement.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

SECTION 4.01. Representations and Warranties of PM  
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Companies. PM Companies represents and warrants as follows:  
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(a) It is a corporation duly organized, validly existing and in good standing under the laws of Virginia.

(b) The execution, delivery and performance of this Agreement and the B Notes (including the guaranties hereunder and under the B Notes) are within its corporate powers, have been duly authorized by all necessary corporate action, and do not contravene (i) its charter or by-laws or (ii) any law, rule, regulation or order of any court or governmental agency or any contractual restriction binding on or affecting it.

(c) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by it of this Agreement or the B Notes (including the guaranties hereunder and under the B Notes).

(d) This Agreement (including the guaranty hereunder) is, and each of the B Notes (including the guaranties under the B Notes) when delivered hereunder will be, a legal, valid and binding obligation of PM Companies enforceable against PM Companies in accordance with its terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally and to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

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(e) The consolidated balance sheet of PM Companies and its consolidated subsidiaries as at September 30, 1993 and the consolidated statements of earnings of PM Companies and its consolidated subsidiaries for the nine months then ended fairly present, subject to year-end audit adjustments, the consolidated financial condition of PM Companies and its consolidated subsidiaries as at such date and the consolidated results of the operations of PM Companies and its consolidated subsidiaries for the period ended on such date, all in accordance with generally accepted accounting principles consistently applied, and, except as disclosed in PM Companies' quarterly report on Form 10-Q for the quarter ended September 30, 1993 and its current report on Form 8-K dated November 24, 1993, since September 30, 1993, there has been no material adverse change in such condition or operations.

(f) There is no pending or threatened action or proceeding affecting it or any of its subsidiaries before any court, governmental agency or arbitrator, which may materially adversely affect the financial condition or operations of PM Companies and its subsidiaries taken as a whole or which purports to affect the legality, validity or enforceability of this Agreement (including the guaranties hereunder and under the B Notes).

(g) It owns directly or indirectly 100% of the capital stock of each other Borrower and 100% of the capital stock of Philip Morris.

(h) No ERISA Event (other than a reportable event described in Section 2615.23 of Title 29 of the Code of Federal Regulations) has occurred nor is any ERISA Event reasonably expected to occur with respect to any Major Plan, or any Significant Plan.

(i) Schedule B (Actuarial Information) to the most recently completed annual report (Form 5500 Series) with respect to each Plan which is a Major Plan or a Significant Plan, copies of which have been filed with the Internal Revenue Service and furnished to each Bank, is complete and accurate and fairly presents the funding status of such Plan, and since the date of such Schedule B there has been no material adverse change in such funding status; provided  
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that no change in the funding status of any such Plan shall be deemed to be materially adverse from that disclosed on such Schedule B unless there is an Insufficiency which, when aggregated with the Insufficiency of each other Plan, exceeds \$100,000,000.

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(j) Neither any Borrower nor PM Companies nor any of their ERISA Affiliates has incurred or reasonably expects to incur any Withdrawal Liability under ERISA to any Multiemployer Plan requiring payments to such Multiemployer Plan in an annual amount which, when aggregated together with all other payments required to be made to Multiemployer Plans as a result of Withdrawal Liabilities incurred or reasonably expected to be incurred by the Borrowers, PM Companies and their ERISA Affiliates, exceeds

ARTICLE V

COVENANTS OF PM COMPANIES

SECTION 5.01. Affirmative Covenants. So long as any

Advance shall remain unpaid or any Lender shall have any Commitment hereunder, PM Companies will, unless the Majority Lenders shall otherwise consent in writing:

(a) Compliance with Laws, Etc. Comply, and cause

each Major Subsidiary to comply, in all material respects with all applicable laws, rules, regulations and orders (such compliance to include, without limitation, paying before the same become delinquent all taxes, assessments and governmental charges imposed upon it or upon its property except to the extent contested in good faith), noncompliance with which would materially adversely affect its business or credit.

(b) Maintenance of Ratio of Net Income Before Tax to

Fixed Charges. Maintain a ratio of aggregate consolidated Net Income Before Tax for the four most recent fiscal quarters for which consolidated statements of earnings have been delivered pursuant to Section 5.01(c) (i) or (ii) hereof to consolidated Fixed Charges for such four most recent fiscal quarters of not less than 2.5 to 1.0.

(c) Reporting Requirements. Furnish to the Lenders:

(i) as soon as available and in any event within 60 days after the end of each of the first three quarters of each fiscal year of PM Companies, a consolidated balance sheet of PM Companies and its consolidated subsidiaries as of the end of such quarter and consolidated statements of earnings of PM Companies and its consolidated subsidiaries

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for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, certified by the chief financial officer of PM Companies;

(ii) as soon as available and in any event within 90 days after the end of each fiscal year of PM Companies, a copy of the financial statements for such year for PM Companies and its consolidated subsidiaries, audited by Coopers & Lybrand (or other independent accountants which, as of the date of this Agreement, are one of the "big six" accounting firms);

(iii) as soon as possible and in any event within five days after the occurrence of each Event of Default and each event which, with the giving of notice or lapse of time, or both, would constitute an Event of Default, continuing on the date of such statement, a statement of the chief financial officer of PM Companies setting forth details of such Event of Default or event and the action which PM Companies has taken and proposes to take with respect thereto;

(iv) promptly after the sending or filing thereof, copies of all reports which PM Companies sends to any of its shareholders, and copies of all periodic reports on Forms 10-K, 10-Q and 8-K (or any successor forms adopted by the Securities and Exchange Commission) which PM Companies files with the Securities and Exchange Commission;

(v) as soon as possible and in any event (A) within 30 days after any Borrower or PM Companies or any of their ERISA Affiliates knows or has reason to know that any ERISA Event described in clause (i) of the definition of ERISA Event (other than a Reportable Event described in Section 2615.23 of Title 29 of the

Code of Federal Regulations) with respect to any Major Plan or any Significant Plan has occurred and (B) within 10 days after any Borrower or PM Companies or any of their ERISA Affiliates knows or has reason to know that any other ERISA Event with respect to any Major Plan or any Significant Plan has occurred, a statement of the chief financial officer of PM Companies describing such ERISA Event and the action, if any, which such Borrower or PM Companies or such ERISA Affiliate proposes to take with respect thereto;

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(vi) promptly and in any event within two Business Days after receipt thereof by any Borrower or PM Companies or any of their ERISA Affiliates from the PBGC, copies of each notice received by such Borrower or PM Companies or any such ERISA Affiliate of the PBGC's intention to terminate any Plan or to have a trustee appointed to administer any Plan;

(vii) promptly and in any event within 30 days after the filing thereof with the Internal Revenue Service, copies of each Schedule B (Actuarial Information) to the annual report (Form 5500 Series) with respect to each Major Plan and each Significant Plan;

(viii) promptly and in any event within five Business Days after receipt thereof by any Borrower or PM Companies or any of their ERISA Affiliates from a Multiemployer Plan sponsor, a copy of each notice received by such Borrower or PM Companies or any of their ERISA Affiliates concerning the imposition of Withdrawal Liability where the aggregate annual payments for such Withdrawal Liability exceeds \$10,000,000;

(ix) promptly and in any event within 60 days after the date on which a Plan which is not a Major Plan or a Significant Plan on the date hereof becomes a Major Plan or Significant Plan, copies of each Schedule B (Actuarial Information) to the most recent Annual Report (Form 5500 Series) filed with the Internal Revenue Service with respect to such Plan, together with a statement of the chief financial officer of PM Companies describing any material adverse change in the funding status of such Plan since the date of such Schedule B; and

(x) such other information respecting the condition or operations, financial or otherwise, of PM Companies or any Major Subsidiary as any Lender through the Agent may from time to time reasonably request.

SECTION 5.02. Negative Covenants. So long as any

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Advance shall remain unpaid or any Lender shall have any Commitment hereunder, PM Companies will not, without the written consent of the Majority Lenders:

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(a) Liens, Etc. Create or suffer to exist, or permit

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any Major Subsidiary to create or suffer to exist, any lien, security interest or other charge or encumbrance, or any other type of preferential arrangement, upon or with respect to any of its properties, whether now owned or hereafter acquired, or assign, or permit any Major Subsidiary to assign, any right to receive income, in each case to secure or provide for the payment of any Debt of any Person, other than (i) purchase money liens or purchase money security interests upon or in any property acquired or held by it or any Major Subsidiary in the ordinary course of business to secure the purchase price of such property or to secure indebtedness incurred solely for the purpose of financing the acquisition of such property, (ii) liens or security interests existing on such property at the time of its acquisition (other than any such lien or security interest created in contemplation of such acquisition), (iii) liens or security interests existing on



the date hereof securing Debt, (iv) liens or security interests on property financed through the issuance of industrial revenue bonds in favor of the holders of such bonds or any agent or trustee therefor, (v) liens or security interests existing on property of any Person acquired by it or any Major Subsidiary, (vi) liens or security interests securing Debt in an aggregate amount not in excess of 5% of PM Companies' Consolidated Tangible Assets, or (vii) liens or security interests upon or with respect to "margin stock" as that term is defined in Regulation U issued by the Board of Governors of the Federal Reserve System.

(b) Mergers, Etc. Merge or consolidate with or into,  
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or convey, transfer, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to, or acquire all or substantially all of the assets of, any Person, or permit any subsidiary directly or indirectly owned by it to do so, unless, immediately after giving effect thereto, no Event of Default or event which, with the giving of notice or lapse of time, or both, would constitute an Event of Default would exist and, in the case of any merger or consolidation to which it is a party, it is the surviving corporation and, in the case of any merger or consolidation to which a Borrower other than PM Companies is a party, the corporation formed by such consolidation or into which such Borrower shall be merged shall be a corporation organized and existing under the laws of the United States of America or any

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State thereof, or the District of Columbia, and shall assume such Borrower's obligations under this Agreement by the execution and delivery of an instrument in form and substance satisfactory to the Majority Lenders and a Notice of Acceptance.

(c) Compliance with ERISA. Permit to exist any  
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occurrence of any Reportable Event (as defined in Title IV of ERISA), or any other event or condition, which presents a material risk of termination by the PBGC of any Major Plan.

(d) Maintenance of Ownership of Philip Morris. Sell  
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or otherwise dispose of any shares of capital stock of Philip Morris.

## ARTICLE VI

### EVENTS OF DEFAULT

SECTION 6.01. Events of Default. If any of the  
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following events ("Events of Default") shall occur and be continuing:

(a) Any Borrower or PM Companies shall fail to pay any principal of, or interest on, any Advance, or PM Companies shall fail to pay any fees payable under Section 2.04, when the same become due and payable; or

(b) Any representation or warranty made or deemed to have been made by any Borrower or PM Companies herein or by any Borrower or PM Companies (or any of their respective officers) in connection with this Agreement shall prove to have been incorrect in any material respect when made or deemed to have been made; or

(c) Any Borrower or PM Companies shall fail to perform or observe (i) any term, covenant or agreement contained in Section 5.01(b) or 5.02, or (ii) any other term, covenant or agreement contained in this Agreement on its part to be performed or observed if such failure shall remain unremedied for 10 days after written notice thereof shall have been given to PM Companies by the Agent or any Lender; or

(d) Any Borrower or PM Companies or any Major

Subsidiary shall fail to pay any principal of or premium or interest on any Debt which is outstanding in a principal amount of at least \$50,000,000 in the aggregate

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(but excluding Debt arising under this Agreement) of such Borrower or PM Companies or such Major Subsidiary (as the case may be), when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt unless adequate provision for any such payment has been made in form and substance satisfactory to the Majority Lenders; or any other event shall occur or condition shall exist under any agreement or instrument relating to any such Debt which is outstanding in a principal amount of at least \$100,000,000 in the aggregate and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate, or to permit the acceleration of, the maturity of such Debt (other than any such Debt owed to a Lender or an affiliate of a Lender if such event or condition shall relate solely to a restriction on margin stock, as that term is defined in Regulation U issued by the Board of Governors of the Federal Reserve System) unless adequate provision for the payment of such Debt has been made in form and substance satisfactory to the Majority Lenders; or any Debt of any Borrower or PM Companies or any Major Subsidiary which is outstanding in a principal amount of at least \$50,000,000 in the aggregate (but excluding Debt arising under this Agreement) shall be declared to be due and payable, or required to be prepaid (other than by a scheduled required prepayment), redeemed, purchased or defeased, or an offer to prepay, redeem, purchase or defease such Debt shall be required to be made, in each case prior to the stated maturity thereof unless adequate provision for the payment of such Debt has been made in form and substance satisfactory to the Majority Lenders; or

(e) Any Borrower or PM Companies or any Major Subsidiary shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against any Borrower or PM Companies or any Major Subsidiary seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the

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appointment of a receiver, trustee, or other similar official for it or for any substantial part of its property, and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismitted or unstayed for a period of 45 days or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against it or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property) shall occur; or any Borrower or PM Companies or any Major Subsidiary shall take any corporate action to authorize any of the actions set forth above in this subsection (e); or

(f) Any judgment or order for the payment of money in excess of \$50,000,000 shall be rendered against any Borrower or PM Companies or any Major Subsidiary and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of 10 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(g) Any ERISA Event with respect to Plan (a "Subject ERISA Event") shall have occurred, and, 30 days after

notice thereof shall have been given to PM Companies by any Lender, (i) such Subject ERISA Event (if correctible) shall not have been corrected and (ii) the Insufficiency of any such Plan, when aggregated with the Insufficiencies (determined as of the date of the Subject ERISA Event) of all other Plans, if any, which were Plans on or after the date hereof and with respect to which an ERISA Event has occurred, exceeds \$100,000,000; or

(h) Any Borrower or PM Companies or any of their ERISA Affiliates shall have made a complete or partial withdrawal from a Multiemployer Plan and the plan sponsor of such Multiemployer Plan shall have notified such withdrawing employer that such employer has incurred a Withdrawal Liability in an annual amount which, when aggregated together with all other payments required to be made to Multiemployer Plans whose plan sponsors have notified such Borrower, PM Companies or any of their ERISA Affiliates that a Withdrawal Liability has been incurred by such Borrower, PM Companies or any of their ERISA Affiliates under such Multiemployer Plans, exceeds \$25,000,000; or

(i) The guaranty provided by PM Companies under Article VIII hereof or any guaranty endorsed by PM Companies on any B Note after delivery thereof under Section 3.04 shall for any reason cease to be valid and binding on PM Companies or PM Companies shall so state in writing;

then, and in any such event, the Agent (i) shall at the request, or may with the consent, of the Majority Lenders, by notice to PM Companies and the Borrowers, declare the obligation of each Lender to make Advances to be terminated, whereupon the same shall forthwith terminate, and (ii) shall at the request, or may with the consent, of the Majority Lenders, by notice to PM Companies and the Borrowers, declare all the Advances then outstanding, all interest thereon and all other amounts payable under this Agreement to be forthwith due and payable, whereupon the Advances then outstanding, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrowers; provided, however, that in the event of an

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actual or deemed entry of an order for relief with respect to any Borrower, PM Companies or any Major Subsidiary under the Federal Bankruptcy Code, (A) the obligation of each Lender to make Advances shall automatically be terminated and (B) the Advances then outstanding, all such interest and all such amounts shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrowers.

ARTICLE VII

THE AGENT

SECTION 7.01. Authorization and Action. Each Lender

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hereby appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement (including, without limitation, enforcement or collection of the Debt resulting from the Advances), the Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Majority Lenders, and such instructions shall be binding upon all Lenders; provided, however, that the

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Agent shall not

be required to take any action which exposes the Agent to personal liability or which is contrary to this Agreement or applicable law. The Agent agrees to give to each Lender prompt

notice of each notice given to it by PM Companies or any Borrower pursuant to the terms of this Agreement.

SECTION 7.02. Agent's Reliance, Etc. Neither the

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Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement, except for its or their own gross negligence or wilful misconduct. Without limitation of the generality of the foregoing, the Agent: (i) may treat the Lender that made any Advance as the holder of the Debt resulting therefrom until the Agent receives and accepts an Assignment and Acceptance entered into by such Lender, as assignor, and an Eligible Assignee, as assignee, as provided in Section 10.07; (ii) may consult with legal counsel (including counsel for the Borrowers and PM Companies), independent accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (iii) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations made in or in connection with this Agreement; (iv) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement on the part of any Borrower or PM Companies or to inspect the property (including the books and records) of any Borrower or PM Companies; (v) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; and (vi) shall incur no liability under or in respect of this Agreement by acting upon any notice, consent, certificate or, other instrument or writing (which may be by telegram, cable or telex) believed by it to be genuine and signed or sent by the proper party or parties.

SECTION 7.03. Citibank and Affiliates. With respect

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to any Commitment of, or any Advance made by, Citibank or any of its affiliates, Citibank shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not the Agent; and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated, include Citibank in its individual capacity. Citibank and its affiliates may accept deposits from, lend money to, act as trustee under indentures of, and generally engage in any kind of business with, any

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Borrower, PM Companies, any of their respective subsidiaries and any Person who may do business with or own securities of any Borrower or PM Companies or any such subsidiary, all as if Citibank were not the Agent and without any duty to account therefor to the Lenders.

SECTION 7.04. Lender Credit Decision. Each Lender

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acknowledges that it has, independently and without reliance upon the Agent or any other Lender and based on the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate, made its own credit analysis, and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

SECTION 7.05. Indemnification. The Lenders agree to

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indemnify the Agent (to the extent not reimbursed by PM Companies or any Borrower), ratably according to the respective principal amounts of Advances then owing to each of them (or if no such Advances are at the time outstanding or if any such Advances are then owing to Persons which are not Lenders, ratably according to the respective amounts of their Commitments), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Agent in any way relating to or arising out of this Agreement or any action taken or omitted by the Agent under

this Agreement, provided that no Lender shall be liable for any

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portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Agent's gross negligence or wilful misconduct. Without limitation of the foregoing, each Lender agrees to reimburse the Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including counsel fees and expenses) incurred by the Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, to the extent that the Agent is not reimbursed for such expenses by PM Companies or any Borrower.

SECTION 7.06. Successor Agent. The Agent may resign

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at any time by giving written notice thereof to the

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Lenders and PM Companies and may be removed at any time with or without cause by the Majority Lenders. Upon any such resignation or removal, the Majority Lenders shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by the Majority Lenders, and shall have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation or the Majority Lenders' removal of the retiring Agent, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent, which shall be a Lender having and acting through a New York office, or a commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least \$500,000,000 which is not a Lender. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

#### ARTICLE VIII

##### GUARANTY

SECTION 8.01. Guaranty. The Guarantor hereby

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unconditionally and irrevocably guarantees (the undertaking of the Guarantor contained in this Article VIII being the "Guaranty") the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of each Borrower now or hereafter existing under this Agreement (other than such obligations under Section 2.03(d) and (e) which are covered by the guaranty under the B Notes), whether for principal, interest, fees, expenses or otherwise (such obligations being the "Obligations"), and any and all expenses (including counsel fees and expenses) incurred by the Agent or the Lenders in enforcing any rights under the Guaranty.

SECTION 8.02. Guaranty Absolute. The Guarantor

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guarantees that the Obligations will be paid strictly in accordance with the terms of this Agreement, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the Agent or the Lenders with respect thereto. The liability

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of the Guarantor under this Guaranty shall be absolute and unconditional irrespective of:

(i) any lack of validity, enforceability or genuineness of any provision of this Agreement or any other agreement or instrument relating thereto;

(ii) any change in the time, manner or place of

payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to departure from this Agreement;

(iii) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any other guaranty, for all or any of the Obligations; or

(iv) any other circumstance which might otherwise constitute a defense available to, or a discharge of, a Borrower or the Guarantor.

This Guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Obligations is rescinded or must otherwise be returned by the Agent or any Lender upon the insolvency, bankruptcy or reorganization of a Borrower or otherwise, all as though such payment had not been made.

SECTION 8.03. Waivers. (a) The Guarantor hereby

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waives promptness, diligence, notice of acceptance and any other notice with respect to any of the Obligations and this Guaranty and any requirement that the Agent or any Lender protect, secure, perfect or insure any security interest or lien or any property subject thereto or exhaust any right or take any action against a Borrower or any other Person or any collateral.

(b) The Guarantor hereby irrevocably waives any claims or other rights that it may now or hereafter acquire against any Borrower that arise from the existence, payment, performance or enforcement of the Guarantor's obligations under this Guaranty or this Agreement, including, without limitation, any right of subrogation, reimbursement, exoneration, contribution or indemnification and any right to participate in any claim or remedy of the Agent or any Lender against such Borrower or any collateral, whether or not such claim, remedy or right arises in equity or under contract, statute or common law, including, without limitation, the right to take or receive from such Borrower, directly or indirectly, in cash or other property or by set-off or in any

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other manner, payment or security on account of such claim, remedy or right. If any amount shall be paid to the Guarantor in violation of the preceding sentence at any time prior to the later of the cash payment in full of the Obligations and all other amounts payable under this Guaranty and the Termination Date, such amount shall be held in trust for the benefit of the Agent and the Lenders and shall forthwith be paid to the Agent to be credited and applied to the Obligations and all other amounts payable under this Guaranty, whether matured or unmatured, in accordance with the terms of this Agreement and this Guaranty, or to be held as collateral for any Obligations or other amounts payable under this Guaranty thereafter arising. The Guarantor acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by this Agreement and this Guaranty and that the waiver set forth in this subsection is knowingly made in contemplation of such benefits.

SECTION 8.04. Payments Free and Clear of Taxes, Etc.

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(a) Any and all payments made by the Guarantor hereunder shall be made in accordance with Section 2.12 (concerning payments) of this Agreement free and clear of and without deduction for any and all present or future Taxes. If the Guarantor shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to any Lender or the Agent, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) such Lender or the Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Guarantor shall make such deductions and (iii) the Guarantor shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, the Guarantor agrees to pay any present or future Other Taxes which arise from any payment made

under this Guaranty or from the execution, delivery or registration of, or otherwise with respect to, this Guaranty.

(c) The Guarantor will indemnify each Lender and the Agent for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section) paid by such Lender or the Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. This indemnification shall be made within 30 days

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from the date such Lender or the Agent (as the case may be) makes written demand therefor.

(d) Within 30 days after the date of any payment of Taxes, the Guarantor will furnish to the Agent, at its address referred to in Section 10.02, the original or a certified copy of a receipt evidencing payment thereof.

(e) Without prejudice to the survival of any other agreement of the Guarantor hereunder, the agreements and obligations of the Guarantor contained in this Section 8.04 shall survive the payment in full of the principal of and interest on the Advances.

(f) Unless in accordance with Section 2.13(f) a Borrower, PM Companies and the Agent have received forms and other documents satisfactory to them indicating that payments hereunder are not subject to United States withholding tax or are subject to such tax at a rate reduced by an applicable tax treaty, the Guarantor or the Agent shall withhold taxes from such payments at the applicable statutory rate in the case of payments to or for any Lender organized under the laws of a jurisdiction outside the United States.

SECTION 8.05. No Waiver; Remedies. No failure on the  
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part of the Agent or any Lender to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder, preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 8.06. Continuing Guaranty. This Guaranty is a  
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continuing guaranty and shall (i) remain in full force and effect until payment in full (after the Termination Date) of the Obligations and all other amounts payable under this Guaranty, (ii) be binding upon the Guarantor, its successors and assigns, and (iii) inure to the benefit of and be enforceable by the Lenders, the Agents and their respective successors, transferees and assigns.

## ARTICLE IX

### SUBSIDIARY BORROWER

SECTION 9.01. Subsidiary Borrower. Any domestic or  
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foreign subsidiary of the Guarantor shall have the right to become a "Borrower" hereunder, and to borrow any unused Commitments under this Agreement subject to the terms and

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conditions hereof applicable to a Borrower and to the following additional conditions:

(a) PM Companies shall deliver a notice in the form of Exhibit F hereto (a "Notice of Acceptance") signed by such subsidiary and countersigned by the Guarantor to the Agent stating that such subsidiary desires to become a "Borrower" under this Agreement and agrees to be bound by the terms hereof. From the time of receipt of such Notice of Acceptance by the Agent, such subsidiary shall be a "Borrower" hereunder with all of the rights and obligations of a Borrower hereunder. No Notice of Acceptance relating

to a subsidiary may be revoked as to amounts owed by such subsidiary to the Lenders under this Agreement or when a Notice of Borrowing naming such subsidiary has been given by PM Companies and is effective.

(b) Each Notice of Acceptance shall be accompanied by an opinion of counsel for PM Companies to the effect of clause (iv) below and shall contain the following representations and warranties with respect to such subsidiary:

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

(ii) The execution, delivery and performance by the subsidiary of any B Notes executed and delivered and to be executed and delivered by it, this Agreement and such Notice of Acceptance are within the subsidiary's corporate powers, have been duly authorized by all necessary corporate action, and do not contravene (i) the subsidiary's charter or by-laws or (ii) any law, rule, regulation or order of any court or governmental agency or any contractual restriction binding on or affecting the subsidiary.

(iii) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by the subsidiary of any B Notes executed and delivered and to be executed and delivered by it, this Agreement or such Notice of Acceptance.

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(iv) This Agreement is, and any B Notes of such subsidiary when delivered under this Agreement will be, the legal, valid and binding obligation of the subsidiary enforceable against the subsidiary in accordance with their respective terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors rights generally and to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(v) There is no pending or threatened action or proceeding affecting the subsidiary or any of its subsidiaries before any court, governmental agency or arbitrator which purports to affect the legality, validity or enforceability of this Agreement or any B Note.

(vi) PM Companies owns directly or indirectly 100% of the capital stock of the subsidiary.

(c) For the purposes of Sections 3.02, 3.03 and 3.04, each of the representations and warranties in the foregoing Section 9.01(b) shall be deemed to be a representation and warranty contained in Section 4.01.

## ARTICLE X

### MISCELLANEOUS

#### SECTION 10.01. Amendments, Etc. No amendment or

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waiver of any provision of this Agreement, nor consent to any departure by any Borrower or the Guarantor therefrom, shall in any event be effective unless the same shall be in writing and signed by the Majority Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no

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amendment, waiver or consent shall, unless in writing and signed by all the Lenders, do any of the following: (a) waive any of the conditions specified in Section 3.01, 3.02 (if and to the extent that the Borrowing which is the subject of such waiver would involve an increase in the aggregate outstanding amount of Advances over the aggregate amount of Advances outstanding immediately prior to such Borrowing) or 3.03, (b)



increase the Commitments of the Lenders or subject the Lenders to any additional obligations, (c) reduce the principal of, or interest on, the A Advances or any fees or other amounts payable hereunder, (d) postpone any date fixed

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for any payment of principal of, or interest on, the A Advances or any fees or other amounts payable hereunder, (e) change the percentage of the Commitments or of the aggregate unpaid principal amount of A Advances, or the number of Lenders which shall be required for the Lenders or any of them to take any action hereunder, (f) release the Guarantor from any of its obligations under Article VIII or (g) amend this Section 10.01; provided further that no waiver of the conditions specified in -----

Section 3.04 in connection with any B Borrowing shall be effective unless consented to by all Lenders making B Advances as part of such B Borrowing; and provided further that no -----

amendment, waiver or consent shall, unless in writing and signed by the Agent in addition to the Lenders required above to take such action, affect the rights or duties of the Agent under this Agreement or any A Advance.

SECTION 10.02. Notices, Etc. Except as provided in -----

Section 2.03(a) or (g), all notices and other communications provided for hereunder shall be in writing (including telegraphic, teletype, telex or cable communication) and mailed, telegraphed, telecopied, telexed, cabled or delivered, if to any Borrower, at its address at c/o Philip Morris Companies Inc., 120 Park Avenue, New York, New York 10017, Attention: Treasurer; if to the Guarantor, at its address at 120 Park Avenue, New York, New York 10017, Attention: Secretary; if to any Bank, at its Domestic Lending Office specified opposite its name on Schedule I hereto; if to any other Lender, at its Domestic Lending Office specified in the Assignment and Acceptance pursuant to which it became a Lender; and if to the Agent, at its address at One Court Square, Long Island City, New York, 11120, Attention: John Sahr; or, as to each party, at such other address as shall be designated by such party in a written notice to PM Companies or the Agent and, in the case of any such notice by any Borrower, PM Companies or the Agent, to each other party hereto. All such notices and communications shall, when mailed, telegraphed, telecopied, telexed or cabled, be effective when deposited in the mails, delivered to the telegraph company, transmitted by telecopier, confirmed by telex answerback or delivered to the cable company, respectively, except that notices and communications to the Agent pursuant to Article II or VII shall not be effective until received by the Agent.

SECTION 10.03. No Waiver; Remedies. No failure on -----

the part of any Lender or the Agent to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided

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are cumulative and not exclusive of any remedies provided by law.

SECTION 10.04. Costs, Expenses and Taxes. (a) PM -----

Companies agrees to pay on demand all costs and expenses in connection with the preparation, execution, delivery, administration (excluding any cost or expenses for administration related to the Agent's overhead), modification and amendment of this Agreement and the other documents to be delivered hereunder, including, without limitation, the reasonable fees and out-of-pocket expenses of counsel for the Agent with respect thereto and with respect to advising the Agent as to its rights and responsibilities under this Agreement, and all costs and expenses of the Lenders and the Agent, if any (including, without limitation, reasonable counsel fees and expenses of the Lenders and the Agent), in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Agreement and the other documents to be delivered hereunder.

(b) If any payment of principal of any Adjusted CD Rate Advance or Eurodollar Rate Advance is made other than on the last day of the Interest Period for such Advance, as a result of a payment pursuant to Section 2.10, acceleration of the maturity of the Advances pursuant to Section 6.01, an assignment made as a result of a demand by PM Companies pursuant to Section 10.07(a) or for any other reason, PM Companies shall, upon demand by any Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender any amounts required to compensate such Lender for any additional losses, costs or expenses which it may reasonably incur as a result of such payment, including, without limitation, any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender to fund or maintain such Advance. Without prejudice to the survival of any other agreement of any Borrower or PM Companies hereunder, the agreements and obligations of each Borrower and PM Companies contained in Section 2.02(c), 2.08, 2.10(b)(ii) or (c), 2.11 or this Section 10.04(b) shall survive the payment in full of principal and interest hereunder.

(c) Each Borrower and the Guarantor jointly and severally agree to indemnify and hold harmless the Agent and each Lender and each of their respective affiliates, control persons, directors, officers, employees, attorneys and agents (each, an "Indemnified Party") from and against any and all claims, damages, losses, liabilities and expenses (including, without limitation, reasonable fees and disbursements of

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counsel) which may be incurred by or asserted against any Indemnified Party, in each case in connection with or arising out of, or in connection with the preparation for or defense of, any investigation, litigation, or proceeding (i) related to any transaction or proposed transaction (whether or not consummated) in which any proceeds of any Borrowing are applied or proposed to be applied, directly or indirectly, by any Borrower, whether or not such Indemnified Party is a party to such transaction or (ii) related to any Borrower's or the Guarantor's entering into this Agreement, or to any actions or omissions of any Borrower or the Guarantor, any of their respective subsidiaries or affiliates or any of its or their respective officers, directors, employees or agents in connection therewith, in each case whether or not an Indemnified Party is a party thereto and whether or not such investigation, litigation or proceeding is brought by the Guarantor or any Borrower or any other Person; provided,

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however, that neither any Borrower nor the Guarantor shall be -----

required to indemnify any such Indemnified Party from or against any portion of such claims, damages, losses, liabilities or expenses that is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from the gross negligence or wilful misconduct of such Indemnified Party.

SECTION 10.05. Right of Set-off. Upon (i) the -----

occurrence and during the continuance of any Event of Default and (ii) the making of the request or the granting of the consent specified by Section 6.01 to authorize the Agent to declare the Advances due and payable pursuant to the provisions of Section 6.01, each Lender is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender to or for the credit or the account of any Borrower or the Guarantor against any and all of the obligations of such Borrower or the Guarantor now or hereafter existing under this Agreement, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations may be unmaturing. Each Lender agrees promptly to notify the appropriate Borrower or the Guarantor, as the case may be, after any such setoff and application made by such Lender, provided that the failure to give such notice shall not affect -----

the validity of such set-off and application. The rights of each Lender under this Section are in addition to other rights

and remedies (including, without limitation, other rights of set-off) which such Lender may have.

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SECTION 10.06. Binding Effect. This Agreement shall

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become effective when it shall have been executed by PM Companies and the Agent and when the Agent shall have been notified by each Bank that such Bank has executed it and thereafter shall be binding upon and inure to the benefit of each Borrower, the Guarantor, the Agent and each Lender and their respective successors and assigns, except that neither any Borrower nor the Guarantor shall have the right to assign its rights hereunder or any interest herein without prior written consent of the Lenders.

SECTION 10.07. Assignments and Participations. (a)

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Each Lender may and, if demanded by PM Companies upon at least 5 Business Days' notice to such Lender and the Agent, will assign to one or more banks or other entities all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment and the A Advances owing to it); provided, however, that (i) each such

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assignment shall be of a constant, and not a varying, percentage of all of the assigning Lender's rights and obligations under this Agreement (other than, except in the case of an assignment made as a result of a demand by PM Companies pursuant to this Section 10.07(a), any B Advances owing to such Bank or any B Notes held by it), (ii) the amount of the Commitment of the assigning Lender being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than \$25,000,000 and shall be an integral multiple of \$1,000,000, (iii) each such assignment shall be to an Eligible Assignee, (iv) each such assignment made as a result of a demand by PM Companies pursuant to this Section 10.07(a) shall be arranged by PM Companies after consultation with the Agent and shall be either an assignment of all of the rights and obligations of the assigning Lender under this Agreement or an assignment of a portion of such rights and obligations made concurrently with another such assignment or other such assignments which together cover all of the rights and obligations of the assigning Lender under this Agreement, (v) no Lender shall be obligated to make any such assignment as a result of a demand by PM Companies pursuant to this Section 10.07(a) unless and until such Lender shall have received one or more payments from either the Borrowers to which it has outstanding Advances or one or more Eligible Assignees in an aggregate amount at least equal to the aggregate outstanding principal amount of the Advances owing to such Lender, together with accrued interest thereon to the date of payment of such principal amount and all other amounts payable to such Lender under this Agreement and (vi) the parties to each such assignment shall execute and deliver to the Agent, for

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its acceptance and recording in the Register, an Assignment and Acceptance, together with a processing and recordation fee of \$3,000, provided that, if such assignment is made as a result

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of a demand by PM Companies under this Section 10.07(a), PM Companies shall pay or cause to be paid such \$3,000 fee; provided further that nothing in this Section 10.07 shall

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prevent or prohibit any Lender from pledging its Advances hereunder or any B Notes held by it to a Federal Reserve Bank in support of borrowings by such Lender from such Federal Reserve Bank. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Lender hereunder and (y) the Lender assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights (other than those provided under Section 10.04) and be released from its obligations under this Agreement (and, in

the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto).

(b) By executing and delivering an Assignment and Acceptance, the Lender assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; (ii) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of any Borrower or PM Companies or the performance or observance by any Borrower or PM Companies of any of their respective obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Agent, such assigning Lender or any other Lender and based on such documents and information as

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it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee confirms that it is an Eligible Assignee; (vi) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(c) The Agent shall maintain at its address referred to in Section 10.02 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Commitment of, and principal amount of the Advances owing to, each Lender from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and PM Companies, the Borrowers, the Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by PM Companies or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an assignee representing that it is an Eligible Assignee, the Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit C hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to PM Companies.

(e) Each Lender may sell participations to one or more banks or other entities in or to all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment and the Advances owing to it and any B Note or Notes held by it); provided,

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however, that (i) such Lender's obligations under this  
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Agreement (including, without limitation, its Commitment to PM Companies hereunder) shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Lender shall remain the holder of any such B Note for all purposes of this Agreement, and (iv) PM Companies, the other Borrowers, the Agent and the other Lenders shall continue to deal solely and

directly with such Lender in connection with such Lender's rights and obligations under this Agreement.

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(f) Any Lender may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 10.07, disclose to the assignee or participant or proposed assignee or participant, any information relating to PM Companies or any Borrower furnished to such Lender by or on behalf of PM Companies or any Borrower; provided that, prior to any such disclosure, the assignee or

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participant or proposed assignee or participant shall agree to preserve the confidentiality of any confidential information relating to PM Companies received by it from such Lender.

SECTION 10.08. Governing Law. This Agreement and any

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B Notes shall be governed by, and construed in accordance with, the laws of the State of New York.

SECTION 10.09. Execution in Counterparts. This

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Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

PHILIP MORRIS COMPANIES INC.

By: /s/ George R. Lewis

-----  
Vice President and  
Treasurer

CITIBANK, N.A., as Agent

By: /s/ Paolo de Alessandrini

-----  
Vice President

61

THE BANKS

-----  
Commitment:

U.S. \$233,333,333.37

CITIBANK, N.A.

By: /s/ Paolo de Alessandrini

-----  
Vice President

U.S. \$166,666,666.67

CHEMICAL BANK

By: /s/ Robert C. Kennedy

-----  
Vice President

U.S. \$166,666,666.67

CREDIT SUISSE

By: /s/ Robert B. Potter  
-----  
Associate

By: /s/ Carole A. Lustig  
-----  
Associate

U.S. \$125,000,000.00

MORGAN GUARANTY TRUST  
COMPANY OF NEW YORK

By: /s/ John A. Payne  
-----  
Managing Director

U.S. \$ 25,000,000.00

J.P. MORGAN DELAWARE

By: /s/ David J. Morris  
-----  
Vice President

62

U.S. \$146,666,666.67

UNION BANK OF SWITZERLAND

By: /s/ Peter B. Yearly  
-----  
Vice President

By: /s/ James P. Kelleher  
-----  
Assistant Treasurer

U.S. \$143,333,333.33

DEUTSCHE BANK AG NEW YORK  
BRANCH AND/OR CAYMAN  
ISLAND BRANCHES

By: /s/ Ross A. Howard  
-----  
Assistant Vice President

By: /s/ Rolf-Peter Mikolayczyk  
-----  
Director

U.S. \$133,333,333.33

ABN AMRO BANK NV, NEW YORK  
BRANCH

By: /s/ Laura G. Fazio  
-----  
Vice President

By: /s/ Margaret P. Hannahoe  
-----  
Assistant Vice President

U.S. \$133,333,333.33

SOCIETE GENERALE

By: /s/ Bruce H. Drossman  
-----  
Vice President

63

U.S. \$120,000,000.00

SWISS BANK CORPORATION,  
NEW YORK AND CAYMAN  
ISLANDS BRANCHES

By: /s/ Marcia L. Thatcher  
-----  
Vice President

By: /s/ Philippe M. Goossens  
-----  
Associate Director

U.S. \$115,000,000.00

THE DAI-ICHI KANGYO BANK,  
LTD. - NEW YORK BRANCH

By: /s/ Timothy White  
-----  
Assistant Vice President

U.S. \$113,333,333.33

BANK OF AMERICA NT & SA

By: /s/ John Pocalyko  
-----  
Vice President

U.S. \$113,333,333.33

DRESDNER BANK AG NEW YORK  
AND GRAND CAYMAN BRANCHES

By: /s/ J. Michael Leffler  
-----  
First Vice President

By: /s/ A. Richard Morris  
-----  
Vice President

64

U.S. \$106,666,666.67

NATIONSBANK OF NORTH  
CAROLINA, N.A.

By: /s/ Sally L. Hazard  
-----  
Senior Vice President

U.S. \$100,000,000.00

THE SUMITOMO BANK, LIMITED

By: /s/ Y. Kawamura  
-----  
Joint General Manager

U.S. \$ 93,333,333.33

BAYERISCHE HYPOTHEKEN - UND  
WECHSEL-BANK, NEW YORK  
BRANCH

By: /s/ E. S. Atwell  
-----  
Assistant Vice President

By: /s/ David Rockwell  
-----  
First Vice President

U.S. \$ 93,333,333.33

THE CHASE MANHATTAN BANK,  
N.A.

By: /s/ Elyse O'Hora  
-----  
Managing Director

U.S. \$ 93,333,333.33

SANWA BANK LIMITED

By: /s/ Stephen C. Small  
-----  
Vice President &  
Area Manager

65

U.S. \$ 80,000,000.00

CREDIT LYONNAIS  
CAYMAN ISLAND BRANCH

By: /s/ Robert Ivosevich  
-----  
Authorized Signatory

CREDIT LYONNAIS  
NEW YORK BRANCH

By: /s/ Robert Ivosevich  
-----  
Senior Vice President

U.S. \$ 75,000,000.00

THE BANK OF TOKYO TRUST  
TRUST CO.

By: /s/ G. Stewart  
-----  
Vice President &  
Deputy Manager

U.S. \$ 75,000,000.00

THE FUJI BANK, LIMITED

By: /s/ Y. Shiotsugu  
-----  
Vice President & Manager

U.S. \$ 62,333,333.33

BANQUE NATIONALE DE PARIS  
NEW YORK BRANCH

By: /s/ Pierre-Nicholas Rogers  
-----  
Vice President

By: /s/ Robert S. Taylor, Jr.  
-----  
Senior Vice President

66

BANQUE NATIONALE DE PARIS  
GEORGETOWN BRANCH



By: /s/ Pierre-Nicholas Rogers  
-----  
Vice President

By: /s/ Robert S. Taylor, Jr.  
-----  
Senior Vice President

U.S. \$ 58,333,333.33

MIDLAND BANK PLC

By: /s/ Derek Lunt  
-----  
Corporate Banking Director

U.S. \$ 53,333,333.33

THE BANK OF NEW YORK

By: /s/ Howard F. Bascom, Jr.  
-----  
Vice President

U.S. \$ 45,000,000.00

MELLON BANK N.A.

By: /s/ Diane P. Durnin  
-----  
Vice President

U.S. \$ 45,000,000.00

THE TORONTO-DOMINION BANK

By: /s/ Lisa Allison  
-----  
Manager  
Credit Administration

67

U.S. \$ 41,666,666.67

BAYERISCHE LANDESBANK  
GIROZENTRALE

By: /s/ Wilfried Freudenberger  
-----  
Executive Vice President  
and General Manager

By: /s/ Peter Obermann  
-----  
First Vice President  
Manager Corporate Finance

U.S. \$ 41,666,666.67

DEUTSCHE GENOSSENSCHAFTSBANK

By: /s/ Karen A. Brinkman  
-----  
Vice President

By: /s/ John L. Dean  
-----  
Senior Vice President

U.S. \$ 41,666,666.67

ISTITUTO BANCARIO SAN

By: /s/ W. Jones  
-----  
Vice President

By: /s/ Ettore Viazzo  
-----  
Vice President

U.S. \$ 41,666,666.67

THE SAKURA BANK, LTD.

By: /s/ Y. Terada  
-----  
VP & AGM

68

U.S. \$ 40,000,000.00

NATIONAL AUSTRALIA BANK  
LIMITED

By: /s/ Robert S. Emerson  
-----  
Vice President

U.S. \$ 38,333,333.33

BANQUE PARIBAS

By: /s/ S. Kelly  
-----  
Group Vice President

By: /s/ Mary T. Finnegan  
-----  
Vice President

U.S. \$ 38,333,333.33

CANADIAN IMPERIAL BANK  
COMMERCE

By: /s/ Mary Kate Miller  
-----  
Authorized Signatory

U.S. \$ 38,333,333.33

CONTINENTAL BANK N.A.

By: /s/ Kathryn W. Robinson  
-----  
Vice President

69

U.S. \$ 38,333,333.33

NORDDEUTSCHE LANDESBANK  
GIROZENTRALE NEW YORK  
BRANCH AND/OR CAYMAN ISLAND  
BRANCH

By: /s/ Stephen K. Hunter  
-----  
Senior Vice President

By: /s/ Stephanie Hoevermann  
-----

Vice President

U.S. \$ 38,333,333.33

RABOBANK NEDERLAND, NEW YORK  
BRANCH

By: /s/ Johannes F. Breukhoven  
-----

Vice President

By: /s/ Ian Reece  
-----

Vice President & Manager

U.S. \$ 38,333,333.33

ROYAL BANK OF CANADA

By: /s/ Linda M. Murrer  
-----

Senior Manager

U.S. \$ 38,333,333.33

WACHOVIA BANK OF GEORGIA,  
N.A.

By: /s/ Linda M. Harris  
-----

Senior Vice President

70

U.S. \$ 35,000,000.00

THE BANK OF NOVA SCOTIA

By: /s/ John Campbell  
-----

Vice President & Agent

U.S. \$ 33,333,333.33

BANCO DI ROMA

By: /s/ Ralph W. Riehle  
-----

First Vice President

By: /s/ T. Howell  
-----

Vice President

U.S. \$ 33,333,333.33

BANK BRUSSELS LAMBERT,  
NEW YORK BRANCH

By: /s/ John Kippax  
-----

Vice President

By: /s/ Eric Hollanders  
-----

Senior Vice President  
Credit Department

U.S. \$ 33,333,333.33

THE FIRST NATIONAL BANK OF  
CHICAGO

By: /s/ James W. Peterson  
-----

Vice President

U.S. \$ 33,333,333.33

FIRST INTERSTATE BANK OF

By: /s/ Roy H. Roberts  
-----  
Vice President

By: /s/ David E. Grimes  
-----  
Vice President

71

U.S. \$ 33,333,333.33 THE MITSUBISHI BANK, LIMITED  
NEW YORK BRANCH

By: /s/ J. Bruce Meredith  
-----  
Senior Vice President  
and Manager

U.S. \$ 33,333,333.33 THE TOKAI BANK, LIMITED

By: /s/ Masaharu Muto  
-----  
Deputy General Manager

U.S. \$ 33,333,333.33 TRUST COMPANY BANK

By: /s/ Craig W. Farnsworth  
-----  
Vice President

U.S. \$ 33,333,333.33 THE YASUDA TRUST AND  
BANKING COMPANY, LIMITED  
NEW YORK BRANCH

By: /s/ Neil T. Chau  
-----  
Vice President

U.S. \$ 26,666,666.67 DAIWA BANK LIMITED

By: /s/ Masafumi Asai  
-----  
Second Vice President

U.S. \$ 26,666,666.67 DEN DANSKE BANK

By: /s/ Bent V. Christensen  
-----  
Vice President

By: /s/ Peter L. Hargraves  
-----  
Vice President

72

U.S. \$ 26,666,666.67 THE INDUSTRIAL BANK OF  
JAPAN, LIMITED, NEW YORK  
BRANCH

By: /s/ Junri Oda  
-----  
Senior Vice President

and Senior Manager

U.S. \$ 25,000,000.00

BANCA NAZIONALE DEL LAVORO  
S.P.A. - NEW YORK BRANCH

By: /s/ Giuliano Violetta  
-----  
First Vice President

By: /s/ Giulio Giovine  
-----  
Vice President

U.S. \$ 21,666,666.67

THE FIRST NATIONAL BANK OF  
BOSTON

By: /s/ Ellen H. Allen  
-----  
Director

U.S. \$ 20,000,000.00

COMPAGNIE FINANCIERE DE CIC  
ET DE L'UNION EUROPEENNE

By: /s/ Sean Mounier  
-----  
Vice President

By: /s/ Alain Merle d'Aubigne  
-----  
Vice President

73

U.S. \$ 20,000,000.00

INTERNATIONALE NEDERLANDEN  
BANK N.V., DUBLIN BRANCH

By: /s/ C. Vincent Reilly  
-----  
Senior General Manager

By: /s/ Vaughn Richtor  
-----  
General Manager

U.S. \$ 20,000,000.00

LLOYDS BANK PLC.

By: /s/ T. Walser  
-----  
Senior Vice President

By: /s/ Paul Briamonte  
-----  
Vice President

U.S. \$ 17,333,333.33

BANK OF HAWAII

By: /s/ Scott G. Balke  
-----  
Vice President

U.S. \$ 16,666,666.67

BANCA COMMERCIALE

By: /s/ J. Mimi Welch  
-----  
Assistant Vice President

By: /s/ Edward C. Bermant  
-----  
First Vice President

74

U.S. \$ 16,666,666.67

BANK OF MONTREAL

By: /s/ Thruston W. Pettus  
-----  
Director

U.S. \$ 16,666,666.67

BANKERS TRUST COMPANY

By: /s/ Priscilla Newbury  
-----  
Vice President

U.S. \$ 16,666,666.67

FIRST BANK NATIONAL  
ASSOCIATION

By: /s/ Mark R. Olmon  
-----  
Vice President

U.S. \$ 16,666,666.67

FIRST FIDELITY BANK, N.A.  
NEW JERSEY

By: /s/ Susan Dimmick  
-----  
Vice President

U.S. \$ 16,666,666.67

FIRST UNION NATIONAL BANK OF  
NORTH CAROLINA

By: /s/ Michael T. Grady  
-----  
Vice President

75

U.S. \$ 16,666,666.67

GENERALE BANK, NEW YORK  
BRANCH

By: /s/ Alain Verschueren  
-----  
Senior Vice President

By: /s/ Eddie Matthews  
-----  
Senior Vice President

U.S. \$ 16,666,666.67

THE LONG-TERM CREDIT BANK  
OF JAPAN, LIMITED

By: /s/ H. Sasaki  
-----  
Deputy General Manager

U.S. \$ 16,666,666.67

THE MITSUBISHI TRUST AND BANKING  
CORPORATION, LOS ANGELES AGENCY

By: /s/ Takashi Sugita  
-----  
Senior Vice President

U.S. \$ 16,666,666.67

WESTDEUTSCHE LANDESBANK  
GIROZENTRALE, NEW YORK  
AND CAYMAN ISLANDS  
BRANCHES

By: /s/ Roland W. Chalons-Browne  
-----  
Managing Director

By: /s/ Salvatore Battinelli  
-----  
Vice President

76

U.S. \$ 13,333,333.33

BANCO BILBAO VIZCAYA, S.A.

By: /s/ Adolfo Martinez  
-----  
Vice President -  
Corporate Banking Manager

By: /s/ Ahmad Abouzeid  
-----  
Vice President -  
Credit Manager

U.S. \$ 11,666,666.67

CARIPO - CASSA DI  
RISPARMIO DELLE PROVINCIE  
LOMBARDE S.P.A.

By: /s/Giuseppe Zanotti-Fregonara  
-----  
Senior Vice President

By: /s/ Charles W. Kennedy  
-----  
Vice President

U.S. \$ 11,666,666.67

THE MITSUI TRUST AND BANKING  
COMPANY LIMITED

By: /s/ Kiichiro Kondo  
-----  
Senior Vice President &  
Manager

U.S. \$ 8,333,333.33

BANCO ESPANOL DE CREDITO, NEW  
YORK BRANCH

By: /s/ Fernando Artaza  
-----  
General Manager

By: /s/ Juan Galan  
-----  
Senior Vice President

77

U.S. \$ 8,333,333.33 CREDIT COMMERCIAL DE FRANCE

By: /s/ Steven Broad  
-----  
Senior Vice President

By: /s/ Kathryn Hudson  
-----  
Assistant Vice President

U.S. \$ 8,333,333.33 FLEET BANK

By: /s/ Deane M. Driscoll  
-----  
Vice President

U.S. \$ 8,333,333.33 THE NORTHERN TRUST COMPANY

By: /s/ Deborah W. Thomas  
-----  
Vice President

U.S. \$ 8,333,333.33 THE ROYAL BANK OF SCOTLAND PLC

By: /s/ David Dougan  
-----  
Vice President

U.S. \$ 8,333,333.33 SIGNET BANK /VIRGINIA

By: /s/ J. Charles Link  
-----  
Senior Vice President

78

U.S. \$ 8,333,333.33 THE SUMITOMO TRUST & BANKING  
CO., LTD., LOS ANGELES AGENCY

By: /s/ Yutaka Itoh  
-----  
Deputy General Manager

U.S. \$ 8,333,333.33 SVENSKA HANDELSBANKEN

By: /s/ Guy Rudberg  
-----



Vice President

By: /s/ Kjell Arvidsson  
-----  
Vice President

U.S. \$ 8,333,333.33

THE TOYO TRUST & BANKING CO.,  
LTD.

By: /s/ Tomoshige Kimura  
-----  
Vice President

U.S. \$ 8,000,000.00

CRESTAR BANK

By: /s/ Keith Hubbard  
-----  
Senior Vice President

U.S. \$ 6,666,666.67

STATE STREET BANK & TRUST CO.

By: /s/ Patrick K. Armstrong  
-----  
Vice President

79

U.S. \$ 3,666,666.67

CENTRAL FIDELITY BANK

By: /s/ Harry A. Turton, Jr.  
-----  
Assistant Vice President

U.S. \$ 3,666,666.67

M&I MARSHALL & ILSLEY BANK

By: /s/ Philip M. McGoohan  
-----  
Vice President

U.S. \$ 3,333,333.33

FIRSTAR BANK MILWAUKEE, N.A.

By: /s/ Thomas A. Rave  
-----  
Vice President

SCHEDULE I

<TABLE>  
<CAPTION>  
BANK  
- - - -

DOMESTIC LENDING OFFICE  
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CD LENDING OFFICE  
-----  
(IF OTHER THAN DOMESTIC  
LENDING OFFICE)  
-----

EURODOLLAR LENDING OFFICE  
-----  
(IF OTHER THAN DOMESTIC  
LENDING OFFICE)  
-----

<S>  
ABN AMRO Bank N.V.,  
New York Branch

<C>  
Laura Fazio  
Vice President  
500 Park Avenue, 2nd Fl.  
New York, NY 10022  
(212) 832-7129 (Facsimile)

<C>

<C>  
AMB AMRO Bank N.V.  
Cayman Islands Branch  
c/o ABN AMRO Bank N.V.  
500 Park Avenue, 2nd Fl.  
New York, NY 10022  
(212) 832-7129 (Facsimile)

Banca Commerciale Italiana-

Sarah Kim

New York Branch	Assistant Treasurer 1 William Street New York, NY 10004 (212) 809-2124 (Facsimile)
Banca Nazionale Del Lavoro S.P.A.-New York Branch	Giulio Giovine, V.P. 25 West 51st Street New York, NY 10019 (212) 765-2978 (Facsimile)
Banca di Roma, New York Branch	Ralph Riehle First Vice President 100 Wall Street New York, NY 10005 (212) 607-6421 (Facsimile)
Banco Bilbao Vizcaya, S.A.	Juan Urquiola Account Officer 116 East 55th Street New York, NY 10022 (212) 826-3107 (Facsimile)
Banco Espanol de Credito, New York Branch	Edna S. Diffoot-Cabrera Assistant Treasurer 630 Fifth Ave Suite 514 New York, NY 10111 (212) 262-3119 (Facsimile)
Bank Brussels Lambert, New York Branch	John Kippax Vice President 630 Fifth Avenue New York, NY 10111 (212) 333-5786 (Facsimile)

</TABLE>

2

<TABLE>  
<CAPTION>

BANK -----	DOMESTIC LENDING OFFICE -----	CD LENDING OFFICE ----- (IF OTHER THAN DOMESTIC LENDING OFFICE) -----	EURODOLLAR LENDING OFFICE ----- (IF OTHER THAN DOMESTIC LENDING OFFICE) -----
<S> Bank of America NT & SA	<C> Robert Simpson 1850 Gateway Blvd. Concord, CA 94520 (510) 675-7531 (Facsimile)	<C>	<C>
Bank of Hawaii	Scott Balke Vice President 130 Merchant Street, 20th FL Honolulu, HI 96846 (808) 537-8301 (Facsimile)		
Bankers Trust Company	Priscilla Newbury Vice President 280 Park Avenue New York, NY 10017 (212) 454-2605 (Facsimile)		
Bank of Montreal	Thruston W. Pettus Director 430 Park Avenue New York, NY 10022 (212) 605-1454 (Facsimile)		
Banque Nationale de Paris New York Branch Banque Nationale de Paris Georgetown Branch	Pierre-Nicholas Rogers Vice President 499 Park Avenue New York, NY 10022 (212) 415-9606 (Facsimile)		Banque Nationale de Paris Georgetown Branch c/o Banque Nationale de Paris New York Branch 499 Park Avenue New York, NY 10022 (212) 415-9695 (Facsimile)
Banque Paribas	Mary T. Finnegan Vice President 787 Seventh Avenue New York, NY 10019 (212) 841-2333 (Facsimile)		Banque Paribas Grand Cayman Branch c/o Banque Paribas NY Park Avenue Plaza New York, NY 10055 (212) 841-2333 (Facsimile)

Bayerische Hypotheken -  
Und Wechsel-Bank,  
New York Branch

Steve Atwell, A.V.P.  
Financial Square  
32 Old Slip  
New York, NY 10005  
(212) 440-0741 (Facsimile)

</TABLE>

3

<u>BANK</u>	<u>DOMESTIC LENDING OFFICE</u>	<u>CD LENDING OFFICE</u>	<u>EURODOLLAR LENDING OFFICE</u>
<u>- - - - -</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
		<u>(IF OTHER THAN DOMESTIC</u>	<u>(IF OTHER THAN DOMESTIC</u>
		<u>LENDING OFFICE)</u>	<u>LENDING OFFICE)</u>
		<u>-----</u>	<u>-----</u>
<u>&lt;S&gt;</u>	<u>&lt;C&gt;</u>	<u>&lt;C&gt;</u>	<u>&lt;C&gt;</u>
Bayerische Landesbank Girozentrale	Joanne Cicino Second Vice President 560 Lexington Ave New York, NY 10022 (212) 310-9865 (Facsimile)		
Canadian Imperial Bank of Commerce	Mary Kate Miller Vice President 425 Lexington Avenue, 6th Fl. New York, NY 10017 (212) 856-3559/3600 (Facsimile)		
Cariplo - Cassa di Risparmio Delle Provincie Lombarde S.P.A.	Charles Kennedy Vice President 650 Fifth Avenue New York, NY 10019 (212) 603-7840 (Facsimile)		
Central Fidelity Bank	Harry A. Turton, Jr. Central Fidelity Bank Asst. Vice President P.O. Box 27602 Richmond, VA 23261 (804) 697-6869 (Facsimile)		
Chemical Bank	Robert P. Kemas Vice President 270 Park Avenue, 9th Fl. New York, NY 10017 (212) 270-7138 (Facsimile)		
Compagnie Financiere de CIC et de L'Union Europeene	Sean Mounier Vice President 520 Madison Avenue, 37th Fl. New York, NY 10022 (212) 715-4535 (Facsimile)		
Citibank, N.A.	Paolo de Alessandrini 399 Park Avenue 8th Floor New York, NY 10043 (212) 793-3963 (Facsimile)		
Continental Bank N.A.	Ken Washington 231 S. LaSalle Street Chicago, IL 60697 (312) 828-5140 (Facsimile)		

</TABLE>

4

<u>BANK</u>	<u>DOMESTIC LENDING OFFICE</u>	<u>CD LENDING OFFICE</u>	<u>EURODOLLAR LENDING OFFICE</u>
<u>- - - - -</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
		<u>(IF OTHER THAN DOMESTIC</u>	<u>(IF OTHER THAN DOMESTIC</u>
		<u>LENDING OFFICE)</u>	<u>LENDING OFFICE)</u>
		<u>-----</u>	<u>-----</u>
<u>&lt;S&gt;</u>	<u>&lt;C&gt;</u>	<u>&lt;C&gt;</u>	<u>&lt;C&gt;</u>
Credit Commercial de France	Steven Broad Senior Vice President 450 Park Ave		

	New York, NY 10022 (212) 832-7469 (Facsimile)	
Credit Lyonnais Cayman Island Branch Credit Lyonnais New York Branch	Robert Bostani Vice President 1301 Avenue of the Americas New York, NY 10019 (212) 459-3179 (Facsimile)	Credit Lyonnais Cayman Island Branch c/o Credit Lyonnais NY Branch 1301 Avenue of the Americas New York, NY 10019 (212) 459-3179
Credit Suisse	Robert B. Potter 12 E. 49th St., 44th FL. New York, NY 10017 (212) 238-5439 (Facsimile)	Credit Suisse Cayman Island Branch c/o Credit Suisse 12 East 49th Street New York, NY 10017 (212) 238-5439
Crestar Bank	Keith A. Hubbard Senior Vice President 919 East Main Street Richmond, VA 23219 (804) 782-5413 (Facsimile)	
Daiwa Bank Limited	Mr. Asai 75 Rockefeller Plaza New York, NY 10019 (212) 554-7210 (Facsimile)	
Den Danske Bank	P. Hargraves Vice President 280 Park Ave New York, NY 10017 (212) 370-9239 (Facsimile)	
Deutsche Bank AG, New York Branch and/or Cayman Island Branches	Rolf-Peter Mikolayczyk Vice President Deutsche Bank AG, New York Branch 31 West 52nd Street New York, NY 10019 (212) 474-8212 (Facsimile)	Rolf-Peter Mikolayczyk Cayman Islands Branch c/o Deutsche Bank AG 31 West 52nd Street New York, NY 10019 (212) 474-8212 (Facsimile)
Deutsche Genossenschaftsbank	Robert B. Herber Vice President 609 Fifth Avenue New York, NY 10017-1021 (212) 745-1556 (Facsimile)	

</TABLE>

5

<TABLE> <CAPTION> BANK - - - - -	DOMESTIC LENDING OFFICE -----	CD LENDING OFFICE ----- (IF OTHER THAN DOMESTIC LENDING OFFICE) -----	EURODOLLAR LENDING OFFICE ----- (IF OTHER THAN DOMESTIC LENDING OFFICE) -----
<S> Dresdner Bank AG New York and Grand Cayman Branches	<C> J. Michael Leffler First Vice President Dresdner Bank AG New York Branch 75 Wall Street New York, NY 10005 (212) 574-0130 (Facsimile)	<C>	<C> Dresdner Bank AG New York or Grand Cayman Branch c/o New York Branch 75 Wall Street New York, NY 10005 (212) 574-0130 (Facsimile)
First Bank National Association	Mark R. Olmon Vice President 601 Second Ave. So. Minneapolis, MN 55602 (612) 973-0825 (Facsimile)		
First Fidelity Bank, N.A. New Jersey	Susan J. Dimmick First Fidelity Bank, N.A. New Jersey 550 Broad Street Newark, NJ 07102 (201) 565-6681 (Facsimile)		
First Interstate Bank of California	Roy Roberts Vice President 885 Third Avenue, 5th Fl.		

	New York, NY 10020 (212) 593-5238 (Facsimile)
First Union National Bank of North Carolina	Allison Zollicoffer Vice President One First Union Center Charlotte, NC 28202-0745 (704) 374-2802 (Facsimile)
Firststar Bank Milwaukee, N.A.	Robert A. Flosbach Vice President 777 E. Wisconsin Avenue Milwaukee, WI 53202 (414) 765-5062 (Facsimile)
Fleet Bank	Deane M. Driscoll Vice President 56 East 42nd St. New York, NY 10017 (212) 907-5633
Generale Bank, New York Branch	Florence J. Mauchant Vice President 520 Madison Avenue, 41st Fl. New York, NY 10022 (212) 838-7492 (Facsimile)

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6

<TABLE>  
<CAPTION>  
BANK

DOMESTIC LENDING OFFICE

CD LENDING OFFICE

EURODOLLAR LENDING OFFICE

- - - - -

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-----  
(IF OTHER THAN DOMESTIC  
LENDING OFFICE)

-----  
(IF OTHER THAN DOMESTIC  
LENDING OFFICE)

<S>  
Istituto Bancario San Paolo  
di Torino S.P.A.

<C>  
Wendell H. Jones  
245 Park Avenue  
New York, NY 10167  
(212) 599-5303 (Facsimile)

<C>

<C>

Internationale Nederlanden  
Bank N.V., Dublin Branch

Enda Allen  
Manager, Financial Services  
49 St. Stephen's Green  
Dublin 2  
(3531) 662-1916 (Facsimile)

Lloyds Bank Plc

Theodore Walser, V.P.  
199 Water Street  
New York, NY 10038  
(212) 607-4999 (Facsimile)

M&I Marshall and Ilsey Bank

Philip M. McGoohan  
Vice President  
770 N. Water Street  
Milwaukee, WI 53202  
(414) 765-7625 (Facsimile)

Mellon Bank N.A.

Diane P. Durnin  
Vice President  
Mellon Bank  
65 East 55th Street  
New York, NY 10022  
(212) 702-5269 (Facsimile)

Midland Bank PLC

Derek Lunt  
Corporate Banking Dir.  
Consumer Industries Grp, Corp.  
& Institutional Banking  
27-32 Poultry  
London EC2P 2BX

The Mitsui Trust and Banking  
Company Limited

Gerard Machado  
Asst. Vice President  
1 World Financial Center  
200 Liberty Street  
New York, NY 10281  
(212) 945-4171 (Facsimile)

Morgan Guaranty Trust Company  
of New York

Charles R. Pardue  
Vice President

Morgan Guaranty Trust Company  
of New York

60 Wall Street  
New York, NY 10260-0060  
(212) 648-5018

Nassau, Bahamas Office  
c/o J.P. Morgan Services  
500 Stanton Christiana Road  
Newark, Delaware 19713

</TABLE>

7

<TABLE>  
<CAPTION>  
BANK

DOMESTIC LENDING OFFICE

CD LENDING OFFICE

EURODOLLAR LENDING OFFICE

- - - - -

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(IF OTHER THAN DOMESTIC

(IF OTHER THAN DOMESTIC

LENDING OFFICE)

LENDING OFFICE)

<S>

<C>

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<C>

J.P. Morgan Delaware

David J. Morris  
Vice President  
902 Market Street  
Wilmington, DE 19801  
(302) 654-5336 (Facsimile)

National Australia Bank Limited

Robert S. Emerson  
Vice President  
National Australia Bank  
200 Park Avenue, 34th Fl.  
New York, NY 10166  
(212) 983-1969 (Facsimile)

NationsBank of North  
Carolina, N.A.

Lisa McClelland  
1 Nationsbank Plaza  
Mail Code NC 1002-19-21  
Charlotte, NC 28255  
(704) 386-8694 (Facsimile)

Norddeutsche Landesbank  
Girozentrale New York Branch  
and/or Cayman Island Branch

Norddeutsche Landesbank  
Girozentrale New York Branch  
Stephanie Hoevertmann, A.V.P.  
1270 Ave of the Americas  
New York, NY 10020  
(212) 332-8660 (Facsimile)

Rabobank Nederland, New York  
Branch

Hans F. Breukhoven  
Vice President  
245 Park Avenue  
New York, NY 10167  
(212) 916-7837 (Facsimile)

Royal Bank of Canada

Grand Cayman (North America  
No. 1) Branch  
c/o Royal Bank of Canada  
New York Operations Center  
Pierrepont Plaza  
300 Cadman Plaza West  
Attn: Manager, Loans Administration  
(718) 522-6292/3 (Facsimile)

with a copy to:  
Linda M. Murrer  
Senior Manager  
Financial Square  
New York, NY 10005-3531  
(212) 809-7468 (Facsimile)

</TABLE>

8

<TABLE>  
<CAPTION>  
BANK

DOMESTIC LENDING OFFICE

CD LENDING OFFICE

EURODOLLAR LENDING OFFICE

- - - - -

-----

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(IF OTHER THAN DOMESTIC

(IF OTHER THAN DOMESTIC

LENDING OFFICE)

LENDING OFFICE)

<S>

<C>

<C>

<C>

Sanwa Bank Limited

Stephen C. Small  
Vice President  
Sanwa Bank Limited  
55 East 52nd Street  
New York, NY 10055  
(212) 754-1304 (Facsimile)

Signet Bank/Virginia	J. Charles Link Senior Vice President 800 East Main Street Richmond, VA 23219 (804) 771-7151 (Facsimile)	
Societe Generale	Bruce Drossman Societe Generale Vice President 50 Rockefeller Plaza New York, NY 10020 (212) 581-8752 (Facsimile)	
State Street Bank & Trust Co.	Patrick K. Armstrong Vice President 225 Franklin Street Boston, MA 02110 (617) 654-4176 (Facsimile)	
Svenska Handelsbanken	Kjell Arvidsson Vice President 599 Lexington Avenue New York, NY 10022 (212) 326-2725 (Facsimile)	
Swiss Bank Corporation, New York and Cayman Islands Branches	Marcia L. Thatcher Director 10 East 50th Street New York, NY 10022 (212) 574-3852 (Facsimile)	
The Bank of New York	Mary Anne Zagroba Vice President The Bank of New York One Wall Street, 8th Fl. (212) 635-1480 (Facsimile)	One Wall Street, 17th Fl. New York, NY 10286 (212) 635-6397/6399 (Facsimile)

</TABLE>

9

<TABLE> <CAPTION> BANK - - - - -	DOMESTIC LENDING OFFICE -----	CD LENDING OFFICE ----- (IF OTHER THAN DOMESTIC LENDING OFFICE) -----	EURODOLLAR LENDING OFFICE ----- (IF OTHER THAN DOMESTIC LENDING OFFICE) -----
<S> The Bank of Nova Scotia	<C> Walter Jackson Representative One Liberty Plaza, 26th Floor (212) 225-5091 (Facsimile)	<C>	<C> The Bank of Nova Scotia International Limited Bernard Sunley Building Bay Street P.O. Box N7545 Nassau, Bahamas (22) 255-5090
The Bank of Tokyo Trust Co.	Jean Reilly Assistant Vice President The Bank of Tokyo 1251 Ave. of the Americas New York, NY 10116-3138 (212) 782-6441 (Facsimile)		
The Chase Manhattan Bank, N.A.	Elyse O'Hora Managing Director One Chase Plaza New York, NY 10081 (212) 552-1041 (Facsimile)		
The Dai-Ichi Kangyo Bank, Ltd. - New York Branch	Tim White Assistant Vice President The Dai-Ichi Kangyo Bank, Ltd. One World Trade Center 48th Floor New York, NY 10048 (212) 524-0579 (Facsimile)		
The First National Bank of Boston	Cindy Chen Vice President Bank of Boston 100 Federal Street Mail Stop 1-21-3		

Boston, MA 02110  
(617) 434-0601 (Facsimile)

The First National Bank of  
Chicago

Stephen McDonald  
Vice President  
153 West 51st Street  
Suite 4000, 8th Fl.  
New York, NY 10019  
(212) 373-138- (Facsimile)

The Fuji Bank, Limited

Masatoshi Abe  
Assistant Treasurer  
2 World Trade Center,  
79th Fl. USCF I  
New York, NY 10048  
(212) 321-9407 (Facsimile)

</TABLE>

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<TABLE>  
<CAPTION>

BANK	DOMESTIC LENDING OFFICE	CD LENDING OFFICE	EURODOLLAR LENDING OFFICE
-----	-----	-----	-----
		(IF OTHER THAN DOMESTIC LENDING OFFICE)	(IF OTHER THAN DOMESTIC LENDING OFFICE)
		-----	-----

<S>  
The Industrial Bank of Japan,  
Limited, New York Branch

<C>  
Hiroshi Masaki, A.V.P.  
Karel Pravec, Jr., A.V.P.  
Acquisition Finance Dept.  
245 Park Avenue  
New York, NY 10167  
(212) 692-9075 (Facsimile)

<C>

<C>

The Long-Term Credit Bank of  
Japan, Limited

Yumiko Noda  
Vice President & Manager  
165 Broadway, 49th Fl.  
New York, NY 10006  
(212) 608-2371 (Facsimile)

The Mitsubishi Bank, Limited  
New York Branch

J. Bruce Meredith  
Sr. Vice President  
225 Liberty Street  
Two World Financial Center  
New York, NY 10281  
(212) 667-3562 (Facsimile)

The Mitsubishi Trust and  
Banking Corporation, Los  
Angeles Agency

Jill Kato  
Loan Officer  
801 S. Figueroa St. #2400  
Los Angeles, CA 90017  
(213) 687-4631 (Facsimile)

The Northern Trust Company

Deborah D. Thomas  
Vice President  
50 S. LaSalle Street  
Chicago, IL 60675  
(312) 444-3508 (Facsimile)

The Royal Bank of Scotland plc

D. Dougan  
Vice President  
63 Wall Street  
New York, NY 10005  
(212) 269-8929 (Facsimile)

The Sakura Bank, Ltd.

Yoshokazu Nagura  
VP and Manager  
277 Park Avenue  
New York, NY 10172  
(212) 888-7651 (Facsimile)

</TABLE>

11

<TABLE>  
<CAPTION>

BANK	DOMESTIC LENDING OFFICE	CD LENDING OFFICE	EURODOLLAR LENDING OFFICE
-----	-----	-----	-----
		(IF OTHER THAN DOMESTIC LENDING OFFICE)	(IF OTHER THAN DOMESTIC LENDING OFFICE)
		-----	-----



	LENDING OFFICE)	LENDING OFFICE)
	-----	-----
<S>	<C>	<C>
The Sumitomo Bank, Limited New York Branch	Harry Musakawi AT One World Trade Center Suite 9651 New York, NY 10048 (212) 553-0118 (Facsimile)	
The Sumitomo Trust & Banking Co., LTD., Los Angeles Agency	Karen Ryan Assistant Vice President 333 So. Grand Avenue Suite 5300 Los Angeles, CA 90071 (213) 613-1083 (Facsimile)	
The Tokai Bank, Limited	William Strackell Vice President 55 East 52nd Street Park Avenue Plaza New York, NY 10055 (212) 754-2171 (Facsimile)	
The Toronto-Dominion Bank	Eric I. Skilling Director, Corporate Accounts The Toronto-Dominion Bank 31 West 52nd Street New York, NY 10019 (212) 362-1926 (Facsimile)	The Toronto-Dominion Bank 909 Fannin, Suite 1700 Houston, Texas 77010 (713) 951-9921 (Facsimile)
The Toyo Trust & Banking Co., Ltd.	Gregory W. Blaszczynski Assistant Treasurer The Toyo Trust & Banking Co., Ltd. 437 Madison Avenue - 37th Flr. New York, NY 10027 (212) 371-4963 (Facsimile)	
Trust Company Bank	Craig W. Farnsworth Vice President 711 5th Avenue, 5th Fl. New York, NY 10023 (212) 371-9386 (Facsimile)	
Union Bank of Switzerland	Peter B. Yearley Corporate & Institutional Banking 299 Park Avenue New York, NY 10171 (212) 821-3383 (Facsimile)	

</TABLE>

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<TABLE>			
<CAPTION>			
BANK	DOMESTIC LENDING OFFICE	CD LENDING OFFICE	EURODOLLAR LENDING OFFICE
- - - - -	-----	-----	-----
		(IF OTHER THAN DOMESTIC	(IF OTHER THAN DOMESTIC
		LENDING OFFICE)	LENDING OFFICE)
		-----	-----
<S>	<C>	<C>	<C>
Wachovia Bank of Georgia, N.A.	Ms. Sandy MacQuarrie Vice President 191 Peachtree Street Atlanta, GA 30303 (404) 332-6898 (Facsimile)		
Westdeutsche Landesbank Girozentrale, New York and Cayman Islands Branches	Robert R. Wieszerek, II Associate 1211 Avenue of the Americas 23rd Floor New York, NY 10036 (212) 852-6107 (Facsimile)		
The Yasuda Trust & Banking Co., Limited, New York Branch	Neil T. Chau Vice President 666 Fifth Avenue New York, NY 10103 (212) 373-5796 (Facsimile)		

</TABLE>

EXHIBIT A  
FORM OF B NOTE

\$ \_\_\_\_\_ Dated: \_\_\_\_\_, 19\_\_

FOR VALUE RECEIVED, the undersigned, [Name of Borrower] (the "Borrower"), HEREBY PROMISES TO PAY to the order of [Name of Lender] (the "Lender"), on \_\_\_\_\_, 19\_\_ the principal amount of \_\_\_\_\_ Dollars (\$\_\_\_\_\_).

The Borrower promises to pay interest on the unpaid principal amount thereof from the date hereof until such principal amount is repaid in full, at the interest rate and payable on the interest payment date or dates provided below:

Interest Rate: \_\_\_\_\_ % per annum (calculated on the basis of a year of 360 days for the actual number of days elapsed).

Interest Payment Date or Dates: \_\_\_\_\_.

Both principal and interest are payable in lawful money of the United States of America to Citibank, N.A. for the account of the Lender at the office of Citibank, N.A. at One Court Square, Long Island City, New York 11120, United States of America, in same day funds, free and clear of and without any deduction, with respect to the payee named above, for any and all present and future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding any taxes imposed by the United States by

-----  
means of withholding tax if and to the extent that such taxes shall be in effect and shall be applicable, on the date hereof, to payments to be made by the Borrower hereon.

This Promissory Note is one of the B Notes referred to in, and is entitled to the benefits of, the 364-Day Loan and Guaranty Agreement dated as of December 17, 1993 (the "364-Day Agreement") among PM Companies, the Lender and certain other lenders parties thereto, and Citibank, N.A., as Agent for the Lender and such other lenders. The 364-Day Agreement, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events.

The Borrower hereby waives presentment, demand, protest and notice of any kind. No failure to exercise, and no delay in exercising, any rights hereunder on the part of the holder hereof shall operate as a waiver of such rights.

2

This Promissory Note shall be governed by, and construed in accordance with, the laws of the State of New York, United States.

[Name of Borrower]

By: \_\_\_\_\_  
Title:

6355I/105

3

GUARANTY

(Only for B Notes issues by a Borrower other than  
PM Companies)

SECTION 1. Guaranty. The undersigned, PHILIP MORRIS

-----  
COMPANIES INC., a Virginia corporation (the "Guarantor"), hereby unconditionally and irrevocably guarantees the punctual payment when due of all obligations of the Borrower under the above Promissory Note (the "Note") (such obligations being the "Obligations"), and any and all expenses (including counsel fees and expenses) incurred by the holder of the Note in enforcing any rights under the Note or this Guaranty.

SECTION 2. Guaranty Absolute. The Guarantor

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guarantees that the Obligations will be paid strictly in accordance with the terms of the Note, regardless of any law, rule, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the holder of the Note with respect thereto. The liability of the Guarantor under this Guaranty shall be absolute and unconditional irrespective of (i) any law of validity, enforceability or genuineness of the Note or any other agreement or instrument relating thereto; (ii) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to departure from the Note; (iii) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any other guaranty, for all or any of the Obligations; or (iv) any other circumstance which might otherwise constitute a defense available to, or a discharge of, the Borrower or a guarantor.

This Guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Obligations is rescinded or must otherwise be returned by the Lender upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, all as though such payment has not been made.

SECTION 3. Waiver. (a) The Guarantor hereby waives

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promptness, diligence, notice of acceptance and any other notice with respect to any of the Obligations and this Guaranty and any requirement that the holder of the Note protect, secure, perfect or insure any security interest or lien or any property subject thereto or exhaust any right of

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take any action against the Borrower or any other person or entity or any collateral.

(b) The Guarantor hereby irrevocably waives any claims or other rights that it may now or hereafter acquire against the Borrower that arise from the existence, payment, performance or enforcement of the Guarantor's obligations under this Guaranty or this Note; including, without limitation, the right to take or receive from the Borrower, directly or indirectly, in cash or other property or by set-off or in any other manner, payment or security on account of such claim, remedy or right. If any amount shall be paid to the Guarantor in violation of the preceding sentence at any time prior to the cash payment in full of the Obligations, such amount shall be held in trust for the benefit of the holder of this Note and shall forthwith be paid to the holder of this Note to be credited and applied to the Obligations and all other amounts payable under this Guaranty, whether matured or unmatured, in accordance with the terms of this Note and this Guaranty, or to be held as collateral for any Obligations or other amounts payable under this Guaranty thereafter arising. The Guarantor acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by this Note and this Guaranty and that the waiver set forth in this subsection is knowingly made in contemplation of such benefits.

SECTION 4. Payments Free and Clear of Taxes, Etc.  
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Any and all payments made by the Guarantor hereunder to the payee named in the Note shall be made in accordance with the Note free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding taxes imposed by the United States by means of

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withholding tax if and to the extent that such taxes shall be in effect and shall be applicable, on the date hereof, to payments to be made by the Guarantor herein.

SECTION 5. No Waiver. No failure to exercise, and no  
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delay in exercising, any right hereunder on the part of the holder of the Note shall operate as a waiver of such rights; nor shall any single or partial exercise of any right hereunder, preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

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SECTION 6. Continuous Guaranty; Transfer of Note.

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This Guaranty is a continuing guaranty and shall (i) remain in full force and effect until payment in full of the Obligations and all other amounts payable under this Guaranty, (ii) be binding upon the Guarantor, its successors and assigns, and (iii) inure to the benefit of and be enforceable by the Lender and its successors, transferees and assigns. Without limiting the generality of the foregoing clause (iii), the Lender may assign or otherwise transfer the Note to any other person or entity, and such other person or entity shall thereupon become vested with all the rights in respect thereof granted to the Lender herein or otherwise.

This Guaranty shall be governed by, and construed in accordance with, the laws of the State of New York, United States.

IN WITNESS WHEREOF, the Guarantor has caused this Guaranty to be executed by its officer thereunto duly authorized on the date first above written.

PHILIP MORRIS COMPANIES, INC.

By \_\_\_\_\_  
Title

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EXHIBIT B-1

NOTICE OF A BORROWING

Citibank, N.A., as Agent  
for the Lenders parties  
to the 364-Day Agreement  
referred to below  
One Court Square  
Long Island City, New York 11120

[Date]

Attention:

Gentlemen:

The undersigned, Philip Morris Companies Inc., refers to the 364-Day Loan and Guaranty Agreement, dated as of December 17, 1993 (the "364-Day Agreement", the terms defined therein being used herein as therein defined), among Philip Morris Companies Inc., certain lenders parties thereto and Citibank, N.A., as Agent for said Lenders, and hereby gives you notice, irrevocably, pursuant to Section 2.02 of the 364-Day Agreement that the undersigned hereby requests an A Borrowing under the 364-Day Agreement, and in that connection sets forth below the information relating to such A Borrowing (the "Proposed A Borrowing") as required by Section 2.02(a) of the 364-Day Agreement:

(i) The Business Day of the Proposed A Borrowing is \_\_\_\_\_, 199\_\_.

(ii) The Type of A Advances comprising the Proposed A Borrowing is [Adjusted CD Rate Advances] [Base Rate Advances] [Eurodollar Rate Advances].

(iii) The aggregate amount of the Proposed A Borrowing is \$\_\_\_\_\_.

(iv) The Interest Period for each A Advance made as part of the Proposed A Borrowing is [\_\_\_\_\_ days] [\_\_\_\_\_ month[s]].

(v) The name of the Borrower is \_\_\_\_\_.

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The undersigned hereby certifies that the following statements will be true on the date of the Proposed A Borrowing, before and after giving effect thereto and to the application of the proceeds therefrom: (a) the representations and warranties contained in Section 4.01 of the 364-Day Agreement (excluding those contained in subsections (e) and (f) thereof) and, if the Borrower is a subsidiary of PM Companies, Section 9.01(b) of the 364-Day Agreement are correct on and as of such date as though made on and as of such date, (b) no event has occurred and is continuing, or would result from the Proposed A Borrowing, which constitutes an Event of Default or would constitute an Event of Default but for the requirement that notice be given or time elapse or both, (c) if such Proposed A Borrowing is in an aggregate principal amount equal to or greater than \$500,000,000 and is being made in connection with any purchase of shares of the Borrower's or the Guarantor's capital stock or the capital stock of any other Person, or any purchase of all or substantially all of the assets of any Person (whether in one transaction or a series of transactions) or any transaction of the type referred to in Section 5.02(b) of the 364-Day Agreement, the statements in (a) and (b) above will be true and correct after giving effect to such transaction or purchase, and (d) the aggregate principal amount of the Proposed A Borrowing and all other Borrowings to be made on the same day under the 364-Day Agreement is within the applicable unused Commitments of the Lenders.

Very truly yours,

PHILIP MORRIS COMPANIES, INC.

By: \_\_\_\_\_  
Title:

EXHIBIT B-2

FORM OF NOTICE OF B BORROWING

Citibank, N.A., as Agent  
for the Lenders parties  
to the 364-Day Agreement  
referred to below  
One Court Square  
Long Island City, New York 11120

Attention:

Gentlemen:

The undersigned, Philip Morris Companies Inc., refers to the 364-Day Loan and Guaranty Agreement, dated as of December 17, 1993 (the "364-Day Agreement"; the terms defined therein being used herein as therein defined), among PM Companies, certain lenders parties thereto (the "Lenders") and Citibank, N.A., as Agent for the Lenders, and hereby gives you notice pursuant to Section 2.03 of the 364-Day Agreement that the undersigned hereby requests a B Borrowing under the 364-Day Agreement, and in that connection sets forth the terms on which such B Borrowing (the "Proposed B Borrowing") is requested to be made:

- (A) Date of B Borrowing \_\_\_\_\_
- (B) Amount of B Borrowing \_\_\_\_\_
- (C) Maturity Date \_\_\_\_\_
- (D) Interest Rate Basis \_\_\_\_\_
- (E) Interest Payment Date(s) \_\_\_\_\_
- (F) Name of Borrower \_\_\_\_\_

The undersigned hereby certifies that the following statements will be true on the date of the Proposed B Borrowing, before and after giving effect thereto and to the application of the proceeds therefrom: (a) the representations and warranties contained in Section 4.01 of the 364-Day Agreement and, if the Borrower is a subsidiary of PM Companies, Section 9.01(b) of the 364-Day Agreement are correct on and as of such date as though made on and as of such date, (b) no event has occurred and is continuing, or would result from the Proposed B Borrowing, which constitutes an Event of Default or would constitute an Event of Default but for the requirement that notice be given or time elapse or both, and (c) the aggregate principal amount of the Proposed B Borrowing and all other Borrowings to be made on the same day under the 364-Day Agreement is within the applicable unused Commitments of the Lenders.

The undersigned hereby confirms that you are to make the Proposed B Borrowing available to us in accordance with Section 2.03(a) (v) of the 364-Day Agreement by crediting the amount of the Proposed B Borrowing to [be provided].

Dated: \_\_\_\_\_, 19\_\_

Very truly yours,

PHILIP MORRIS COMPANIES INC.

By: \_\_\_\_\_  
Title:

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EXHIBIT C

ASSIGNMENT AND ACCEPTANCE

Dated \_\_\_\_\_, 199\_

Reference is made to the 364-Day Loan and Guaranty Agreement dated as of December 17, 1993 (the "364-Day Agreement") among Philip Morris Companies Inc., a Virginia corporation, the Lenders (as defined in the 364-Day Agreement) and Citibank, N.A., as Agent for the Lenders (the "Agent"). Terms defined in the 364-Day Agreement are used herein with the same meaning.

\_\_\_\_\_ (the "Assignor") and \_\_\_\_\_ (the "Assignee") agree as follows:

1. The Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, the percentage interest specified on Schedule 1 hereto in and to all (other than any B Advances owing to the Assignor or any B Notes held by it) of the Assignor's rights and objections under the 364-Day



Agreement as of the date hereof (after giving effect to any other assignments thereof made prior to the date hereof, whether or not such assignments have become effective, but without giving effect to any other assignments thereof also made on the date hereof), including, without limitation, such percentage interest in the Assignor's Commitment and the A Advances owing to the Assignor.

2. The Assignor (i) represents and warrants that as of the date hereof its Commitment (after giving effect to other assignments thereof made prior to the date hereof, whether or not such assignments have become effective, but without giving effect to any other assignments thereof also made on the date hereof) is in the dollar amount specified as the Assignor's Commitment on Schedule 1 hereto and the aggregate outstanding principal amount of Advances owing to it (after giving effect to any other assignments thereof made prior to the date hereof, whether or not such assignments have become effective, but without giving effect to any other assignments thereof also made on the date hereof) is in the dollar amount specified as the aggregate outstanding principal amount of Advances owing to the Assignor on Schedule 1 hereto; (ii) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free

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and clear of any adverse claim; (iii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the 364-Day Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the 364-Day Agreement or any other instrument or document furnished pursuant thereto; and (iv) makes no representation or warranty and assumes no responsibility with respect to the financial condition of PM Companies or any Borrower or the performance or observance by PM Companies or any Borrower of any of their obligations under the 364-Day Agreement or any other instrument or document furnished pursuant thereto.

3. The Assignee (i) confirms that it has received a copy of the 364-Day Agreement, together with copies of the financial statements referred to in Section 4.01 thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Agreement and Acceptance; (ii) agrees that it will, independently and without reliance upon the Agent, the Assignor or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the 364-Day Agreement; (iii) confirms that it is an Eligible Assignee; (iv) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the 364-Day Agreement as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto; (v) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the 364-Day Agreement are required to be performed by it as a Lender; [and] (vi) specifies as its CD Lending Office, Domestic Lending Office (and address for notices) and Eurodollar Lending Office the offices set forth beneath its name on the signature pages hereof [and (vii) attaches the forms prescribed by the Internal Revenue Service of the United States certifying as to the Assignee's status for purposes of determining exemption from United States withholding taxes with respect to all payments to be made to the Assignee under the 364-Day Agreement or such other documents as are necessary to

indicate that all such payments are subject to such rates at a rate reduced by an applicable tax treaty].\*

\* If the Assignee is organized under the laws of a jurisdiction outside the United States.

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4. Following the execution of this Assignment and Acceptance by the Assignor and the Assignee, it will be delivered to the Agent for acceptance and recording by the Agent. The effective date for this Assignment and Acceptance shall be the date of acceptance thereof by the Agent, unless otherwise specified on Schedule 1 hereto (the "Effective Date").

5. Upon such acceptance and recording by the Agent, as of the Effective Date, (i) the Assignee shall be a party to the 364-Day Agreement and, to the extent provided in this Assignment and Acceptance, have the rights and obligations of a Lender thereunder and (ii) the Assignor shall, to the extent provided in this Assignment and Acceptance, relinquish its rights and be released from its obligations under the 364-Day Agreement.

6. Upon such acceptance and recording by the Agent, from and after the Effective Date, the Agent shall make all payments under the 364-Day Agreement in respect of the interest assigned hereby (including, without limitation, all payments of principal, interest and fees with respect thereto) to the Assignee. The Assignor and the Assignee shall make all appropriate adjustments in payments under the 364-Day Agreement for periods prior to the Effective Date directly between themselves.

7. This Assignment and Acceptance shall be governed by, and construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Assignment and Acceptance to be executed by their respective officers thereunto duly authorized, as of the date first above written, such execution being made on Schedule 1 hereto.

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Schedule I  
to  
Assignment and Acceptance

Section 1.  
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Percentage Interest \_\_\_\_\_ %

Section 2.  
-----

Assignor's Commitment: \$ \_\_\_\_\_  
Aggregate Outstanding Principal  
Amount of Advances owing to the Assignor: \$ \_\_\_\_\_

Section 3.  
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Effective Date\*: \_\_\_\_\_, 19\_\_

[NAME OF ASSIGNOR]

By: \_\_\_\_\_  
Title:

[NAME OF ASSIGNEE]

By: \_\_\_\_\_  
Title:

CD Lending Office:  
[Address]

\* This date should be no earlier than the date of acceptance by the Agent.

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Domestic Lending Office  
(and address for notices):  
[Address]

Eurodollar Lending Office:  
[Address]

Accepted this \_\_\_\_ day  
of \_\_\_\_\_, 19\_\_

CITIBANK, N.A.

By: \_\_\_\_\_  
Title:

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EXHIBIT D

[Form of Opinion of Counsel for Philip Morris Companies Inc.]

[Date of initial Borrowing]

To each of the Lenders parties  
to the 364-Day Loan and Guaranty  
Agreement dated as of  
December 17, 1993 among  
Philip Morris Companies Inc.,  
said Lenders and Citibank, N.A.,  
as Agent, and to Citibank, N.A.,  
as Agent

Philip Morris Companies Inc.  
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Gentlemen:

This opinion is furnished to you pursuant to Section 3.01(c) of the 364-Day Loan and Guaranty Agreement dated as of December 17, 1993 (the "364-Day Agreement") among Philip Morris Companies Inc. ("PM Companies"), the Lenders parties thereto and Citibank, N.A., as Agent for said Lenders. Unless otherwise defined herein, terms defined in the 364-Day Agreement are used herein as therein defined.

We have acted as counsel for PM Companies and its subsidiaries [, including \_\_\_\_\_ (the "Borrower"),] in connection with the preparation, execution and delivery of, and the initial Borrowing made under, the 364-Day Agreement.

In that connection we have examined:

- (1) The 364-Day Agreement.
- (2) The documents furnished by PM Companies [and the Borrower] pursuant to Article III of the 364-Day Agreement.
- (3) The [Articles] [Certificate] of Incorporation of PM Companies [and the Borrower] and all amendments thereto (the "Charter[s]").
- (4) The by-laws of PM Companies [and the Borrower]

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We have also examined the originals, or copies certified to our satisfaction, of such corporate records of PM Companies [and the Borrower], certificates of public officials and of officers of PM Companies [and the Borrower], and agreements, instruments and documents, as we have deemed necessary as a basis for the opinions hereinafter expressed. As to questions of fact material to such opinions, we have, when relevant facts were not independently established by us, relied upon certificates of PM Companies [and the Borrower] or their [respective] officers or of public officials. We have assumed the due execution and delivery, pursuant to due authorization, of the 364-Day Agreement by the Lenders parties thereto and the Agent.

Based upon the foregoing and upon such investigation as we have deemed necessary, we are of the following opinion:

1. PM Companies is a corporation duly organized, validly existing and in good standing under the laws of Virginia. [The Borrower is a corporation duly organized, validly existing and in good standing under the laws of \_\_\_\_\_.]

2. The execution, delivery and performance by PM Companies of the 364-Day Agreement [and the B Notes] are within PM Companies' corporate powers,\* have been duly authorized by all necessary corporate action, and do not contravene (i) the Charter[s] or the By-laws or (ii) any law, rule or regulation applicable to PM Companies [or the Borrower] (including, without limitation, Regulation X of the Federal Reserve Board) or (iii) to the best of our knowledge, any contractual or legal restriction binding on or affecting PM Companies [or the Borrower]. The B Notes have been duly executed and delivered on behalf of [PM Companies] [the Borrower] [,] [and] the 364-Day Agreement [has] [and the guaranties endorsed on the B Notes have] been duly executed and delivered on behalf of PM Companies [and the Notice of Acceptance of the Borrower has been duly executed and delivered on behalf of the Borrower].

\* If a subsidiary is the Borrower, "The execution, delivery and performance by PM Companies of the 364-Day Agreement [and the guaranties endorsed on the B Notes], and by the Borrower of its Notice of Acceptance [and the B Notes], are within PM Companies' and the Borrower's corporate powers".

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3. No authorization, approval, or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by PM Companies of the 364-Day Agreement [or the B Notes] [or the guaranties endorsed on the B Notes] [or by the Borrower of its Notice of Acceptance or the B Notes to be executed and delivered on its behalf].

4. The 364-Day Agreement is the legal, valid and binding obligation of PM Companies enforceable against PM Companies in accordance with its terms. [The B Notes issued on the date hereof [and the guaranties endorsed thereon] are the legal, valid and binding obligations of [PM Companies] [the Borrower] [the Borrower and PM Companies, respectively,] enforceable against [PM Companies] [the Borrower] [the Borrower and PM Companies, respectively,] in accordance with their respective terms.]

5. Except as disclosed in the Form 10-K of Philip Morris for the fiscal year ended December 31, 1992, there is, to the best of our knowledge, no pending or threatened action or proceeding against PM Companies [or the Borrower] or any of [its] [their] subsidiaries before any court, governmental agency or arbitrator which is likely to have a material adverse effect upon the financial condition or operations of PM Companies and its subsidiaries taken as a whole.

6. PM Companies directly or indirectly owns 100% of the capital stock of [the Borrower and of] Philip Morris.

The opinions set forth above are subject to the following qualifications:

(a) Our opinion in paragraph 4 above is subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally.

(b) Our opinion in paragraph 4 above is subject to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Very truly yours,

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EXHIBIT E

[Form of Opinion of Special Counsel for the Agent]

[Date of initial Borrowing]

To the Banks listed on  
Exhibit A hereto and  
to Citibank, N.A.,  
as Agent

Philip Morris Companies Inc.  
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Gentlemen:

We have acted as special New York counsel to Citibank, N.A., acting for itself and as Agent, in connection with the preparation, execution and delivery of, and the initial Borrowing made under, the 364-Day Loan and Guaranty Agreement dated as of December 17, 1993 (the "364-Day Agreement") among Philip Morris Companies Inc. and each of you. Unless otherwise defined herein, terms defined in the 364-Day Agreement are used herein as therein defined.

In that connection, we have examined the following documents:

(1) A counterpart of the 364-Day Agreement, executed by each of the parties thereto.

(2) The documents furnished pursuant to Article III of the 364-Day Agreement and listed on Exhibit B hereto, including the opinion of Hunton & Williams, counsel for PM Companies and its subsidiaries.

In our examination of the documents referred to above, we have assumed the authenticity of all such documents submitted to us as originals, the genuineness of all signatures, the due authority of the parties executing such documents, and the conformity to the originals of all such documents submitted to us as copies. We have also assumed that each of the Banks parties to the 364-Day Agreement and the Agent has duly executed and delivered, with all necessary power and authority (corporate and otherwise), the 364-Day Agreement.

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To the extent that our opinions expressed below involve conclusions as to the matters set forth in paragraphs 1, 2, 3 and 6 of the above-mentioned opinion of Hunton & Williams, we have assumed without independent investigation the correctness of the matters set forth in such paragraphs, our opinion being subject to the assumptions, qualifications and limitations set forth in such opinion of Hunton & Williams with respect thereto.

Based upon the foregoing examination of documents and assumptions and upon such other investigation as we have deemed necessary, we are of the following opinion:

1. The 364-Day Agreement is, and the guaranties endorsed on the B Notes when delivered under the Loan Agreement will be, the legal, valid and binding obligation of PM Companies enforceable against PM Companies in accordance with its terms.

2. The B Notes of [PM Companies] [\_\_\_\_\_] (the "Borrower"), if any, issued on the date hereof are the legal, valid and binding obligations of [PM Companies] [the Borrower] enforceable against [PM Companies] [the Borrower] in accordance with their respective terms.

3. The opinion of Hunton & Williams, counsel for PM Companies and its subsidiaries, and the other documents referred to in item (2) above are substantially responsive to the requirements of the 364-Day Agreement.

Our opinions in paragraphs 1 and 2 above are subject to the following qualifications:

(a) Our opinions in paragraphs 1 and 2 above are subject to the effect of general principles of equity including (without limitation) concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law). Further, pursuant to such equitable principles, (i) Section 8.02 of the 364-Day Agreement, which Section provides that the Guarantor's liability thereunder shall not be affected by changes in or amendments to the 364-Day Agreement, and (ii) Section 2 of the guaranty endorsed on the B Notes, which Section provides that the Guarantor's liability

thereunder shall not be affected by changes in or amendments to the B Notes, might be enforceable only to the extent that such changes or amendments were not so material as to constitute a new contract among the parties.

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(b) Our opinions in paragraphs 1 and 2 above are also subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally.

(c) Our opinions expressed above are limited to the law of the State of New York and the Federal law of the United States, and we do not express any opinion herein concerning any other law. Without limiting the generality of the foregoing, we express no opinion as to the effect of the law of any jurisdiction other than the State of New York wherein any Lender may be located or wherein enforcement of the 364-Day Agreement or the B Notes may be sought which limits the rates of interest legally chargeable or collectible.

Very truly yours,

SHEARMAN & STERLING

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EXHIBIT A

to the Opinion dated \_\_\_\_\_, 1991  
of Shearman & Sterling



Banks  
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EXHIBIT B

to the Opinion dated \_\_\_\_\_, 1991  
of Shearman & Sterling

Documents  
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EXHIBIT F

NOTICE OF ACCEPTANCE

Dated \_\_\_\_\_, 199\_

The undersigned, \_\_\_\_\_, a \_\_\_\_\_ corporation and a subsidiary of PM Companies (as defined below) (the "Subsidiary"), hereby:

1. Confirms that this Notice of Acceptance is being delivered pursuant to Section 9.01 of that certain 364-Day Loan and Guaranty Agreement dated as of December 17, 1993 (the "364-Day Agreement", terms defined therein being used herein with the same meaning), among Philip Morris Companies Inc. ("PM Companies"), the lenders parties thereto (the "Lenders") and Citibank, N.A., as agent for the Lenders (the "Agent").

2. States that the Subsidiary desires to become a "Borrower" under the Agreement and agrees to be bound by the terms and provisions of the 364-Day Agreement as a "Borrower" thereunder.

3. Represents and warrants as follows:

(a) The Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of \_\_\_\_\_.

(b) The execution, delivery and performance by the Subsidiary of the B Notes, if any, executed and delivered and to be executed and delivered by it, the 364-Day Agreement and this Notice of Acceptance are within the Subsidiary's corporate powers, have been duly authorized by all necessary corporate action, and do not contravene (i) the Subsidiary's charter or by-laws or (ii) any law, rule, regulation or order of any court or governmental agency or any contractual restriction binding on or affecting the Subsidiary.

(c) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by the Subsidiary of the B Notes executed and delivered and to be executed and delivered by it, the 364-Day Agreement or this Notice of Acceptance.

(d) The 364-Day Agreement is, and the B Notes of such Subsidiary if delivered under the 364-Day Agreement will be, the legal, valid and binding obligations of the Subsidiary enforceable against the Subsidiary in accordance with their terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally and to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(e) There is no pending or threatened action or proceeding affecting the Subsidiary or any of its subsidiaries before any court, governmental agency or arbitrator which purports to affect the legality, validity or enforceability of the 364-Day Agreement or any Note.

(f) PM Companies owns directly or indirectly 100% of the capital stock of the Subsidiary.

4. Delivers with this Notice of Acceptance an opinion of counsel for PM Companies, pursuant to Section 9.01(b) of the Agreement, in the form of Schedule 1 hereto.

[(Name of Borrower)]

By \_\_\_\_\_  
Title:

The undersigned, as Guarantor under the Agreement, hereby confirms and agrees to the foregoing Notice of Acceptance pursuant to Section 9.01(a) of the Agreement.

PHILIP MORRIS COMPANIES INC.

By \_\_\_\_\_  
Title:

Schedule 1  
to  
Notice of Acceptance

[OPINION OF COUNSEL FOR PM COMPANIES]

[Date of Notice of Acceptance]

To each of the Lenders parties  
to the 364-Day Loan and Guaranty  
Agreement dated as of December 17,  
1993 among Philip Morris Companies  
Inc., said Lenders and Citibank, N.A.,  
as Agent, and to Citibank, N.A., as  
Agent

Philip Morris Companies Inc.  
-----

Gentlemen:

This opinion is furnished to you pursuant to Section 9.01(b) of the 364-Day Loan and Guaranty Agreement, dated as of December 17, 1993 (the "364-Day Agreement"), among Philip Morris Companies Inc. ("PM Companies"), the Lenders parties thereto and Citibank, N.A., as Agent for said Lenders. Unless otherwise defined herein, terms defined in the 364-Day Agreement are used herein as therein defined.

We have acted as counsel for PM Companies and its subsidiary, \_\_\_\_\_ (the "Subsidiary"), in connection with the preparation, execution and delivery of the Notice of Acceptance by the Subsidiary delivered pursuant to Section 9.01 of the 364-Day Agreement.

In that connection, we have examined the 364-Day Agreement, the B Notes, if any, to be executed and delivered by the Subsidiary and such other agreements, instruments and documents as we have deemed necessary as a basis for the opinion expressed below. As to questions of fact material to such opinion, we have, when relevant facts were not independently established by us, relied upon certificates of PM Companies and the Subsidiary or their respective officers or of public officials. We have assumed the due execution and delivery, pursuant to due authorization, of the 364-Day Agreement by the Lenders parties thereto and the Agent.

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Based upon the foregoing and upon such investigation as we have deemed necessary, we are of the opinion that the 364-Day Agreement is, and the B Notes of the Subsidiary if delivered under the 364-Day Agreement will be, the legal, valid and binding obligations of the Subsidiary enforceable against the Subsidiary in accordance with their respective terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally and to the effect of general principles of equity, including (without limitation) concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Very truly yours,

6355I/105

## EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT dated October 12, 1987, between PHILIP MORRIS COMPANIES INC., a Virginia corporation with its principal office at 120 Park Avenue, New York, New York 10017 (the "Company"), and MURRAY H. BRING, residing at 7013 Heatherhill Road, Bethesda, Maryland 20817 ("Bring").

WHEREAS, the incumbent Senior Vice President and General Counsel of the Company ("Incumbent") will retire from those positions in June 1988; and

WHEREAS, the Company wishes to have Bring succeed the Incumbent upon the latter's retirement, and to that end has induced Bring to agree to relinquish his senior partnership in a prominent Washington, D.C. law firm and to join the Company at its headquarters in New York City in anticipation of his succession to the position of Senior Vice President and General Counsel;

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties hereto agree as follows:

1. Term of Employment. The Company will employ Bring and Bring will work

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for the Company for a term commencing on January 1, 1988, or on such earlier date as the parties hereto agree, and ending on December 31, 1992, subject to renewal as provided in Section 8(a) hereof. Such

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period of employment, as from time to time renewed, is hereinafter referred to as the "term hereof."

2. Duties. During the initial phase of the term hereof, from January 1,

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1988, or such earlier date as the parties hereto agree, to the date of retirement of the Incumbent, Bring shall be an Associate General Counsel of the Company, performing such executive duties as may be assigned to him by the Chief Executive Officer of the Company, or his or her designee. Upon the retirement of the Incumbent, and for the duration of the term hereof, Bring shall be, and perform the duties of Senior Vice President and General Counsel, and shall perform such other duties as Bring and the Chief Executive Officer of the Company, or his or her designee, shall mutually agree upon. Bring shall report to the President of the Company. The Company will use its best efforts to cause Bring to be a management nominee for election to its Board of Directors at the Annual Meeting to be held in the Spring of 1989.

3. Full Time Employment. During the term hereof, Bring will devote

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substantially all his time during regular business hours, best efforts and

attention (periods of vacation, sickness, and permitted leaves of absence excepted) to the business of the Company, its divisions, subsidiaries and affiliates.

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4. Compensation. During the term hereof:

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(a) The Company shall pay Bring a monthly salary at the rate of not less than \$300,000 per year ("Base Compensation") for his services. Bring's salary grade on commencement of his employment hereunder shall be Salary Grade 26. With respect to future increases in Base Compensation during the term hereof, Bring shall receive increases commensurate with those given to senior executives of his level based on performance standards as determined in the discretion of the Chief Executive Officer and the Board of Directors.

(b) Bring shall participate in and receive benefits under employee benefit programs of the Company applicable to his then salary grade in accordance with their terms as in effect from time to time, including, without limitation, profit sharing, disability, survivor income, insurance, vacation, matching gift, tuition assistance, scholarship awards and other so-called "fringe benefit" plans or arrangements. He shall also be eligible to participate in the incentive compensation program and The Philip Morris 1987 Long Term Incentive Plan. To the extent that any of the foregoing plans or arrangements requires a period of accredited service before a specified benefit accrues, the Company will provide Bring the equivalent of such accredited

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service, if he is eligible for such benefit in every respect other than the required period of accredited service. To the extent that any of the foregoing plans or arrangements is geared to the Philip Morris Salaried Employees Retirement Plan ("Plan"), all calculations will be in accordance with the provisions of Section 4(c) hereof. Amounts awarded under any incentive compensation program shall be determined under the terms of such program in the discretion of the committee administering such program, subject to the terms hereinafter set forth.

(c) Bring shall also participate in the Plan, and shall accrue, for purposes thereof, two years of accredited service for each year of service to age 60, and three years of accredited service for each year of service from age 60 through 65 ("presumptive accredited service"). Commencing at age 60, Bring shall be entitled to a full retirement benefit of not less than \$150,000 per year, payable upon his retirement for the remainder of his life only, regardless of whether his years of accredited service or other entitlements so warrant, provided, however, that Bring shall be entitled to such retirement benefit prior

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to age 60 if the Company shall breach this Agreement or otherwise terminate this Agreement without cause at any time during the term hereof or any renewal period provided for in Section 8(a) hereof.

In the event of such breach or termination by the Company, payment of the retirement benefit shall commence at the time the Company shall cease paying the compensation provided for in Section 4(a). Notwithstanding the foregoing, the \$150,000 per year minimum retirement benefit hereunder shall be offset by the annual retirement benefit provided to Bring under the Plan. To the extent that the retirement benefit hereunder exceeds that which may be provided under the terms of the Plan, such amount shall be paid from general corporate assets. The said minimum retirement benefit shall not apply if Bring shall voluntarily leave the employ of the Company prior to reaching age 60. In such case, the minimum retirement benefit shall be the greater of \$50,000 per year, or the amount that would be payable under the Plan calculated according to the presumptive accredited service which has accrued pursuant to the provisions of this Section 4(c). In determining the benefit which may become due to Bring under the Plan, accredited service shall be calculated on the basis of the presumptive accredited service which has accrued pursuant to the provisions of this Section 4(c). In the event that Bring becomes eligible for a retirement benefit before 120 months of service have accrued, the "five-year average compensation" referred to in the Plan will be calculated on the basis of Bring's highest compensation

during 60 consecutive months of accredited service, or if there are less than 60 consecutive months of accredited service, then on the basis of compensation during as many months of accredited service as have been accrued.

(d) On June 1, 1988 the Company shall, pursuant to The Philip Morris 1987 Long Term Incentive Plan, grant to Bring (i) a non-qualified option to purchase 10,000 shares of the Company's Common Stock ("Stock"), and (ii) awards of 5,000 shares of Stock, which awards may be of restricted Stock or deferred Stock or both in such proportions as Bring shall elect by notice to the Company. The terms of such option and the conditions and restrictions applicable thereto shall be determined by the Compensation Committee but in no event shall the option price be greater than the fair market value at the date of grant. If, at any time during the period commencing on the date of execution hereof and terminating on the date or dates the options or awards of stock shall be granted to Bring, the Company shall reclassify, split, reverse split, or pay a stock dividend on the stock, the number and kind of shares of stock issuable upon exercise of the options or awards pursuant to the provisions of this Section 4(d) shall be appropriately and equitably adjusted by the Compensation Committee in good faith to take into account the occurrence of such event or

events. The option and awards granted by this Section 4(d) are part of the inducement for Bring to accept the employment contemplated by this Agreement and shall be in addition to any grants and awards which may be from time to time



conferred by the Compensation Committee on the senior executives of the Company, for which Bring shall also be eligible.

(e) If, subsequent to the execution of this Agreement, the Company shall adopt any employee benefit program or plan, or any policy with respect thereto, the terms of which would be more beneficial to Bring than the provisions hereof, Bring shall be entitled to such more beneficial terms, notwithstanding the provisions hereof.

(f) If the term hereof shall end and Bring shall continue in the employ of the Company without an agreement, the provisions of Section 4(c) and 5(a) shall survive termination of this Agreement and remain in effect during the period of such continued employment.

5. Non-Competition.

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(a) Bring agrees that, during the term hereof and for two years after termination of Bring's employment with the Company, he will not, directly or indirectly, alone, as an employee, agent, independent contractor, lender, consultant, owner, partner or joint venturer, or as an officer, director, or stockholder of any corporation, or otherwise, be employed by, participate, be

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engaged in or be connected with any business within the continental United States of America which competes, directly or indirectly, with the Company or any of its affiliates, except that if Bring is no longer employed by the Company on an active full-time basis, this provision shall not preclude Bring's practice of law with a bona fide law firm regardless of its clientele; provided, however,

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that Bring personally shall not perform services for any of such law firm's clientele which are engaged in or are connected with any business within the continental United States of America which competes, directly or indirectly, with the Company or any of its affiliates. Ownership of 1% or less of the stock or other securities of a corporation, the stock of which is listed on a national securities exchange or is quoted on the NASDAQ National Market shall not constitute a breach of this Paragraph, so long as Bring does not in fact have the power to control, or direct the management of, or is not otherwise associated with such corporation.

(b) Bring will hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data of the Company or affiliates of the Company obtained by Bring during negotiation of this Agreement and his employment by the Company (whether or not developed by him) which shall not be generally known to the

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public or recognized as standard practice (other than as a result of disclosures by Bring); will not, from and after the date of execution of this Agreement,

during his employment hereunder or after termination of such employment, use or reveal, communicate or divulge, directly or indirectly, any such information, knowledge or data to any person, firm or corporation other than the Company, an affiliate of the Company, or persons, firms or corporations designated by the Company; and will not solicit, interfere with or endeavor to entice away any customer or employee of the Company or any of its affiliates.

6. Relocation. As full reimbursement to Bring for his expenses in

-----

relocating to the New York Metropolitan Area, the Company shall pay to him, in addition to all other compensation hereunder, (i) an amount equal to 15% of his Base Compensation for the first year of his employment, and (ii) an amount equal to 10% of his Base Compensation for each of the four following years. In addition, the Company will reimburse Bring for the costs of relocating his residence from the Washington Metropolitan Area to the New York Metropolitan Area in accordance with the Company's normal relocation policy, including all moving and storage costs. In addition, if expended by Bring, the Company will reimburse Bring for temporary housing costs, necessitated by complica-

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tions involved in relinquishing possession of his current residence and taking possession of a new residence for up to \$5,000 per month for not more than two months.

7. Expense Reimbursement. The Company will reimburse Bring for his

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appropriate and reasonable business expenses incurred or associated with the business of the Company during the term of his employment hereunder, in accordance with the Company's customary policies in this regard applicable to executives of his level.

8. Termination.

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(a) The term of this Agreement shall commence on January 1, 1988, or on such earlier date as the parties hereto agree, and expire on December 31, 1992. The term shall be automatically renewed for successive one-year periods thereafter if this Agreement is still in force immediately prior to such renewal, unless terminated as of the end of the initial term or any subsequent one-year period by written notice to that effect by either party to the other not less than six months prior to the end of such term or period, as the case may be.

(b) Notwithstanding any other provision of this Agreement, in the event of the death or disability (as such term is defined in The Philip Morris Long Term Disability Plan) of Bring after January 1, 1988 or such earlier

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commencement date if the parties hereto have so agreed, Bring's employment with

the Company shall terminate as of the date of such death or disability and compensation to Bring hereunder shall immediately cease, except that Bring or his estate shall be entitled to all accrued and unpaid salary through the date of death or disability and Bring or his designated beneficiaries shall be entitled to any other benefits which may be due Bring at the time of his death or disability. If there shall be a bona fide dispute as to the disability of Bring which cannot be resolved in accordance with the terms of The Philip Morris Long Term Disability Plan, the issue shall be submitted to the Dean of the Cornell University Medical School whose decision shall be binding and conclusive on the parties.

(c) If Bring shall die or become disabled prior to January 1, 1988 or such earlier commencement date if the parties hereto have so agreed, this Agreement (other than the provisions of Sections 5(b), 6 (if any relocation costs have actually been expended by Bring prior to January 1, 1988), 9 and 10 hereof in the event Bring shall become disabled) shall terminate, and the Company shall have no liability or obligations of any kind to Bring, his wife, beneficiary or his estate.

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(d) Bring may be discharged for cause only by reason of one or more of the following occurrences:

(i) his conviction by a court of competent jurisdiction of, or a plea of guilty or nolo contendere to, a crime involving moral turpitude or a  
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felony, whether or not committed during the term hereof;

(ii) his commission of an act of fraud upon, a breach of his fiduciary duty to, or materially evidencing bad faith toward, the Company or;

(iii) a breach by him of any material duty or obligation imposed upon him by this Agreement, as to which the Company shall have given him 30 days' notice and which breach shall not have been cured within such 30-day period.

In the cases aforesaid, the Company may terminate the employment of Bring hereunder by notice to Bring to such effect, such termination to be effective as of the date specified in such notice, which date shall not be less than 30 days after the date on which such notice shall have been given to Bring. Such notice shall be accompanied by a payment of accrued unpaid salary to Bring through the termination date of his employment. Any rights and benefits Bring may have under employee benefit and fringe benefit plans and programs of the Company (including The Philip Morris 1987 Long Term Incentive Plan and the Plan) shall be determined in accordance with the terms of such plans and programs. Except as provided in this Section 8(d), if Bring's employment shall be terminated for cause pursuant to this Section 8(d), the Company shall have

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no further obligations to Bring under this Agreement, including, without limitation, any obligations with respect to the minimum retirement benefit provided in Section 4(c) hereof. In addition, the stock options and awards provided in Section 4(d) hereof shall be terminated except to the extent exercised prior to the date on which notice of termination of employment for cause shall have been given to Bring. Any notice of discharge for cause which shall have been determined to have been given improperly shall not be deemed to have any effect whatsoever.

(e) If during the term hereof, (i) the Company at any time shall fail to fulfill any of its material obligations hereunder, or (ii) Bring shall not, as provided in Section 2, be vested by the Company (or any of its major subsidiaries) with the powers and responsibilities normally vested in the Company's Senior Vice President and General Counsel (except by reason of Bring's refusal of such powers and responsibilities), Bring at his option may give notice of such condition to the Company. If the Company does not, within 60 days after the service of such notice, cure such condition, Bring at his option may forthwith terminate this Agreement, and this Agreement shall thereupon be deemed to have been breached and terminated by the Company without cause.

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9. Remedies.

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(a) The Company and Bring recognize that the service to be rendered under this Agreement by Bring is of a special, unique, unusual, extraordinary and intellectual character, which gives it peculiar value which cannot be reasonably or adequately compensated in damages in an action at law; and a breach by Bring of this Agreement would cause the Company irreparable injury. In the event of a breach by Bring of the provisions of Section 5 hereof, or if Bring shall, without the written consent of the Company, leave its employ and perform services in breach of Section 5 hereof or for any person, firm or corporation or for his own account in violation of the provisions of this Agreement, then the Company shall be entitled, if it so elects, to institute and prosecute proceedings in any court of competent jurisdiction, either in law or at equity, to obtain damages for any breach of this Agreement, or to enforce the specific performance hereof by Bring, or to enjoin Bring from performing services in breach of Section 5 hereof or for any such other person, firm or corporation or for his own account. Nothing herein contained shall be in lieu of, or be construed deprive the Company of any other remedies which may be available to it.

(b) If the Company shall breach this Agreement or terminate this Agreement without cause, the Company shall

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remain obligated to pay compensation to Bring and provide the benefits set forth in Section 4 hereof (or their equivalent including an amount equal to 50% of

Bring's annual Base Compensation at the time of termination as a payment in lieu of annual incentive compensation) to Bring at the times and in the manner herein provided through the end of the then term hereof as though no such termination shall have occurred; provided, however, that the obligations of the Company set

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forth in Sections 4(a) and 4(b) hereof shall immediately cease if Bring shall become self-employed, or directly or indirectly be employed by, perform services for (other than on a solely voluntary basis), or become gainfully associated with any person, firm, corporation, or other entity.

10. Miscellaneous

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A. Successors, Assigns, Etc.  
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This Agreement shall be binding upon and inure to the benefit of the parties hereto and any successors to substantially all of the business of the Company, and any such successor shall be bound to the provisions hereof as fully as if it were originally named the Company herein. Neither this Agreement nor any rights hereunder shall be assignable by Bring, and if Bring shall encumber or dispose of the right to receive any payments hereunder, the Company, at its option, may terminate this Agreement forthwith, and

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thereupon it shall have no further liability hereunder. Nothing herein contained shall permit the Company, without the consent of Bring, to assign this contract to any entity other than an affiliated company or one which acquires substantially all of the business of the Company.

B. Further Assurances

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Each party agrees, without further consideration, to execute and deliver such documents and take such action as may be reasonably necessary to carry out the intent and purposes of this Agreement.

C. Notices

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Any notice or other communication hereunder shall be in writing and shall be delivered against receipt, or mailed by registered, or certified first class mail, with postage prepaid, as follows:

(a) If to the Company at:

120 Park Avenue  
New York, New York 10017  
Attention: President

(b) If to Bring at:

unless prior to the giving of such notice or other communication the party giving the communication shall have actually received from the party to be given the communication a proper notice of a new address, in which event such new address shall be used unless similarly changed.

D. Amendments  
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This Agreement may be amended only by a written instrument duly executed by or on behalf of each of the parties hereto.

E. Section and Other Headings  
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The section and other headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this, Agreement.

F. Applicable Law  
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This Agreement is being delivered in the State of New York and shall be governed by, construed and enforced in accordance with the laws of such State, without giving effect to conflict of laws.

G. Entire Agreement  
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This Agreement sets forth the entire agreement and understanding of the parties with respect to the transactions contemplated hereby and supersedes all prior agreements, arrangements and understandings relating to the subject matter hereof.

H. Counterparts  
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This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which taken together shall constitute one and the same instrument.

I. No Waiver  
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No waiver shall be deemed to be made by either party of any of its or his rights hereunder unless the same shall be in writing, and each waiver, if any, shall be a waiver only with respect to the specific instance involved and shall in no way impair the rights of the waiving party or the obligations of the other party in any other respect at any other time.

J. Validity  
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The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity

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or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above mentioned.

PHILIP MORRIS COMPANIES INC.

By /s/ WILLIAM J. O'CONNOR  
-----

/s/ MURRAY H. BRING  
-----

MURRAY H. BRING

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PHILIP MORRIS  
COMPANIES INC.  
120 PARK AVENUE, NEW YORK, N.Y. 10017

JOHN J. TUCKER  
Senior Vice President  
Human Resources and Administration

(212) 880-4060

October 5, 1993

Murray H. Bring  
Philip Morris Companies Inc.  
120 Park Avenue

New York, NY 10017

Dear Murray:

Your employment agreement, dated October 12, 1987, is hereby amended by adding at the end of Section 4(c) thereof the following:

"In addition to the other benefits provided hereunder, should you die, become permanently disabled, or be terminated by the Company other than for cause prior to reaching your sixty-fifth birthday, or should you continue working as an employee of the Company until you reach your sixty-fifth birthday, the period of accredited service which will be used in calculating your retirement benefit under the Philip Morris Salaried Employees Retirement Plan, as provided for under this Section 4(c), shall be augmented by additional presumptive accredited service of six years in recognition of the years you were engaged in private law practice at the law firm of Arnold & Porter."

/s/ John J. Tucker

-----

John J. Tucker

/kw

Agreed:

/s/ Murray H. Bring

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Murray H. Bring



PHILIP MORRIS COMPANIES INC. AND SUBSIDIARIES  
 Computation of Ratios of Earnings to Fixed Charges  
 (Dollars in millions)

<TABLE>  
 <CAPTION>

	Years Ended December 31,				
<S>	<C>	<C>	<C>	<C>	<C>
	1993	1992	1991	1990	1989
	-----	-----	-----	-----	-----
Earnings before income taxes and cumulative effect of accounting changes	\$6,196	\$ 8,608	\$6,971	\$6,311	\$5,058
Add (Deduct):					
Equity in net earnings of less than 50% owned affiliates	(164)	(107)	(95)	(90)	(62)
Dividends from less than 50% owned affiliates	151	125	72	71	34
Fixed charges	1,716	1,736	1,899	1,941	1,971
Interest capitalized, net of amortization	(13)	(3)	(11)	-	(8)
	-----	-----	-----	-----	-----
Earnings available for fixed charges	\$7,886	\$10,359	\$8,836	\$8,233	\$6,993
	=====	=====	=====	=====	=====
Fixed charges:					
Interest incurred:					
Consumer products	\$1,502	\$ 1,525	\$1,711	\$1,754	\$1,810
Financial services and real estate	87	95	83	93	91
	-----	-----	-----	-----	-----
	1,589	1,620	1,794	1,847	1,901
Portion of rent expense deemed to represent interest factor	127	116	105	94	70
	-----	-----	-----	-----	-----

Fixed charges	\$1,716	\$ 1,736	\$1,899	\$1,941	\$1,971
	=====	=====	=====	=====	=====
Ratio of earnings to fixed charges	4.6	6.0	4.7	4.2	3.5
	=====	=====	=====	=====	=====

</TABLE>

Management's Discussion and Analysis of  
Financial Condition and Results of Operations

Operating Results--Operating Revenues

<TABLE>			
<CAPTION>			
(in millions)	1993	1992	1991
	----	----	----
<S>	<C>	<C>	<C>
Tobacco	\$25,973	\$25,677	\$23,840
Food	30,372	29,048	28,178
Beer	4,154	3,976	4,056
Financial services and real estate	402	430	384
	-----	-----	-----
Total	\$60,901	\$59,131	\$56,458
	=====	=====	=====

</TABLE>

Operating Results--Operating Income

<TABLE>			
<CAPTION>			
(in millions)	1993	1992	1991
	----	----	----
<S>	<C>	<C>	<C>
Tobacco	\$ 4,910	\$ 7,193	\$ 6,463
Food	2,608	2,769	2,016
Beer	215	258	299
Financial services and real estate	249	219	178
	-----	-----	-----
Operating profit	7,982	10,439	8,956
Unallocated corporate expenses	(395)	(380)	(334)
	-----	-----	-----
Total	\$ 7,587	\$10,059	\$ 8,622
	=====	=====	=====

</TABLE>

Operating profit in the first quarter of 1994 is expected to be lower than in the first quarter of 1993.

On February 23, 1994, the Board of Directors increased the Company's regular quarterly dividend 6.2% to \$.69 per common share from \$.65 per share. The new annualized dividend rate is \$2.76 per share.

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 112, "Employers' Accounting for Postemployment Benefits." The cumulative effect at January 1, 1993 of adopting SFAS No. 112 reduced 1993 net earnings by \$477 million (\$.54 per share), net of \$297 million of income tax benefits. Adoption of SFAS No. 112 did not materially reduce 1993 earnings before cumulative effect of accounting change. (See Note 13 to the Consolidated Financial Statements.)

Price and cost pressures in all segments of the Company's business require continuing and accelerated emphasis on reducing costs to improve profitability. In the fourth quarter of 1993, a number of cost reducing proposals were approved by the Board of Directors, which resulted in the Company's providing for the costs of restructuring its worldwide operations to significantly reduce its cost structure and improve its future growth, profitability and cash flow. The charge related primarily to the downsizing or closure of approximately 40 manufacturing and other facilities over the next three years. This restructuring charge reduced earnings before income taxes, net earnings and earnings per share by \$741 million, \$457 million and \$.52, respectively. Included in this charge were asset write-downs of \$429 million, with the remainder of the charge representing anticipated cash expenditures to be made over the next few years to be funded with cash provided by operating activities. The Company expects the restructuring plan to begin lowering operating costs in 1994 and to generate approximately \$600 million in annual after-tax savings by 1997. The Company expects a payback period of approximately three years. Savings from the planned actions will be used for both business-building initiatives and profit improvement. Over the next three years, the Company intends to reduce its workforce by approximately 8%, or 14,000 positions. It is anticipated that the SFAS No. 112 reserve is adequate to provide for the costs associated with this workforce reduction.

On April 2, 1993, the Company's domestic tobacco subsidiary ("PM U.S.A.") announced that during the second quarter of 1993 it would implement an extensive promotional program to reduce the average retail price of Marlboro cigarettes. This action, which represented a major shift in its domestic tobacco pricing strategy, was intended to restore lost market share and improve long-term profitability.

The market share results of the Marlboro brand price promotion exceeded expectations. On July 20, 1993, PM U.S.A. announced certain actions designed to continue its share recovery strategy. Specifically, PM U.S.A. created a two category pricing structure for its tobacco brands, premium and discount, effective August 9, 1993. In the premium segment, PM U.S.A. converted its Marlboro retail price promotion into an equivalent wholesale list price reduction that applied to all its other premium brands as well. This action was taken to enable PM U.S.A. to take advantage of the marketing efficiencies provided by a list price reduction, as opposed to supporting continuous price promotions. PM U.S.A. believes that its experience with the Marlboro promotion demonstrated that a narrowed price gap between PM U.S.A.'s premium and discount brands would help restore Marlboro's market share and sustain its competitive position with respect to its other brands by encouraging a market environment in which consumers make purchasing decisions based on brand preference rather than on price alone. This pricing strategy has begun to achieve its objectives (see further discussion in domestic tobacco operating results). In the discount segment, PM U.S.A. raised the net list price of its deep discount products. Other discount brands are being offered at the same net list prices. During the third quarter of 1993, wholesale and retail distributors were compensated for the effect of price decreases on their inventory, at a cost of approximately \$200 million to PM U.S.A. The overall effect of these price changes has been to lower profit margins on sales of premium brands that will not be offset entirely by higher volume. These lower margins are expected to continue until such time as there are sustained improvements in the competitive environment. On November 9, 1993, a major competitor increased the average price of its

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domestic brands by \$2.00 per thousand. On November 11, 1993, PM U.S.A. announced that it was also increasing the average price of all its brands by \$2.00 per thousand.

Effective January 1, 1993, the federal excise tax on cigarettes increased from \$10 per thousand (\$.20 per pack) to \$12 per thousand (\$.24 per pack). As part of its health care reform proposal, the federal administration has included a \$37.50 per thousand (\$.75 per pack) increase in the federal excise tax effective October 1, 1994. It is anticipated that the higher excise taxes, if implemented, would result in volume declines for PM U.S.A. and the cigarette industry and might cause further shifts from the premium segment to the discount segment. In addition, legislation or other governmental action is proposed periodically, both in the United States and abroad, that not only would increase excise taxes but also would further curtail the advertisement and use of tobacco and beer products. Any or all of the foregoing, if implemented, would have an adverse impact on the Company's volume, operating revenues and operating profit, the amounts of which cannot be determined.

As part of the U.S. federal budget passed in August 1993, Congress has required, effective January 1, 1994, that domestic cigarette manufacturers use at least 75% American-grown tobacco, which is more expensive than imported tobacco, in their products. Due to the high content of American-grown tobacco (approximately 65% in 1993) already used in PM U.S.A.'s products and those exported by PM International, this new requirement is not expected to have a material adverse impact on tobacco results of operations.

The new federal income tax law became effective during 1993, retroactive to January 1, 1993. As a result, 1993 earnings per share reflect a \$.05 per share reduction to reflect the higher tax rate.

In November 1992, the U.S. Food and Drug Administration issued new labeling requirements for food products, effective May 1994. Compliance with the new requirements will not have a material adverse impact on the Company's results of operations.

1993 Compared with 1992

Operating revenues for 1993 increased \$1.8 billion (3.0%). As a result of the previously discussed domestic tobacco business strategies and the restructuring charge, operating profit, as defined for segment reporting purposes (operating income excluding unallocated corporate expenses), decreased \$2.5 billion (23.5%). Excluding domestic tobacco and the restructuring charge, operating profit increased 12.6% over 1992.

Amortization of goodwill increased 9.2%, to \$569 million in 1993, due primarily to acquisitions during 1993. Interest and other debt expense, net, decreased \$60 million (4.1%) in 1993, due primarily to lower rates and higher interest income, partially offset by higher average outstanding debt during the year.

Earnings before cumulative effect of accounting change decreased in 1993 by \$1.4 billion (27.8%), due to decreased operating profit (\$2.5 billion), partially offset by lower interest and other debt expense, net (\$60 million) and a lower income tax provision (\$1.0 billion).

Net earnings and earnings per share for 1993 were as follows:

<TABLE>  
<CAPTION>

(in millions)	Net Earnings	Earnings per Share	E.P.S. % Decrease
<S>	<C>	<C>	<C>
Net earnings excluding restructuring and SFAS No. 112	\$ 4,043	\$ 4.60	(15.6)%
SFAS No. 112--incremental charge	(18)	(.02)	
	-----	-----	
Net earnings--ongoing basis	4,025	4.58	
Restructuring provision	(457)	(.52)	
	-----	-----	
SFAS No. 112--cumulative adjustment	(477)	(.54)	
	-----	-----	
Net earnings--as reported	\$ 3,091	\$ 3.52	(35.4)%
	=====	=====	

</TABLE>

Earnings per share for 1993, excluding the impact of restructuring and the adoption of SFAS No. 112, decreased 15.6%, due to a decrease in earnings of 18.1% to \$4.0 billion, partially offset by fewer shares outstanding. As a result of the Company's share repurchase program, the weighted average number of shares outstanding decreased to 878 million in 1993 from 906 million in 1992.

1992 Compared with 1991

Operating revenues for 1992 increased \$2.7 billion (4.7%) and operating profit increased \$1.5 billion (16.6%). Operating revenues and operating profit in all business segments, except beer, increased over 1991.

Amortization of goodwill increased 4.4%, to \$521 million in 1992, due primarily to acquisitions during 1992. Interest and other debt expense, net, decreased \$200 million (12.1%) in 1992, due primarily to lower rates, lower average outstanding debt during the year and higher interest income.

Effective January 1, 1991, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," for its U.S. retiree benefit plans. The Company expects to adopt SFAS No. 106 for its non-U.S. plans in 1995 and, based upon preliminary estimates, does not anticipate that the effects of adoption will be significant. (See Note 14 to the Consolidated Financial Statements.)

In 1991, the Company provided for the costs of restructuring its worldwide food operations. The charge related to consolidation of manufacturing and distribution facilities, exiting from certain unprofitable business lines and other related overhead cost reductions. This restructuring charge reduced earnings before income taxes, net earnings and earnings per share by \$455 million, \$275 million and \$.30, respectively.

Earnings before cumulative effect of accounting change increased in 1992 by \$1.0 billion (25.8%), due to increased operating profit (\$1.5 billion) and lower interest and other debt expense, net (\$200 million), partially offset by a higher income tax provision (\$625 million).

Earnings per share before cumulative effect of accounting change for 1992 increased 28.5%, from \$4.24 to \$5.45, due to higher earnings and fewer shares outstanding. Excluding the 1991 charge for restructuring the Company's worldwide food operations, earnings per share before cumulative effect of accounting change increased 20.0% from \$4.54 in 1991. As a result of the Company's share repurchase program, the weighted average number of shares outstanding decreased to 906 million during 1992 from 925 million in 1991.

Operating Results by Business Segment  
Tobacco--Operating Revenues

<TABLE>  
<CAPTION>  
(in millions)

	1993	1992	1991
	----	----	----
<S>	<C>	<C>	<C>
Domestic tobacco	\$10,227	\$12,010	\$11,589
International tobacco	15,746	13,667	12,251
	-----	-----	-----
Total	\$25,973	\$25,677	\$23,840
	=====	=====	=====

</TABLE>

Tobacco--Operating Profit

<TABLE>  
<CAPTION>  
(in millions)

	1993	1992	1991
	----	----	----
<S>	<C>	<C>	<C>
Domestic tobacco	\$2,808	\$5,185	\$4,774
International tobacco	2,360	2,018	1,694
Amortization of goodwill	(13)	(10)	(5)
Restructuring charges	(245)		
	-----	-----	-----
Total	\$4,910	\$7,193	\$6,463
	=====	=====	=====

</TABLE>

1993 Compared with 1992

During 1993, domestic cigarette industry volume continued to shift from the premium segment to the discount segment, although the trend began to reverse in the third quarter of 1993. The premium and discount segments for 1993 accounted for approximately 63% and 37%, respectively, of the domestic cigarette industry, as compared with 70% and 30%, respectively, in 1992. Reference is made to the discussion on page 20 of actions taken by PM U.S.A. in response to the highly price sensitive market environment.

PM U.S.A.'s domestic volume was 194.7 billion units, a decrease of 9.1% compared with an industry decline of 9.0%. PM U.S.A.'s market share was 42.2%, stable with 1992. In the premium segment, volume in PM U.S.A.'s brands decreased 16.2%, compared with a 17.6% decrease for the industry, resulting in a market share gain of .9% share point to 49.7%. The Marlboro family's volume was down 15.4 billion units (12.4%), accounting for a 23.5% share of the total industry, as compared with a 24.4% share in 1992. However, PM U.S.A. believes that much of the decline in Marlboro and other premium brands was due to wholesale inventory reductions, compared to prior years when wholesale inventories were maintained at higher levels in anticipation of price increases. The foregoing volume and market share data are based on shipments. Since the implementation of the strategy announced on April 2 and subsequent actions taken by PM U.S.A. (see page 20), Nielsen retail sales data, a more accurate reflection of consumer buying habits than shipment data, indicates a share gain for Marlboro, growing from its low point of 21.5% in March to 26.6% in December. Commencing with the Company's 1993 Annual Report to stockholders, PM U.S.A. has elected to report its retail market shares using an expanded Nielsen Survey, which indicates Marlboro retail share was 22.1% in March and 26.8% in December, an increase of 4.7 share points.

In the discount segment, PM U.S.A.'s shipments increased 20.1% to 49.8 billion units, resulting in a gain of 2.3 share points in this segment to 29.4%.

In 1993, PM U.S.A.'s operating revenues decreased 14.8%, due primarily to volume decreases (\$1.1 billion), unfavorable product mix (\$530 million) and price decreases (\$517 million, including approximately \$200 million to compensate wholesale and retail distributors for the effects of price decreases on their inventories), partially offset by the increase in federal excise taxes (\$387 million). Operating profit decreased 45.8% from 1992, due primarily to higher marketing, administration and research costs (\$850 million, substantially all of which related to promotions of Marlboro), volume decreases (\$743 million), price decreases (\$517 million) and unfavorable product mix (\$452 million), partially offset by cost decreases (\$206 million). The cost decreases in 1993 include a \$105 million favorable impact from inventory calculations.

International tobacco operating revenues increased 15.2%, due primarily to higher foreign excise taxes (\$1.0 billion, including those for previously unconsolidated operations and acquisitions), favorable volume/mix (\$663 million), the consolidation of previously unconsolidated operations (\$435 million), price increases (\$166 million) and the impact of acquisitions (\$79 million), partially offset by currency movement (\$287 million). Total 1993 international unit volume, including U.S. exports, increased 38.5 billion units

(9.2%) to 459.7 billion units. Volume gains were recorded in most markets including Italy, Germany, France, Turkey, Central and Eastern Europe, Japan and Argentina. The Company's market share trends remain positive in all its major international markets. Marlboro's international volume continued to grow, increasing 3.5% to 240.1 billion units. U.S. export volume increased 3.6% to 114.4 billion units. International tobacco operating profit increased 16.9% due primarily to volume/mix increases (\$302 million), price increases, net of cost increases (\$155 million), the consolidation of previously unconsolidated operations (\$89 million) and the impact of acquisitions (\$22 million), partially offset by higher marketing expenses (\$103 million) and currency movement (\$52 million).

#### 1992 Compared with 1991

In 1992, PM U.S.A.'s domestic tobacco operating revenues increased 3.6%, due primarily to price increases (\$1.2 billion), partially offset by volume decreases (\$367 million) and unfavorable product mix (\$348 million). PM U.S.A.'s domestic volume (based on shipments) decreased 6.4 billion units (2.9%) to 214.3 billion units. The domestic cigarette industry's volume decreased approximately 0.5% in 1992 and PM U.S.A.'s market share (based on shipments) decreased to 42.3%, down 1.1 share points from 1991. PM U.S.A.'s volume in the full price segment decreased 5.7%, compared with a 7.3% decrease for the industry. The Marlboro family's volume was down 7.3 billion units (5.6%) from 1991, resulting in a 24.4% market share as compared with a 25.8% market share in 1991. The discount segment of the market continued to grow and accounted for 30.2% of the U.S. cigarette industry in 1992, compared with 25% in 1991. In 1992, industry discount shipments increased 20%; shipments of PM U.S.A.'s discount brands increased 10.5% to 41.5 billion units, resulting in a 27.1% share of this segment in 1992, compared with 29.5% in 1991. The deep discount subsegment more than doubled in 1992 to a 14.9% share of the total industry, an increase of 8.4 share points over 1991. PM U.S.A.'s share of this subsegment was 30.5% in 1992 and 29.4% in 1991, represented by shipments of 23.1 billion units, as compared to 9.8 billion units in 1991. In 1992, PM U.S.A.'s operating profit increased 8.6%, due primarily to price increases (\$1.2 billion), partially offset by unfavorable product mix, volume decreases (\$243 million) and higher marketing expenses (\$154 million).

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International tobacco operating revenues increased 11.6%, due primarily to higher foreign excise taxes (\$740 million), price increases (\$286 million), currency movement (\$278 million) and the impact of acquisitions (\$154 million). Total 1992 international unit volume, including exports, increased 3.9 billion units (0.9%) to 421.2 billion units, due primarily to higher volume in France, Central and Eastern Europe, the Middle East, Japan and Argentina. These gains were partially offset by lower exports to Russia and volume shortfalls due to local problems in certain key markets. Due to an inability to negotiate financing arrangements, no export shipments were made under the 1992 contract with the Russian government, as compared to 19.0 billion units in 1991; however, new export business to the private sector in Russia and other former Soviet Republics commenced in the third quarter of 1992, resulting in shipments of 7.1 billion units. Problems in key markets included an unfavorable excise tax structure in Germany, a strike by government workers in Italy, and retail price gaps between imported cigarettes and local monopoly products in Turkey. These issues were largely resolved in the first quarter of 1993. U.S. export volume increased 3.6% to 110.4 billion units. International tobacco operating profit increased 19.1%, due primarily to price increases, net of cost increases (\$282 million), currency movement (\$98 million) and the impact of acquisitions (\$21 million), partially offset by higher marketing expenses (\$83 million).

#### Food--Operating Revenues

<TABLE>			
<CAPTION>			
(in millions)	1993	1992	1991
	-----	-----	-----
<S>	<C>	<C>	<C>
North American food	\$20,940	\$20,325	\$20,244
International food	9,432	8,723	7,934
	-----	-----	-----
Total	\$30,372	\$29,048	\$28,178
	=====	=====	=====

</TABLE>

#### Food--Operating Profit

<TABLE>			
<CAPTION>			
(in millions)	1993	1992	1991

<S>	<C>	<C>	<C>
North American food	\$2,404	\$2,194	\$2,071
International food	1,114	1,083	891
Amortization of goodwill	(553)	(508)	(491)
Restructuring charges	(357)		(455)
Total	\$2,608	\$2,769	\$2,016

</TABLE>

#### 1993 Compared with 1992

In 1993, North American food operating revenues increased 3.0%, due primarily to price increases (\$404 million), volume increases (\$260 million) and the impact of acquisitions, net of dispositions (\$21 million), partially offset by currency movement (\$88 million). Volume gains were recorded in cereals and frozen pizza, due primarily to acquisitions, and in cheese, processed meats, bakery, frozen meals, foodservice and Canadian operations. Volume declined in beverages and in turkey products. Operating profit increased 9.6%, due primarily to price increases and lower product costs (aggregating \$329 million), volume increases (\$33 million) and the impact of acquisitions, net of dispositions (\$16 million), partially offset by higher marketing expenses (\$195 million) and currency movement (\$13 million).

International food operating revenues in 1993 increased 8.1%, due primarily to the impact of acquisitions (\$1.0 billion), volume increases (\$423 million) and the consolidation of previously unconsolidated subsidiaries (\$159 million), partially offset by currency movement (\$884 million). All major core categories showed volume growth versus prior year, particularly confectionery, which benefited from acquisitions, new product introductions and line extensions. Market share for the core confectionery and coffee businesses continued to show positive trends. Operating profit increased 2.9%, due primarily to volume increases (\$178 million), acquisitions (\$153 million) and lower product costs (\$104 million), partially offset by currency movement (\$202 million), higher marketing expenses (\$162 million) and 1992 gains on sales of assets (\$47 million).

#### 1992 Compared with 1991

In 1992, North American food operating revenues increased 0.4%, due primarily to volume increases (\$144 million) and the impact of an acquisition in the fourth quarter of 1991 (\$98 million), partially offset by price decreases (\$94 million) and currency movement (\$63 million). Volume increased in beverages (due to an acquisition in the fourth quarter of 1991), cereals, cheese, red meat products, desserts and frozen pizza, as well as in the foodservice operations. Partially offsetting these volume gains were volume declines in turkey products and frozen dinners. Volumes continued to be impacted by the recession as consumers traded down from premium products. However, the Company reduced prices on certain cheese and processed meat products, and management believes that these price decreases may have contributed to higher volumes in certain of these products in the second half of 1992. During 1992, the Company sold its interest in a Canadian joint venture for a gain of \$137 million. In addition, the Company provided \$77 million for the costs of certain product discontinuances, an early retirement program, and reorganization of distribution and customer service centers. The gain and these charges were included in marketing, administration and research costs.

International food operating revenues in 1992 increased 9.9%, due primarily to currency movement (\$381 million), the impact of acquisitions (\$199 million) and price increases (\$135 million). International food volume was up slightly from 1991. Volume in 1991 was unusually high due to Gulf War hoarding and the expansion into eastern Germany. The increase in 1992 reflected strengthening of the Company's position in coffee and the impact of acquisitions, while the recessionary environments in Europe and Australia adversely affected grocery volume. Confectionery volumes were also impacted by an unusually hot summer in Europe. Operating profit increased 21.5%, due primarily to price increases, net of cost increases (\$126 million), gains on sales of assets (\$47 million), currency movement (\$30 million) and the impact of acquisitions (\$23 million).

#### Beer

##### 1993 Compared with 1992

Operating revenues in 1993 increased 4.5%, due primarily to the acquisition of Molson Breweries U.S.A. Inc. (\$164 million) and shipment volume increases, excluding Molson brands (\$45 million), partially offset by price/mix decreases (\$57 million). During the second quarter of 1993, the Company



acquired a 20% equity interest in Molson Breweries in Canada and 100% of Molson Breweries U.S.A. Unit volume (based on shipments) increased 4.3% to 44.0 million barrels, up 1.1% excluding Molson brands, compared with U.S. malt beverage industry shipments, which were up slightly during the year. During 1993, consumer trade-down patterns were evident in the industry as sales in the premium category declined. Accordingly, the Company reduced the price of Miller High Life in many markets during the year. Shipment volume gains were recorded in Miller High Life, reflecting such price reductions, and in the Miller Genuine Draft brand family. Shipments of Miller Lite declined, but by a lesser percentage than that experienced in recent years, reflecting concentrated marketing efforts to slow its decline. Market share of the U.S. malt beverage industry (based on shipments) was 22.2% in 1993 compared with 21.4% in 1992. Operating profit, excluding the \$139 million impact of the 1993 restructuring, increased 37.2%, due primarily to lower product costs (\$84 million), a 1992 provision for workforce reduction programs (\$25 million), higher volume, excluding Molson brands (\$19 million) and the impact of acquisitions (\$19 million), partially offset by price/mix decreases (\$57 million).

#### 1992 Compared with 1991

Operating revenues in 1992 decreased 2.0%, due to volume decreases (\$131 million), offset by price increases (\$51 million). Volume decreased 3.2%, to 42.1 million barrels (based on shipments), compared with U.S. malt beverage industry shipments, which were flat for the year. Consumer trade-down patterns in 1992 were evident in the industry as sales in the premium category declined, while sales in the below premium categories increased. The year also saw intense price promoting throughout the industry. The Company's volumes decreased due primarily to a planned reduction of distributor inventories, a cool summer and the recession in the United States. Continuing declines in Miller Lite and Miller High Life were partially offset by increases in the Miller Genuine Draft brand family. Concentrated marketing efforts were undertaken in 1992 to slow the decline of Miller Lite. Market share of the U.S. malt beverage industry (based on shipments) was 21.4% in 1992 compared with 22.4% in 1991. Operating profit in 1992 decreased 13.7%, due primarily to volume decreases (\$53 million) and higher marketing expenses (\$52 million), partially offset by price increases. During 1992, the Company recorded a provision of \$25 million for workforce reduction programs.

#### Financial Services and Real Estate

##### 1993 Compared with 1992

Operating revenues from financial services and real estate decreased 6.5% and operating profit increased 13.7% in 1993. Operating revenues from financial services decreased 5.9%, due primarily to lower average finance assets. Operating profit from financial services increased 31.1%, due primarily to an adjustment to the leveraged lease portfolio for the effects of the increase in the federal income tax rates (due to the nature of leveraged lease accounting, this increase in operating profit was more than offset in the provision for income taxes; however, it had no material impact on the Company's net earnings), lower provision for losses and lower interest expense versus 1992. Operating revenues and operating profit from real estate operations decreased from 1992 levels, due primarily to decreased California sales.

##### 1992 Compared with 1991

Operating revenues and operating profit from financial services and real estate increased 12.0% and 23.0%, respectively, in 1992. In financial services, operating revenues and operating profit increased in 1992, due primarily to increased investments in finance assets and a lower provision for losses, partially offset by higher interest expense resulting from higher debt balances over 1991 levels. Operating revenues and operating profit from real estate operations in 1992 increased from 1991 levels, due primarily to increased residential land sales.

#### Financial Review

##### Cash Provided and Used

##### Net Cash Provided by Operating Activities

Cash provided by operating activities increased \$85 million (1.2%) to \$7.0 billion in 1993, due primarily to less cash used for working capital items in 1993, partially offset by lower earnings. Working capital items declined \$1.4 billion at December 31, 1993, as compared with December 31, 1992. The decrease reflects lower domestic tobacco receivables and inventories in 1993, as well as higher accrued marketing and accounts payable. The Company generally follows asset and liability management practices designed to minimize its investment in working capital. This does not impair operational capability or flexibility, due to the availability of the Company's credit facilities. The Company expects that

cash from operations and available credit facilities will continue to be sufficient to meet the future needs of the business.

Free cash flow is a measure of excess cash generated by a company and is available for debt repayment, share repurchase and acquisitions. The Company defines free cash flow as cash provided by operating activities less capital expenditures, dividends paid to stockholders and net investments in finance assets. In 1993, consolidated free cash flow totaled \$3.0 billion, as compared to \$2.5 billion in 1992. The increase was due primarily to lower net investments in finance assets.

Neither the adoption of SFAS No. 112 nor the provision for restructuring had a material impact on the Company's operating cash flow in 1993.

Cash provided by operating activities of \$6.9 billion in 1992 increased by \$623 million (10.0%), due primarily to higher earnings, partially offset by more cash used for working capital items in 1992.

#### Net Cash Used in Investing Activities

Cash used in investing activities of \$4.2 billion increased in 1993 by \$1.3 billion (43.4%). The increase reflects a \$2.1 billion increase in cash used for acquisitions, net of dispositions, and a \$731 million decrease in cash used for net investments in finance assets. Capital expenditures were \$1.6 billion in 1993, approximately 59% and 33% of which related to food operations and tobacco operations, respectively, primarily for modernization of manufacturing facilities. Capital expenditures are estimated to be \$1.8 billion in 1994 and a total of \$8.2 billion for the five-year period 1994-1998, of which approximately 63% and 65%, respectively, are projected for

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food operations and approximately 32% and 27%, respectively, are projected for tobacco operations.

In 1993, cash used for net investments in finance assets was \$70 million, as compared with \$801 million in 1992 and \$628 million in 1991.

During 1993, the Company acquired Freia Marabou a.s, a Scandinavian confectionery company, at a cost of \$1.3 billion, a North American ready-to-eat cold cereals business at a cost of \$448 million and The Terry's Group, a United Kingdom confectionery company for \$295 million. In addition, the Company acquired a 20% equity interest in Molson Breweries in Canada and 100% of Molson Breweries U.S.A., at a cost of \$320 million. Also, the Company acquired 98% of Kazakhstan cigarette manufacturer Almaty Tobacco Kombinat from the Government of the Republic of Kazakhstan at a cost of approximately \$300 million. The Company also increased its investment in food and tobacco operations in other regions of Central and Eastern Europe.

During 1993, the Company sold its ice cream business, Birds Eye frozen vegetables business and beer can manufacturing plants. The proceeds from the sales of these businesses aggregated \$498 million.

#### Net Cash Used in Financing Activities

##### Debt

The Company's total debt was \$18.2 billion at December 31, 1993 and 1992 and \$16.9 billion at December 31, 1991.

During 1993, total consumer products debt increased \$95 million. The increase represented \$1.2 billion of net issuance of short-term debt, partially offset by \$1.1 billion of net repayment of long-term borrowings. During 1992, total consumer products debt increased \$980 million. The increase represented \$1.7 billion of net issuance of long-term debt, partially offset by \$683 million of net repayment of short-term borrowings. During 1991, total consumer products debt decreased by \$1.9 billion. The decrease represented \$4.1 billion of net repayment of short-term borrowings and currency translation of \$159 million, partially offset by \$2.4 billion of net issuance of long-term debt.

Fixed rate debt comprised approximately 83% and 90% of consumer products debt at December 31, 1993 and 1992, respectively. The average interest rate on total consumer products debt was approximately 7.6% and 8.4% during 1993 and 1992, respectively. At December 31, 1993, the average interest rate on total consumer products debt, including the impact of currency swap agreements discussed below, was approximately 7.5%.

The Company has entered into currency and related interest rate swap agreements to manage exposure to currency movements. The aggregate principal

amount of currency swap agreements outstanding at December 31, 1993 and 1992 was \$1.4 billion and \$1.8 billion, respectively, of which \$1.2 billion and \$1.3 billion related to consumer products debt at December 31, 1993 and 1992, respectively.

The Company continually monitors its foreign currency exposure. It acts to manage such exposure, when deemed prudent, through various hedging transactions.

At December 31, 1993, the Company's credit facilities amounted to approximately \$16.0 billion, of which approximately \$15.7 billion were unused. Included in these facilities is a revolving credit facility for \$8 billion expiring in 1998, which enables the Company to refinance short-term debt on a long-term basis, and a \$4 billion credit facility expiring in December 1994. These facilities are used to support the Company's commercial paper borrowings and are available for acquisitions and other corporate purposes. The Company expects to continue to refinance long-term and short-term debt from time to time. The nature and amount of the Company's long-term and short-term debt and the proportionate amount of each can be expected to vary as a result of future business requirements, market conditions and other factors.

The Company's credit ratings by Moody's at December 31, 1993, 1992 and 1991 were "P-1" in the commercial paper market and "A2" for long-term obligations. The Company's credit ratings by Standard & Poor's at December 31, 1993, 1992 and 1991 were "A-1" in the commercial paper market and "A" for long-term debt obligations.

#### Equity and Dividends

During the first quarter of 1993, the Company repurchased 17.3 million shares of its common stock at an aggregate cost of \$1.2 billion; no shares were repurchased in the remainder of 1993. These purchases were made in accordance with the Company's November 1991 announcement of its intention to spend up to \$2.0 billion to repurchase common stock in open market transactions; in May 1992, the Board of Directors authorized an additional \$3.0 billion for such purchases. Through December 31, 1993, cumulative purchases under the program totaled 51.9 million shares at a cost of \$3.9 billion. On February 23, 1994, the Board of Directors extended through December 30, 1994, the existing authority to repurchase the Company's shares, which was scheduled to expire in May 1994. The Company announced that it will resume repurchases under this authority.

At December 31, 1993, the ratio of consumer products debt to total equity was 1.41, compared with 1.29 at December 31, 1992. The Company's ratio of total debt to total equity at December 31, 1993 was 1.56 compared with 1.45 at December 31, 1992. The increase in these ratios primarily reflects the impact of the restructuring charge, the adoption of SFAS No. 112, share repurchases and unfavorable movement in the currency translation adjustment account. Excluding the impact of the restructuring charge and the adoption of SFAS No. 112, the ratios of consumer products debt and total debt to equity at December 31, 1993 would have been 1.30 and 1.44, respectively.

Dividends paid in 1993 increased 13.0% over 1992, reflecting the increase in dividends declared, partially offset by fewer shares outstanding. Dividends paid per share increased 16.9% in 1993.

Return on average stockholders' equity was 25.6% in 1993 and 39.4% in 1992. Excluding the cumulative effect of the adoption of SFAS No. 112, the return on average stockholders' equity would have been 28.9% in 1993. The decrease from 1992 reflects lower earnings, due to the change in domestic tobacco business strategy and the restructuring charge for worldwide operations, as well as the impact of treasury stock acquired pursuant to the common stock repurchase program.

#### Contingencies

See Note 15 to the Consolidated Financial Statements for discussion of contingencies.

#### Selected Financial Data--Fifteen-Year Review (in millions of dollars, except per share data)

	1993	1992	1991
	----	----	----
<S>	<C>	<C>	<C>
Summary of Operations:			
Operating revenues	\$ 60,901	\$ 59,131	\$ 56,458

United States export sales	4,105	3,797	3,061
Cost of sales	26,771	26,082	25,612
Federal excise taxes on products	3,081	2,879	2,978
Foreign excise taxes on products	7,199	6,157	5,416
Operating income	7,587	10,059	8,622
Interest and other debt expense, net (consumer products)	1,391	1,451	1,651
Earnings before income taxes and cumulative effect of accounting changes	6,196	8,608	6,971
Pretax profit margin	10.2%	14.6%	12.3%
Provision for income taxes	\$ 2,628	\$ 3,669	\$ 3,044
Earnings before cumulative effect of accounting changes	3,568	4,939	3,927
Cumulative effect of accounting changes	(477)		(921)
Net earnings	3,091	4,939	3,006
Earnings per share before cumulative effect of accounting changes	4.06	5.45	4.24
Per share cumulative effect of accounting changes	(.54)		(.99)
Net earnings per share	3.52	5.45	3.25
Dividends declared per share	2.60	2.35	1.91
Weighted average shares (millions)	878	906	925
Capital expenditures (consumer products)	\$ 1,592	\$ 1,573	\$ 1,562
Depreciation (consumer products)	1,042	963	938
Property, plant and equipment, net (consumer products)	10,463	10,530	9,946
Inventories (consumer products)	7,358	7,785	7,445
Total assets	51,205	50,014	47,384
Total long-term debt	15,221	14,583	14,213
Total debt--consumer products	16,364	16,269	15,289
--financial services and real estate	1,792	1,934	1,611
Total deferred income taxes	2,168	2,248	1,803
Stockholders' equity	11,627	12,563	12,512
Common dividends declared as a % of net earnings	73.8%	43.0%	58.7%
Book value per common share	\$ 13.26	\$ 14.07	\$ 13.60
Market price of common share--high/low	77 5/8-45	86 5/8-69 1/2	81 3/4-48 1/4
Closing price of common share at year-end	55 5/8	77 1/8	80 1/4
Price/earnings ratio at year-end	14	14	19
Number of common shares outstanding at year-end (millions)	877	893	920
Number of employees	173,000	161,000	166,000

</TABLE>

<TABLE>

<CAPTION>

	1990	1989
	----	----
<S>	<C>	<C>
Summary of Operations:		
Operating revenues	\$ 51,169	\$ 44,080
United States export sales	2,928	2,288
Cost of sales	24,430	21,868
Federal excise taxes on products	2,159	2,140
Foreign excise taxes on products	4,687	3,608
Operating income	7,946	6,789
Interest and other debt expense, net (consumer products)	1,635	1,731
Earnings before income taxes and cumulative effect of accounting changes	6,311	5,058
Pretax profit margin	12.3%	11.5%
Provision for income taxes	\$ 2,771	\$ 2,112
Earnings before cumulative effect of accounting changes	3,540	2,946
Cumulative effect of accounting changes		
Net earnings	3,540	2,946
Earnings per share before cumulative effect of accounting changes	3.83	3.18
Per share cumulative effect of accounting changes		
Net earnings per share	3.83	3.18
Dividends declared per share	1.55	1.25
Weighted average shares (millions)	925	927
Capital expenditures (consumer products)	\$ 1,355	\$ 1,246
Depreciation (consumer products)	876	755
Property, plant and equipment, net (consumer products)	9,604	8,457
Inventories (consumer products)	7,153	5,751
Total assets	46,569	38,528
Total long-term debt	16,121	14,551
Total debt--consumer products	17,182	14,887
--financial services and real estate	1,560	1,538
Total deferred income taxes	2,083	1,732
Stockholders' equity	11,947	9,571
Common dividends declared as a % of net earnings	40.5%	39.3%
Book value per common share	\$ 12.90	\$ 10.31
Market price of common share--high/low	52-36	45 1/2-25
Closing price of common share at year-end	51 3/4	41 5/8
Price/earnings ratio at year-end	14	13
Number of common shares outstanding at year-end (millions)	926	929
Number of employees	168,000	157,000

</TABLE>

See notes to the consolidated financial statements regarding the 1993 adoption of SFAS No. 112, the 1993 restructuring of the Company's worldwide operations, the 1991 adoption of SFAS No. 106 and the 1991 restructuring of food operations.

In 1990, the Company acquired Jacobs Suchard AG. Consolidated results of the Company include the operating results of Jacobs Suchard AG since its acquisition.

In 1989, the Company charged \$179 million, primarily for the cost of combining Kraft and General Foods. In addition, the Company sold its equity investment in Rothmans International p.l.c. for a pretax gain of \$455 million. The net impact of these items was an increase to net earnings of \$152 million, or \$.16 per share.

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[GRAPHIC OMITTED]

<TABLE>  
<CAPTION>

1988	1987	1986	1985	1984
----	----	----	----	----
<S>	<C>	<C>	<C>	<C>
\$ 31,273	\$ 27,650	\$ 25,542	\$ 16,158	\$ 14,102
1,863	1,592	1,193	923	925
13,565	12,183	11,901	6,709	5,840
2,127	2,085	2,075	2,049	2,041
3,755	3,331	2,653	1,766	1,635
4,397	3,990	3,537	2,664	1,908
670	646	772	311	276
3,727	3,344	2,765	2,353	1,632
11.9%	12.1%	10.8%	14.6%	11.6%
\$ 1,663	\$ 1,502	\$ 1,287	\$ 1,098	\$ 743
2,064	1,842	1,478	1,255	889
273				
2,337	1,842	1,478	1,255	889
2.22	1.94	1.55	1.31	.91
.29				
2.51	1.94	1.55	1.31	.91
1.01	.79	.62	.50	.43
932	951	954	959	981
\$ 1,024	\$ 718	\$ 678	\$ 347	\$ 298
608	564	514	367	341
8,648	6,582	6,237	5,684	4,014
5,384	4,154	3,836	3,827	2,653
36,960	21,437	19,482	18,712	9,880
16,812	5,983	6,887	8,035	2,239
16,442	6,355	6,889	7,887	2,566
1,504	1,378	1,141	944	436
1,559	2,044	1,519	1,233	907
7,679	6,823	5,655	4,737	4,093
40.3%	40.6%	39.9%	38.1%	46.8%
\$ 8.31	\$ 7.21	\$ 5.94	\$ 4.96	\$ 4.21
25 1/2-20 1/8	31 1/8-18 1/8	19 1/2-11	11 7/8-9	10 3/8-7 3/4
25 1/2	21 3/8	18	11	10 1/8
11	11	11	8	11
924	947	951	955	971
155,000	113,000	111,000	114,000	68,000

</TABLE>

<TABLE>  
<CAPTION>

1983	1982	1981	1980	1979
----	----	----	----	----
<S>	<C>	<C>	<C>	<C>
\$ 13,256	\$ 11,720	\$ 10,886	\$ 9,822	\$ 8,303
970	978	834	702	521
5,665	5,532	5,253	4,675	3,857
1,983	1,180	1,169	1,105	1,037
1,527	1,435	1,411	1,389	1,122
1,840	1,547	1,312	1,144	1,096
230	244	232	205	190
1,610	1,303	1,080	939	906
12.1%	11.1%	9.9%	9.6%	10.9%
\$ 706	\$ 521	\$ 420	\$ 390	\$ 398

904	782	660	549	508
904	782	660	549	508
.90	.78	.66	.55	.51
.90	.78	.66	.55	.51
.36	.30	.25	.20	.16
1,008	1,005	999	997	996
\$ 566	\$ 918	\$ 1,019	\$ 751	\$ 629
294	250	211	178	133
4,381	4,178	3,583	2,806	2,214
2,599	2,834	2,922	2,499	2,235
9,908	9,756	9,180	7,362	6,379
2,549	3,776	3,499	2,598	2,448
3,054	3,728	3,804	2,800	2,507
141	83	3	1	9
825	627	455	327	234
4,034	3,663	3,234	2,837	2,471
40.5%	38.6%	37.9%	36.3%	30.6%
\$ 4.03	\$ 3.64	\$ 3.22	\$ 2.84	\$ 2.48
9-6 3/4	8 1/2-5 1/2	6 7/8-5 1/4	6-3 5/8	4 7/8-3 7/8
9	7 1/2	6 1/8	5 3/8	4 1/2
10	9	9	9	8
1,000	1,007	1,003	998	996
68,000	72,000	72,000	72,000	65,000

</TABLE>

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Consolidated Balance Sheets  
(in millions of dollars, except per share data)

<TABLE> <CAPTION> at December 31,	1993 ----	1992 ----
<S>	<C>	<C>
Assets		
Consumer products		
Cash and cash equivalents	\$ 182	\$ 1,021
Receivables, net	3,982	4,147
Inventories:		
Leaf tobacco	3,030	3,139
Other raw materials	1,695	1,790
Finished product	2,633	2,856
	-----	-----
	7,358	7,785
Other current assets	1,286	953
	-----	-----
Total current assets	12,808	13,906
Property, plant and equipment, at cost:		
Land and land improvements	709	747
Buildings and building equipment	4,600	4,453
Machinery and equipment	10,494	10,063
Construction in progress	1,127	1,249
	-----	-----
	16,930	16,512
Less accumulated depreciation	6,467	5,982
	-----	-----
	10,463	10,530
Goodwill and other intangible assets (less accumulated amortization of \$2,727 and \$2,182)		
	19,746	18,523
Other assets	2,529	1,758
	-----	-----
Total consumer products assets	45,546	44,717
Financial services and real estate		
Finance assets, net	4,869	4,622
Real estate held for development and sale	489	489
Other assets	301	186
	-----	-----
Total financial services and real		

estate assets	5,659	5,297
---------------	-------	-------

Total Assets	\$51,205	\$50,014
--------------	----------	----------

</TABLE>

See notes to consolidated financial statements.

28

[GRAPHIC OMITTED]

<TABLE>

<CAPTION>

	1993	1992
	----	----
<S>	<C>	<C>
Liabilities		
Consumer products		
Short-term borrowings	\$ 268	\$ 1,348
Current portion of long-term debt	1,738	1,514
Accounts payable	3,137	2,401
Accrued liabilities:		
Marketing	1,619	1,461
Taxes, except income taxes	860	1,268
Employment costs	874	915
Other	2,618	1,963
Income taxes	1,853	1,810
Dividends payable	572	583
Total current liabilities	13,539	13,263
Long-term debt	14,358	13,407
Deferred income taxes	361	701
Accrued postretirement health care costs	2,031	1,995
Other liabilities	4,622	3,785
Total consumer products liabilities	34,911	33,151
Financial services and real estate		
Short-term borrowings	929	758
Long-term debt	863	1,176
Deferred income taxes	2,706	2,187
Other liabilities	169	179
Total financial services and real estate liabilities	4,667	4,300
Total liabilities	39,578	37,451

Contingencies (Note 15)

Stockholders' Equity		
Common stock, par value \$1.00 per share (935,320,439 shares issued)	935	935
Earnings reinvested in the business	15,718	14,867
Currency translation adjustments	(711)	(34)
	15,942	15,768
Less cost of treasury stock (58,229,749 and 42,563,254 shares)	4,315	3,205
Total stockholders' equity	11,627	12,563
Total Liabilities and Stockholders' Equity	\$51,205	\$50,014

</TABLE>

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Consolidated Statements of Earnings

(in millions of dollars, except per share data)

<TABLE> <CAPTION> for the years ended December 31,	1993 ----	1992 ----	1991 ----
<S>	<C>	<C>	<C>
Operating revenues	\$60,901	\$59,131	\$56,458
Cost of sales	26,771	26,082	25,612
Excise taxes on products	10,280	9,036	8,394
Gross profit	23,850	24,013	22,452
Marketing, administration and research costs	15,694	13,433	13,331
Amortization of goodwill	569	521	499
Operating income	7,587	10,059	8,622
Interest and other debt expense, net	1,391	1,451	1,651
Earnings before income taxes and cumulative effect of accounting changes	6,196	8,608	6,971
Provision for income taxes	2,628	3,669	3,044
Earnings before cumulative effect of accounting changes	3,568	4,939	3,927
Cumulative effect of changes in method of accounting (See Notes 13 and 14)	(477)		(921)
Net earnings	\$ 3,091	\$ 4,939	\$ 3,006
Per share data:			
Earnings before cumulative effect of accounting changes	\$ 4.06	\$ 5.45	\$ 4.24
Cumulative effect of accounting changes	(.54)		(.99)
Net earnings	\$ 3.52	\$ 5.45	\$ 3.25

</TABLE>

Consolidated Statements of Cash Flows  
(in millions of dollars)

<TABLE> <CAPTION> for the years ended December 31,	1993 ----	1992 ----	1991 ----
<S>	<C>	<C>	<C>
Cash Provided By (Used In) Operating Activities			
Net earnings--Consumer products	\$2,960	\$4,799	\$2,889
--Financial services and real estate	131	140	117
Net earnings	3,091	4,939	3,006
Adjustments to reconcile net earnings to operating cash flows:			
Consumer products			
Depreciation and amortization	1,619	1,542	1,497
Cumulative effect of accounting changes	774		1,487
Deferred income tax provision (benefit)	(430)	137	(715)
Gains on sales of businesses	(46)	(162)	(5)
Restructuring charges	741		455
Cash effects of changes, net of the effects from acquired and divested companies:			
Receivables, net	105	(57)	(139)
Inventories	396	(304)	(468)
Accounts payable	700	(421)	395
Income taxes	121	368	443
Other working capital items	(736)	30	(212)
Other	203	331	140

</TABLE>

See notes to consolidated financial statements.



Consolidated Statements of Cash Flows  
(continued)

&lt;TABLE&gt;

&lt;CAPTION&gt;

for the years ended December 31,	1993	1992	1991
<S>	<C>	<C>	<C>
Financial services and real estate			
Cumulative effect of accounting change	\$ --	\$ --	\$ 6
Deferred income tax provision	461	446	357
Decrease in real estate receivables	34	68	58
Increase in real estate held for development and sale	(2)	(22)	(57)
Other	(64)	(13)	11
	-----	-----	-----
Net cash provided by operating activities	6,967	6,882	6,259
Cash Provided By (Used In) Investing Activities			
Consumer products			
Purchase of businesses, net of acquired cash	(3,161)	(727)	(162)
Proceeds from sales of businesses	553	255	29
Capital expenditures	(1,592)	(1,573)	(1,562)
Other	49	(98)	9
Financial services and real estate			
Investments in finance assets	(597)	(1,577)	(936)
Proceeds from other finance assets	527	776	308
	-----	-----	-----
Net cash used in investing activities	(4,221)	(2,944)	(2,314)
	-----	-----	-----
Net cash provided by operating and investing activities	2,746	3,938	3,945
Cash Provided By (Used In) Financing Activities			
Consumer products			
Net issuance (repayment) of short-term borrowings	1,220	(683)	(4,129)
Long-term debt proceeds	1,027	3,832	3,850
Long-term debt repaid	(2,154)	(2,130)	(1,486)
Financial services and real estate			
Net issuance (repayment) of short-term borrowings	171	(60)	94
Long-term debt proceeds		585	
Long-term debt repaid	(290)	(208)	(12)
Purchase of treasury stock	(1,218)	(2,449)	(703)
Dividends paid	(2,291)	(2,028)	(1,678)
Issuance of shares	39	115	119
Other	(34)		
	-----	-----	-----
Net cash used in financing activities	(3,530)	(3,026)	(3,945)
Effect of exchange rate changes on cash and cash equivalents	(55)	(17)	(20)
	-----	-----	-----
Cash and cash equivalents:			
(Decrease) increase	(839)	895	(20)
Balance at beginning of year	1,021	126	146
	-----	-----	-----
Balance at end of year	\$ 182	\$ 1,021	\$ 126
	=====	=====	=====
Cash paid: Interest--Consumer products	\$ 1,391	\$ 1,362	\$ 1,465
	=====	=====	=====
--Financial services and real estate	\$ 81	\$ 70	\$ 76
	=====	=====	=====
Income taxes	\$ 2,092	\$ 2,717	\$ 2,229
	=====	=====	=====

&lt;/TABLE&gt;

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity  
(in millions of dollars, except per share data)

&lt;TABLE&gt;

&lt;CAPTION&gt;

	Common Stock	Earnings Reinvested in the Business	Currency Translation Adjustments	Cost of Treasury Stock	Total Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>
Balances, January 1, 1991	\$935	\$10,960	\$ 561	\$ (509)	\$11,947
Net earnings		3,006			3,006
Exercise of stock options/units and issuance of other stock awards		(172)		298	126
Cash dividends declared (\$1.91 per share)		(1,765)			(1,765)
Currency translation adjustments			(108)		(108)
Stock purchased				(703)	(703)
Other		9			9
Balances, December 31, 1991	935	12,038	453	(914)	12,512
Net earnings		4,939			4,939
Exercise of stock options and issuance of other stock awards		(5)		200	195
Cash dividends declared (\$2.35 per share)		(2,125)			(2,125)
Currency translation adjustments			(487)		(487)
Stock purchased				(2,509)	(2,509)
Stock issued in connection with an acquisition		20		18	38
Balances, December 31, 1992	935	14,867	(34)	(3,205)	12,563
Net earnings		3,091			3,091
Exercise of stock options and issuance of other stock awards		(51)		108	57
Cash dividends declared (\$2.60 per share)		(2,280)			(2,280)
Currency translation adjustments			(677)		(677)
Stock purchased				(1,218)	(1,218)
Net unrealized appreciation on securities		91			91
Balances, December 31, 1993	\$935	\$15,718	\$ (711)	\$ (4,315)	\$11,627

</TABLE>

See notes to consolidated financial statements.

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#### Notes to Consolidated Financial Statements

##### Note 1. Summary of Significant Accounting Policies:

###### Basis of presentation:

The consolidated financial statements include all significant subsidiaries.

Balance sheet accounts are segregated by two broad types of business. Consumer products assets and liabilities are classified as either current or non-current, whereas financial services and real estate assets and liabilities are unclassified, in accordance with respective industry practices.

###### Cash and cash equivalents:

Cash equivalents include demand deposits with banks and all highly liquid investments with original maturities of three months or less.

###### Inventories:

Inventories are stated at the lower of cost or market. The last-in, first-out ("LIFO") method is used to cost substantially all domestic inventories. The cost of other inventories is determined by the average cost or first-in, first-out methods. It is a generally recognized industry practice to classify the total amount of leaf tobacco inventory as a current asset although part of such inventory, because of the duration of the aging process, ordinarily would not be utilized within one year.

###### Income taxes:

Effective January 1, 1993, the Company adopted the method of accounting for income taxes prescribed by Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." The Company previously had accounted for income taxes in accordance with the method prescribed by SFAS No. 96, "Accounting for Income Taxes." See Note 10.

Depreciation and amortization:

Depreciation is recorded by the straight-line method. Substantially all goodwill and other intangible assets are amortized by the straight-line method, principally over 40 years.

Currency and related interest rate swap agreements:

Foreign currency fluctuations due to currency swap agreements are offset against the related foreign exchange gains and losses on foreign currency denominated assets and liabilities. The interest differential to be paid or received is included in interest and other debt expense, net.

Postretirement benefits other than pensions:

Effective January 1, 1991, the Company adopted the method of accounting for postretirement benefits other than pensions prescribed by SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." See Note 14.

Postemployment benefits:

Effective January 1, 1993, the Company adopted the method of accounting for postemployment benefits prescribed by SFAS No. 112, "Employers' Accounting for Postemployment Benefits." See Note 13.

Note 2. Acquisitions and Divestitures:

During 1993, the Company acquired Freia Marabou a.s, a Scandinavian confectionery company, at a cost of \$1.3 billion, a North American ready-to-eat cold cereals business at a cost of \$448 million and The Terry's Group, a United Kingdom confectionery company for \$295 million. In addition, the Company acquired a 20% equity interest in Molson Breweries in Canada and 100% of Molson Breweries U.S.A., at a cost of \$320 million. The Company also increased its investment in tobacco and food operations in Central and Eastern Europe. The effects of these, and other smaller acquisitions, were not significant to the Company's 1993 results of operations.

During 1993, the Company sold its ice cream business, Birds Eye frozen vegetables business and beer can manufacturing plants. The proceeds from the sales of these businesses aggregated \$498 million.

During 1992, the Company purchased several businesses at a total cost of \$765 million, consisting of cash of \$727 million and \$38 million in shares of the Company's common stock. The effects of these acquisitions were not significant to the Company's 1992 results of operations.

Note 3. Restructurings:

In the fourth quarter of 1993, the Company provided for the costs of restructuring its worldwide operations. The charge related primarily to the downsizing or closure of approximately 40 manufacturing and other facilities. This restructuring charge reduced 1993 earnings before income taxes, net earnings and earnings per share by \$741 million, \$457 million and \$.52, respectively.

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Note 3. Restructurings (continued)

In 1991, the Company provided for the costs of restructuring its worldwide food operations. The charge related to consolidation of manufacturing and distribution facilities, exiting from certain unprofitable business lines and other related overhead cost reductions. This restructuring charge reduced 1991 earnings before income taxes, net earnings and earnings per share by \$455 million, \$275 million and \$.30, respectively.

Note 4. Inventories:

The cost of approximately 54% of inventories in 1993 and 56% of inventories in 1992 was determined using the LIFO method. The stated LIFO values of inventories were approximately \$1.0 billion lower than the current cost of inventories at December 31, 1993 and 1992.

Note 5. Short-Term Borrowings and Borrowing Arrangements:

At December 31, the Company's short-term borrowings and related average interest rates consisted of the following:

<TABLE>  
<CAPTION>

(in millions)	1993		1992	
	Amount Outstanding	Average Year-End Rate	Amount Outstanding	Average Year-End Rate
<S>	<C>	<C>	<C>	<C>
Consumer products:				
Bank loans	\$ 276	9.3%	\$ 158	7.6%
Commercial paper	2,288	3.4%	1,190	3.5%
Amount reclassified as long-term debt	(2,296)			
	-----		-----	
	\$ 268		\$1,348	
	=====		=====	
Financial services and real estate:				
Commercial paper	\$ 929	3.3%	\$ 758	3.4%
	=====		=====	

</TABLE>

The fair values of the Company's short-term borrowings at December 31, 1993 and 1992, based upon market rates, approximate the amounts disclosed above.

The Company maintains credit facilities with a number of lending institutions, amounting to approximately \$16.0 billion at December 31, 1993. Approximately \$15.7 billion of these facilities were unused at December 31, 1993. These facilities are used to support the Company's commercial paper borrowings and are available for acquisitions and other corporate purposes.

The Company's credit facilities include revolving bank credit agreements totaling \$12.0 billion. An agreement for \$4.0 billion expires in December 1994, and an agreement for \$8.0 billion expires in 1998 enabling the Company to refinance short-term debt on a long-term basis. Accordingly, short-term borrowings intended to be refinanced were reclassified as long-term debt at December 31, 1993.

Certain of these facilities limit payment of cash dividends and the purchase, redemption or retirement of capital shares and/or require maintenance of a fixed charges coverage ratio. At December 31, 1993, approximately \$5.2 billion of earnings reinvested in the business was free of such restrictions.

Note 6. Long-Term Debt:

At December 31, the Company's long-term debt consisted of the following:

(in millions)	1993	1992
<S>	<C>	<C>
Consumer products:		
Short-term borrowings, reclassified	\$ 2,296	\$ --
Notes, 4.33% to 9.88% (average effective rate 8.30%), due through 2004	11,441	12,280
Debentures, 6.0% to 8.5% (average effective rate 10.89%), \$1.3 billion face amount, due through 2017	973	1,048
Foreign currency obligations:		
Swiss franc, 3.94% to 7.35%, due through 2000	836	867
Deutsche mark, 2.75% to 6.0%, due through 1997	176	359
Other	98	95
Other	276	272
	-----	-----
	16,096	14,921
Less current portion of long-term debt	(1,738)	(1,514)
	-----	-----
	\$14,358	\$13,407
	=====	=====
Financial services and real estate:		
Eurodollar notes, 6.75% and 6.625% (average rate 6.7%), due 1997 and 1999	\$ 399	\$ 399
Zero coupon bonds, 13.3% effective rate, \$200 million face amount, due 1994	190	167
Foreign currency obligations:		
Swiss franc, 4 3/4%, due 1996	107	248
Other	167	262
Other		100
	-----	-----
	\$ 863	\$ 1,176
	=====	=====

</TABLE>

Aggregate maturities of long-term debt, excluding short-term borrowings reclassified as long-term debt, are as follows:

<TABLE>

<CAPTION>	Consumer	Financial Services
(in millions)	Products	and Real Estate
-----	-----	-----
<S>	<C>	<C>
1994	\$1,738	\$200
1995	708	
1996	1,832	107
1997	1,888	367
1998	1,939	
1999-2003	5,098	200
2004-2008	439	

The revolving credit facility under which the consumer products short-term debt was reclassified as long-term debt expires in 1998 and any amounts then outstanding mature.

Based on market quotes, where available, or interest rates currently available to the Company for issuance of debt with similar terms and remaining maturities, the aggregate fair value of consumer products and financial services and real estate long-term debt, including current portion of long-term debt, at December 31, 1993 was \$18.1 billion. The aggregate fair value of such debt at December 31, 1992 did not differ materially from the total amounts disclosed above.

The Company has entered into currency and related interest rate swap agreements with third parties to manage exposure to currency movements. As a result, the currency denominations and effective interest rates of debt may differ from those set forth in this note.

The Company had currency and related interest rate swap agreements with aggregate principal amounts of \$1.4 billion and \$1.8 billion at December 31, 1993 and 1992, respectively. At December 31, 1993, aggregate maturities were as follows (in millions): 1994--\$300; 1996--\$350 and 1997--\$737.

The Company is exposed to credit loss in the event of nonperformance by other parties to the swap agreements. However, such exposure was not material at December 31, 1993, and the Company does not anticipate nonperformance.

#### Note 7. Capital Stock:

Shares of authorized common stock are 4 billion; issued, treasury and outstanding were as follows:

<CAPTION>	Issued	Treasury	Outstanding
	-----	-----	-----
<S>	<C>	<C>	<C>
Balances, January 1, 1991	935,320,439	(9,101,348)	926,219,091
Exercise of stock options/units and issuance of other stock awards		3,661,650	3,661,650
Purchased		(10,029,500)	(10,029,500)
	-----	-----	-----
Balances, December 31, 1991	935,320,439	(15,469,198)	919,851,241
Exercise of stock options and issuance of other stock awards		5,037,244	5,037,244
Purchased		(32,622,855)	(32,622,855)
Shares issued in connection with an acquisition		491,555	491,555
	-----	-----	-----
Balances, December 31, 1992	935,320,439	(42,563,254)	892,757,185
Exercise of stock options and issuance of other stock awards		1,612,405	1,612,405
Purchased		(17,278,900)	(17,278,900)
	-----	-----	-----
Balances, December 31, 1993	935,320,439	(58,229,749)	877,090,690
	=====	=====	=====

</TABLE>

At December 31, 1993, 53,936,151 shares of common stock were reserved for stock options, stock units and other stock awards and 10,000,000 shares of Serial Preferred Stock, \$1.00 par value, were authorized, none of which have been issued.

In 1989, the Company distributed rights for each outstanding share of its common stock. The rights are not exercisable and trade automatically with the common stock until ten days after public announcement that any person has acquired 10% or more of the Company's common stock or ten business days after any person announces a tender offer for 10% or more of the Company's common stock.

When exercisable, unless a person has acquired 10% or more of the Company's shares, each right entitles the holder to buy from the Company one share of common stock for the

## Note 7. Capital Stock (continued)

exercise price (currently \$150). If the Company is thereafter involved in a business combination, the rights will entitle holders to buy shares of the acquiring company having a value of twice the exercise price. If any person acquires 10% or more of the Company's common stock, the rights will entitle holders (other than such person) to buy shares of the Company's common stock having a market value of twice the exercise price. Following the acquisition by any person of more than 10% but less than 50% of the Company's shares, the Company may exchange one share of common stock for each right (other than rights held by such person).

The Company may redeem the rights for \$.01 per right before any person acquires 10% or more of the Company's common stock. The rights expire on October 25, 1999 unless earlier redeemed or exchanged. At December 31, 1993, 989,256,590 shares of common stock were reserved for issuance upon exercise of the rights.

## Note 8. Stock Plans:

Under the Philip Morris 1992 Incentive Compensation and Stock Option Plan, the Company may grant to eligible employees stock options, stock appreciation rights, restricted stock and annual incentive and long-term performance cash awards. Up to 37 million shares of common stock are authorized for grant, of which no more than 9 million shares may be awarded as restricted stock. Stock options are granted at an exercise price no less than fair market value on the date of the grant.

At December 31, 1993 and 1992, options and units were exercisable for 21,723,491 shares and 18,358,604 shares, respectively. Shares available to be granted at December 31, 1993 and 1992 were 23,900,470 and 32,073,120, respectively.

Options/units activity was as follows for the years ended December 31,

<TABLE>

<CAPTION>

	1993	1992	1991
	----	----	----
<S>	<C>	<C>	<C>
Balances, beginning of year	23,802,744	24,284,910	22,348,561
Granted	8,433,540	5,548,270	5,951,794
Exercised	(1,821,944)	(5,872,571)	(3,891,191)
Cancelled	(378,659)	(157,865)	(124,254)
	-----	-----	-----
Balances, end of year	30,035,681	23,802,744	24,284,910
	=====	=====	=====
Range of exercise prices at year-end	\$8.67-\$100.00	\$7.26-\$69.25	\$6.43-\$47.00
Weighted average grant price per share	\$ 49.09	\$ 75.63	\$ 62.96
	=====	=====	=====

</TABLE>

From time to time, the Company grants shares of restricted stock to officers and key employees, giving them in most instances all of the rights of stockholders, except that they may not sell, assign, pledge or otherwise encumber such shares, and such shares are subject to forfeiture in certain events. No shares of restricted stock were granted in 1993 or 1992. In 1991, the Company granted 150,000 shares of restricted stock. At December 31, 1993, 388,000 shares remain subject to restrictions and will become unrestricted in varying amounts through 1996.

## Note 9. Earnings per Share:

Earnings per common share have been calculated on the weighted average number of shares of common stock outstanding for each year, which was 878,120,884, 906,177,803 and 925,123,394 for 1993, 1992 and 1991, respectively.

## Note 10. Pretax Earnings and Provision for Income Taxes:

As discussed in Note 1, the Company adopted SFAS No. 109 effective January 1, 1993. SFAS No. 109 is a modification of SFAS No. 96, which had been the accounting standard previously followed by the Company. The effect of adoption of SFAS No. 109 was immaterial to the Company's 1993 financial position and results of operations.

Pretax earnings and provision for income taxes consisted of the following:

<TABLE> <CAPTION> (in millions)	1993	1992	1991
	-----	-----	-----
<S>	<C>	<C>	<C>
Pretax earnings:			
United States	\$4,078	\$6,367	\$5,166
Outside United States	2,118	2,241	1,805
	-----	-----	-----
Total pretax earnings	\$6,196	\$8,608	\$6,971
	=====	=====	=====
Provision for income taxes:			
United States federal:			
Current	\$1,199	\$1,630	\$1,764
Deferred	278	514	119
	-----	-----	-----
1,477	2,144	1,883	
State and local	311	464	355
	-----	-----	-----
Total United States	1,788	2,608	2,238
	-----	-----	-----
Outside United States:			
Current	830	992	711
Deferred	10	69	95
	-----	-----	-----
Total outside United States	840	1,061	806
	-----	-----	-----
Total provision for income taxes	\$2,628	\$3,669	\$3,044
	=====	=====	=====

</TABLE>

At December 31, 1993, applicable United States federal income taxes and foreign withholding taxes have not been provided on approximately \$3.8 billion of accumulated earnings of foreign subsidiaries that are expected to be permanently reinvested abroad. If these amounts were not considered permanently reinvested, additional deferred income taxes of approximately \$229 million would have been provided.

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The effective income tax rate on pretax earnings differed from the U.S. federal statutory rate for the following reasons:

<TABLE>	1993	1992	1991
	----	----	----
<S>	<C>	<C>	<C>
Provision computed at U.S. federal statutory rate	35.0%	34.0%	34.0%
Increases resulting from:			
State and local income taxes, net of federal tax benefit	3.3	3.6	3.5
Rate differences--foreign operations	0.6	1.9	2.4
Goodwill amortization	3.0	2.0	2.4
Other	0.5	1.1	1.4
	-----	-----	-----
Provision for income taxes	42.4%	42.6%	43.7%
	=====	=====	=====

</TABLE>

The tax effects of temporary differences which gave rise to consumer products deferred income tax assets and liabilities consisted of the following:

<TABLE> <CAPTION>	December 31,	
(in millions)	1993	1992
	-----	-----
<S>	<C>	<C>
Deferred income tax assets:		
Accrued postretirement and postemployment benefits	\$ 995	\$ 670
Accrued liabilities	464	432
Restructuring reserves	472	270
Other	445	379
	-----	-----
Gross deferred income tax assets	2,376	1,751
Valuation allowance	(62)	
	-----	-----

Total deferred income tax assets	2,314	1,751
Deferred income tax liabilities:		
Property, plant and equipment	(1,573)	(1,634)
Prepaid pension costs	(203)	(178)
	-----	-----
Total deferred income tax liabilities	(1,776)	(1,812)
	-----	-----
Net deferred income tax asset (liability)	\$ 538	\$ (61)
	=====	=====

</TABLE>

Financial services and real estate temporary differences are primarily attributable to deferred income tax liabilities from investments in finance leases.

Note 11. Segment Reporting:

Tobacco, food, beer, and financial services and real estate are the major segments of the Company's operations. The Company's consolidated operations outside the United States, which are principally in the tobacco and food businesses, are organized into geographic regions by segment, with Europe the most significant. Intersegment transactions are not reported separately since they are not material.

For purposes of segment reporting, operating profit is operating income exclusive of certain unallocated corporate expenses. See Note 2 regarding acquisitions and divestitures and Note 3 regarding restructurings. The 1993 restructuring resulted in a reduction of tobacco, food and beer operating profit of \$245 million, \$357 million and \$139 million, respectively. Substantially all goodwill amortization is attributable to the food segment.

Identifiable assets are those assets applicable to the respective industry segments. Reportable segment data were as follows:

<TABLE>

<CAPTION>

Data by Segment for the years ended December 31, (in millions)

	1993	1992	1991
	-----	-----	-----
<S>	<C>	<C>	<C>
Operating revenues:			
Tobacco	\$25,973	\$25,677	\$23,840
Food	30,372	29,048	28,178
Beer	4,154	3,976	4,056
Financial services and real estate	402	430	384
	-----	-----	-----
Total operating revenues	\$60,901	\$59,131	\$56,458
	=====	=====	=====
Operating profit:			
Tobacco	\$ 4,910	\$ 7,193	\$ 6,463
Food	2,608	2,769	2,016
Beer	215	258	299
Financial services and real estate	249	219	178
	-----	-----	-----
Total operating profit	7,982	10,439	8,956
Unallocated corporate expenses	395	380	334
	-----	-----	-----
Operating income	\$ 7,587	\$10,059	\$ 8,622
	=====	=====	=====
Identifiable assets:			
Tobacco	\$ 9,523	\$ 9,479	\$ 8,648
Food	33,253	32,672	31,622
Beer	1,706	1,545	1,608
Financial services and real estate	5,659	5,297	4,538
	-----	-----	-----
Other assets	50,141	48,993	46,416
	-----	-----	-----
Total assets	\$51,205	\$50,014	\$47,384
	=====	=====	=====

</TABLE>

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Note 11. Segment Reporting (continued)

<TABLE>

<CAPTION>

Data by Segment for the years



ended December 31, (in millions)	1993	1992	1991
<S>	<C>	<C>	<C>
Depreciation expense:			
Tobacco	\$ 342	\$ 291	\$ 294
Food	538	507	480
Beer	140	141	139
Financial services and real estate			1
Capital additions:			
Tobacco	\$ 527	\$ 460	\$ 438
Food	944	947	955
Beer	92	134	144

Data by Geographic Region for the years ended December 31, (in millions)	1993	1992	1991
<S>	<C>	<C>	<C>
Operating revenues:			
United States			
--domestic	\$34,282	\$35,304	\$34,829
--export	4,105	3,797	3,061
Europe	18,304	17,388	16,029
Other	4,210	2,642	2,539
Total operating revenues	\$60,901	\$59,131	\$56,458
Operating profit:			
United States	\$ 5,695	\$ 8,146	\$ 7,028
Europe	1,689	1,764	1,523
Other	598	529	405
Total operating profit	7,982	10,439	8,956
Unallocated corporate expenses	395	380	334
Operating income	\$ 7,587	\$10,059	\$ 8,622
Identifiable assets:			
United States	\$34,522	\$35,187	\$34,302
Europe	12,766	12,195	10,616
Other	2,853	1,611	1,498
Total identifiable assets	50,141	48,993	46,416
Other assets	1,064	1,021	968
Total assets	\$51,205	\$50,014	\$47,384

</TABLE>

#### Note 12. Pension Plans:

The Company and its subsidiaries sponsor noncontributory defined benefit pension plans covering substantially all U.S. employees. The plans provide retirement benefits for salaried employees based generally on years of service and compensation during the last years of employment. Retirement benefits for hourly employees generally are a flat dollar amount for each year of service. The Company funds these plans in amounts consistent with the funding requirements of federal law and regulations.

Pension coverage for employees of the Company's non-U.S. subsidiaries is provided, to the extent deemed appropriate, through separate plans, many of which are governed by local statutory requirements. The plans provide pension benefits that are based primarily on years of service and employees' salaries near retirement. The Company provides for obligations under such plans by depositing funds with trustees or purchasing insurance policies. The Company records liabilities for unfunded foreign plans.

#### U.S. Plans

Net pension (income) cost consisted of the following:

(in millions)	1993	1992	1991
<S>	<C>	<C>	<C>
Service cost--benefits earned during the year	\$ 151	\$ 163	\$ 148
Interest cost on projected benefit obligation	362	359	337

Return on assets			
--actual	(796)	(345)	(1,152)
--deferred gain (loss)	314	(119)	726
Amortization of net gain upon adoption of SFAS No. 87	(28)	(28)	(28)
Other (income) cost	(47)	16	
	-----	-----	-----
Net pension (income) cost	\$ (44)	\$ 46	\$ 31
	=====	=====	=====

</TABLE>

During 1993, the Company sold businesses and instituted early retirement and workforce reduction programs affecting participants in its pension plans. The resultant curtailment gains reduced pension cost by \$47 million. During 1992, the Company instituted early retirement and workforce reduction programs affecting certain U.S. employees. Additional pension expense of \$59 million related to these programs was offset by settlement and curtailment gains of \$43 million.

The funded status of U.S. plans at December 31 was as follows:

<TABLE>			
<CAPTION>			
(in millions)	1993	1992	
	-----	-----	
<S>	<C>	<C>	
Actuarial present value of accumulated benefit obligation--vested	\$ 3,702	\$ 3,167	
--nonvested	349	297	
	-----	-----	
Benefits attributable to projected salaries	4,051	3,464	
	588	1,034	
	-----	-----	
Projected benefit obligation	4,639	4,498	
Plan assets at fair value	6,099	5,611	
	-----	-----	
Excess of assets over projected benefit obligation	1,460	1,113	
Unamortized net gain upon adoption of SFAS No. 87	(197)	(229)	
Unrecognized prior service cost	149	177	
Unrecognized net gain from experience differences	(882)	(560)	
	-----	-----	
Prepaid pension cost	\$ 530	\$ 501	
	=====	=====	

</TABLE>

38

The projected benefit obligation at December 31, 1993, 1992 and 1991 was determined using an assumed discount rate of 7.5%, 8.0% and 8.0%, respectively, and assumed compensation increases of 4% at December 31, 1993 and 6% and 7% at December 31, 1992 and 1991. The assumed long-term rate of return on plan assets was 9% at December 31, 1993, 1992 and 1991. Plan assets consist principally of common stock and fixed income securities.

The Company and certain of its subsidiaries sponsor deferred profit-sharing plans covering certain salaried, non-union and union employees. Contributions and costs are generally determined as a percentage of consolidated pretax earnings, as defined by the plans. Certain other subsidiaries of the Company also maintain defined contribution plans. Amounts charged to expense for defined contribution plans totaled \$214 million, \$229 million and \$220 million in 1993, 1992 and 1991, respectively.

Non-U.S. Plans

Net pension cost consisted of the following:

<TABLE>			
<CAPTION>			
(in millions)	1993	1992	1991
	-----	-----	-----
<S>	<C>	<C>	<C>
Service cost--benefits earned during the year	\$ 63	\$ 59	\$ 54
Interest cost on projected benefit obligation	138	133	122
Return on assets			
--actual	(153)	(78)	(134)
--deferred gain (loss)	55	(21)	40
Amortization of net gain upon adoption of SFAS No. 87	(1)	(1)	(2)
	-----	-----	-----
Net pension cost	\$ 102	\$ 92	\$ 80
	=====	=====	=====

</TABLE>

The funded status of the non-U.S. plans at December 31 was as follows:

<TABLE>

<CAPTION>

(in millions)	Assets Exceed Accumulated Benefits		Accumulated Benefits Exceed Assets	
	1993	1992	1993	1992
<S>	<C>	<C>	<C>	<C>
Actuarial present value of accumulated benefit obligation				
--vested	\$ 947	\$ 791	\$ 520	\$ 480
--nonvested	94	94	54	61
	-----	-----	-----	-----
	1,041	885	574	541
Benefits attributable to projected salaries	254	295	109	105
	-----	-----	-----	-----
Projected benefit obligation	1,295	1,180	683	646
Plan assets at fair value	1,408	1,224	44	42
	-----	-----	-----	-----
Plan assets in excess of (less than) projected benefit obligation	113	44	(639)	(604)
Unamortized net (gain) loss upon adoption of SFAS No. 87	(24)	(15)	6	6
Unrecognized net (gain) loss from experience differences	(30)	12	7	24
	-----	-----	-----	-----
Prepaid (accrued) pension cost	\$ 59	\$ 41	\$ (626)	\$ (574)
	=====	=====	=====	=====

</TABLE>

The assumptions used in 1993 and 1992 were as follows:

<TABLE>

<CAPTION>

	1993	1992
<S>	<C>	<C>
Discount rates	5.0% to 12.0%	5.5% to 12.0%
Compensation increases	3.5% to 11.0%	5.0% to 11.0%
Long-term rates of return on plan assets	5.0% to 12.0%	4.8% to 12.0%

</TABLE>

Plan assets consist primarily of common stock and fixed income securities.

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Note 13. Postemployment Benefits:

Effective January 1, 1993, the Company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." This Statement requires the Company to accrue the costs of postemployment benefits, other than pensions and postretirement health care benefits, over the working lives of employees. The Company previously had expensed the cost of these benefits, which are principally severance and disability, when the related event occurred.

The cumulative effect at January 1, 1993 of adopting SFAS No. 112, which was calculated on an undiscounted basis, reduced 1993 net earnings by \$477 million (\$.54 per share), net of \$297 million of income tax benefits. Adoption of SFAS No. 112 did not materially reduce 1993 earnings before cumulative effect of accounting change.

Note 14. Postretirement Benefits Other Than Pensions:

Effective January 1, 1991, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," for its U.S. retiree benefit plans. Under SFAS No. 106, the Company accrues the estimated cost of retiree benefit payments, other than pensions, during employees' active service periods. The Company previously had expensed the cost of these benefits, which are principally related to health care, as claims were incurred.

The Company elected to recognize this change in accounting on the immediate recognition basis. The cumulative effect as of January 1, 1991 of adopting SFAS No. 106 was a decrease in 1991 net earnings of \$921 million (\$.99 per share).

The Company expects to adopt SFAS No. 106 for its non-U.S. plans in 1995 and, based upon preliminary estimates, does not anticipate that the effects of adoption will be significant. Net postretirement health care costs for non-U.S. plans in 1993, 1992 and 1991 were expensed as incurred.

U.S. Plans

The Company and its U.S. subsidiaries provide health care and other benefits to substantially all retired employees, their covered dependents and beneficiaries. Generally, employees who have attained age 55 and who have rendered 5 to 10 years of service are eligible for these benefits. Certain health care plans are contributory; other benefit plans are noncontributory.

Net postretirement health care cost consisted of the following:

<TABLE>			
<CAPTION>			
(in millions)	1993	1992	1991
	----	----	----
<S>	<C>	<C>	<C>
Service cost--benefits earned during the period	\$ 59	\$ 70	\$ 68
Interest cost on accumulated postretirement benefit obligation	159	168	148
Amortization of unrecognized net loss from experience differences		2	
Amortization of unrecognized prior service cost	(16)	(6)	
Net gain resulting from early retirement and workforce reduction programs	(59)		
	----	----	----
Net postretirement health care cost	\$143	\$234	\$216
	====	====	====

</TABLE>

During 1993, the Company sold businesses and instituted early retirement and workforce reduction programs affecting participants in its postretirement health care plans. The resultant settlement and curtailment gains of \$79 million were partially offset by additional expense of \$20 million.

The Company's postretirement health care plans currently are not funded. The status of the plans at December 31 was as follows:

<TABLE>		
<CAPTION>		
(in millions)	1993	1992
	-----	-----
<S>	<C>	<C>
Actuarial present value of accumulated postretirement benefit obligation:		
Retirees	\$1,279	\$1,016
Fully eligible active plan participants	182	256
Other active plan participants	644	887
	-----	-----
	2,105	2,159
Unrecognized net loss from experience differences	(162)	(137)
Unrecognized prior service cost	198	71
	-----	-----
Accrued postretirement health care costs	\$2,141	\$2,093
	=====	=====

</TABLE>

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 10.5% in 1992, 10.0% in 1993 and 9.5% in 1994, gradually declining to 6.0% by the year 2001 and remaining at that level thereafter. A one-percentage-point increase in the assumed health care cost trend rate for each year would increase the accumulated postretirement benefit obligation as of December 31, 1993 and net postretirement health care cost for the year then ended by approximately 15%.

The accumulated postretirement benefit obligations at December 31, 1993, 1992 and 1991 were determined using assumed discount rates of 7.5%, 8.0% and 8.0%, respectively.

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Non-U.S. Plans

Postretirement health care coverage for employees of the Company's non-U.S. subsidiaries is provided, to the extent deemed appropriate, through separate plans. The cost of these benefits, which has not been significant for the years ended December 31, 1993, 1992 and 1991, is expensed as claims are incurred.

Note 15. Contingencies:

There is litigation pending against the leading United States cigarette

manufacturers seeking compensatory and, in some cases, punitive damages for cancer and other health effects alleged to have resulted from cigarette smoking or exposure to cigarette smoking. Philip Morris Incorporated ("PM Inc."), a wholly-owned subsidiary of the Company, is a defendant in some of these actions.

Among the defenses to certain of this litigation raised by PM Inc. is preemption by the Federal Cigarette Labeling and Advertising Act, as amended (the "Act"). On June 24, 1992, the United States Supreme Court held that the Act, as enacted in 1965, does not preempt common law damage claims but that the Act, as amended in 1969, preempts claims arising after 1969 against cigarette manufacturers "based on failure to warn and the neutralization of federally mandated warnings to the extent that those claims rely on omissions or inclusions in advertising or promotions." The Court also held that the 1969 Act does not preempt claims based on express warranty, fraudulent misrepresentation or conspiracy. The Court also held that claims for fraudulent concealment were preempted except "insofar as those claims relied on a duty to disclose...facts through channels of communication other than advertising or promotion." (The Court did not consider whether such common law damage claims were valid under state law.) The Court's ruling affirmed in part, and reversed in part, a 1990 decision of the Court of Appeals for the Third Circuit, holding that the Act preempted claims arising after 1965 that challenged the adequacy of the federally mandated warning or the propriety of cigarette manufacturers' advertising and promotional activities. The Court's decision was announced by a plurality opinion. The effect of the decision on pending and future cases will be the subject of further proceedings in the lower federal and state courts. Additional similar litigation could be encouraged if legislative proposals to eliminate the federal preemption defense, pending in Congress since 1991, were enacted. It is not possible to predict whether any such legislation will be enacted.

PM Inc. believes, and it has been so advised by counsel, that it has a number of valid defenses to all smoking and health cases, including, but not limited to, those defenses based on preemption under the Supreme Court decision referred to above. All such cases are, and will continue to be, vigorously defended. It is not possible to predict the outcome of this litigation. Litigation is subject to many uncertainties, and it is possible that some of these actions could be decided unfavorably to PM Inc. An unfavorable outcome of a pending action could encourage the commencement of additional similar litigation.

On April 2, 1993, the Company and several of its officers were named as defendants in the first of a number of purported shareholder class actions which have been consolidated in the United States District Court for the Southern District of New York. These lawsuits allege that the Company violated federal securities laws by making false and misleading statements concerning the effects of discount cigarettes on PM Inc.'s premium tobacco business prior to April 2, 1993, the date upon which PM Inc. announced revisions in its marketing and pricing strategies for its premium and discount brands. The Company will defend these lawsuits vigorously.

Management believes that the ultimate outcome of all pending litigation matters should not have a material adverse effect on the Company's financial position. However, management is unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of all pending litigation. It is possible that the Company's results of operations or cash flows in a particular quarterly or annual period could be materially affected by the ultimate adverse outcome of certain pending litigation matters.

The Company is contingently liable for payment of (Pounds)610 million notes maturing in 1994, sold with recourse in 1989.

Note 16. Additional Information:

<TABLE>  
<CAPTION>  
(in millions)

	1993	1992	1991
	-----	-----	-----
<S>	<C>	<C>	<C>
Years ended December 31:			
Depreciation expense	\$1,042	\$ 963	\$ 939
	=====	=====	=====
Rent expense	\$ 380	\$ 348	\$ 314
	=====	=====	=====
Research and development expense	\$ 421	\$ 410	\$ 396
	=====	=====	=====
Interest and other debt expense, net:			
Interest expense	\$1,478	\$1,513	\$1,696
Interest income	(87)	(62)	(45)
	-----	-----	-----
	\$1,391	\$1,451	\$1,651
	=====	=====	=====

Interest expense of financial services and real estate operations included in cost of sales	\$ 87	\$ 95	\$ 83
	=====	=====	=====

</TABLE>

Note 17. Financial Services and Real Estate Operations:

Philip Morris Capital Corporation ("PMCC") is a wholly-owned subsidiary of the Company. PMCC has investments in third-party leveraged and direct finance leases and securities of third parties and engages in various financing activities for customers and suppliers of the Company's subsidiaries. Additionally, PMCC is engaged through its wholly-owned subsidiary, Mission Viejo Company, in land planning, development and sales.

Pursuant to a support agreement, the Company has agreed to retain ownership of 100% of the voting stock of PMCC and make periodic payments to PMCC to the extent necessary to ensure that earnings available for fixed charges equal at least 1.25 times its fixed charges. No payments were required in 1993, 1992 or 1991.

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Note 17. Financial Services and  
Real Estate Operations (continued)

Condensed balance sheet data at December 31 follows:

<S>	1993	1992
	-----	-----
	<C>	<C>
Assets		
Finance leases	\$5,314	\$5,240
Other investments	1,440	1,402
	-----	-----
	6,754	6,642
Less unearned income and allowances	1,861	1,988
	-----	-----
Finance assets, net	4,893	4,654
Real estate held for development and sale	489	489
Goodwill, net of accumulated amortization	37	38
Other assets	284	148
	-----	-----
Total assets	\$5,703	\$5,329
	=====	=====
Liabilities and stockholder's equity		
Short-term borrowings	\$ 929	\$ 758
Long-term debt	863	1,384
Deferred income taxes	2,706	2,187
Other liabilities	169	186
Stockholder's equity	1,036	814
	-----	-----
Total liabilities and stockholder's equity	\$5,703	\$5,329
	=====	=====

</TABLE>

The amounts shown above include receivables and payables with the Company and its other subsidiaries as follows:

<S>	1993	1992
	-----	-----
	<C>	<C>
Finance assets, net	\$ 24	\$ 32
Other assets	\$ 20	
Long-term debt		\$ 208
Other liabilities		\$ 7

</TABLE>

These amounts were eliminated in the Company's consolidated balance sheets.

Finance leases consist of a portfolio of investments in transportation, satellite transponders, power generation, manufacturing equipment and facilities and real estate. Rentals receivable for leveraged leases represent unpaid rentals less principal and interest on third-party nonrecourse debt.

Effective December 31, 1993, PMCC adopted the method of accounting prescribed by SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Under SFAS No. 115, PMCC's investment securities, included in other investments, are classified as available for sale and are recorded at fair value, with unrealized gains and losses included as a component of stockholders' equity. Prior to December 31, 1993, investments in marketable equity securities were recorded at the lower of cost or market value with market value adjustments included as a component of stockholders' equity.

Other investments also include real estate and commercial receivables, the total estimated fair values of which, at December 31, 1993 and 1992, approximated the amounts disclosed above. Fair values were estimated by discounting projected cash flows using the current rates for similar loans to borrowers with similar credit ratings and maturities.

Condensed income statement data follows for the years ended December 31,

<TABLE>			
<CAPTION>			
(in millions)	1993	1992	1991
	----	----	----
<S>	<C>	<C>	<C>
Revenues:			
Financial services	\$276	\$294	\$269
Real estate	134	146	125
	----	----	----
Total revenues	410	440	394
Expenses:			
Financial services	105	141	141
Real estate	90	93	83
	----	----	----
Total expenses	195	234	224
Equity in earnings of limited partnership investments	8		
	----	----	----
Earnings before income taxes and cumulative adjustments	223	206	170
Cumulative pretax adjustments related to leveraged leases	23		
	----	----	----
Earnings before income taxes and cumulative effect of accounting change	246	206	170
Provision for income taxes:			
Current year	75	66	49
Cumulative adjustments related to leveraged leases	40		
	----	----	----
Total provision for income taxes	115	66	49
	----	----	----
Earnings before cumulative effect of accounting change	131	140	121
Cumulative effect of change in method of accounting for postretirement benefits other than pensions			(4)
	----	----	----
Net earnings	\$131	\$140	\$117
	=====	=====	=====

PMCC's portfolio of leveraged leases was recalculated using a 35% federal income tax rate, retroactive to January 1, 1993. A cumulative adjustment was recorded that increased earnings before income taxes and cumulative effect of accounting change, increased the provision for income taxes and decreased net earnings by \$23 million, \$40 million and \$17 million, respectively.

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Note 18. Quarterly Financial Data (Unaudited):

<TABLE>				
<CAPTION>				
(in millions, except per share data)	1993 Quarters			
	1st	2nd	3rd	4th
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>

Operating revenues	\$15,189	\$ 15,789	\$15,209	\$14,714
	=====	=====	=====	=====
Gross profit	\$ 5,935	\$ 6,277	\$ 5,926	\$ 5,712
	=====	=====	=====	=====
Earnings before cumulative effect of accounting change	\$ 1,214	\$ 1,048	\$ 967	\$ 339
Cumulative effect of change in method of accounting	(477)	-----	-----	-----
Net earnings	\$ 737	\$ 1,048	\$ 967	\$ 339
	=====	=====	=====	=====
Per share data:				
Earnings before cumulative effect of accounting change	\$ 1.38	\$ 1.19	\$ 1.11	\$ .38
Cumulative effect of accounting change	(.54)	-----	-----	-----
Net earnings	\$ .84	\$ 1.19	\$ 1.11	\$ .38
	=====	=====	=====	=====
Dividends declared	\$ .65	\$ .65	\$ .65	\$ .65
	=====	=====	=====	=====
Market price--high	\$77 5/8	\$64 3/4	\$51 3/8	\$59 3/8
--low	\$60 5/8	\$45	\$45 3/8	\$45 1/2

</TABLE>

Effective January 1, 1993, the Company changed its method of accounting for postemployment benefits. This change in accounting reduced previously reported net earnings by \$4 million in the first quarter, \$5 million in the second quarter (\$.01 per share) and \$4 million in the third quarter. See Note 13.

During the fourth quarter of 1993, the Company provided \$741 million pretax, \$457 million after tax, for the costs of restructuring its worldwide operations. The pretax charge was included in marketing, administration and research costs. See Note 3.

<TABLE>

<CAPTION>

(in millions, except per share data)	1992 Quarters			
	1st	2nd	3rd	4th
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Operating revenues	\$14,051	\$15,155	\$15,005	\$14,920
	=====	=====	=====	=====
Gross profit	\$ 5,522	\$ 6,382	\$ 6,098	\$ 6,011
	=====	=====	=====	=====
Net earnings	\$ 1,099	\$ 1,353	\$ 1,291	\$ 1,196
	=====	=====	=====	=====
Per share data:				
Net earnings	\$ 1.20	\$ 1.48	\$ 1.44	\$ 1.34
	=====	=====	=====	=====
Dividends declared	\$ .525	\$ .525	\$ .650	\$ .650
	=====	=====	=====	=====
Market price--high	\$82 1/2	\$79 7/8	\$86 5/8	\$84 7/8
--low	\$72 5/8	\$69 1/2	\$73 7/8	\$74

</TABLE>

The sum of quarterly per share amounts does not equal the annual amount due to changes in shares outstanding during the year.

During the second quarter of 1992, the Company sold its interest in a Canadian joint venture for a pretax gain of \$137 million, \$82 million after tax. In addition, the Company provided \$144 million pretax, \$89 million after tax, for costs of discontinuing certain products, an early retirement program, and reorganization of distribution and customer service centers. The pretax gain, as well as the pretax charges, was included in marketing, administration and research costs.

The principal stock exchange, on which the Company's common stock (par value \$1 per share) is listed, is the New York Stock Exchange. At January 31, 1994 there were approximately 164,400 holders of record of the Company's common stock.

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#### Report of Independent Accountants

To the Board of Directors and Stockholders of  
Philip Morris Companies Inc.:

We have audited the accompanying consolidated balance sheets of Philip Morris Companies Inc. and subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our



responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Philip Morris Companies Inc. and subsidiaries at December 31, 1993 and 1992, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Notes 1, 13 and 14 to the consolidated financial statements, the Company adopted in 1993 the method of accounting for postemployment benefits prescribed by Statement of Financial Accounting Standards No. 112, and in 1991 adopted the method of accounting for postretirement benefits other than pensions prescribed by Statement of Financial Accounting Standards No. 106.

/s/ Coopers & Lybrand  
Coopers & Lybrand

New York, New York  
January 24, 1994

#### Company Report on Financial Statements

The consolidated financial statements and all related financial information herein are the responsibility of the Company. The financial statements, which include amounts based on judgments, have been prepared in accordance with generally accepted accounting principles. Other financial information in the annual report is consistent with that in the financial statements.

The Company maintains a system of internal controls that it believes provides reasonable assurance that transactions are executed in accordance with management's authorization and properly recorded, that assets are safeguarded, and that accountability for assets is maintained. The system of internal controls is characterized by a control-oriented environment within the Company, which includes written policies and procedures, careful selection and training of personnel, and audits by a professional staff of internal auditors.

Coopers & Lybrand, independent accountants, have audited and reported on the Company's consolidated financial statements. Their audits were performed in accordance with generally accepted auditing standards.

The Audit Committee of the Board of Directors, composed of six non-management directors, meets periodically with Coopers & Lybrand, the Company's internal auditors and management representatives to review internal accounting control, auditing and financial reporting matters. Both Coopers & Lybrand and the internal auditors have unrestricted access to the Audit Committee and may meet with it without management representatives being present.

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#### GRAPHICS APPENDIX LIST FOR EXHIBIT 13

Description of Graphic - - - - -	Where Graphic Appears - - - - -
Graphic image of a globe with various brand names of products of the Company superimposed upon the globe	Pages 20,27,29, 31 and 33

## SUBSIDIARIES OF THE COMPANY

Certain active subsidiaries of the Company and their subsidiaries as of December 31, 1993 are listed below. The names of certain subsidiaries, which considered in the aggregate would not constitute a significant subsidiary, have been omitted.

&lt;TABLE&gt;

&lt;CAPTION&gt;

NAME -----	STATE OR COUNTRY OF ORGANIZATION -----
<S>	<C>
AB Estrella.....	Sweden
AB Kraft Jacobs Suchard Lietuva.....	Lithuania
AB Malaco.....	Sweden
AB Marabou.....	Sweden
AB Slotts.....	Sweden
AG Chocolat Tobler.....	Switzerland
Ajinomoto General Foods, Inc. ....	Japan
Alfred Bird & Sons (Ireland) Limited.....	Ireland
Alimentos Kraft de Venezuela, C.A. ....	Venezuela
The All American Gourmet Company .....	Delaware
A/O Almaty Tobacco Company.....	Kazakhstan
A/O Krasnadortabakprom.....	Russia
A/O Philip Morris NEVA.....	Russia
A/S Freia.....	Norway
A/S Freia Husholdning.....	Norway
A/S Maarud.....	Norway
A/S Malaco.....	Norway
Aura Finanziaria S.r.l. ....	Italy
Beijing Kraft Food Corporation Limited.....	China
Boboli Co. ....	Delaware
Bouyea-Fassetts, Inc. ....	Delaware
Cafe Grand Mere S.A. ....	France
Callard & Bowser-Suchard, Inc. ....	Delaware
Capri Sun, Inc. ....	Delaware
C.A. Tabacalera Nacional.....	Venezuela
Charles Freihofer Baking Company, Inc. ....	New York
Chocolat Tobler Ltd.....	United Kingdom
Churny Company, Inc. ....	Delaware
Coffee HAG (UK) Ltd. ....	United Kingdom
Comptoir de la Confiserie & Cie .....	France
Consolidated Beverage Distributors, Inc. ....	California
Cote d'Or Espana S.A. ....	Spain
Cote d'Or Italia S.R.L. ....	Italy
Cote d'Or (Netherlands) BV.....	Netherlands
Dansk Estrella A/S.....	Denmark
Dart & Kraft Finance N.V. ....	Netherlands Antilles
Di Giorno Foods Co. ....	Delaware

Dong Suh Foods.....	Korea
Egri Dohanygyar kft. ....	Hungary
El Gallito Industrial, S.A. ....	Costa Rica
Entenmann's, Inc. ....	Delaware
Estrella Holding A/S.....	Denmark

21-1

<TABLE>  
<CAPTION>

NAME -----	STATE OR COUNTRY OF ORGANIZATION -----
<S>	<C>
Estrella Invest AB.....	Sweden
Fabriques de Tabac Reunies S.A.....	Switzerland
Fastighets AB Sigismund.....	Sweden
Fattorie Osella S.p.A. ....	Italy
Franklin Baker Company of the Philippines .....	Philippines
Freia Choklad & Konfektyr AB.....	Sweden
Freia Chokolade A/S.....	Denmark
Freia Marabou Danmark A/S.....	Denmark
Freia Marabou Finance Ltd. ....	Ireland
Freia Marabou Suchard A.S.....	Norway
Freia Marabou Sverige AB.....	Sweden
FTR Holding S.A. ....	Switzerland
Gardners Good Foods, Inc. ....	New Jersey
General Foods Bakery Companies, Inc. ....	Delaware
General Foods Credit Corporation.....	Delaware
General Foods Limited .....	United Kingdom
General Foods Manufacturing Corporation of Mexico.....	Delaware
General Foods Norway A/S.....	Norway
Genfo AG.....	Switzerland
Goldene Tasse Vertriebs G.m.b.H.....	Germany
Goteborgs Kex AB.....	Sweden
Grant Holdings, Inc. ....	Pennsylvania
Grundstucksgemeinschaft Jacobs Suchard G.b.R. ....	Germany
Guangtong Food Company Ltd.....	China
HAG GF AG.....	Germany
HAG GF Vertriebs G.m.b.H.....	Germany
HAG GF Vertriebs G.m.b.H. & Co. Offene Handelsgesellschaft.....	Germany
HAG GF Vertriebs & Marketing Corporation.....	Delaware
Heinrich Jessens Chokoladefabrik A/S.....	Denmark
Herzjunge-Kasewerk G.m.b.H.....	Germany
HNB Investment Corp. ....	Delaware
Immobliare Asiago SRL.....	Italy
Industrial Quesera Menorquina Jacobs Suchard S.A. ....	Spain
Industrial Quesera Menorquina (Portugal) Produtos Alimentares LDA.....	Portugal
Jack's Frozen Pizza, Inc. ....	Wisconsin
Jacob Leinenkugel Brewing Company, Inc. ....	Wisconsin
Jacobs Caffè S.r.L. ....	Italy

Jacobs Erzeugnisse G.m.b.H.....	Germany
Jacobs Export & Industrial Sales G.m.b.H. ....	Germany
Jacobs Kaffee Gesellschaft m.b.H.....	Austria
Jacobs Suchard Berlin G.m.b.H. & Co. KG .....	Germany
Jacobs Suchard Beteiligungs Ges.m.b.H. ....	Austria
Jacobs Suchard Budapest Ges.m.b.H.....	Hungary
Jacobs Suchard China Ltd. ....	Hong Kong
Jacobs Suchard Cote d'Or Export SA.....	Belgium
Jacobs Suchard Cote d'Or Nederland B.V. ....	Netherlands
Jacobs Suchard CS spol.s.r.o. ....	Czech Republic
Jacobs Suchard Dadak A.S. ....	Czech Republic
Jacobs Suchard Erzeugnisse G.m.b.H. & Co. KG.....	Germany

<TABLE>  
<CAPTION>

NAME -----	STATE OR COUNTRY OF ORGANIZATION -----
<S>	<C>
Jacobs Suchard Figaro A.S.....	Slovak Republic
Jacobs Suchard Finance.....	Switzerland
Jacobs Suchard France S.A. ....	France
Jacobs Suchard G.m.b.H. ....	Germany
Jacobs Suchard Grundst. verwaltung.....	Germany
Jacobs Suchard Holding.....	France
Jacobs Suchard International Finance (Cayman) Ltd. ....	Cayman Islands
Jacobs Suchard Limited.....	United Kingdom
Jacobs Suchard Management and Consulting AG .....	Switzerland
Jacobs Suchard Manufacturing & Co. G.m.b.H. KG .....	Germany
Jacobs Suchard Pavlides S.A. ....	Greece
Jacobs Suchard Poland Limited.....	Poland
Jacobs Suchard Service.....	France
Jacobs Suchard Service AG.....	Switzerland
Jacobs Suchard Service G.m.b.H. & Co. KG .....	Germany
Jacobs Suchard Singapore PTE Ltd. ....	Singapore
Jacobs Suchard SRL.....	Italy
Jacobs Suchard Tobler SA .....	Switzerland
Johann Jacobs G.m.b.H. ....	Germany
J.W. Darboven G.m.b.H. ....	Germany
J. Wundermann AB.....	Sweden
Ka-Tee Ka AG .....	Switzerland
Kaffee HAG AG .....	Switzerland
Kaffee Handels G.m.b.H. ....	Germany
The Kenco Coffee Company Limited.....	United Kingdom
Kibon S.A. ....	Brazil
Kraft Chorzele.....	Poland
Kraft Food Ingredients Corp. ....	Delaware
Kraft Foodservice Holding Corporation .....	Delaware
Kraft Foodservice, Inc. ....	Delaware
Kraft Foods (Ireland) Limited.....	Ireland

Kraft Foods Limited.....	Australia
Kraft Foods Limited.....	United Kingdom
Kraft General Foods AB.....	Sweden
Kraft General Foods A/S.....	Denmark
Kraft General Foods (Asia-Pacific) Limited .....	Hong Kong
Kraft General Foods (Australia) Limited.....	Australia
Kraft General Foods Canada Inc. ....	Canada
Kraft General Foods Europe G.m.b.H. ....	Germany
Kraft General Foods France S.A. ....	France
Kraft General Foods G.m.b.H. ....	Germany
Kraft General Foods Hellas S.A. ....	Greece
Kraft General Foods (Holdings) Limited.....	United Kingdom
Kraft General Foods Holdings Norway, Inc. ....	Delaware
Kraft General Foods, Inc. ....	Delaware
Kraft General Foods International, Inc. ....	Delaware
Kraft General Foods International Services, Inc. ....	Delaware
Kraft General Foods (Ireland) Limited.....	Ireland
Kraft General Foods Limited .....	United Kingdom

</TABLE>

<TABLE>

<CAPTION>

NAME	STATE OR COUNTRY OF ORGANIZATION
----	-----
<S>	<C>
Kraft General Foods Manufacturing Corporation.....	Delaware
Kraft General Foods de Mexico, S.A. de C.V. ....	Mexico
Kraft General Foods Nederland BV.....	Netherlands
Kraft General Foods New Zealand Limited .....	New Zealand
Kraft General Foods Norge A.S. ....	Norway
Kraft General Foods (Philippines) Inc. ....	Philippines
Kraft General Foods (Puerto Rico), Inc. ....	Puerto Rico
Kraft General Foods S.A. ....	Spain
Kraft General Foods S.r.L. ....	Italy
Kraft General Foods (Thailand) Ltd. ....	Thailand
Kraft General Foods (U.S.A.) Pte. Ltd. ....	Singapore
Kraft GF G.m.b.H. ....	Germany
Kraft Holdings Limited.....	United Kingdom
Kraft Jacobs Suchard AG.....	Switzerland
Kraft Jacobs Suchard Bulgaria Limited.....	Bulgaria
Kraft Jacobs Suchard R & D, Inc. ....	Delaware
Kraft Japan, K.K. ....	Japan
Kraft Korea Inc. ....	Korea
Krema Limited.....	Ireland
Lagerman (U.K.) Ltd. ....	United Kingdom
La Vosgienne SETED.....	France
Malaco A/S.....	Denmark
Malmo Lakritsfabrik AB.....	Sweden
Marabou G.m.b.H. ....	Germany
Marsa Kraft General Foods Sabanci Gida Sanayi Ve Ticaret	

A.S. ....	Turkey
Massalin Particulares.....	Argentina
Maxam Food Products Pty. Ltd. ....	Australia
Maxpax International G.m.b.H. ....	Germany
Maxpax France S.A. ....	France
Maxpax (UK) Limited.....	United Kingdom
MBC Holdings, Inc. ....	Wisconsin
Merido Genussmittel G.m.b.H. ....	Germany
Metropolitan Cheese Distributing Corporation.....	New York
Miller Brewing Company.....	Wisconsin
Miller Brewing 1855, Inc.....	Delaware
Mirabell Salzburger Confiserie-und Bisquit Gesellschaft m.b.H. ....	Austria
Mission Viejo Company.....	California
Monerris Planelles S.A. ....	Spain
Monthelado S.A. ....	Argentina
Nike Industria Alirentare S.r.l.....	Italy
N.V. Kraft General Foods S.A. ....	Belgium
Oroweat Bakers Limited.....	Canada
Oscar Mayer Foods Corporation.....	Delaware
Oy Estrella AB.....	Finland
OY Marabou Ab.....	Finland
Phenix Leasing Corporation.....	Delaware
Phenix Management Corporation.....	Delaware
Philip Morris Asia Incorporated.....	Delaware
Philip Morris Belgium S.A. ....	Belgium

<TABLE>  
<CAPTION>

NAME ----	STATE OR COUNTRY OF ORGANIZATION -----
<S>	<C>
Philip Morris Capital Corporation.....	Delaware
Philip Morris Europe S.A. ....	Delaware
Philip Morris G.m.b.H. ....	Germany
Philip Morris Holland B.V. ....	Netherlands
Philip Morris Incorporated.....	Virginia
Philip Morris International Finance Corporation.....	Delaware
Philip Morris International Inc. ....	Delaware
Philip Morris Kabushiki Kaisha.....	Japan
Philip Morris Korea C.H. ....	Korea
Philip Morris Latin America Inc. ....	Delaware
Philip Morris Limited.....	Australia
Philip Morris Management Corp. ....	New York
Philip Morris Marketing S.A. ....	Delaware
Philip Morris Products Inc. ....	Virginia
Philip Morris Sales Inc. ....	Delaware
PHILSA Philip Morris Sabanci Sigara ve Tutunculuk Sanayi ve Ticaret, A.S. ....	Turkey

P.M. Beverage Holdings, Inc.....	Delaware
PMCC Leasing Corporation.....	Delaware
Premierfoods Corporation.....	Taiwan
Q-Refres-Ko S.A.....	Brazil
Ridg's Finer Foods, Inc. ....	Delaware
Rye Ventures, Inc. ....	New York
S.A. Jacobs Suchard--Cote d'Or N.V. ....	Belgium
SICMA (Societe Industrielle pour la Construction de Materials Automatiques).....	France
Skandinavisk Kaffekompagni A.p.S. ....	Denmark
Societa Immobiliare Modenese S.p.A. ....	Italy
Suchard Argentina S.A. ....	Argentina
Suchard Schokolade Ges.m.b.H. ....	Austria
Suchard Tobler Vertriebs G.m.b.H. ....	Germany
Suchard Unterstutzungskasse Gesellschaft m.b.H. ....	Austria
Swebiscuits AB.....	Sweden
Tabacalera Centroamericana S.A. ....	Guatemala
Tabacalera Costarricense S.A. ....	Costa Rica
Tabak A.S. ....	Czech Republic
Taloca AG.....	Switzerland
Terry's Suchard Limited.....	United Kingdom
Tombstone Pizza Corporation ....	Delaware
Velveta Milch Werke G.m.b.H. ....	Germany
Vict Th. Engwall & Co., Inc. ....	Delaware
Votesor BV.....	Netherlands
Zaklady Przemyslu Cukierniczego "Olza" SA.....	Poland

</TABLE>

## CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in Post-Effective Amendment No. 12 to the registration statement of Philip Morris Companies Inc. (the "Company") on Form S-14 (File No. 2-96149) and in the Company's registration statements on Form S-3 (File Nos. 33-21033, 33-34940 and 33-49195) and Form S-8 (File Nos. 33-1479, 33-1480, 33-10218, 33-13210, 33-14561, 33-17870, 33-37115, 33-38781, 33-39162, 33-40110 and 33-48781) of our reports dated January 24, 1994, on our audits of the consolidated financial statements and financial statement schedules of the Company as of December 31, 1993 and 1992, and for the years ended December 31, 1993, 1992, and 1991, which reports are included or incorporated by reference in this Annual Report on Form 10-K.

/s/ Coopers & Lybrand

New York, New York  
March 16, 1994



## POWER OF ATTORNEY

Know All Men By These Presents That the undersigned, a Director of Philip Morris Companies Inc., a Virginia corporation (the "Company"), does hereby constitute and appoint Michael A. Miles, Hans G. Storr and Murray H. Bring, or any one or more of them, his/her true and lawful attorney, for him/her and in his/her name, place and stead, to execute, by manual or facsimile signature, electronic transmission or otherwise, the Annual Report on Form 10-K of the Company for the year ended December 31, 1993 and any amendments or supplements to said Annual Report and to cause the same to be filed with the Securities and Exchange Commission, together with any exhibits, financial statements and schedules included or to be incorporated by reference therein, hereby granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite or desirable to be done in and about the premises as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all acts and things which said attorneys may do or cause to be done by virtue of these presents.

In Witness Whereof, the undersigned has hereunto set his/her hand and seal this 23rd day of February, 1994.

/s/ Elizabeth E. Bailey

-----  
ELIZABETH E. BAILEY

## POWER OF ATTORNEY

Know All Men By These Presents That the undersigned, a Director of Philip Morris Companies Inc., a Virginia corporation (the "Company"), does hereby constitute and appoint Michael A. Miles, Hans G. Storr and Murray H. Bring, or any one or more of them, his/her true and lawful attorney, for him/her and in his/her name, place and stead, to execute, by manual or facsimile signature, electronic transmission or otherwise, the Annual Report on Form 10-K of the Company for the year ended December 31, 1993 and any amendments or supplements to said Annual Report and to cause the same to be filed with the Securities and Exchange Commission, together with any exhibits, financial statements and schedules included or to be incorporated by reference therein, hereby granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite or desirable to be done in and about the premises as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all acts and things which said attorneys may do or cause to be done by virtue of these presents.

In Witness Whereof, the undersigned has hereunto set his/her hand and seal this 23rd day of February, 1994.

/s/ Murray H. Bring

-----  
MURRAY H. BRING

POWER OF ATTORNEY

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In Witness Whereof, the undersigned has hereunto set his/her hand and seal this 23rd day of February, 1994.

/s/ Harold Brown

-----  
HAROLD BROWN

POWER OF ATTORNEY

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as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all acts and things which said attorneys may do or cause to be done by virtue of these presents.

In Witness Whereof, the undersigned has hereunto set his/her hand and seal this 23rd day of February, 1994.

/s/ Jose Antonio Cordido-Freytes

-----  
JOSE ANTONIO CORDIDO-FREYTES

POWER OF ATTORNEY

Know All Men By These Presents That the undersigned, a Director of Philip Morris Companies Inc., a Virginia corporation (the "Company"), does hereby constitute and appoint Michael A. Miles, Hans G. Storr and Murray H. Bring, or any one or more of them, his/her true and lawful attorney, for him/her and in his/her name, place and stead, to execute, by manual or facsimile signature, electronic transmission or otherwise, the Annual Report on Form 10-K of the Company for the year ended December 31, 1993 and any amendments or supplements to said Annual Report and to cause the same to be filed with the Securities and Exchange Commission, together with any exhibits, financial statements and schedules included or to be incorporated by reference therein, hereby granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite or desirable to be done in and about the premises as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all acts and things which said attorneys may do or cause to be done by virtue of these presents.

In Witness Whereof, the undersigned has hereunto set his/her hand and seal this 23rd day of February, 1994.

/s/ William H. Donaldson

-----  
WILLIAM H. DONALDSON

POWER OF ATTORNEY

Know All Men By These Presents That the undersigned, a Director of Philip Morris Companies Inc., a Virginia corporation (the "Company"), does hereby constitute and appoint Michael A. Miles, Hans G. Storr and Murray H. Bring, or any one or more of them, his/her true and lawful attorney, for him/her and in his/her name, place and stead, to execute, by manual or facsimile signature, electronic transmission or otherwise, the Annual Report on Form 10-K of the Company for the year ended December 31, 1993 and any amendments or supplements to said Annual Report and to cause the same to be filed with the Securities and

Exchange Commission, together with any exhibits, financial statements and schedules included or to be incorporated by reference therein, hereby granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite or desirable to be done in and about the premises as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all acts and things which said attorneys may do or cause to be done by virtue of these presents.

In Witness Whereof, the undersigned has hereunto set his/her hand and seal this 23rd day of February, 1994.

/s/ Paul W. Douglas

-----  
PAUL W. DOUGLAS

#### POWER OF ATTORNEY

Know All Men By These Presents That the undersigned, a Director of Philip Morris Companies Inc., a Virginia corporation (the "Company"), does hereby constitute and appoint Michael A. Miles, Hans G. Storr and Murray H. Bring, or any one or more of them, his/her true and lawful attorney, for him/her and in his/her name, place and stead, to execute, by manual or facsimile signature, electronic transmission or otherwise, the Annual Report on Form 10-K of the Company for the year ended December 31, 1993 and any amendments or supplements to said Annual Report and to cause the same to be filed with the Securities and Exchange Commission, together with any exhibits, financial statements and schedules included or to be incorporated by reference therein, hereby granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite or desirable to be done in and about the premises as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all acts and things which said attorneys may do or cause to be done by virtue of these presents.

In Witness Whereof, the undersigned has hereunto set his/her hand and seal this 23rd day of February, 1994.

/s/ Jane Evans

-----  
JANE EVANS

#### POWER OF ATTORNEY

Know All Men By These Presents That the undersigned, a Director of Philip Morris Companies Inc., a Virginia corporation (the "Company"), does hereby constitute and appoint Michael A. Miles, Hans G. Storr and Murray H. Bring, or any one or more of them, his/her true and lawful attorney, for him/her and in

his/her name, place and stead, to execute, by manual or facsimile signature, electronic transmission or otherwise, the Annual Report on Form 10-K of the Company for the year ended December 31, 1993 and any amendments or supplements to said Annual Report and to cause the same to be filed with the Securities and Exchange Commission, together with any exhibits, financial statements and schedules included or to be incorporated by reference therein, hereby granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite or desirable to be done in and about the premises as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all acts and things which said attorneys may do or cause to be done by virtue of these presents.

In Witness Whereof, the undersigned has hereunto set his/her hand and seal this 23rd day of February, 1994.

/s/ Robert E. R. Huntley

-----  
ROBERT E. R. HUNTLEY

#### POWER OF ATTORNEY

Know All Men By These Presents That the undersigned, a Director of Philip Morris Companies Inc., a Virginia corporation (the "Company"), does hereby constitute and appoint Michael A. Miles, Hans G. Storr and Murray H. Bring, or any one or more of them, his/her true and lawful attorney, for him/her and in his/her name, place and stead, to execute, by manual or facsimile signature, electronic transmission or otherwise, the Annual Report on Form 10-K of the Company for the year ended December 31, 1993 and any amendments or supplements to said Annual Report and to cause the same to be filed with the Securities and Exchange Commission, together with any exhibits, financial statements and schedules included or to be incorporated by reference therein, hereby granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite or desirable to be done in and about the premises as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all acts and things which said attorneys may do or cause to be done by virtue of these presents.

In Witness Whereof, the undersigned has hereunto set his/her hand and seal this 23rd day of February, 1994.

/s/ Hamish Maxwell

-----  
HAMISH MAXWELL

#### POWER OF ATTORNEY

Know All Men By These Presents That the undersigned, a Director of Philip Morris Companies Inc., a Virginia corporation (the "Company") does hereby

constitute and appoint Michael A. Miles, Hans G. Storr and Murray H. Bring, or any one or more of them, his/her true and lawful attorney, for him/her and in his/her name, place and stead, to execute, by manual or facsimile signature, electronic transmission or otherwise, the Annual Report on Form 10-K of the Company for the year ended December 31, 1993 and any amendments or supplements to said Annual Report and to cause the same to be filed with the Securities and Exchange Commission, together with any exhibits, financial statements and schedules included or to be incorporated by reference therein, hereby granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite or desirable to be done in and about the premises as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all acts and things which said attorneys may do or cause to be done by virtue of these presents.

In Witness Whereof, the undersigned has hereunto set his/her hand and seal this 23rd day of February, 1994.

/s/ Michael A. Miles

-----  
MICHAEL A. MILES

POWER OF ATTORNEY

Know All Men By These Presents That the undersigned, a Director of Philip Morris Companies Inc., a Virginia corporation (the "Company"), does hereby constitute and appoint Michael A. Miles, Hans G. Storr and Murray H. Bring, or any one or more of them, his/her true and lawful attorney, for him/her and in his/her name, place and stead, to execute, by manual or facsimile signature, electronic transmission or otherwise, the Annual Report on Form 10-K of the Company for the year ended December 31, 1993 and any amendments or supplements to said Annual Report and to cause the same to be filed with the Securities and Exchange Commission, together with any exhibits, financial statements and schedules included or to be incorporated by reference therein, hereby granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite or desirable to be done in and about the premises as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all acts and things which said attorneys may do or cause to be done by virtue of these presents.

In Witness Whereof, the undersigned has hereunto set his/her hand and seal this 23rd day of February, 1994.

/s/ T. Justin Moore, Jr.

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T. JUSTIN MOORE, JR.

POWER OF ATTORNEY

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/s/ Rupert Murdoch

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RUPERT MURDOCH

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/s/ William Murray

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WILLIAM MURRAY

POWER OF ATTORNEY

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/s/ John D. Nichols

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JOHN D. NICHOLS

POWER OF ATTORNEY

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/s/ Richard D. Parsons

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RICHARD D. PARSONS



POWER OF ATTORNEY

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/s/ Roger S. Penske

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ROGER S. PENSKE

POWER OF ATTORNEY

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/s/ John S. Reed

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JOHN S. REED

POWER OF ATTORNEY

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/s/ John M. Richman

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JOHN M. RICHMAN

POWER OF ATTORNEY

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/s/ Hans G. Storr

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HANS G. STORR

POWER OF ATTORNEY

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/s/ Stephen M. Wolf

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STEPHEN M. WOLF