ALTRIA GROUP INC

FORM 10-K
(Annual Report)

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1995

Commission file number 1-8940

Philip Morris Companies Inc.

(Exact name of registrant as specified in its charter)

Virginia	13-3260245
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
120 Park Avenue, New York, N.Y.	10017
(Address of principal executive offices)	(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

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 X No

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. X

At February 29, 1996, the aggregate market value of the shares of Common Stock held by non-affiliates of the registrant was approximately $82.0 billion. At such date, there were 829,752,427 shares of the registrant's Common Stock outstanding.

Documents Incorporated by Reference

Portions of the registrant's annual report to stockholders for the year ended December 31, 1995, are incorporated in Part I, Part II and Part IV hereof and made a part hereof. The registrant's definitive proxy statement for use in connection with its annual meeting of stockholders to be held on April 25, 1996, is incorporated in Part III hereof and made a part hereof.

PART I

Item 1. Description of Business.

(a) General Development of Business

General

Philip Morris Companies Inc. is a holding company whose principal wholly-owned subsidiaries, Philip Morris Incorporated, Philip Morris International Inc., Kraft 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 ("PM Inc."), which conducts business under the trade name "Philip Morris U.S.A.", and its subsidiaries and affiliates are engaged primarily in the manufacture and sale of cigarettes. PM Inc. 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 Foods, Inc. ("Kraft"), is the largest processor and marketer of retail packaged foods in the United States. A wide variety of grocery, coffee, cheese, confectionery and processed meat products are manufactured and marketed in the United States and Canada by Kraft and by its subsidiary, Kraft Foods International, Inc. ("Kraft Foods International"), in Europe and the Asia/Pacific region.

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, its principal source 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.

(b) Financial Information About Industry Segments

In 1995, the Company's significant industry segments were tobacco products (principally cigarettes), food products, beer, and financial services and real estate. 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 are set forth in Note 11 to the Company's consolidated financial statements and are incorporated herein by reference to the Company's annual report to stockholders for the year ended December 31, 1995 (the "1995 Annual Report").

In 1995, operating profit from tobacco products was approximately 65% of the Company's total operating profit (up from 62% in 1994), with PM Inc. and Philip Morris International contributing 34% and 31%, respectively (compared with 33% and 29%, respectively, in 1994). Food products, beer, and financial services and real estate accounted for approximately 29%, 4% and 2%, respectively, of the Company's total operating profit in 1995 (32%, 4% and 2%, respectively, in 1994).

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* References 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.

Tobacco Products

PM Inc. 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 industry continues to be subject to health concerns relating to the use of tobacco products and exposure to environmental tobacco smoke, legislation, including tax increases, governmental regulation, privately imposed smoking restrictions, governmental and grand jury investigations and litigation, any or all of which could have an adverse impact on the Company.

Domestic Tobacco Products

PM Inc. is the largest tobacco company in the United States, with total cigarette shipments of 221.8 billion units in 1995 (an increase of 1.1% from 1994), accounting for 46.1% of the cigarette industry's total estimated shipments in the United States (an increase of 1.3 share points from 1994). The industry's estimated cigarette shipments in the United States decreased by 1.7% in 1995, compared with 1994, in line with the United States industry's historical long-term average rate of decline of 1% to 2% per annum. The following table sets forth the industry's estimated cigarette shipments in the United States, PM Inc.'s shipments and its share of United States industry shipments:

Years Ended December 31	Industry*	PM Inc.	PM Inc. Share of Industry*
	(in billions of units)		(%)
1995	481.1	221.8	46.1
1994**	489.6	219.4	44.8
1993	461.2	194.7	42.2

PM Inc.'s major premium brands are Marlboro, Benson & Hedges, Merit, Virginia Slims and Parliament. Its principal discount brands are Basic and Cambridge. All of its brands are marketed to satisfy differing preferences of adult smokers. PM Inc. has been the leading cigarette company in the United States market since 1983.* Marlboro is the largest selling brand in the United States, with shipments of 144.9 billion units in 1995 (up 5.2% from 1994, despite a limited product recall), equating to 30.1% of the United States market (up from 28.1% in 1994).

During 1995, domestic cigarette industry volume continued to shift from the discount segment, which consists of "generic" and lower-priced cigarettes that have a lower profit margin than premium brands, to the full-price (premium) segment (70% of industry shipments in 1995, compared with 67.5% in 1994). The shift from the discount segment began in the second half of 1993, reflecting a pricing strategy implemented by PM Inc. in response to the domestic tobacco market, which was becoming increasingly price-sensitive. Previously, the discount segment of the industry had been growing markedly and constituted as much as 40.7% of United States industry shipments in the second quarter of 1993, up from 30.2% in 1992. PM Inc.'s 1995 share of the premium segment was 54.5%, an increase of 0.9 share points over 1994. Shipments of premium cigarettes accounted for 82.7% of PM Inc.'s 1995 volume, up from 80.7% in 1994. In 1995, United States industry shipments within the discount segment declined 9.2% from 1994 levels; PM Inc.'s 1995 shipments within this category declined 9.1%, resulting in a share of 26.6% of the discount segment (up 0.1 share points from 1994). These developments and their impact on the Company's financial statements 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 1995 Annual Report.

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* Source: The Maxwell Consumer Report (issued by Wheat, First Securities, Inc.).

** The increase in industry shipments in 1994 from 1993 was due in part to increased distributor buying in 1992 (made in anticipation of higher cigarette prices and the January 1, 1993, increase in the federal excise tax), which reduced 1993 shipments.

PM Inc. cannot predict change or rates of change in the relative sizes of the premium and discount segments or in PM Inc.'s shipments, market share (based on shipments) or retail market share.

International Tobacco Products

Philip Morris International's total cigarette shipments grew 10.7% in 1995, to approximately 593.2 billion units. Philip Morris International's share of the world cigarette market (excluding the United States) was approximately 12% in 1995, up from approximately 11% in 1994. Philip Morris International estimates that world cigarette industry unit shipments (excluding the United States) were approximately 5.0 trillion units in 1995, which represents a compounded annual increase of approximately 1% per year over the last five years. Philip Morris International estimates that the American-style segment of the world market (excluding the United States) has increased at a compounded annual rate of more than 3% per year over the last five years. It also estimates that the American-style segment constituted approximately 32% of the world cigarette market (excluding the United States) in 1995, up from approximately 31% in 1994; shipments by Philip Morris International accounted for approximately 36% of this segment in 1995, versus approximately 34% in 1994. Unit sales of Philip Morris International's principal brand, Marlboro, increased 6.4% in 1995 over 1994, to 276.7 billion units, more than 5% of the world cigarette market (excluding the United States).

Philip Morris International has a cigarette market share 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, Finland, France, Germany, Hong Kong, Italy, Japan, Kuwait, the Netherlands, the Philippines, Singapore, Spain and Switzerland. Philip Morris International's leading international brands are Marlboro, L&M, Bond Street, Philip Morris, Lark, Chesterfield, Parliament, Merit and Virginia Slims.

A subsidiary of Philip Morris International is the leading United States exporter of cigarettes. It exported 164.1 billion units in 1995, an increase of 22.8% from 1994. These exports constituted 28% of Philip Morris International's total unit volume in 1995.

In 1995, Philip Morris International increased capacity and improved productivity through various capital projects. Philip Morris International modernized and expanded a manufacturing plant in the Czech Republic, began construction of a new plant in Lithuania, and undertook plant renovations in Krasnodar, Russia, and in Kharkov, Ukraine. It also began a program to increase capacity in Holland, announced plans to upgrade its tobacco- processing facility in Switzerland and to build a new factory in Kazakhstan, completed construction of a leaf-processing facility in Malaysia, and concluded an agreement under which a third party will contract-manufacture Marlboro cigarettes in China for the Chinese market. In February 1996, Philip Morris International acquired an initial 33% share of Poland's largest tobacco company, Zaklady Przemyslu Tytoniowego w Krakowie S.A. ("ZPTK"). Within the next three years, Philip Morris International will receive an additional 32% of the company, provided it has completed certain investments in ZPTK's manufacturing facilities and at such time is in compliance with other contractual commitments.

Taxes, Legislation, Regulation and Other Matters Regarding Tobacco and Smoking

Cigarettes are subject to substantial excise taxes in the United States and to similar taxes in most foreign markets. The United States federal excise tax on cigarettes, last increased in 1993, is $12 per 1,000 ($.24 per pack). During 1995, several measures were proposed to increase the federal excise tax on cigarettes. However, no hearings were held on any of these measures, and none was passed by Congress. In general, excise taxes, sales taxes and other cigarette-related taxes levied by various states, counties and municipalities have been increasing. These taxes vary considerably and, when combined with the current federal excise tax, may be as high as $1.26 per pack.

In the opinion of PM Inc. and Philip Morris International, past increases in the federal excise tax and the other taxes discussed above have had an adverse impact on sales of cigarettes. Any future increases, the extent of which cannot be predicted, could result in volume declines for the cigarette industry, including PM Inc. and Philip Morris International, and might cause shifts from the premium segment to the discount segment.

Reports with respect to the alleged harmful physical effects of cigarette smoking have been publicized for many years, and the sale, promotion and use of cigarettes continue to be subject to increasing governmental regulation. As a result, the tobacco industry, both in the United States and abroad, is subject to increased governmental restrictions, decreasing social acceptance of smoking, increased pressure from anti-smoking groups, unfavorable press reports, governmental investigations and substantial increases in excise taxes. In the opinion of PM Inc. and Philip Morris International, these developments 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 purporting to link cigarette smoking with a broad range of health hazards, including various types of cancer, coronary heart disease and chronic lung disease, and recommending various governmental measures to reduce the incidence of smoking. The 1988, 1990, 1992 and 1994 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, and cigarette smoking by adolescents, particularly the purported "addictive" nature of cigarette smoking in adolescence.

The Comprehensive Smoking Education Act (the "Smoking Education Act"), enacted in 1984, 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." The Smoking Education Act 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, pursuant to an agreement sanctioned by the Federal Trade Commission (the "FTC"), cigarette advertising in the United States must disclose the average "tar" and nicotine yields of the advertised brand or variety. It has been reported that the FTC is considering changes to the test method used to rate the "tar" and nicotine yields of cigarettes sold in the United States. It is also possible that the FTC will promulgate new regulations governing or restricting advertising or marketing claims based on "tar" and nicotine ratings.

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 markets where such statements are not legally required, the Company's policy is to place the United States Surgeon General's warnings on all 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, PM Inc. 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 and ordered withdrawn. The EPA report, as well as adverse publicity on ETS, have resulted in the enactment of legislation and privately imposed limitations that restrict or ban cigarette smoking in certain public places and some places of employment. It has been reported that the International Agency for Research on Cancer of the World Health Organization is conducting research on ETS that may be published sometime during 1996.

Enactments by regulatory agencies and other governmental authorities, together with private initiatives, have restricted or prohibited smoking areas aboard certain common carriers, including domestic and certain international commercial airline flights, in certain public places and in some places of employment.

In April 1994, the United States Occupational Safety and Health Administration ("OSHA") issued a proposed rule that could ultimately ban smoking in the workplace. Hearings on this proposed rule were held from September 1994 through March 1995. The period for post-hearing submissions on the proposed rule ended on February 9, 1996. OSHA has not yet issued either a final rule or a proposed revised rule.

For several years, Congress has provided funds for the development of test methodologies and standards aimed at measuring the propensity of cigarettes to ignite upholstered furniture or mattresses. The Company cannot predict whether these efforts will result in legislation or regulation.

Television and radio advertising of cigarettes is prohibited in the United States and prohibited or restricted in many other countries. In June 1995, PM Inc. entered into a consent decree with the Department of Justice, pursuant to which it agreed to reposition its brand advertising at professional football, baseball, basketball and hockey arenas so as not to be inadvertently exposed to prominent television coverage.

In June 1992, the Alcohol, Drug Abuse and Mental Health Act was enacted. This act requires states to adopt a minimum age of at least 18 for purchases of tobacco products and to establish a system to monitor, report and reduce the illegal sale of tobacco products to minors in order to continue receiving federal funding for mental health and drug abuse programs. In January 1996, regulations implementing this legislation were announced by the Department of Health and Human Services.

In June 1995, PM Inc. announced that it has voluntarily undertaken a program to limit minors' access to cigarettes. Elements of the program include discontinuing free cigarette sampling to consumers in the United States, discontinuing the distribution of cigarettes by mail to consumers in the United States, placing a notice on cigarette cartons and packs for sale in the United States stating "Underage Sale Prohibited," working with others in support of state legislation to prevent youth access to tobacco products, taking measures to encourage retailer compliance with minimum-age laws, and independent auditing of the program.

In August 1995, President Clinton announced, and the United States Food and Drug Administration (the "FDA") initiated, a rulemaking proceeding purportedly designed to prevent minors from smoking. In the proposed regulations, the FDA asserted that it has jurisdiction over nicotine as a "drug" and over cigarettes as a medical "device" (a nicotine delivery system) under the provisions of the Food, Drug and Cosmetic Act. The proposed regulations include severe restrictions on the distribution, marketing and advertising of cigarettes, and require cigarette manufacturers to fund a $150 million-a-year campaign to discourage minors from using tobacco products. The period for public comment on the FDA's plan initially ended on January 2, 1996. The FDA's assertion of jurisdiction, if not reversed by judicial or legislative action, could lead to more expansive FDA-imposed restrictions on cigarette operations than those set forth in the current proposed regulations. PM Inc., four other domestic cigarette manufacturers and an advertising firm have sued the FDA, seeking a judicial declaration that the FDA has no authority to regulate cigarettes and asking the court to issue an injunction requiring the FDA to withdraw its proposed regulations. Similar suits have been filed against the FDA by manufacturers of smokeless tobacco products, by a trade association of cigarette retailers and by advertising agency associations.

On March 18, 1996, the FDA placed in its rulemaking docket statements from three former employees of PM Inc. concerning, according to the FDA Commissioner, "the role of nicotine in the design and manufacture of cigarettes." As a result of this and unrelated developments, the FDA has reopened for limited purposes for thirty days the period during which the public may comment on the statements and two specific aspects of its proposed regulations.

Legislation and other governmental action potentially affecting the tobacco industry is proposed periodically at the federal, state and local levels. During 1995, members of Congress, the Clinton Administration and state officials proposed measures that would ban or severely restrict smoking in workplaces and in buildings with public access and on international flights that have a nexus with the United States, require additional health warning and product content information on packaging and in advertising, eliminate the tax deductibility of a portion of the cost

of tobacco advertising, significantly increase the excise and similar taxes on cigarettes, and authorize the FDA to regulate tobacco products (see above). In November 1995, Congress passed a measure that bans or severely restricts vending machines and the provision of free tobacco products in federal buildings and on federal property. In recent years various members of Congress have introduced legislation--some of which has been the subject of hearings or floor debate--that would subject cigarettes to various regulations under the Department of Health and Human Services or regulation under the Consumer Products Safety Act, establish anti-smoking educational campaigns or anti-smoking programs or provide additional funding for governmental anti-smoking activities, further restrict the advertising of cigarettes, including requiring additional warnings on packages and in advertising, provide that the Federal Cigarette Labeling and Advertising Act and the Smoking Education Act could not be used as a defense against liability under state statutory or common law, and allow state and local governments to restrict the sale and distribution of cigarettes and further restrict certain advertising of cigarettes.

A number of foreign countries have also taken steps to restrict or prohibit cigarette advertising and promotion, to increase taxes on cigarettes, to control prices, to restrict imports and to discourage cigarette smoking.

It is not possible to determine the outcome of the FDA regulatory initiative announced by President Clinton or the related litigation, or to predict what, if any, other foreign or domestic governmental legislation or regulations will be adopted relating to the advertising, sale or use of cigarettes or to the tobacco industry generally. However, if any or all of the foregoing were to be implemented, the volume, operating revenues and operating income of PM Inc., Philip Morris International and the Company could be adversely impacted, in amounts that cannot be determined.

PM Inc. has received requests for information in connection with various governmental investigations of the tobacco industry.

In June 1995, The New York Times published an article that made allegations about PM Inc. documents and supposedly secret research relating to nicotine. Following publication of that article, PM Inc. has received grand jury subpoenas from the United States Attorney for the Southern District of New York.

PM Inc. has received Civil Investigative Demands ("CIDs") from the United States Department of Justice requiring PM Inc. to produce documents and respond to interrogatories relating to the possibility of "joint activity to restrain competition in the manufacture and sale of cigarettes, including joint activity to limit or restrict research and development or product innovations." Certain present and former employees of PM Inc. have been deposed or have received CIDs noticing their depositions in connection with the investigation.

The United States Attorney for the Eastern District of New York is reviewing the status of a grand jury investigation, begun in 1992, of possible violations of criminal law in connection with activities relating to The Council for Tobacco Research -- U.S.A., Inc., a research organization of which PM Inc. is a sponsor.

PM Inc. has received grand jury subpoenas from the United States Department of Justice requesting documents relating to an investigation of testimony provided by tobacco industry executives before Congress.

PM Inc. has received a grand jury subpoena from the United States Attorney for the Eastern District of Virginia requesting documents relating to an investigation of Healthy Buildings International, Inc.

While the outcomes of these investigations cannot be predicted, PM Inc. believes it has acted lawfully.

Smoking and Health Litigation

There is litigation pending in various jurisdictions against the leading United States cigarette manufacturers and others seeking compensatory and, in some cases, punitive damages for cancer and other health effects alleged to have resulted from cigarette smoking, "addiction" to cigarette smoking or exposure to ETS. As of December 31, 1995, there were 125 such smoking and health cases pending in the United States against PM Inc. and, in some cases, the Company. Of these cases, 88 were filed in the state of Florida and served between April 28, 1995, and

December 31, 1995. One hundred and nine of the smoking and health cases, four of which purport to be class actions, involve allegations of various injuries allegedly related to cigarette smoking. Eleven of the smoking and health cases, including one that purports to be a class action, involve allegations of various personal injuries allegedly related to exposure to ETS. Five of the cases pending as of December 31, 1995, involve states that have commenced actions seeking reimbursement for Medicaid and other expenditures claimed to have been made to treat diseases allegedly caused by cigarette smoking. In addition, a purported class action involving allegations of various personal injuries allegedly related to cigarette smoking is pending in Canada against, among others, an entity in which the Company has a 40% indirect ownership interest, and another such action is pending in Brazil against a subsidiary of the Company, among others.

Note 15 to the Company's consolidated financial statements, incorporated
herein by reference to the Company's 1995 Annual Report, describes certain litigation pending against the Company and its subsidiaries and related entities, including smoking and health cases. Item 3 herein describes certain subsequent developments in such litigation. Further reference is made to such Note 15 and Item 3.

In March 1996, Liggett Group, Inc., a United States manufacturer and seller of cigarettes ("Liggett"), announced an agreement to settle the Castano case described in such Note 15 and Item 3. The agreement is subject to court approval. Liggett also announced an agreement to settle the Medicaid reimbursement actions brought by the states of Florida, Louisiana, Massachusetts, Mississippi and West Virginia as described in such Note 15 and Item 3. As part of each settlement, Liggett agreed to comply with certain aspects of the regulations proposed by the FDA, to make certain payments and to cooperate in limited ways with otherwise adverse parties in certain investigations and lawsuits. The terms of the settlements would be available to any other defendant that has a share of the Untied States domestic cigarette market of less than 30% if it acquires or is acquired by Liggett, and each settlement can be terminated by Liggett upon the occurrence of specified events. Liggett's sales account for approximately 2% of the Untied States domestic cigarette market. The major cigarette manufacturers in the United States, including PM Inc., have stated that they do not intend to settle any smoking and health litigation and that they will continue to defend all such actions vigorously.

The Attorneys General of other states have announced they are considering filing Medicaid reimbursement actions.

Distribution, Competition and Raw Materials

PM Inc. sells its tobacco products principally to wholesalers (including distributors), large retail organizations, including chain stores, 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, characterized by brand recognition and loyalty, with product quality, price, marketing and packaging constituting the significant methods of competition. Promotional activities include, in certain instances, allowances, the use of incentive items, price reductions and other discounts. The tobacco products of the Company's subsidiaries, affiliates and their licensees are 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.

PM Inc. 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 (subject to Congressional review) and production adjustment programs administered by the United States Department of Agriculture (the "USDA"), either of which can substantially affect market prices. PM Inc. and Philip Morris International believe there is an adequate supply of tobacco in the world markets to satisfy their current production requirements.

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. A provision of the Uruguay Round Amendments Act, enacted in December 1994, replaced this requirement with a tariff-rate quota system that allows a specified quantity of tobacco to be imported at current tariff levels, with additional quantities subject to a significantly higher duty. Due to the high content of American-grown tobacco used in PM Inc.'s products and those exported by subsidiaries of Philip Morris International, the domestic purchase requirement has not had, and the new tariff-rate quota system is not expected to have, a material adverse effect on the results of operations of PM Inc. or Philip Morris International.

Food Products

Kraft's reporting and management structure currently consists of Kraft Foods North America, which comprises eleven business divisions (including Kraft Canada), and Kraft Foods International. Effective January 1995, the North American food business was reorganized to fully integrate the operations of the former Kraft U.S.A. and General Foods U.S.A. The combined organization, named Kraft Foods, Inc., has begun to streamline operations and improve effectiveness and customer response. In December 1995, Kraft Foods International was realigned to capitalize on growth opportunities, and reorganized into four separate regional business divisions: Western Europe; Northern Europe; Central and Eastern Europe, Middle East and Africa; and Asia/Pacific.

During 1995, Kraft sold its bakery businesses and its North American margarine, specialty oils, marshmallows, caramels and Kraft Foodservice distribution businesses and several small international food businesses. In 1994, Kraft sold The All American Gourmet Company, which produced frozen meals and side dishes. The sales of these businesses are not expected to have a material effect on the Company's future results of operations and are expected to improve the profit margin of North American food operations.

North America

Kraft is the largest packaged food company in North America. Kraft's principal products include ready-to-eat cereals, coffee and other beverages, desserts, cheese and cheese products, frozen toppings, stuffing mix, syrup, vegetable oil-based products, such as salad dressings, barbecue sauce, cultured dairy products, frozen pizza, processed meat and poultry products, frozen bagels and packaged pasta dinners. Its principal brands include Kraft, Velveeta and Cracker Barrel cheese and cheese products, Miracle Whip salad dressing, Philadelphia Brand cream cheese, Cheez Whiz cheese sauce, Kraft and Seven Seas pourable dressings, Kraft and Bull's-Eye barbecue sauces, DiGiorno pastas, sauces and cheeses, Light n' Lively, Knudsen and Breakstone's cultured dairy products, Tombstone, Jack's and DiGiorno 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, Claussen pickles, Maxwell House, Yuban, Nabob, Sanka 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, Minute rice, Stove Top stuffing mix, Shake 'N Bake coatings, Good Seasons salad dressing mixes, Lender's bagels and Cool Whip toppings.

International

Kraft Foods International is responsible for manufacturing and marketing a wide variety of coffee, confectionery, cheese, packaged grocery and processed meat products in Europe, the Middle East, Africa and the Asia/Pacific region. Approximately 93% of Kraft Foods International's sales are made in Europe. International brands include a wide variety of the products sold by Kraft in North America, as well as Milka, Tobler, Toblerone, Suchard, Sugus, Freia, Marabou, Daim, Estrella, Callard & Bowser, Terry's and Cote d'Or confections, Carte Noire, Gevalia, Grand'Mere, Kenco, HAG, Jacobs Cafe, Jacobs Kronung, Jacques Vabre, Night & Day, Saimaza and Splendid coffees, Miracoli pasta dinners, Dairylea processed cheese, Vegemite spread and Hollywood chewing gum.

In Latin America, certain subsidiaries and affiliates of Philip Morris International manufacture and market a wide variety of food products, including Kibon ice cream, various powdered soft drinks and a number of the other products sold by Kraft.

Distribution, Competition and Raw Materials

Kraft's products in North America are generally sold to supermarket chains, wholesalers, club stores, mass merchandisers, distributors, individual stores and other retail food outlets. Products are distributed through distribution centers, satellite warehouses, company-operated and public cold storage facilities, depots and other facilities. 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.

Products of Kraft Foods International are sold primarily through sales offices and agents abroad. European distribution is coordinated from offices located in Zurich, Switzerland; Vienna, Austria; and Cheltenham, England. The Asia/Pacific area operations are headquartered in Hong Kong. Kraft Foods International's operations outside of the United States and Canada are directed from its headquarters in Rye Brook, New York. Advertising is tailored by product and country to reach targeted audiences.

Kraft is subject to highly competitive conditions in 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. Kraft competes primarily on the basis of product quality, service, marketing, advertising and price.

Kraft is a major purchaser of milk, cheese, green coffee beans, poultry, meat cuts, wheat, cocoa, hazelnuts, vegetable oil, fruits and berries, and sugar and other sweeteners. Kraft continuously monitors worldwide supply and cost trends of these commodities to enable it to take appropriate action to obtain ingredients needed for production.

Kraft purchases all of its milk requirements and a substantial portion of its cheddar cheese requirements from independent sources, principally from cooperatives and individual producers. The prices for United States milk and other dairy product purchases are substantially influenced by government programs as well as market supply and demand.

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 purchase price of poultry and meat cuts is the major factor in the cost of Kraft's processed meat products. Poultry and meat prices are cyclical and are affected by market supply and demand. Meats for Oscar Mayer processed products are provided primarily by full-lot quantity purchases.

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

The prices paid for raw materials used in food products generally reflect external factors such as weather conditions, commodity market activities and the effects of governmental agricultural programs. Although the prices of the principal raw materials required by Kraft 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), Kraft believes such raw materials to be generally available from numerous sources and in adequate supply.

Regulation

Almost all of Kraft's United States food products (and packaging materials therefor) are subject to regulations administered by the FDA or, with respect to products containing meat and poultry, the USDA. Among other things, these agencies enforce statutory prohibitions against misbranded and adulterated foods, establish ingredients and/or manufacturing procedures for certain standard foods, establish standards of identity for food, determine the safety of food substances and establish labeling standards and nutrition labeling requirements for food products. FDA regulations may, in certain instances, affect the ability of Kraft's United States operating units to develop and market new products and to utilize technological innovations in the processing of existing products.

In addition, various states regulate the business of Kraft'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 labeling requirements on food products.

Many of the food commodities on which Kraft's United States businesses rely are subject to governmental agricultural programs. These programs have substantial effects on prices and supplies and are subject to Congressional review.

Almost all of the activities of the Company's food operations outside of the United States are subject to the same kinds of regulation as Kraft'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 Union) regulatory provisions. The rules and regulations relate to labeling, packaging, food content, pricing, marketing and advertising and related areas.

Beer

Products

Miller's brands include Miller Beer, Miller Lite, Miller Lite Ice, Miller Genuine Draft, MGD Light, Red Dog and Icehouse in the premium segment; the Miller High Life family in the near-premium segment, including Miller High Life, Miller High Life Light and Miller High Life Ice; Lowenbrau, brewed and sold in the United States under license from Lowenbrau Munchen AG in the above-premium segment; Meister Brau, Milwaukee's Best and Magnum Malt Liquor in the below-premium segment; and Sharp's non-alcohol brew. Competing in the specialty segment are the Leinenkugel, Celis and Shipyard brands. New products introduced in 1995 include Miller Genuine Red, Leinenkugel's Honey Weiss and Autumn Gold, Southpaw Light and Big Sky, a near-premium beer sold primarily in Wisconsin. Miller also owns and operates Molson Breweries U.S.A. Inc., the second largest beer importer in the United States, with more than 20 brands from six countries, including the Molson brands from Canada, Asahi and Foster's Lager. New Molson Breweries U.S.A. products introduced in 1995 were Foster's Special Bitter and Molson Red Jack Ale. Shipment volume for Miller, including imports, exports and non-alcohol brew, decreased 0.5% in 1995, compared with 1994, in line with the industry. The decrease resulted primarily from reduced shipments of below-premium brands, as well as Lite Ice, Molson Ice and Miller Genuine Draft, partially offset by volume increases due to sales of Red Dog during its first full year in the marketplace and improved sales of Miller Lite. Miller's premium and above-premium beer shipments increased by 1.3% in 1995. Premium and above-premium brands accounted for 81.8% of Miller's shipment volume in 1995, up from 80.4% in 1994.

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 estimated share of industry sales:

Years Ended December 31	Industry	Miller	Miller's Share of Industry
	(in thousands of barrels)		(%)
1995	198,554	45,006	22.7
1994	199,572	45,243	22.7
1993	198,019	44,024	22.2

Internationally, Miller has formed a number of new alliances with brewers and beverage companies in Japan, Brazil, China and Great Britain.

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 only a small quantity of finished products. Containers

(bottles, cans and kegs) for beer products are purchased from various suppliers. Miller expects cost increases for aluminum and other packaging and brewing materials as supply agreements expire during 1996.

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 to regulate the size and format of the warning.

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 Miller, increases in excise taxes have had, and could continue to have, an adverse effect on shipments.

Financial Services and Real Estate

Philip Morris Capital Corporation ("PMCC") invests in leveraged and direct finance leases, 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 $5.6 billion at year-end 1995, compared with $5.2 billion at year-end 1994, reflecting the net investment of an additional $490 million in finance assets.

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

Other Matters

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, 1995, the Company employed approximately 151,000 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 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 Liability Act (commonly known as "Superfund"). In 1995, subsidiaries (or former subsidiaries) of the Company were involved in approximately 185 matters subjecting them to potential remediation costs under Superfund or otherwise. The Company and its subsidiaries expect to continue to make capital and other expenditures in connection with environmental laws and regulations. Although it is not possible to predict precise levels of environmental related expenditures, compliance with such laws and regulations, including the payment of any remediation costs and the making of such expenditures, have not had and are not expected to have a material adverse effect on the Company's results of operations, capital expenditures or financial position.

Share Repurchase Program

In October 1994, the Company commenced a program to spend up to $6 billion to repurchase shares of its Common Stock in open market transactions over three years. The Company is currently repurchasing shares at an annualized rate of $2.6 billion.

Forward-Looking and Cautionary Statements

The Company and its representatives may from time to time make written or oral forward-looking statements, including statements contained in the Company's filings with the Securities and Exchange Commission and in its reports to stockholders. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company is hereby identifying important factors that could cause actual results to differ materially from those contained in any forward-looking statement made by or on behalf of the Company; any such statement is qualified by reference to the following cautionary statements.

The tobacco industry continues to be subject worldwide to health concerns relating to the use of tobacco products and exposure to ETS, legislation, including tax increases, governmental regulation, privately imposed smoking restrictions, governmental and grand jury investigations and litigation. Each of the Company's operating subsidiaries is subject to intense competition, changes in consumer preferences, the effects of changing prices for its raw materials and local economic conditions. The performance of each of Philip Morris International and Kraft Foods International is affected by foreign economies and currency movements. Developments in any of these areas, which are more fully described elsewhere in Part I hereof and in Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 19-25 of the Company's 1995 Annual Report, each of which is incorporated into this section by reference, could cause the Company's results to differ materially from results that have been or may be projected by or on behalf of the Company. The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

(d) Financial Information About 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 segments 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 1995 Annual Report.

Kraft, Miller and subsidiaries of Philip Morris International export coffee products, grocery products, cheese, processed meats, beer, tobacco and tobacco-related products. In 1995, the value of all exports from the United States by these subsidiaries amounted to approximately $5.9 billion.

Item 2. Description of Property.

Tobacco Products

PM Inc. owns 9 tobacco manufacturing and processing facilities--6 in the Richmond, Virginia, area, 2 in Louisville, Kentucky, and 1 in Cabarrus County, North Carolina. PM Inc. 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 Newport News, Virginia. Subsidiaries and affiliates of Philip Morris International own, lease or have an interest in cigarette or component manufacturing facilities in 28 countries outside the United States.

Food Products

The Company's subsidiaries have 60 manufacturing and processing facilities, 217 distribution centers and depots and 178 various other facilities in the United States, as well as 117 foreign manufacturing and processing facilities in 34 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 8 breweries, located in Milwaukee, Wisconsin (2); Fort Worth, Texas; Eden, North Carolina; Albany, Georgia; Irwindale, California; Trenton, Ohio; and Chippewa Falls, Wisconsin. Miller owns

a majority interest in the Celis Brewery in Austin, Texas, and the Shipyard Brewery in Portland, Maine. Miller also owns a beer distributorship in Oklahoma, a hops processing facility in Wisconsin, and owns or leases warehouses in several locations.

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, of which 26 were downsized or closed during 1994 and 1995. 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. The 1993 restructuring and its impact on the Company's financial statements are more fully described in the MD&A, incorporated herein by reference to the Company's 1995 Annual Report.

Item 3. Legal Proceedings.

Reference is made to "Tobacco Products--Smoking and Health Litigation" under Item 1 and to Note 15 to the Company's consolidated financial statements, incorporated herein by reference to the Company's 1995 Annual Report ("Note 15"), for a description of certain pending legal proceedings. Certain litigation developments since the date of Note 15 are summarized below.

In October 1994, the trial court in the Engle case described in Note 15 granted plaintiffs' motion for class certification. Defendants appealed the class certification decision and order to the Florida Third District Court of Appeal. On January 31, 1996, the Court of Appeal affirmed the trial court's order, with the modification that the subject class be restricted to Florida citizens and residents rather than United States citizens and residents. On February 15, 1996, defendants filed with the Florida Third District Court of Appeal a motion for rehearing and a motion for rehearing en banc. In both motions, defendants sought, in the alternative, an order remanding the case to the trial court for a determination of whether certification of such a class meets the manageability and superiority requirements of the Florida Rules of Civil Procedure. Defendants also filed a motion for certification of the case to the Florida Supreme Court. On March 4, 1996, plaintiffs notified the trial court that they believe that the case is ready to be set for trial. On March 13, 1996, defendants filed a joint opposition to the notice of trial.

On March 1, 1996, the trial court in the State of Florida case described in Note 15 partially lifted the stay for the limited purpose of permitting motions to dismiss to be filed. Oral argument of the motions to dismiss is scheduled for May 28, 1996.

In February 1995, the court in the Castano case described in Note 15 conditionally certified the class for certain issues, including fraud, breach of warranty, intentional tort, negligence, strict liability, consumer protection and punitive damages. However, the court declined to certify a class on the issues of injury in fact, causation, reliance, compensatory damages, the availability of certain affirmative defenses and on plaintiffs' claim for medical monitoring. Defendants, including the Company and PM Inc., appealed the decision to the United States Court of Appeals for the Fifth Circuit. Oral argument has been scheduled for April 2, 1996.

On March 18, 1996, in the Lacey case described in Note 15, the court denied plaintiff's motion to remand the case to the Alabama state court. Also on March 18, 1996, the court denied defendants' motion to dismiss, which had been filed in May 1994.

On February 16, 1996, in the Moore case described in Note 15, the Governor of Mississippi filed a Petition for Writ of Mandamus and Prohibition and for Declaratory Judgment with the Mississippi Supreme Court requesting, among other things, that the court issue a Writ of Mandamus and Prohibition requiring the Attorney General to cease and desist from actions for recovery of Medicaid funds until employed and/or directed to do so by the

Governor. On February 20, 1996, PM Inc. and the other defendants in the Moore case filed a Petition for Writ of Prohibition and/or Mandamus with the Mississippi Supreme Court requesting that the court instruct the trial judge to dismiss those portions of the Attorney General's lawsuit that seek recovery of the Medicaid funds.

In October 1995, the court in the McGraw case described in Note 15 granted defendants' motion to prohibit prosecution of this case pursuant to a contingent fee arrangement with private counsel, ruling that the Attorney General lacked the authority to enter into such an agreement. On January 23, 1996, plaintiff filed a motion for leave to file an amended complaint to join the Public Employees Insurance Agency Financial Board as a party plaintiff. In May 1995, the trial court dismissed eight of the ten counts of the complaint for lack of standing. In October 1995, the court issued a final order entering judgment on behalf of defendants. On February 15, 1996, the Attorney General filed a Petition for Appeal with the Supreme Court of Appeals of West Virginia from the October 1995 order, requesting that the court reverse the trial court's ruling that the Attorney General does not have the authority to pursue the common-law and declaratory judgment counts of the complaint. Oral argument has been scheduled for May 30, 1996.

On February 6, 1996, in the Morales case described in Note 15, plaintiffs, including PM Inc., amended their complaint to include a request for a declaration that the Attorney General has no authority to enter into contingent fee agreements with private attorneys. On February 23, 1996, plaintiffs, including PM Inc., filed a motion for partial summary judgment on counts I and II of their amended complaint (which request, respectively, a declaration that the Attorney General has no authority under Texas law to seek reimbursement of Medicaid expenditures from plaintiffs outside of the assignment/subrogation remedy provided by statute, and a declaration that the assignment/subrogation remedy is the exclusive remedy for recovery of Medicaid expenditures from third parties).

On February 1, 1996, plaintiff in the Commonwealth of Massachusetts case described in Note 15 served a motion to remand the action to the state court in which it was originally filed. The motion to remand was orally argued on February 26, 1996.

On February 16, 1996, in the action against the Governor of the State of Maryland described in Note 15, the plaintiffs, including PM Inc., filed a motion for summary judgment on the grounds that any contingent fee contract between the Attorney General of Maryland and private attorneys to be appointed assistant counsel for the State and compensated in such a manner is invalid under Maryland law. On February 23, 1996, defendants filed a motion to dismiss or, in the alternative, for summary judgment, arguing that plaintiffs have no standing to assert the challenges they make in the complaint and that the Attorney General has the power under Maryland law to retain contingency fee counsel.

On March 13, 1996, an action was filed in Louisiana state court against the leading United States cigarette manufacturers and others, including the Company, by the Attorney General of Louisiana seeking reimbursement of Medicaid and other expenditures claimed to have been made to treat eligible citizens of the State of Louisiana for diseases allegedly caused by cigarette smoking. Ieyoub, et al. v. The American Tobacco Company, et al., 14th Judicial District Court, Parish of Calcasieu, Louisiana, Case No. 96-1209. Plaintiff asserts various claims under Louisiana law and seeks an injunction prohibiting the sale of cigarettes to minors, an unspecified amount of compensatory damages for past and future health care expenditures by the State, an unspecified amount of punitive damages, attorneys' fees, and prejudgment and legal interest. The Company has not yet received service of the complaint.

On March 18, 1996, plaintiff in the Netherland case described in Note 15 filed a motion to amend the complaint. The proposed amendment would add a manufacturer of packaging materials as a defendant and would seek to expand the proposed class from individuals in the State of Louisiana to all persons in the United States who were allegedly injured by cigarettes subject to the product recall announced by PM Inc. in May 1995. PM Inc. has filed a motion to strike all class allegations.

On March 5, 1996, plaintiffs in the Tijerina case described in Note 15 filed an amendment to the complaint which limits the proposed class to all people who have purchased and smoked within the State of Texas certain filtered products manufactured by PM Inc.

In August 1995, the trial court in the Lawrence case described in Note 15 granted plaintiffs' motion for class certification and, in December 1995, the court denied defendants' motion to amend the court's class certification

order to permit the Company to take an interlocutory appeal from that order to the United States Court of Appeals for the Second Circuit. On February 8, 1996, the Company filed a Petition for Writ of Mandamus with the United States Court of Appeals for the Second Circuit requesting the Court of Appeals to direct the trial court to withdraw its order granting class certification.

The Company and each of its subsidiaries named as a defendant believes, and each has been so advised by counsel handling the respective cases, that it has a number of valid defenses to all litigation pending against it. 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. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. There have also been a number of adverse legislative, regulatory, political and other developments concerning cigarette smoking and the tobacco industry. These developments generally receive widespread media attention. The Company is not able to evaluate the effect of these developing matters on pending litigation and the possible commencement of additional litigation.

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 or its financial position could be materially affected by an ultimate unfavorable outcome of certain pending litigation. Management believes, however, that the ultimate outcome of all pending litigation should not have a material adverse effect on the Company's financial position.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Executive Officers of the Company

The following are the executive officers of the Company as of March 1, 1996:

Name	Office	Age
Geoffrey C. Bible.....	Chairman of the Board and Chief Executive Officer	58
Murray H. Bring.....	Executive Vice President, External Affairs and General Counsel	61
Bruce S. Brown.....	Vice President, Taxes	56
Louis C. Camilleri.....	President and Chief Executive Officer of Kraft Foods International	41
Katherine P. Clark.....	Vice President and Controller	47
Dinyar S. Devitre.....	Senior Vice President, Corporate Planning	48
Lawrence A. Gates.....	Senior Vice President, Human Resources and Administration	58
Marc S. Goldberg.....	Senior Vice President, Worldwide Operations and Technology	52
G. Penn Holsenbeck.....	Vice President, Associate General Counsel and Secretary	49
James M. Kilts.....	Executive Vice President, Worldwide Food	48
George R. Lewis.....	Vice President and Treasurer	54
John N. MacDonough.....	Chairman and Chief Executive Officer of Miller	52
James J. Morgan.....	President and Chief Executive Officer of PM Inc.	53
Robert S. Morrison.....	Chairman and Chief Executive Officer of Kraft	53
Steven C. Parrish.....	Senior Vice President, Corporate Affairs	45
Hans G. Storr.....	Executive Vice President and Chief Financial Officer; Chairman and Chief Executive Officer of PMCC	64
William H. Webb.....	President and Chief Executive Officer of Philip Morris International	56

All of the above-mentioned officers, with the exception of Messrs. Holsenbeck and MacDonough, have been employed by the Company in various capacities during the past five years. Mr. Holsenbeck was elected to his current

position with the Company in January 1995. Previously, Mr. Holsenbeck held various positions with Bethlehem Steel Corporation, including Secretary and Deputy General Counsel from 1992 to January 1995, Assistant General Counsel from 1985 to 1992, and Assistant Secretary from 1983 to 1992. Mr. MacDonough was 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 August 1993.

PART II

Item 5. Market for Registrants' Common Equity and Related Stockholder Matters.

The information called for by this Item is hereby incorporated by reference to the paragraph captioned "Quarterly Financial Data (Unaudited)" on page 46 of the Company's 1995 Annual Report and made a part hereof.

Item 6. Selected Financial Data.

The information called for by this Item is hereby incorporated by reference to the information appearing under the caption "Selected Financial Data" on page 26 of the Company's 1995 Annual Report and made a part hereof.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The information called for by this Item is hereby incorporated by reference to the paragraphs captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 19-25 of the Company's 1995 Annual Report and made a part hereof.

Item 8. Financial Statements and Supplementary Data.

The information called for by this Item is hereby incorporated by reference to the Company's 1995 Annual Report as set forth under the caption "Quarterly Financial Data (Unaudited)" on page 46 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 for use in connection with its annual meeting of stockholders to be held on April 25, 1996, 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

	Reference	
	Form 10-K Annual Report Page	1995 Annual Report Page
Data incorporated by reference to the Company's 1995 Annual Report:		
Consolidated Balance Sheets at December 31, 1995 and 1994	--	28-29
Consolidated Statements of Earnings for the years ended December 31, 1995, 1994 and 1993	--	30
Consolidated Statements of Stockholders' Equity for the years ended December 31, 1995, 1994 and 1993	--	32
Consolidated Statements of Cash Flows for the years ended December 31, 1995, 1994 and 1993	--	30-31
Notes to Consolidated Financial Statements	--	33-46
Report of Independent Accountants	--	47
Data submitted herewith:		
Report of Independent Accountants	S-1	--
Financial Statement Schedule--Valuation and Qualifying Accounts	S-2	--

Schedules other than those listed above have been omitted either because such schedules are not required or are not applicable.

(b) Reports on Form 8-K: No Current Reports on Form 8-K were filed during the last quarter of the period for which this Report is filed. Subsequent to the last quarter of the period for which this Report is filed, the Company filed its Current Report on Form 8-K dated February 1, 1996.

(c) The following exhibits are filed as part of this Report (Exhibit Nos. 10.3-10.26 are management contracts, compensatory plans or arrangements):

1.1.	Form of Underwriting Agreement, including form of terms agreement. (1)
1.2.	Form of First Amendment to Selling Agency Agreement. (2)
3.1.	Restated Articles of Incorporation of the Company.
3.2.	By-Laws, as amended, of the Company. (3)
4.1.	Plan of Exchange and Articles of Incorporation. (4)
4.8.	Indenture dated as of August 1, 1990 between the Company and Chemical Bank, Trustee. (5)
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. (6)
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. (7)
4.11.	5-Year Loan and Guaranty Agreement dated as of October 26, 1995 among the Company, the Banks named therein and Citibank, N.A., as Agent.
10.3.	Financial Counseling Program of PM Inc. and the Company. (8)
10.4.	Philip Morris Benefit Equalization Plan, as amended. (8)

10.5.	Amendments, as of October 25, 1989, to the Philip Morris Benefit Equalization Plan, as amended. (9)
10.6.	Automobile Policy of PM Inc. and the Company. (8)
10.9.	1982 Stock Option Plan, as amended. (8)
10.10.	The Philip Morris 1987 Long Term Incentive Plan, as amended.(10)
10.12.	Form of Executive Master Trust between the Company, Chemical Bank and Handy Associates. (9)
10.13.	Agreement, dated October 12, 1987, between the Company and Murray H. Bring, as amended. (2)
10.14.	Agreement, dated November 1, 1989, between the Company and Murray H. Bring. (9)
10.15.	Agreement, dated March 8, 1989, between the Company and James M. Kilts. (9)
10.20.	Form of Employment Agreement between the Company and its executive officers. (9)
10.22.	Supplemental Management Employees' Retirement Plan of the Company, as amended. (10)
10.23.	The Philip Morris 1992 Incentive Compensation and Stock Option Plan. (11)
10.24.	1992 Compensation Plan for Non-Employee Directors, as amended.
10.25.	Unit Plan for Incumbent Non-Employee Directors, effective January 1, 1996.
10.26.	Form of Employee Grantor Trust Enrollment Agreement.
12.	Statements re computation of ratios. (1)
13.	Pages 19-47 of the Company's 1995 Annual Report, 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 1995 Annual Report 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.

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(1) Incorporated by reference to the Company's Current Report on Form 8-K dated February 1, 1996.
(2) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1993.
(3) Incorporated by reference to the Company's Registration Statement on Form S-8 (No. 33-59109) dated May 4, 1995.
(4) Incorporated by reference to the Company's Registration Statement on Form S-14 (No. 2-96149) dated March 1, 1985.
(5) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 33-36450) dated August 22, 1990.
(6) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 33-39059) dated February 21, 1991.
(7) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 33-45210) dated January 22, 1992.
(8) Incorporated by reference to the Company's Registration Statement on Form 8-B (No. 1-8940) dated July 1, 1985.
(9) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1994.
(10) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1990.
(11) 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.

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.

Date: March 27, 1996 *By: /s/ GEOFFREY C. BIBLE*
(Geoffrey C. Bible, 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/ GEOFFREY C. BIBLE (Geoffrey C. Bible)	Director, Chairman of the Board and Chief Executive Officer	March 27, 1996
/s/ HANS G. STORR (Hans G. Storr)	Director, Executive Vice President and Chief Financial Officer	March 27, 1996
/s/ KATHERINE P. CLARK (Katherine P. Clark)	Vice President and Controller	March 27, 1996
*ELIZABETH E. BAILEY, MURRAY H. BRING, HAROLD BROWN, WILLIAM H. DONALDSON, JANE EVANS, ROBERT E. R. HUNTLEY, RUPERT MURDOCH, JOHN D. NICHOLS, RICHARD D. PARSONS, ROGER S. PENSKE, JOHN S. REED, STEPHEN M. WOLF,	Directors	
*By: /s/ HANS G. STORR (Hans G. Storr Attorney-in-fact)		March 27, 1996

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 1995 annual report to stockholders of Philip Morris Companies Inc. and appears on page 47 therein. In connection with our audits of such financial statements, we have also audited the related financial statement schedule listed in the index in Item 14(a) on page 17 of this Form 10-K.

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

/s/ Coopers & Lybrand L.L.P.
COOPERS & LYBRAND L.L.P.

New York, New York
January 29, 1996

PHILIP MORRIS COMPANIES INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended December 31, 1995, 1994 and 1993
(in millions)

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts (a)	Deductions (b)	Balance at End of Period
1995:					
CONSUMER PRODUCTS:					
Allowance for discounts	$ 15	$551	$ --	$554	$ 12
Allowance for doubtful accounts	168	35	(12)	28	163
Allowance for returned goods	4	40	--	41	3
	$187	$626	$(12)	$623	$178
FINANCIAL SERVICES AND REAL ESTATE:					
Provision for losses	$104	$ --	$ --	$ 3	$101
1994:					
CONSUMER PRODUCTS:					
Allowance for discounts	$ 18	$538	$ --	$541	$ 15
Allowance for doubtful accounts	153	38	8	31	168
Allowance for returned goods	4	100	--	100	4
	$175	$676	$ 8	$672	$187
FINANCIAL SERVICES AND REAL ESTATE:					
Provision for losses	$ 94	$ 10	$ --	$ --	$104
1993:					
CONSUMER PRODUCTS:					
Allowance for discounts	$ 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

Notes:
(a) Related to divestitures, acquisitions and currency translation.
(b) Represents charges for which allowances were created.

Exhibit 3.1
RESTATED

ARTICLES OF INCORPORATION
of
PHILIP MORRIS COMPANIES INC.

ARTICLE I

The name of the Corporation is "Philip Morris Companies Inc."

ARTICLE II

The purpose for which the Corporation is organized is to transact any lawful business not required to be specifically stated in the Articles of Incorporation.

ARTICLE III

The Corporation shall have authority to issue four billion (4,000,000,000) shares of Common Stock, $1 par value, and ten million (10,000,000) shares of Serial Preferred Stock, $1 par value.

A. Serial Preferred Stock

1. Issuance in Series. The Board of Directors is hereby empowered to cause the Serial Preferred Stock of the Corporation to be issued in series with such of the variations permitted by clauses (a) - (h), both inclusive, of this
Section 1 as shall have been fixed and determined by the Board of Directors with respect to any series prior to the issue of any shares of such series.

The shares of the Serial Preferred Stock of different series may vary as to:

(a) the number of shares constituting such series, and the designation of such series, which shall be such as to distinguish the shares thereof from the shares of all other series and classes;

(b) the rate of dividend, the time of payment and, if cumulative, the dates from which dividends shall be cumulative, and the extent of participation rights, if any;

(c) any right to vote with holders of shares of any other series or class and any right to vote as a class, either generally or as a condition to specified corporate action;

(d) the price at and the terms and conditions on which shares may be redeemed;

(e) the amount payable upon shares in event of involuntary liquidation;

(f) the amount payable upon shares in event of voluntary liquidation;

(g) any sinking fund provisions for the redemption or purchase of shares; and

(h) the terms and conditions on which shares may be converted, if the shares of any series are issued with the privilege of conversion.

The shares of all series of Serial Preferred Stock shall be identical except as, within the limitations set forth above in this Section 1, shall have been fixed and determined by the Board of Directors prior to the issuance thereof.

2. Dividends. The holders of the Serial Preferred Stock of each series shall be entitled to receive, if and when declared payable by the Board of Directors, dividends at the dividend rate for such series, and not exceeding such rate except to the extent of any participation right. Such dividends shall be payable on such dates as shall be fixed for such series. Dividends, if cumulative and in arrears, shall not bear interest.

No dividends shall be declared or paid upon or set apart for the Common Stock or for stock of any other class hereafter created ranking junior to the Serial Preferred Stock in respect of dividends or assets (hereinafter called Junior Stock), and no shares of Serial Preferred Stock, Common Stock or Junior Stock shall be purchased, redeemed or otherwise reacquired for a consideration, nor shall any funds be set aside for or paid to any sinking fund therefor, unless and until (i) full dividends on the outstanding Serial Preferred Stock at the dividend rate or rates therefor, together with the full additional amount required by any participation right, shall have been paid or declared and set apart for payment with respect to all past dividend periods, to the extent that the holders of the Serial Preferred Stock are entitled to dividends with respect to any past dividend period, and the current dividend period, and
(ii) all mandatory sinking fund payments that shall have become due in respect of any series of the Serial Preferred Stock shall have been made. Unless full dividends with respect to all past dividend periods on the outstanding Serial Preferred Stock at the dividend rate or rates therefor, to the extent that holders of the Serial Preferred Stock are entitled to dividends with respect to any particular past dividend period, together with the full additional amount required by any participation right, shall have been paid or declared and set apart for payment and all mandatory sinking fund payments that shall have become due in respect of any series of the Serial Preferred Stock shall have been made, no distributions shall be made to the holders of the Serial Preferred Stock of any series unless distributions are made to the holders of the Serial Preferred Stock of all series then outstanding in proportion to the aggregate amounts of the deficiencies in payments due to the respective series, and all payments shall be applied, first, to dividends accrued and in arrears, next, to any amount required by any participation right, and, finally, to mandatory sinking fund payments. The terms "current dividend period" and "past dividend period" mean, if two or more series of Serial Preferred Stock having different dividend periods are at the time outstanding, the current dividend period or any past dividend period, as the case may be, with respect to each such series.

3. Preference on Liquidation. In the event of any liquidation, dissolution or winding up of the Corporation, the holders of the Serial Preferred Stock of each series shall be entitled to receive, for each share thereof, the fixed liquidation price for such series, plus, in case such liquidation, dissolution or winding up shall have been voluntary, the fixed liquidation premium for such series, if any, together in all cases with a sum equal to all dividends accrued or in arrears thereon and the full additional amount required by any participation right, before any distribution of the assets shall be made to holders of the Common Stock or Junior Stock; but the holders of the Serial Preferred Stock shall be entitled to no further participation in such distribution. If, upon any such liquidation, dissolution or winding up, the assets distributable among the holders of the Serial Preferred Stock shall be insufficient to permit the payment of the full preferential amounts aforesaid, then such assets shall be distributed among the holders of the Serial Preferred Stock then outstanding ratably in proportion to the full preferential amounts to which they are respectively entitled. For the purposes of this Section 3, the expression "dividends accrued or in arrears" means, in respect of each share of the Serial Preferred Stock of any series at a particular time, an amount equal to the product of the rate of dividend per annum applicable to the shares of such series multiplied by the number of years and any fractional part of a year that shall have elapsed from the date when dividends on such shares became cumulative to the particular time in question less the total amount of dividends actually paid on the shares of such series or declared and set apart for payment thereon; provided, however, that, if the dividends on such shares shall not be fully cumulative, such expression shall mean the dividends, if any, cumulative in respect of such shares for the period stated in the articles of serial designation creating such shares less all dividends paid in or with respect to such period.

B. Common Stock

1. Subject to the provisions of law and the rights of holders of shares at the time outstanding of Serial Preferred Stock, the holders of Common Stock at the time outstanding shall be entitled to receive such dividends at such times and in such amounts as the Board of Directors may deem advisable.

2. In the event of any liquidation, dissolution or winding up (whether voluntary or involuntary) of the Corporation, after the payment or provision for payment in full for all debts and other liabilities of the Corporation and all preferential amounts to which the holders of shares at the time outstanding of Serial Preferred Stock shall be entitled, the remaining net assets of the Corporation shall be distributed ratably among the holders of the shares at the time outstanding of Common Stock.

3. The holders of Common Stock shall be entitled to one vote per share on all matters as to which a stockholder vote is taken.

ARTICLE IV

No holder of capital stock of the Corporation of any class shall have any preemptive right to subscribe to or purchase (i) any shares of capital stock of the Corporation, (ii) any securities convertible into such shares or (iii) any options, warrants or rights to purchase such shares or securities convertible into any such shares.

ARTICLE V

The number of directors shall be fixed by the By-Laws or, in the absence of a By-Law fixing the number, the number shall be three.

ARTICLE VI

1. In this Article:

(a) "eligible person" means a person who is or was a director, officer or employee of the Corporation or a person who is or was serving at the request of the Corporation as a director, trustee, partner, officer or employee of another corporation, affiliated corporation, partnership, joint venture, trust, employee benefit plan or other enterprise. A person shall be considered to be serving an employee benefit plan at the Corporation's request if his duties to the Corporation also impose duties on, or otherwise involve services by, him to the plan or to participants in or beneficiaries of the plan;

(b) "expenses" includes, without limitation counsel fees;

(c) "liability" means the obligation to pay a judgment, settlement, penalty, fine (including any excise tax assessed with respect to an employee benefit plan), or reasonable expenses incurred with respect to a proceeding;

(d) "party" includes, without limitation, an individual who was, is, or is threatened to be made a named defendant or respondent in a proceeding; and

(e) "proceeding" means any threatened, pending, or completed action, suit, or proceeding whether civil, criminal, administrative, or investigative and whether formal or informal.

2. To the full extent that the Virginia Stock Corporation Act, as it exists on the date hereof or as hereafter amended, permits the limitation or elimination of the liability of directors, officers or other eligible persons, no director or officer of the corporation or other eligible person made a party to any

proceeding shall be liable to the Corporation or its stockholders for monetary damages arising out of any transaction, occurrence or course of conduct, whether occurring prior or subsequent to the effective date of this Article.

3. To the full extent permitted by the Virginia Stock Corporation Act, as it exists on the date hereof or as hereafter amended, the Corporation shall indemnify any person who was or is a party to any proceeding, including a proceeding brought by or in the right of the Corporation or brought by or on behalf of stockholders of the Corporation, by reason of the fact that such person is or was an eligible person against any liability incurred by him in connection with such proceeding. To the same extent, the Corporation is empowered to enter into a contract to indemnify any eligible person against liability in respect of any proceeding arising from any act or omission, whether occurring before or after the execution of such contract.

4. The termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not of itself create a presumption that the eligible person did not meet any standard of conduct that is or may be a prerequisite to the limitation or elimination of liability provided in Section 2 or to his entitlement to indemnification under
Section 3 of this Article.

5. The Corporation shall indemnify under Section 3 of this Article any eligible person who prevails in the defense of any proceeding. Any other indemnification under Section 3 of this Article (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification is proper in the circumstances because the eligible person has met any standard of conduct that is a prerequisite to his entitlement under Section 3 of this Article.

The determination shall be made:

(a) by the Board of Directors by a majority vote of a quorum consisting of directors not at the time parties to the proceeding;

(b) if a quorum cannot be obtained under clause (a) of this Section 5, by majority vote of a committee duly designated by the Board of Directors (in which designation directors who are parties may participate), consisting solely of two or more directors not at the time parties to the proceeding;

(c) by special legal counsel;

(i) selected by the Board of Directors or its committee in the manner prescribed in clause (a) or (b) of this Section 5; or

(ii) if a quorum of the Board of Directors cannot be obtained under clause (a) of this Section 5 and a committee cannot be designated under clause (b) of this Section 5, selected by a majority vote of the full Board of Directors, in which selection directors who are parties may participate; or

(d) by the holders of Common Stock, but shares owned by or voted under the control of directors who are at the time parties to the proceeding may not be voted on the determination.

Authorization of indemnification and evaluation as to reasonableness of expenses shall be made in the same manner as the determination that indemnification is appropriate, except that if the determination is made by special legal counsel, such authorizations and evaluations shall be made by those entitled under clause (c) of this Section 5 to select counsel.

Notwithstanding the foregoing, in the event there has been a change in the composition of a majority of the Board of Directors after the date of the alleged act or omission with respect to which indemnification, an

advance or reimbursement is claimed, any determination as to such indemnification, an advance or reimbursement is claimed, any determination as to such indemnification, advance or reimbursement shall be made by special legal counsel agreed upon by the Board of Directors and the eligible person. If the Board of Directors and the eligible person are unable to agree upon such special legal counsel, the Board of Directors and the eligible person each shall select a nominee, and the nominees shall select such special legal counsel.

6. The Corporation may pay for or reimburse the reasonable expenses incurred by any eligible person (and for a person referred to in Section 7 of this Article) who is a party to a proceeding in advance of final disposition of the proceeding or the making of any determination under Section 3 if any such person furnishes the Corporation:

(a) a written statement, executed personally, of his good faith belief that he has met any standard of conduct that is a prerequisite to his entitlement to indemnification pursuant to Section 3 or 7 of this Article; and

(b) a written undertaking, executed personally or on his behalf, to repay the advance if it is ultimately determined that he did not meet such standard of conduct.

The undertaking required by clause (b) of this Section 6 shall be an unlimited general obligation but need not be secured and may be accepted without reference to financial ability to make repayment.

Authorizations of payments under this Section shall be made by the person specified in Section 5.

7. The Corporation is empowered to indemnify or contract to indemnify any person not specified in Section 3 of this Article who was, is or may become a party to any proceeding, by reason of the fact that he is or was an agent of or consultant to the Corporation, to the same or a lesser extent as if such person were specified as one to whom indemnification is granted in Section 3. The provisions of Sections 4, 5 and 6 of this Article, to the extent set forth therein, shall be applicable to any indemnification provided hereafter pursuant to this Section.

8. The provisions of this Article shall be applicable to all proceedings commenced after it becomes effective, arising from any act or omission, whether occurring before or after such effective date. No amendment or repeal of this Article shall impair or otherwise diminish the rights provided under this Article (including those created by contract) with respect to any act or omission occurring prior to such amendment or repeal. The Corporation shall promptly take all such actions and make all such determinations and authorizations as shall be necessary or appropriate to comply with its obligation to make any indemnity against liability, or to advance any expenses, under this Article and shall promptly pay or reimburse all reasonable expenses incurred by any eligible person or by a person referred to in Section 7 of this Article in connection with such actions and determinations or proceedings of any kind arising therefrom.

9. The Corporation may purchase and maintain insurance to indemnify it against the whole or any portion of the liability assumed by it in accordance with this Article and may also procure insurance, in such amounts as the Board of Directors may determine, on behalf of any eligible person (and for a person referred to in Section 7 of this Article) against any liability asserted against or incurred by him whether or not the Corporation would have power to indemnify him against such liability under the provisions of this Article.

10. Every reference herein to directors, officers, trustees, partners, employees, agents or consultants shall include former directors, officers, trustees, partners, employees, agents or consultants and their respective heirs, executors and administrators. The indemnification hereby provided and provided hereafter pursuant to the power hereby conferred by this Article shall not be exclusive of any other rights to which any person may be entitled, including any right under policies of insurance that may be purchased and maintained by the Corporation or others, with respect to claims, issues or matters in relation to which the Corporation would not have the power to indemnify such person under the provisions of this Article.

11. Nothing herein shall prevent or restrict the power of the Corporation to make or provide for any further indemnity, or provisions for determining entitlement to indemnity, pursuant to one or more indemnification agreements, By-Laws, or other arrangements (including without limitation, creation of trust funds or security interests funded by letters of credit or other means) approved by the Board of Directors (whether or not any of the directors of the Corporation shall be a party to or beneficiary of any such agreements, By-Laws or arrangements); provided, however, that any provision of such agreements, By-Laws or other arrangements shall not be effective if and to the extent that it is determined to be contrary to this Article or applicable laws of the Commonwealth of Virginia, but other provisions of any such agreements, By-Laws or other arrangements shall not be affected by any such determination.

12. Each provision of this Article shall be severable, and an adverse determination as to any such provision shall in no way affect the validity of any other provision.

ARTICLE VII

Except as otherwise required by the Virginia Stock Corporation Act, by the Articles of Incorporation, or by the Board of Directors acting pursuant to subsection C of (SS)13.1-707 of the Virginia Stock Corporation Act or any successor provision, the vote required to approve an amendment or restatement of these Articles of Incorporation, other than an amendment or restatement that amends or affects the shareholder vote required by the Virginia Stock Corporation Act to approve a merger, share exchange, sale of all or substantially all of the Corporation's property or the dissolution of the Corporation, shall be a majority of all votes entitled to be cast by each voting group entitled to vote on the amendment or restatement.

Dated: March 1, 1990

(nycs):\bernstei\annualme\articles.pm

EXHIBIT 4.11

EXECUTION COPY

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

5-YEAR LOAN AND GUARANTY AGREEMENT

Dated as of October 26, 1995

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 October 26, 1995

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.

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

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.

"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 Ratings Group 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
AA- and Aa3 (or higher)	0.0600%
A- and A3 or higher, but lower than AA- and Aa3	0.0750%
BBB and Baa2 or higher, but lower than A- and A3	0.1000%
Lower than BBB and Baa2	0.1750%;

provided that if no rating is available on any date of determination from Moody's Investors Service and Standard & Poor's Ratings Group 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 0.175%.

"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 Ratings Group 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
AA- and Aa3 (or higher)	0.0900%
A- and A3 or higher but lower than AA- and Aa3	0.1750%
BBB and Baa2 or higher, but lower than A- and A3	0.2750%
Lower than BBB and Baa2	0.3250%;

provided that if no rating is available on any date of determination from Moody's Investors Service and Standard & Poor's Ratings Group 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 0.325%.

"Applicable Lending Office" means, with respect to 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 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 percentage per annum equal to 0.1250%.

"Asset Disposition" means any sale, lease, transfer, 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 Disposition" shall not mean (i) any Disposition of Tobacco 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 June 30, 1995, 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 June 30, 1995, 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 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 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 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 to the order of any Lender, in substantially the form 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 Section 2.01.

"Base Rate" means, for any Interest Period or any 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 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.

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

"Business Day" means a day of the year on which banks 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, 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 2.01.

"Consolidated Tangible Assets" means all assets 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 six months ended June 30, 1995, 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 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.

"Domestic Lending Office" means, with respect to any 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 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 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 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) (A) the occurrence with respect to 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, or (B) the requirements of subsection (1) of Section 4043(b) of ERISA (without regard to subsection (2) of such section) are met with respect to a contributing sponsor, as defined in Section 4001(a)(13) of ERISA, of a Plan, and an event described in paragraph (9), (10), (11), (12) or (13) of Section 4043(c) of ERISA is reasonably expected to occur with respect to such Plan within the following 30 days; (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 4062(e) 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 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 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 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 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.

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

"Eurodollar Rate Reserve Percentage" of any Lender for 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 Section 6.01.

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

"Federal Funds Rate" means, for any period, a 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 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 six months ended June 30, 1995, then such new accounting principle shall not be used in the determination of Fixed 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.

"Guaranty" has the meaning specified in Section 8.01.

"Insufficiency" means, with respect to any Plan, the 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 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:

(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 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 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 Insufficiency of $25,000,000 or more.

"Major Subsidiary" means any subsidiary (a) more than 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 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 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, 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.

"Net Income Before Tax" means, for any accounting 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 six months ended June 30, 1995, 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%.

"1993 Loan Agreement" has the meaning specified in Section 3.05(a).

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

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

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

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

"Obligations" has the meaning specified in Section 8.01.

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

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

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

"Person" means an individual, partnership, corporation (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 Virginia corporation wholly owned by PM Companies.

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

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

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

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

"Single Employer Plan" means a single employer plan, 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 October 26, 2000, or the 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 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 Adjusted CD Rate Advance, a Base Rate Advance or a Eurodollar Rate Advance.

"Withdrawal Liability" shall have the meaning given such term under

Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Additional Definitions. For purposes 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 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 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 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 six months ended June 30, 1995, 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 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 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 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,

(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 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 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 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 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 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 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

(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 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 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.

(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 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 September 25, 1995 from the Agent to PM Companies, as amended from time to time.

SECTION 2.05. Reduction of the Commitments. (a) PM 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 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 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 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 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 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 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 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 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 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 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 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.

SECTION 2.08. Additional Interest on Eurodollar Rate Advances. Each Borrower shall pay to each Lender, so long as 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 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 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 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 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 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 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 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 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 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 reasonable judgment of such Lender, such change would be disadvantageous to such Lender.

SECTION 2.14. Sharing of Payments, Etc. If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of setoff, 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 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) 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 setoff) 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 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 June 30, 1995 (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 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 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 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.

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 of this Agreement. This Agreement shall not become effective 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 December 17, 1993 (the "1993 Loan Agreement") among PM Companies, the banks named therein and Citibank, as agent, and each of the Banks that is a party to the 1993 Loan Agreement hereby waives, upon execution of this Agreement, the five Business Days' notice required by Section 2.05(a) of the 1993 Loan Agreement relating to the termination of the commitments under the 1993 Loan Agreement; and

(b) PM Companies and its subsidiaries shall have satisfied all of their respective obligations under the 1993 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 Companies. PM Companies represents and warrants as follows:

(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).

(e) The consolidated balance sheet of PM Companies and its consolidated subsidiaries as at June 30, 1995 and the consolidated statements of earnings of PM Companies and its consolidated subsidiaries for the six 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 June 30, 1995, since June 30, 1995, there has been no material adverse change in such condition or operations.

(f) Except as disclosed in PM Companies' quarterly report on Form 10-Q for the quarter ended June 30, 1995, and its annual report on Form 10-K for the year ended December 31, 1994, 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 has occurred nor is any ERISA Event reasonably expected to occur with respect to any Major 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 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.

(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 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 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 L.L.P. (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 with respect to any Major Plan or any Significant Plan (other than a Significant Plan that has no Insufficiency) 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) on the date any records, documents or other information must be furnished to the PBGC with respect to any Plan pursuant to Section 4010 of ERISA, a copy of such records, documents and information (to the extent they have not previously been furnished to the Lenders).

(ix) 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;

(x) 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

(xi) 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 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 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, 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 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 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 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 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 (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 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 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 $500,000,000; 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 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 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 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 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 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 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 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 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 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 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 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 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 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 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 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 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 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 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 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, 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 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 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 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, 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 Setoff. 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 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 the validity of such setoff and application. The rights of each Lender under this
Section are in addition to other rights and remedies (including, without limitation, other rights of setoff) which such Lender may have.

SECTION 10.06. Binding Effect. This Agreement shall 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) 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 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 (subject to reduction at the sole discretion of PM Companies) 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 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 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 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, however, that (i) such Lender's obligations under this 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 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 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 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:

George R. Lewis Vice President and Treasurer

CITIBANK, N.A., as Agent

By:

Paolo de Alessandrini Managing Director

THE BANKS

Commitment:	
U.S. $416,666,666.67	CITIBANK, N.A. By: --- Paolo de Alessandrini Managing Director
U.S. $290,000,000.00	ABN AMRO BANK NV, NEW YORK BRANCH By: --- Title: By: --- Title:
U.S. $290,000,000.00	CHEMICAL BANK

By:
Title:

U.S. $290,000,000.00	CREDIT SUISSE By: --- Title: By: --- Title:

U.S. $290,000,000.00

THE DAI-ICHI KANGYO BANK, LTD. - NEW YORK BRANCH

By:

Title:

U.S. $290,000,000.00

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

By:

Title:

By:

Title:

U.S. $290,000,000.00

THE FUJI BANK, LIMITED

By:

Title:

U.S. $290,000,000.00

SANWA BANK LIMITED

By:

Title:

U.S. $290,000,000.00

SOCIETE GENERALE

By:

Title:

U.S. $193,333,333.33 BANQUE NATIONALE DE PARIS

NEW YORK BRANCH

By:

Title:

By:
Title:

BANQUE NATIONALE DE PARIS
GEORGETOWN BRANCH

By:

Title:

By:
Title:

U.S. $193,333,333.33

MIDLAND BANK PLC

By:

Title:

Philip Morris $8 billion, 5 year Facility 107900.5/NYL3

U.S. $193,333,333.33 THE MITSUBISHI TRUST AND BANKING CORPORATION, LOS ANGELES AGENCY

By:

Title:

U.S. $193,333,333.33 NATIONSBANK, N.A.

By:

Title:

U.S. $193,333,333.33 THE SAKURA BANK, LTD.

By:
Title:

U.S. $193,333,333.33 THE SUMITOMO BANK, LIMITED

NEW YORK BRANCH

By:

Title:

U.S. $193,333,333.33 THE TOKAI BANK, LIMITED

By:

Title:

U.S. $193,333,333.33

UNION BANK OF SWITZERLAND

By:

Title:

By:

Title:

U.S. $176,666,666.67

DRESDNER BANK AG NEW YORK
AND GRAND CAYMAN BRANCHES

By:
Title:

By:
Title:

U.S. $140,000,000.00 MORGAN GUARANTY TRUST

COMPANY OF NEW YORK

By:

Title:

U.S. $116,666,666.67 THE BANK OF TOKYO TRUST

CO.

By:

Title:

U.S. $110,000,000.00	ROYAL BANK OF CANADA By: --- Title:
U.S. $110,000,000.00	THE TORONTO-DOMINION BANK By: --- Title:
U.S. $100,000,000.00	COOPERATIEVE CENTRALE RAIFFEISEN-BOERENLEENBANK, B.A., "RABOBANK NEDERLAND" By: --- Title: By: --- Title:
U.S. $ 96,666,666.67	SWISS BANK CORPORATION, NEW YORK AND CAYMAN ISLANDS BRANCHES

By:
Title:

By:
Title:

U.S. $ 93,333,333.33	BANK OF AMERICA NT & SA By: --- Title:
U.S. $ 86,666,666.67	THE BANK OF NEW YORK

By:
Title:

U.S. $ 83,333,333.33	CANADIAN IMPERIAL BANK OF COMMERCE By: --- Title:
U.S. $ 83,333,333.33	BAYERISCHE HYPOTHEKEN - UND WECHSEL-BANK, AKTIENGESSELSCHAFT NEW YORK BRANCH

By:
Title:

By:
Title:

U.S. $ 76,666,666.67

BANCO BILBAO VIZCAYA, S.A.

By:

Title:

By:

Title:

U.S. $ 73,333,333.33

DAIWA BANK LIMITED

By:
Title:

U.S. $ 70,000,000.00

BANCA COMMERCIALE
ITALIANA-NEW YORK BRANCH

By:

Title:

By:

Title:

U.S. $ 70,000,000.00

BANCA NAZIONALE DEL LAVORO
S.P.A. - NEW YORK BRANCH

By:
Title:

By:
Title:

U.S. $ 70,000,000.00	BAYERISCHE LANDESBANK GIROZENTRALE, CAYMAN ISLANDS BRANCH By: --- Title: By: --- Title:
U.S. $ 70,000,000.00	DEUTSCHE GENOSSENSCHAFTSBANK By: --- Title: By: --- Title:
U.S. $ 70,000,000.00	FIRST INTERSTATE BANK OF CALIFORNIA

By:
Title:

By:
Title:

U.S. $ 70,000,000.00	ISTITUTO BANCARIO SAN PAOLO DI TORINO S.P.A. By: --- Title: By: --- Title:
U.S. $ 70,000,000.00	WACHOVIA BANK OF GEORGIA, N.A.

By:
Title:

U.S. $ 66,666,666.67 NATIONAL AUSTRALIA BANK

LIMITED

By:

Title:

U.S. $ 63,333,333.33	BANQUE PARIBAS By: --- Title: By: ---

Title:

U.S. $ 63,333,333.33

NORDDEUTSCHE LANDESBANK GIROZENTRALE NEW YORK BRANCH AND/OR CAYMAN ISLAND BRANCH

By:
Title:

By:
Title:

U.S. $ 60,000,000.00 THE CHASE MANHATTAN BANK,

N.A.

By:

Title:

U.S. $ 53,333,333.33

BANCA DI ROMA, NEW YORK BRANCH

By:

Title:

By:

Title:

U.S. $ 53,333,333.33

BANCA POPOLARE DI MILANO,
NEW YORK BRANCH

By:

Title: Anthony Franco

By:

Title: Fulvio Montanari

U.S. $ 53,333,333.33

BANK BRUSSELS LAMBERT,
NEW YORK BRANCH

By:
Title:

By:
Title:

U.S. $ 53,333,333.33

BERLINER BANK AG

By:

Title:

By:

Title:

U.S. $ 53,333,333.33

CARIPLO - CASSA DI
RISPARMIO DELLE PROVINCIE
LOMBARDE S.P.A.

By:

Title:

By:

Title:

U.S. $ 53,333,333.33

DEN DANSKE BANK
AKTIESELSKAB

By:

Title:

By:

Title:

U.S. $ 53,333,333.33

THE FIRST NATIONAL BANK OF
CHICAGO

By:
Title:

U.S. $ 53,333,333.33

LLOYDS BANK PLC.

By:

Title:

By:

Title:

U.S. $ 53,333,333.33

MELLON BANK N.A.

By:
Title:

U.S. $ 53,333,333.33 THE MITSUBISHI BANK, LIMITED

NEW YORK BRANCH

By:

Title:

U.S. $ 53,333,333.33	THE NORINCHUKIN BANK, NEW YORK BRANCH By: --- Title:
U.S. $ 53,333,333.33	SHAWMUT BANK CONNECTICUT, N.A. By: --- Title:
U.S. $ 53,333,333.33	SKANDINAVISKA ENSKILDA BANKEN CORPORATION By: --- Title:
U.S. $ 53,333,333.33	SUNTRUST BANK, ATLANTA

By:
Title:

U.S. $ 53,333,333.33	THE YASUDA TRUST AND BANKING COMPANY, LIMITED NEW YORK BRANCH By: --- Title:
U.S. $ 49,333,333.33	PNC BANK, NATIONAL ASSOCIATION By: --- Title:
U.S. $ 40,000,000.00	CREDIT LYONNAIS CAYMAN ISLAND BRANCH By: --- Title:
	CREDIT LYONNAIS NEW YORK BRANCH By: --- Title:
U.S. $ 40,000,000.00	THE FIRST NATIONAL BANK OF BOSTON

By:
Title:

U.S. $ 36,666,666.67	COMPAGNIE FINANCIERE DE CIC ET DE L'UNION EUROPEENNE By: --- Title: By: --- Title:
U.S. $ 36,666,666.67	INTERNATIONALE NEDERLANDEN BANK N.V., DUBLIN BRANCH By: --- Title: By: --- Title:
U.S. $ 33,333,333.33	BANKERS TRUST COMPANY

By:
Title:

U.S. $ 33,333,333.33	FIRST BANK NATIONAL ASSOCIATION By: ---

Title:

U.S. $ 33,333,333.33	FIRST HAWAIIAN BANK By: --- Title:
U.S. $ 33,333,333.33	GENERALE BANK, NEW YORK BRANCH By: --- Title: By: --- Title:
U.S. $ 33,333,333.33	THE INDUSTRIAL BANK OF JAPAN, LIMITED, NEW YORK BRANCH By: --- Title:
U.S. $ 33,333,333.33	THE LONG-TERM CREDIT BANK OF JAPAN, LIMITED By: --- Title:

U.S. $ 33,333,333.33	BANCA MONTE DEI PASCHI DI SIENA, NEW YORK BRANCH By: --- Title: By: --- Title:
U.S. $ 33,333,333.33	THE SUMITOMO TRUST & BANKING CO., LTD., LOS ANGELES AGENCY By: --- Title:
U.S. $ 33,333,333.33	UNIBANK A/S, NEW YORK BRANCH By: --- Title:
U.S. $ 33,333,333.33	WESTDEUTSCHE LANDESBANK GIROZENTRALE, NEW YORK BRANCH By: --- Title: By: --- Title:

U.S. $ 26,666,666.67

THE BANK OF NOVA SCOTIA

By:

Title:

U.S. $ 23,333,333.33

THE MITSUI TRUST & BANKING COMPANY LIMITED, NEW YORK BRANCH

By:

Title:

U.S. $ 20,000,000.00

SVENSKA HANDELSBANKEN

By:

Title:

By:

Title:

U.S. $ 16,666,666.67

BANCO EXTERIOR DE ESPANA

By:

Title:

U.S. $ 16,666,666.67

BANK AUSTRIA AKTIENGESELLSCHAFT

By:

Title:

U.S. $ 16,666,666.67	CHRISTIANIA BANK NEW YORK BRANCH By: --- Title:
U.S. $ 16,666,666.67	CREDIT COMMERCIAL DE FRANCE By: --- Title:
U.S. $ 16,666,666.67	CREDITANSTALT CORPORATE FINANCE, INC. By: ---

Title:

U.S. $ 16,666,666.67	DEN NORSKE BANK AS By: --- Title:
U.S. $ 16,666,666.67	THE NORTHERN TRUST COMPANY

By:
Title:

U.S. $ 16,666,666.67	RAIFFEISEN ZENTRALBANK OSTERREICH AKTIENGESELLSCHAFT By: --- Title:
U.S. $ 16,666,666.67	STANDARD CHARTERED BANK By: --- Title:
U.S. $ 16,666,666.67	THE TOYO TRUST & BANKING CO., LTD.

By:
Title:

U.S. $ 16,000,000.00	CRESTAR BANK By: --- Title:
U.S. $ 13,333,333.33	STATE STREET BANK & TRUST CO. By: ---

Title:

U.S. $ 10,000,000.00

FIRSTAR BANK MILWAUKEE, N.A.

By:

Title:

U.S. $ 7,333,333.33

CENTRAL FIDELITY NATIONAL BANK

By:
Title:

U.S. $ 7,333,333.33

M&I MARSHALL & ILSLEY BANK

By:

Title:

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 October 26, 1995 (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.

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 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 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 or 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. 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 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.

SECTION 6. Continuous Guaranty; Transfer of Note. 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:

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 October 26, 1995 (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 _____.

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:

Philip Morris $8 billion, 5 year Facility 107900.5/NYL3

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 October 26, 1995 (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.

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:

Philip Morris $8 billion, 5 year Facility 107900.5/NYL3

EXHIBIT C

ASSIGNMENT AND ACCEPTANCE

Dated _____, 199

Reference is made to the 5-Year Loan and Guaranty Agreement dated as of October 26, 1995 (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 obligations 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 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].*

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.

---

* If the Assignee is organized under the laws of a jurisdiction outside the United States.

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.

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]

Domestic Lending Office
(and address for notices):
[Address]

- --------

* This date should be no earlier than the date of acceptance by the Agent.

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
October 26, 1995 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 October 26, 1995 (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].

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].

---

* 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".

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, 1994, and in its quarterly report on Form 10-Q for the quarter ended June 30, 1995, 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,

Philip Morris $8 billion, 5 year Facility 107900.5/NYL3

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 October 26, 1995 (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.

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

Philip Morris $8 billion, 5 year Facility 107900.5/NYL3

EXHIBIT A

to the Opinion dated _____, 1995 of Shearman & Sterling

Banks

Philip Morris $8 billion, 5 year Facility 107900.5/NYL3

EXHIBIT B

to the Opinion dated _____, 1995 of Shearman & Sterling

Documents

Philip Morris $8 billion, 5 year Facility 107900.5/NYL3

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 October 26, 1995 (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:

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 October 26, 1995 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 October 26, 1995 (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.

Based upon the foregoing and upon such investigation as we have deemed necessary, we are of the opinion that the 5-Year Agrement 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,

EXHIBIT 10.24

Philip Morris Companies Inc.

1992 Compensation Plan For Non-Employee Directors

(as amended, and in effect, November 29, 1995)

SECTION 1. Purposes; Definitions.

The purposes of the Plan are (i) to assist the Company in promoting a greater identity of interest between the Company's non-employee directors and its shareholders; and (ii) to assist the Company in attracting and retaining non-employee directors by affording Participants an opportunity to share in the future successes of the Company. In addition, in accordance with Revenue Ruling 71-419, 1971-2 C.B. 220, the Plan is intended to afford any or all non-employee directors of the Company the option to defer the receipt of all or part of their Compensation until such future date as they may elect pursuant to the terms and conditions of the Plan.

For purposes of the Plan, the following terms are defined as set forth below:

a. "Account" means an unfunded deferred compensation account established by the Company pursuant to the Deferred Fee Program, consisting of one or more Subaccounts established in accordance with Section 3.2.2.

b. "Allocation Date" means any date on which an amount representing all or a part of a Participant's Compensation is to be credited to his or her Account pursuant to an effective deferral election. The Allocation Date for the Retainer Fee shall be the first day of each calendar quarter and for Meeting Fees shall be the first day of the month following the meeting.

c. "Beneficiary" means any person or entity designated as such in a current Election Form. If there is no valid designation or if no designated Beneficiary survives the Participant, the Beneficiary is the Participant's estate.

d. "Board" means the Board of Directors of the Company.

e. "Code" means the Internal Revenue Code of 1986, as amended from time to time.

f. "Common Stock" means the common stock, $1 par value, of the Company.

g. "Company" means Philip Morris Companies Inc., a corporation organized under the laws of the Commonwealth of Virginia, or any successor corporation.

h. "Compensation" means the sum of the Retainer Fee and the Meeting Fees payable by the Company to each Participant but shall not include any additional amount paid to a chairman of a committee for additional services.

i. "Date of Grant" means May 1 of each year (beginning May 1, 1992 and ending May 1, 2001) on which dates shares of Common Stock will be awarded in accordance with Section 4.

j. "Deferred Amount" means the amount (determined as a percentage of the Retainer Fee and the Meeting Fees) subject to a current deferral election.

k. "Deferred Fee Program" means the provisions of the Plan that permit Participants to defer all or part of their Compensation.

l. "Disability" means permanent and total disability as determined under procedures established by the Board for purposes of the Plan.

m. "Distribution Date" means the date designated by a Participant in accordance with Sections 3.4.1 and 3.4.2 for the commencement of payment of amounts credited to his or her Account.

n. "Election Date" means the date an Election Form is received by the Secretary of the Company.

o. "Election Form" means a valid Deferred Fee Program Initial Election Form or Modified Election Form properly completed and signed.

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

q. "Exchange Act" means the Securities Exchange Act of 1934, as from time to time amended.

r. "Extraordinary Distribution Request Date" means the date an Extraordinary Distribution Request Form is received by the Secretary of the Company.

s. "Extraordinary Distribution Request Form" means the Deferred Fee Program Extraordinary Distribution Request Form properly completed and executed by a Participant or Beneficiary who wishes to request an extraordinary distribution of amounts credited to his or her Account in accordance with
Section 3.4.3.

t. "Fair Market Value" means, as of any given date, the mean of the highest and lowest reported sales prices of the Common Stock as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on The New York Stock Exchange.

u. "Fund" means any one of the investment vehicles in which the trust fund established under the trust agreement, as amended from time to time, entered into by the Company in connection with the Profit-Sharing Plan, is invested.

v. "Meeting Fees" means the portion of a Participant's Compensation that is based upon his or her attendance at Board meetings and meetings of committees of the Board.

w. "Participant" means a member of the Board who satisfies the requirements of Section 2 and a Director Emeritus. For purposes of the Deferred Fee Program only, a Participant shall also include a person who was, but is no longer, a member of the Board as long as an Account is being maintained for his or her benefit.

aa. "Plan" means the Philip Morris Companies Inc. 1992 Compensation Plan for Non- Employee Directors.

bb. "Profit-Sharing Plan" means the Philip Morris Deferred Profit-Sharing Plan, effective as of January 1, 1956, as amended from time to time.

cc. "Retainer Fee" means the portion of a Participant's Compensation that is fixed and paid without regard to his or her attendance at meetings, but shall not include amounts credited to a Participant's account under the Philip Morris Companies Inc. Stock Unit Plan for Non-Employee Directors.

dd. "Retired Participant" means a person who is not a Participant who had amounts credited to his or her account under the Former Plan as of April 1, 1992.

ee. "Subaccount" means one of the bookkeeping accounts established within each Participant's Account in accordance with Section 3.2.2.

ff. "Transfer Election Date" means the date set forth on a Transfer Form.

gg. "Transfer Form" means a valid Deferred Fee Program Transfer Election Form completed and signed by a Participant or Beneficiary.

hh. "Trustee" means the trustee administering the Fund.

SECTION 2. Eligibility.

Each member of the Board who is not a full-time employee of the Company (or any corporation in which the Company owns, directly or indirectly, stock possessing at least (50%) of the total combined voting power of all classes of stock entitled to vote in the election of directors in such corporation) shall be eligible to receive an award in accordance with Section 4. In addition, each Participant shall be eligible to participate in the Deferred Fee Program.

SECTION 3. Deferred Fee Program.

3.1 Participation.

3.1.1 Deferral Elections.

A Participant may make a deferral election with respect to all or a part of his or her Compensation to be earned and payable thereafter by completing and executing an Election Form and submitting it to the Secretary of the Company. Any deferral election relating to Retainer Fees shall be in integral multiples of twenty-five percent (25%) of the Retainer Fee. Any deferral elections relating to Meeting Fees shall be one hundred percent (100%) of each Meeting Fee.

In accordance with the terms of the Plan, the Participant shall indicate on the Election Form:

a. the percentage of the Retainer Fee that he or she wishes to defer and whether Meeting Fees are to be deferred;

b. the Distribution Date;

c. whether distributions are to be in a lump sum, in installments or a combination thereof;

d. the Participant's Beneficiary or Beneficiaries; and

e. the Subaccounts to which the Deferred Amount is to be allocated.

A deferral election shall become effective with respect to a Participant's Retainer Fee accruing on and after the first day of the calendar quarter (and payable on the first day of the second calendar quarter) following the Election Date. A deferral election shall become effective with respect to a Participant's Meeting Fees accruing on and after the first day of the calendar month following the Election Date. A deferral election shall remain

in effect with respect to all future Compensation until a new deferral election made by the Participant in accordance with Section 3.1.2 or Section 3.1.3 becomes effective.

3.1.2 Change of Deferral Election.

A Participant may change his or her deferral election with respect to Compensation to be earned and payable thereafter by completing and executing a Modified Election Form and submitting it to the Secretary of the Company. A change to increase the amount of future Compensation to be deferred shall become effective with respect to a Participant's Retainer Fee accruing on and after the first day of the calendar quarter (and payable on the first day of the second calendar quarter) following the Election Date. A change to defer Meeting Fees shall become effective with respect to a Participant's Meeting Fees accruing on and after the first day of the calendar month following the Election Date. Subject to Section 3.1.3, a change to decrease the amount of future Compensation to be deferred shall become effective with respect to Compensation accruing on and after the later of (i) January 1 (and, with respect to Retainer Fees, payable on April 1) of the year following the Election Date or (ii) the first day of the second calendar quarter (and, with respect to Retainer Fees, payable on the first day of the third calendar quarter) following the Election Date. Notwithstanding the foregoing, to the extent any such change of a deferral election affects Subaccount D, it shall not become effective until the first day of the calendar month that is at least six months after the Election Date. Any amount credited to a Participant's Account prior to such effective date will continue to be subject to the provisions of the Participant's last valid Election Form.

3.1.3 Cessation of Deferrals.

A Participant may cease to defer future Compensation in the Deferred Fee Program by completing and executing a Modified Election Form, and submitting it to the Secretary of the Company. An election by a Participant to cease deferrals in the Deferred Fee Program shall become effective with respect to Compensation accruing on or after the later of (i) January 1 (and, with respect to Retainer Fees, payable on April 1) of the year following the Election Date or (ii) the first day of the second calendar quarter (and, with respect to Retainer Fees, payable on the first day of the third calendar quarter) following the Election Date; provided, however that to the extent such election affects Subaccount D, it shall not become effective until the first day of the calendar month that is at least six months after the Election Date. Any amounts credited to a Participant's Account prior to such effective date will continue to be subject to the provisions of the Participant's last valid Election Form.

3.1.4 Beneficiary Election Modification.

A Participant shall be permitted at any time to modify his or her Beneficiary election, effective as of the Election Date, by completing and executing a Modified Election Form and submitting it to the Secretary of the Company.

3.2 Investments.

3.2.1 Accounts.

The Company shall establish an Account for each Participant and for each Beneficiary to whom installment distributions are being made. On each Allocation Date, the Company shall allocate to each Participant's Account an amount equal to his or her Deferred Amount.

3.2.2 Subaccounts.

The Company shall establish within each Account one or more Subaccounts, which shall be credited with earnings and charged with losses, if any, on the same basis as the corresponding Fund, as the same may change from time to time, under the Profit-Sharing Plan; as of the date hereof, the Subaccounts are, respectively:

Subaccount A - a bookkeeping account whose value shall be based on a theoretical investment in the U.S. Obligations Fund of the Profit-Sharing Plan.

Subaccount B - a bookkeeping account whose value shall be based on a theoretical investment in the Equity Index Fund of the Profit-Sharing Plan.

Subaccount C - a bookkeeping account whose value shall be based on a theoretical investment in the Interest Income Fund of the Profit-Sharing Plan.

Subaccount D - a bookkeeping account whose value shall be based on a theoretical investment in the Philip Morris Stock Fund of the Profit-Sharing Plan.

Subaccount E - effective January 1, 1996, a bookkeeping account whose value shall be based on a theoretical investment in the Balanced Fund of the Profit- Sharing Plan.

Subaccount F - effective January 1, 1996, a bookkeeping account whose value shall be based on a theoretical investment in the International Equity Fund of the Profit-Sharing Plan.

Subaccount G - effective January 1, 1996 a bookkeeping account whose value shall be based on a theoretical investment in the Growth Equity Fund of the Profit-Sharing Plan.

To the extent additional funds are provided under the Profit-Sharing Plan, the Senior Vice President - Human Resources and Administration of the Company is authorized to establish corresponding Subaccounts under the Plan.

Subject to the provisions of Sections 3.2.3 and 3.2.4, on each Allocation Date, each Participant's Subaccounts shall be credited with an amount equal to the Deferred Amount designated by the Participant for allocation to such Subaccounts. Each Subaccount shall be credited with earnings and charged with losses as if the amounts allocated thereto had been invested in the corresponding Fund.

The value of any Subaccount at any relevant time shall be determined as if all amounts credited thereto had been invested in the corresponding Fund.

3.2.3 Investment Directions.

In connection with his or her initial deferral election, each Participant shall make an investment direction on his or her Initial Election Form with respect to the portion of such Participant's Deferred Amount that is to be allocated to a Subaccount. Any apportionment of Deferred Amounts (and of increases or decreases in Deferred Amounts) among the Subaccounts shall be in integral multiples of one percent (1%). An investment direction shall become effective with respect to any Subaccount, other than Subaccount D, on the first day of the calendar month following the Election Date. An investment direction shall become effective with respect to Subaccount D on the first day of the calendar month that occurs six months after the relevant Election Date. All investment directions shall be irrevocable and shall remain in effect with respect to all future Deferred Amounts until a new irrevocable investment direction made by the Participant in accordance with Section 3.2.4 becomes effective.

3.2.4 New Investment Directions.

A Participant may make a new investment direction with respect to his or her Deferred Amount only by completing and executing a Modified Election Form and submitting it to the Secretary of the Company. A new investment direction shall become effective with respect to any Subaccount, other than Subaccount D on the first day of the calendar month following the Election Date. A new investment direction shall become effective with respect to Subaccount D on the first day of the calendar month that is at least six months after the Election Date.

3.2.5 Investment Transfers.

A Participant or a Beneficiary (after the death of the Participant may transfer to one or more different Subaccounts all or a part (not less than one percent (1%)) of the amounts credited to a Subaccount by completing and executing a Transfer Form and submitting it to the Secretary of the Company. Any transfer of amounts among Subaccounts, other than a transfer to or from Subaccount D by a Participant who, at the time of requesting the transfer, is subject to Section 16 of the Exchange Act, shall become effective on the first day of the calendar month following the Transfer Election Date.

Any transfer to or from Subaccount D requested by a person who, at the time of requesting the transfer, is subject to Section 16 of the Exchange Act shall become effective on the first day of the calendar month that is at least six months after the Transfer Election Date.

3.3 [Intentionally Omitted]

3.4 Distributions.

3.4.1 Distribution Elections.

Each Participant shall designate on his or her Election Form one of the following dates as a Distribution Date with respect to amounts credited to his or her Account thereafter:

a. the first day of the calendar month following the date of the Participant's death;

b. the first day of the calendar month following the date of the Participant's Disability;

c. the first day of the calendar month following the date of termination of the Participant's service as a member of the Board;

d. the first day of a calendar month specified by the Participant which is at least six months after the Election Date; or

e. the earliest to occur of a, b, c or d.

A Distribution Date election shall become effective on the Election Date.

A Participant may request on his or her Election Form that distributions from his or her Account be made in (i) a lump sum, (ii) no more than one-hundred eighty (180) monthly, sixty (60) quarterly or fifteen (15) annual installments or (iii) a combination of (i) and (ii). Each installment shall be determined by dividing the Account balance by the number of remaining installments. If a Participant receives a distribution from a Subaccount on an installment basis, amounts remaining in such Subaccount before payment shall continue to accrue earnings and incur losses in accordance with the terms of
Section 3.2.2. Except as stated in the next paragraph, all distributions shall be made to the Participant.

If the Distribution Date is the first day of the month following the Participant's death or a fixed date which in fact occurs after the Participant's death or if at the time of death the Participant was receiving distributions in installments, the balance remaining in the Participant's Account shall be payable to his or her Beneficiaries as set forth on the

Participant's current Election Form or Forms. Upon the death of a Beneficiary who is receiving distributions in installments, the balance remaining in the Account of the Beneficiary shall be payable to his or her estate without interest.

All distributions to Beneficiaries shall be in a lump sum, without interest, except when the Distribution Date is the first day of the month following the Participant's death and the current Election Form or Forms specify installment payments.

All distributions shall be paid in cash and, except as provided in
Section 3.4.3, shall be deemed to have been made from each Subaccount pro rata.

3.4.2 Modified Distribution Elections.

A Participant may modify his or her election as to Distribution Date and distribution form with respect to Compensation to be earned and payable thereafter by completing and executing a modified Election Form and submitting it to the Secretary of the Company. No more than one such modification shall be permitted. Any modified Distribution Date or distribution form election shall become effective on the Election Date.

3.4.3 Extraordinary Distributions.

Notwithstanding the foregoing, a Participant or Beneficiary (after the death of the Participant) may request an extraordinary distribution of all or part of the amount credited to his or her Account because of hardship. A distribution shall be deemed to be "because of hardship" if such distribution is necessary to alleviate or satisfy an immediate and heavy financial need of the Participant.

A request for an extraordinary distribution shall be made by completing and executing an Extraordinary Distribution Request Form and submitting it to the Secretary of the Company. All extraordinary distributions shall be subject to approval by the Board.

The Extraordinary Distribution Request Form shall indicate:

a. the amount to be distributed from the Account;

b. the Subaccount(s) from which the distribution is to be made; and

c. the "hardship" requiring the distribution.

The amount of any extraordinary distribution shall not exceed the amount determined by the Board to be required to meet the immediate financial need of the applicant.

An extraordinary distribution shall be made with respect to amounts credited to each Subaccount, other than Subaccount D if the recipient is then subject to Section 16 of the Exchange Act and the extraordinary distribution is not incident to the recipient's ceasing to be a member of the Board, on the first day of the calendar month next following approval of the extraordinary distribution request by the Board. An extraordinary distribution, not incident to the Participant's ceasing to be a member of the Board, requested by a Participant who is then subject to Section 16 of the Exchange Act shall commence with respect to amounts credited to Subaccount D on the first day of the calendar month that is at least six months following the Extraordinary Distribution Request Date or, if later, the first day of the calendar month following approval of the extraordinary distribution request by the Board.

SECTION 4. Share Distribution.

4.1 Awards.

Each Participant who is not a Director Emeritus and who was not on January 1, 1990 a full- time employee of the Company or any corporation in which the Company owned, directly or indirectly, stock possessing at least (50%) of the total outstanding voting power of all classes of stock entitled to vote in the election of directors of such corporation shall be awarded on each Date of Grant that number of full shares of Common Stock equal to the lesser of (i) four hundred (400) or (ii) that number having an aggregate Fair Market Value on such Date of Grant nearest to but not exceeding one hundred percent (100%) of the Retainer Fee payable for the twelve-month period ending on the preceding April 30 (exclusive of the value of the Common Stock received by such Participant pursuant to the Plan).

4.2 Vesting of Shares.

The shares of Common Stock awarded pursuant to the Plan will be immediately vested and nonforfeitable. Subject to the requirements of Section 4.5, the shares awarded under the Plan may not be sold or transferred until six months after the Date of Grant.

4.3 Shareholder Rights.

On each Date of Grant, a Participant shall have all the rights of a shareholder with respect to shares of Common Stock awarded under the Plan on such date. Accordingly, the Participant will be entitled to vote the shares and receive dividends.

4.4 Shares Authorized.

Up to 200,000 shares of Common Stock may be awarded under the Plan. In the event of any merger, share exchange, reorganization, consolidation, recapitalization, stock dividend, stock split or other change in corporate structure affecting the Common Stock, appropriate

substitutions or adjustments shall be made to item (i) of Section 4.1 and in the aggregate number and kind of shares reserved for issuance under the Plan.

4.5 Regulatory Restrictions.

All certificates for shares of Common Stock or other securities delivered under the Plan shall be subject to such stock transfer orders and other restrictions as the Company may deem advisable under the rules, regulations and other requirements of the Company, any stock exchange upon which the Common Stock is then listed and any applicable Federal, state or foreign securities law, and the Company may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

SECTION 5. General Provisions.

5.1 Unfunded Plan.

It is intended that the Plan constitute an "unfunded" plan for deferred compensation. The Company may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan; provided, however, that, unless the Company otherwise determines, the existence of such trusts or other arrangements is consistent with the "unfunded" status of the Plan. Any liability of the Company to any person with respect to any grant under the Plan shall be based solely upon any contractual obligations that may be created pursuant to the Plan. No such obligation of the Company shall be deemed to be secured by any pledge of, or other encumbrance on, any property of the Company.

5.2 Rules of Construction.

Headings are given to the sections of the Plan solely as a convenience to facilitate reference. The reference to any statute, regulation, or other provision of law shall be construed to refer to any amendment to or successor of such provision of law.

5.3 Withholding.

No later than the date as of which an amount first becomes includible in the gross income of the Participant for Federal income tax purposes with respect to any participation under the Plan, the Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any Federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such amount.

5.4 Amendment.

The Plan may be amended by the Board, but no amendment shall be made that would impair prior Common Stock awards or the rights of a Participant to his or her Account without his

or her consent. Notwithstanding the foregoing, Section 4.1 shall not be amended more than once every six months, unless such amendment is required because of changes in the Code or ERISA. In addition, no amendment may become effective until shareholder approval is obtained if the amendment (i) except as expressly provided in the Plan, increases the aggregate number of shares of Common Stock that may be awarded under the Plan, (ii) materially increases the benefits accruing to Participants under the Plan or (iii) modifies the eligibility requirements for participation in the Plan.

5.5 Duration of Plan.

No Common Stock awards will be made pursuant to Section 4 after May 1, 2001 or at any time at which there are insufficient shares of Common Stock authorized under the Plan for such awards. There shall be no time limitation with respect to the Deferred Fee Program. The Board may terminate the Plan at any time, by appropriate action. Upon termination of the Plan, amounts then credited to each Account shall be paid in accordance with the Distribution Election then governing such Account or as otherwise provided in Section 3.4.1.

5.6 Assignability.

No Participant or Beneficiary shall have the right to assign, pledge or otherwise transfer any payments to which such Participant or Beneficiary may be entitled under the Plan other than by will or by the laws of descent and distribution or pursuant to a "qualified domestic relations order" (as defined by Title I of ERISA).

5.7 Construction.

The Plan shall be construed and interpreted in accordance with Virginia law. The Plan is intended to be construed so that participation in the Plan will be exempt from Section 16(b) of the Exchange Act pursuant to regulations and interpretations issued from time to time by the Securities and Exchange Commission.

EXHIBIT 10.25

Philip Morris Companies Inc.

Unit Plan For Incumbent Non-Employee Directors

(November 29, l995)

SECTION 1. Introduction

The Philip Morris Companies Inc. Unit Plan for Incumbent Non-Employee Directors provides for a Stock Unit Account, an Equity Index Account and an Interest Income Account for each Incumbent Director, the value of which will be paid to the Incumbent Director or, in the case of his or her death, a Beneficiary, upon such Incumbent Director's ceasing to be a Director after January 1, 1996.

SECTION 2. Definitions

For purposes of the Plan, the following terms are defined as set forth below:

a. "Account" means the Stock Unit Account, the Equity Index Account or the Interest Income Account, and "Accounts" means more than one of the Accounts.

b. "Beneficiary" means any person or entity designated as such in a current Beneficiary Designation Form on file with the Corporate Secretary of the Company. If there is no valid designation or if no designated Beneficiary survives the Participant, the Beneficiary is the Participant's estate.

c. "Beneficiary Designation Form" means a Plan Beneficiary Designation Form properly completed and signed.

d. "Board" means the Board of Directors of the Company.

e. "Common Stock" means the common stock, $1 par value, of the Company.

f. "Company" means Philip Morris Companies Inc., a corporation organized under the laws of the Commonwealth of Virginia, or any successor corporation.

g. "Director" means a person serving on the Board.

h. "Distribution Election Form" means a Plan Distribution and Special Transfer Election Form properly completed and signed.

i. "Equity Index Account" means the unfunded deferred compensation account established by the Company in accordance with Section 3 of the Plan.

j. "Equity Index Fund" means the Equity Index Fund of the Profit-Sharing

Plan.

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

l. "Interest Income Account" means the unfunded deferred compensation account established by the Company in accordance with Section 3 of the Plan.

m. "Interest Income Fund" means the Interest Income Fund of the Profit-Sharing Plan.

n. "Incumbent Director" means a Director on January 1, 1996 who is not entitled to receive a pension or similar benefit from the Company or any corporation in which the Company owns, or at any time owned, directly or indirectly, stock possessing at least fifty percent (50%) of the total combined voting power of all classes of stock entitled to vote; provided, however, if an Incumbent Director is eligible for a Pension Allowance (as defined in the Pension Plan) if he or she ceases to be a Director, he or she waives, before December 20, 1995, his or her right to such Pension Allowance.

O. "Participant" means an Incumbent Director, and a person who was, but is no longer, serving on the Board as long as an Account is being maintained for his or her benefit.

p. "Pension Plan" means the Pension Plan for Directors of Philip Morris Companies Inc.

q. "Philip Morris Stock Fund" means the Philip Morris Stock Fund of the Profit-Sharing Plan.

r. "Plan" means the Philip Morris Companies Inc. Unit Plan for Incumbent Non- Employee Directors.

s. "Profit-Sharing Plan" means the Philip Morris Deferred Profit-Sharing Plan, effective as of January 1, 1956, as amended from time to time.

t. "Stock Unit" means a notional entry that is the equivalent of one share of Common Stock.

u. "Stock Unit Account" means the unfunded deferred compensation account established by the Company in accordance with Section 3 of the Plan.

SECTION 3. Accounts

On January 1, 1996, the Company shall establish a Stock Unit Account for each Incumbent Director and shall credit thereto a number of Stock Units equal to that resulting from a theoretical investment of $_____ on December 29, 1995 in the Philip Morris Stock Fund; provided, however, if, before December 20, 1995, a Director shall have

elected to credit an amount, not in excess of $_____ in the aggregate, to one or both of the Equity Index Account and the Interest Income Account, the Company shall establish for each such Incumbent Director on January 1, 1996 such Accounts in the amounts specified and shall credit to a Stock Unit Account for such Incumbent Director that number of Stock Units equal to that resulting from a theoretical investment on December 29, 1995 in the Philip Morris Stock Fund of $_____, less the amounts credited to such other Accounts.

The Stock Unit Account shall be a bookkeeping account whose value shall be based on a theoretical investment in the Philip Morris Stock Fund.

The Equity Index Account shall be a bookkeeping account whose value shall be based on a theoretical investment in the Equity Index Fund of the Profit-Sharing Plan.

The Interest Income Account shall be a bookkeeping account whose value shall be based on a theoretical investment in the Interest Income Fund of the Profit-Sharing Plan.

Each Account shall be credited with earnings and charged with losses, if any, on the same basis as the corresponding Fund, as the same may be changed from time to time, under the Profit-Sharing Plan. The value of any Account at any relevant time shall be determined as if all amounts credited thereto had been invested in the corresponding Fund.

Except as provided in Section 4 below, no transfer shall be permitted among Accounts.

SECTION 4. Distribution and Special Transfer Election

Unless the Participant has filed a Distribution Election Form with the Corporate Secretary of the Company no later than one year and one day preceding the date he or she ceases to be a Director, the Participant's Accounts shall be distributed in a lump sum on the first day of the second month following the date the Participant ceases to be a Director.

A Participant may file a Distribution Election Form, which shall be irrevocable, providing that distribution from his or her Accounts may be made
(i) in no more than one-hundred eighty (180) monthly, sixty (60) quarterly or fifteen (15) annual installments or (ii) in a combination of a lump sum and installments. The first such payment shall be made on the first day of the second month following the date the participant ceases to be a Director. Each installment shall be determined by dividing the sum of the Account balances by the number of remaining installments. If a Participant is receiving distributions in installments, the Accounts shall continue to accrue earnings and incur losses in accordance with Section 3.

A Participant who elects a distribution in installments shall be entitled to make a special investment election on his or her Distribution Election Form pursuant to which

transfers from the Participant's Stock Unit Account will be made, effective the first day of the second month following the date the Participant ceases to be a Director, to an Equity Index Account or an Interest Income Account or both.

If a distribution occurs by reason of the Participant's death or, if at the time of death, the Participant was receiving distributions in installments, the balance remaining in the Participant's Accounts shall be payable to his or her Beneficiaries. All distributions to Beneficiaries shall be in a lump sum, without interest.

All distributions shall be paid in cash.

SECTION 5. Beneficiary Designation

A Participant may at any time file a Beneficiary Designation Form with the Corporate Secretary of the Company. Such Beneficiary Designation Form may be revoked or modified at any time by filing a new Beneficiary Designation Form.

SECTION 6. General Provisions

6.1 Unfunded Plan.

It is intended that the Plan constitute an "unfunded" plan for deferred compensation. The Company may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan; provided, however, that, unless the Company otherwise determines, the existence of such trusts or other arrangements is consistent with the "unfunded" status of the Plan. Any liability of the Company to any person with respect to any grant under the Plan shall be based solely upon any contractual obligations that may be created pursuant to the Plan. No such obligation of the Company shall be deemed to be secured by any pledge of, or other encumbrance on, any property of the Company.

6.2 Rules of Construction.

Headings are given to the sections of the Plan solely as a convenience to facilitate reference. The reference to any statute, regulation, or other provision of law shall be construed to refer to any amendment to or successor of such provision of law.

6.3 Withholding.

No later than the date as of which an amount first becomes includible in the gross income of the Participant or Beneficiary for Federal income tax purposes with respect to any participation under the Plan, the Participant or Beneficiary shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any Federal,

state, local or foreign taxes of any kind required by law to be withheld with respect to such amount.

6.4 Amendment.

The Plan may be amended by the Board, but no amendment shall be made that would impair the rights of a Participant to his or her Accounts without his or her consent.

6.5 Duration of Plan.

There shall be no time limitation with respect to the Plan. The Board may terminate the Plan at any time. Upon terminatian of the Plan, amounts credited to each Account shall be distributed in accordance with the Distribution Election Form applicable to each such Account or as otherwise provided in
Section 4.

6.6 Assignability.

No Participant or Beneficiary shall have the right to assign, pledge or otherwise transfer any payments to which such Participant or Beneficiary may be entitled under the Plan other than by will or by the laws of descent and distribution or pursuant to a "qualified domestic relations order" (as defined by Title I of ERISA).

6.7 Construction.

The Plan shall be construed and interpreted in accordance with Virginia law.

INITIAL ELECTION FORM
Philip Morris Companies Inc.
Unit Plan for Non-Employee Directors

(THIS FORM, DULY COMPLETED AND SIGNED, MUST BE RECEIVED
BY THE CORPORATE SECRETARY OF PHILIP MORRIS COMPANIES INC.

BEFORE DECEMBER 20, 1995)

THIS ELECTION IS IRREVOCABLE

To: The Corporate Secretary of Philip Morris Companies Inc.

In accordance with the terms of the Philip Morris Companies Inc. Unit Plan for Non-Employee Directors (the "Plan"), I am making the following election. Capitalized terms used in this form have the meanings assigned by the Plan.

I hereby elect to have the amount of $_____ allocated to the following Accounts:

$_____ Stock Unit Account (not less than $_____)

$_____ Equity Index Account

$_____ Interest Income Account

$

I UNDERSTAND THAT THIS ELECTION IS IRREVOCABLE AND THAT, EXCEPT IN CONNECTION WITH MY CEASING TO BE A DIRECTOR, I CANNOT MAKE TRANSFERS AMONG THE ACCOUNTS.

I acknowledge receipt of a copy of the Plan.

Dated:

(Signature)

(Print Name)

(Social Security Number)

DISTRIBUTION AND SPECIAL TRANSFER ELECTION FORM

Philip Morris Companies Inc.

Unit Plan for Incumbent Non-Employee Directors

THIS FORM, DULY COMPLETED AND SIGNED, MUST BE RECEIVED BY THE CORPORATE SECRETARY OF PHILIP MORRIS COMPANIES INC. AT LEAST ONE YEAR AND ONE DAY BEFORE THE PARTICIPANT CEASES TO BE A DIRECTOR.

To: The Corporate Secretary of Philip Morris Companies Inc.

In accordance with the terms of the Philip Morris Companies Inc. Unit Plan for Incumbent Non-Employee Directors (the "Plan"), I am making the following elections. Capitalized terms used in this form have the meanings assigned by the Plan.

THIS DISTRIBUTION ELECTION IS IRREVOCABLE.

I hereby elect to have my Accounts paid as follows:

(Check and complete only one of A or B.)

____A. In _____ (insert not more than 180 monthly, 60 quarterly or 15 annual) installments commencing the first day of the second month following my ceasing to be a Director;

or

____B. ____% in a lump sum upon the first day of the second month following my ceasing to be a Director and

____% in _____ (insert not more than 180 monthly, 60 quarterly or 15 annual) installments commencing the first day of

the second month following my ceasing to be a Director:

THIS SPECIAL TRANSFER ELECTION IS IRREVOCABLE.

Effective the second day of the month following my ceasing to be a Director, make the following transfers from my Stock Unit Account

____% to an Equity Index Account

____% to an Interest Income Account

I UNDERSTAND THAT THE ELECTIONS MADE ABOVE ARE IRREVOCABLE.

I acknowledge receipt of a copy of the Plan.

Dated:

(Signature)

(Print Name)

(Social Security Number)

Exhibit 10.26

EMPLOYEE GRANTOR TRUST ENROLLMENT AGREEMENT

This agreement, made the ____ day of _____, 1995, between
[Executive] (the "Employee"), the person, if any, to whom the Employee is legally married (the "Employee's Spouse"), and Philip Morris Companies Inc., ("Philip Morris") and those subsidiaries of Philip Morris, if any, that have also executed this agreement (collectively, the "Company"),

INTRODUCTION

The Company has established and maintains the Philip Morris Benefit Equalization Plan, Philip Morris Survivor Income Benefit Equalization Plan, Philip Morris Supplemental Management Employees' Retirement Plan, [and] Kraft Foods Supplemental Benefits Plan, [and (name of any other relevant supplemental retirement arrangement)] (the "Supplemental Plans"), which are designed to provide benefits supplemental to those provided under the tax-qualified retirement plans maintained by the Company (the "Qualified Plans"). The Employee is entitled to certain benefits under one or more of the Supplemental Plans.

The Employee and the Company desire to enter into this Agreement pursuant to which the Employee directs the Company to deposit certain cash compensation payments on behalf of the Employee directly into a grantor trust to be established and maintained by the Employee, which amounts will be in lieu of benefits payable under the Supplemental Plans;

In consideration of their mutual undertakings, the Company, the Employee, and the Employee's Spouse agree as follows:

I. Establishment and Maintenance of Grantor Trust

1.1 The Employee agrees to establish and maintain an irrevocable grantor trust (the "Trust") in the form attached hereto as Exhibit A for the purpose of receiving and holding the cash deposits made pursuant to this Agreement and any interest or other earnings on the outstanding balances in the Trust.

1.2 The Employee and the Employee's Spouse agree that they will not contribute any additional funds to the Trust and will withdraw funds only in accordance with the terms of the Supplemental Plans, except to the extent that Trust withdrawals are necessary to pay taxes on Trust earnings or cash deposits.

II. Payments to Trust

2.1 The Company agrees to make available to the Employee $[insert sum of trust contribution and tax payments] (the "Funding Payment"), as of [month, day, year] and the Employee directs the Company to (a) deduct federal, state and local income and employment taxes from the Funding Payment and remit such taxes to the appropriate authorities; and (b) pay the remainder of the Funding Payment into the Trust in cash.

2.2 The Company may, from time to time, make available to the Employee additional funding payments. Unless the Employee terminates this Agreement pursuant to Section 7.2 prior to the time such additional funding payments are to be paid into the Trust, the Employee directs the Company to (a) deduct federal, state and local income and employment taxes from such additional

funding payments and remit such taxes to the appropriate authorities; and (b) pay the remainder of such additional funding payments into the Trust.

III. Distributions from Trust, Benefit Payments

3.1 The Employee and the Employee's Spouse agree that any amounts paid from the Trust including any Trust earnings (other than any amounts distributed to pay taxes on Trust earnings) shall offset the benefits otherwise payable to them under the Supplemental Plans. For purposes of calculating this offset, the amount otherwise payable under the Supplemental Plans at the relevant time to the Employee or his Beneficiary(ies) will be converted to an after-tax amount (the "After-Tax Benefit") using the tax assumptions set forth in Exhibit B. The amount of any Trust distribution shall offset the amount of the After-Tax Benefit and shall discharge the Company's liability to the Employee, the Employee's Spouse and his Beneficiary(ies) to the extent of the corresponding pre-tax benefit otherwise payable under the Supplemental Plans.

3.2 If the amount of the Trust distribution is less than the After-Tax Benefit, the difference between the amount of the Trust distribution and the After-Tax Benefit shall be converted to a pre-tax amount (the "Additional Pre-Tax Benefit") based on the tax assumptions set forth in Exhibit B, and the Company shall pay an amount equal to the Additional Pre-Tax Benefit to the Employee or his Beneficiary(ies), from the Company's general assets in satisfaction of the Company's remaining obligations under the Supplemental Plans.

3.3 The Employee and the Employee's Spouse understand and agree that to the extent funds in the Trust are distributed to either of them in amounts greater than, or at times earlier than, those contemplated by the benefit payment provisions of the Supplemental Plans and by Sections 3.1 and 3.2 hereof,
(a) the offsets against any amounts otherwise payable under the Supplemental Plans will be calculated in the manner set forth in Section 6.1 as if the amounts so distributed had remained in the Trust, accumulated earnings, and been distributed at the proper time; and (b) such offsets will discharge the Company's liability in the same manner as set forth in such Section 6.1.

IV. Tax Payments With Respect to Trust Earnings

The Company may make payments on behalf of the Employee (or his Beneficiary(ies)) to tax authorities to pay the federal, state and local income taxes with respect to any earnings of the Trust and any income and employment taxes as a result of the Company's payment of the Employee's taxes under this Article IV. To the extent that the Company does not make payments sufficient (using the assumptions set forth in Exhibit B) to pay such taxes, Trust income will be distributed to provide any additional amounts required for such purpose.

V. Appointment of Philip Morris as Agent

5.1 The Employee appoints Philip Morris and such persons as may be designated to act on behalf of Philip Morris as his duly authorized agent for the following purposes: (a) providing, in accordance with the duties of the "Administrator" as set forth in the form of Trust Agreement attached as Exhibit A, investment

guidelines and other information and direction to the trustee of the Trust;
(b) removing the trustee and appointing a successor trustee of the Trust; (c) examining the books and records of the Trust; and (d) amending and terminating the Trust.

5.2 The Employee's appointment of Philip Morris as his agent is based on the Employee's special trust and confidence in Philip Morris and its management. In the event of a Change of Control (as defined in Section 8.5) of Philip Morris, the Employee (or, if applicable, his Beneficiary (ies)) may remove Philip Morris (or its successor) as the duly authorized agent for purposes of carrying out the actions set forth in Section 5.1 by delivering to both Philip Morris (or its successor) and the trustee of the Trust, within any period of two days, written notice of such removal. The trustee shall not be required to verify that there has been a Change of Control of Philip Morris and shall be entitled to rely upon the Employee's notice of removal unless Philip Morris provides to the trustee (within 10 days following the trustee's receipt of the notice of removal from the Employee) written notice certifying that no Change of Control has occurred. From and after the date on which Philip Morris (or its successor) ceases to serve as the duly authorized agent, the offsets against the Company's obligations to the Employee and the Employee's Spouse or Beneficiary(ies) under the Supplemental Plans shall be determined by assuming
(a) that the value of Trust assets last reported by the trustee to Philip Morris (or its successor) prior to such date is accumulated with earnings at the rate specified in the second sentence of Section 6.1 (treating the immediately preceding

December as the date for determining such rate) and (b) that all subsequent distributions from the Trust occur at the proper times and in the proper amounts.

VI. Attachment of Trust Assets

6.1 The Employee understands and agrees that in the event all or a portion of the funds in the Trust are attached by court order or other legal process or are otherwise alienated, the offset against any amounts otherwise payable under the Supplemental Plans will be calculated as if the amount so alienated remained in the Trust, had accumulated with earnings at the same rate as amounts that actually remain in the Trust, was distributed at the proper time, and was or is to be offset against benefits otherwise payable from the Supplemental Plans before any remaining Trust assets were or are distributed. To the extent that for any calendar year or portion thereof no assets remain in the Trust, the amounts so alienated shall be deemed to earn interest at the annual interest rate on 30-year Treasury securities (within the meaning of Internal Revenue Code section 417(e)(3)) for the month of December preceding the first year in which no assets remain in the Trust, reduced by estimated federal, state and local income taxes on the deemed earnings using the tax assumptions set forth in Exhibit B. The Employee agrees that the value of any amounts so alienated, and the earnings that would have accumulated thereon, shall be offset against a like amount of After-Tax Benefit, and shall discharge the Company's liability to the Employee to the extent of the corresponding pre-tax benefit

otherwise payable to the Employee or his Beneficiary(ies) under the Supplemental Plans.

6.2 The Employee's Spouse understands and agrees that should any amounts under the Trust be assigned to her under a domestic relations order or otherwise, the offset against any amounts otherwise payable under the Supplemental Plans will be calculated in the manner set forth in Section 6.1 as if the amount so alienated had remained in the Trust, accumulated earnings, and been distributed at the proper time. The Employee's Spouse agrees that if she also claims entitlement to benefits under the Supplemental Plans, the value of the amount alienated under the Trust, and the earnings that would have accumulated thereon absent such alienation, shall be offset against a like amount of After-Tax Benefit, and shall discharge the Company's liability to the Employee and the Employee's Spouse to the extent of the corresponding pre-tax benefit otherwise payable to the Employee or the Employee's Spouse under the Supplemental Plans.

VII. Termination

7.1 This Enrollment Agreement shall terminate 30 days after the date the Trust terminates.

7.2 Notwithstanding the above, during the lifetime of the Employee, this Enrollment Agreement may be terminated at any time by the Company or the Employee by providing 30 days written notice to all parties. Any such termination shall operate on a prospective basis only and shall not operate to release the funds already in the Trust or to otherwise alter the application of the terms of this Enrollment Agreement to such funds.

VIII. Miscellaneous

8.1 Nothing in this Agreement shall be construed to confer upon the Employee the right to continue in the employment of the Company, or to require the Company to continue the employment of the Employee.

8.2 This Agreement shall be binding upon and inure to the benefit of the Company, it successors and assigns and the Employee or his Beneficiary(ies) and the Employee's Spouse and their heirs, executors, other successors in interest, administrators, and legal representatives.

8.3 The validity and interpretation of this Agreement shall be governed by the laws of the State of New York.

8.4 The Employee's Beneficiary(ies) shall be determined in accordance with the terms of the trust agreement pursuant to which the Trust is maintained.

8.5 Change of Control. For the purpose of this Agreement, a "Change of Control" shall mean:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) of 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (i) the then outstanding shares of common stock of Philip Morris (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then outstanding voting securities of Philip Morris entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however,

that the following acquisitions shall not constitute a Change of Control:
(i) any acquisition directly from Philip Morris; (ii) any acquisition by Philip Morris, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by Philip Morris or any corporation controlled by Philip Morris or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection
(c) of this Section 8.5; or

(b) Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by Philip Morris's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) Approval by the shareholders of Philip Morris of a reorganization, merger, share exchange or consolidation (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners,

respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 80% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, or (ii) no Person (excluding any employee benefit plan (or related trust) or Philip Morris or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) Approval by the shareholders of Philip Morris of (i) a complete liquidation or dissolution of Philip Morris or (ii)

the sale or other disposition of all or substantially all of the assets of Philip Morris, other than to a corporation, with respect to which following such sale or other disposition, (A) more than 80% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as their ownership, immediately prior to such sale or other disposition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) less than 20% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by any Person (excluding any employee benefit plan (or related trust) of Philip Morris or such corporation), except to the extent that such Person owned 20% or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities prior to the sale or disposition and (C) at least a majority of the members of the board of directors of such corporation were members of the Incumbent Board at the time of the execution of the initial

agreement, or of the action of the Board, providing for such sale or other disposition of assets of Philip Morris or were elected, appointed or nominated by the Board; or

(e) the entry of an order for relief against Philip Morris issued pursuant to any chapter of the United States Bankruptcy Code, as amended.

IN WITNESS WHEREOF, the Employee, the Employee's Spouse, [and] Philip Morris [and Subsidiary] have caused this Agreement to be executed as of the day and year first above written.

Attest:

- ----------

Signature of Employee

Attest:

- ----------

Signature of Employee's Spouse

Attest:

Philip Morris Companies Inc.

By:

- ----------

Attest:

[Subsidiary]

By:

- ----------

EXHIBIT B

Tax Assumptions

Federal income tax rate: the highest marginal Federal income tax rate as adjusted for the Federal deduction of state and local taxes and the phase out of Federal deductions under current law (or as adjusted under any subsequently enacted similar provisions of the Internal Revenue Code).

State income tax rate: the highest adjusted marginal state income tax rate based on the Employee's or Beneficiary's state of residence.

Local income tax rate: the highest adjusted marginal local income tax rate based on the Employee's or Beneficiary's locality of residence.

Exceptions: While the Employee is actively employed, the state and local tax rate assumptions used to determine the appropriate deduction from a Funding Payment for state and local taxes, and the appropriate amount of such taxes on Company payments to provide for the taxes due on earnings of the Trust, will generally be based on the Employee's work location rather than his residence. With respect to New York City tax, however, status as a non-resident will be taken into account.

EXHIBIT A

EMPLOYEE GRANTOR TRUST AGREEMENT

THIS TRUST AGREEMENT made the _____ day of _____, 1995 between [EXECUTIVE'S NAME] (hereinafter called the Grantor) and MORGAN GUARANTY TRUST COMPANY OF NEW YORK (hereinafter called the Trustee),

W I T N E S S E T H T H A T:

WHEREAS, the Grantor desires to establish and maintain a trust (hereinafter referred to as the "Trust Fund") to hold certain cash payments actually or constructively received by the Grantor in lieu of certain future payments the Grantor would otherwise be entitled to receive from Philip Morris Companies Inc. (hereinafter referred to singularly as "Philip Morris") or its subsidiaries (Philip Morris and its subsidiaries being collectively hereinafter referred to as the "Companies") pursuant to the terms of the nonqualified supplemental benefit plans specified in Schedule A annexed hereto (hereinafter referred to as the Plans); and

WHEREAS, the Grantor has entered into certain agreements with the Companies specifying the manner and extent to which amounts he will receive as payments from the Trust Fund reduce the payments he would otherwise be entitled to receive pursuant to the terms of the Plans or from other arrangements with the Companies; and

WHEREAS, the Grantor has appointed Philip Morris to act as his agent in connection with certain matters pertaining to the administration of the Trust Fund;

NOW, THEREFORE, in consideration of the premises and covenants herein contained, the Grantor hereby conveys and assigns to the Trustee, and the successors or assigns of the Trustee, the sum of _____ dollars ($_____), the receipt of which is hereby acknowledged by the Trustee, to have and to hold the said sum together with any additions thereto upon the following express trust and with the powers, authorities and discretions hereinafter conferred:

ARTICLE I

Introduction

I. (1). Name. This agreement and the trust hereby evidenced may be

referred to as the "[Executive's Name] Employee Grantor Trust."

I. (2). The Trust Fund. The "Trust Fund" as at any date means all property then held by the Trustee under this agreement.

I. (3). Status of the Trust. The trust shall be irrevocable until such time as the Grantor (or, in the event of the Grantor's death, the Grantor's Beneficiaries, as defined in Section VI. (8). below) and the Administrator provide written certification to the Trustee that all obligations of the Companies to the Grantor and his Beneficiaries have been satisfied. The trust is intended to

constitute a grantor trust under which the Grantor is treated as grantor and owner pursuant to Sections 671 - 678 of the Internal Revenue Code of 1986, as amended, and shall be construed accordingly. Neither the Companies nor any person other than the Grantor and, in the event of the Grantor's death, the Grantor's Beneficiaries, and the Trustee acting as such, have any right, title or interest in the assets of the Trust Fund.

I. (4). The Administrator. Philip Morris shall be the "Administrator" for purposes of this Trust and shall have certain powers, rights and duties under this agreement as described below; provided that, Philip Morris may from time to time designate a person or persons to act as the Administrator on its behalf or to carry out certain duties of the Administrator. Philip Morris will certify to the Trustee from time to time the person or persons authorized to act on behalf of Philip Morris as the Administrator. The Trustee may rely on the latest certificate received without further inquiry or verification. Notwithstanding any provision herein, in the event of a Change of Control of Philip Morris (as defined in the most recently executed Employee Grantor Trust Enrollment Agreement entered into by Philip Morris and the Grantor), the Grantor may remove Philip Morris (or its successor) and any designee of Philip Morris as Administrator by delivering to both Philip Morris (or its successor) and the Trustee within any period of two days written notice of such removal. The Trustee may rely upon any notice of

removal received from the Grantor without further inquiry or verification, unless Philip Morris (or its successor) provides to the Trustee (within 10 days following the Trustee's receipt of the notice of removal from the Grantor) written notice certifying that no change in control has occurred. In the event the Grantor removes Philip Morris as Administrator, the Grantor shall appoint a successor Administrator, who may be the Grantor, a committee of persons including the Grantor, or such other person or persons as shall be reasonably acceptable to the Trustee, and shall notify the Trustee of the appointment. In such event, the Grantor shall also have the authority to, from time to time, remove the person or persons so appointed and appoint such other person or persons as shall be reasonably acceptable to the Trustee.

I. (5). Acceptance. The Trustee accepts the duties and obligations of the "Trustee" hereunder, agrees to accept funds delivered to it on behalf of the Grantor, and agrees to hold such funds (and any proceeds from the investment of such funds) in trust in accordance with this agreement; provided that the Trustee reserves the right to determine whether to accept the transfer of any property other than cash proposed to be transferred to it.

ARTICLE II

Distribution of the Trust Fund

II. (1). The Trustee shall hold, manage, invest and reinvest the Trust Fund, shall collect the income therefrom and, after deducting all proper charges, shall pay or apply to or for the benefit of the Grantor (or, in the event of the Grantor's death, the Grantor's Beneficiaries) so much, including all, of the net income and principal of the Trust Fund as is set forth in a schedule of payments provided to the Trustee by the Administrator. The Administrator shall be responsible for providing the Trustee with all necessary information as to the Grantor's current address, beneficiary designations, and the form in which and time at which payments are to be made. The Trustee shall incur no liability to the Grantor or any other person interested in the Trust Fund for any action or any omission in reliance upon information provided by the Administrator.

II. (2). The Trustee shall also distribute to the Grantor at least annually such amount(s), if any, as the Administrator may certify to the Trustee is (are) necessary to pay tax obligations of the Grantor resulting from earnings on the Trust Fund or from additional amounts actually or constructively received by the Grantor from the Companies and contributed to the Trust Fund.

II. (3). All income not so paid or applied shall be accumulated and added to principal of the Trust Fund.

II. (4). This trust shall terminate on the first business day of the Trustee following the date ninety (90) days after receipt by the Trustee of written certification by the Grantor (or in the event of the Grantor's death, the Grantor's Beneficiaries) and the Administrator that all obligations of the Companies to the Grantor and his Beneficiaries have been satisfied, at which time the Trustee shall transfer and pay over the principal of the Trust Fund, together with any undistributed income on hand and accrued income, as then constituted to the Grantor, if living, or the Beneficiaries designated by the Grantor, in the event of his death.

ARTICLE III

The Trustee

III. (1). Any corporation resulting from any merger, conversion, reorganization or consolidation to which any corporation acting as Trustee hereunder shall be a party, or any corporation to which shall be transferred all or substantially all of any such corporation's trust business, shall be the successor of such corporation as Trustee hereunder, without the execution or filing of any instrument or the performance of any further act and shall have the same powers, authorities and discretions as though originally named in this Trust Agreement.

III. (2). The Trustee may resign by giving ninety (90) days' advance written notice to the Grantor and the

Administrator. The Administrator, as agent for the Grantor, may remove a Trustee by giving ninety (90) days advance written notice to the Trustee and the Grantor. The Administrator may appoint a successor Trustee by written notice signed by the Administrator and delivered to the Trustee and the Grantor (or, in the event of the Grantor's death, his Beneficiaries). If a successor Trustee is not appointed within ninety (90) days of the Trustee's resignation, the Trustee may apply to a court of competent jurisdiction for the appointment of a successor.

III. (3). The Trustee shall be entitled to such compensation for its services in any fiduciary capacity hereunder as the Administrator, as agent for the Grantor, or the Grantor, and the Trustee may from time to time agree, including minimum fees and additional compensation for special investments and services, notwithstanding that such stipulated compensation shall be greater than that now in effect or than that provided from time to time under applicable law, and such compensation and reimbursement for reasonable expenses may be paid at any time without court approval. Such compensation shall be paid from the Trust Fund to the extent that it is not paid by the Administrator or the Grantor.

III. (4). No bond or other security shall be required of any trustee in any jurisdiction, whether for the faithful performance of duties, to secure payment of commissions in advance or otherwise, and if, notwithstanding

this express direction, any such bond or security shall be required by any law, statute or rule of court, no surety shall be required thereon.

ARTICLE IV

Trustee Reporting

IV. (1). The Trustee shall furnish the Administrator with statements of transactions in the trust and statements of the market value of the Trust Fund at least monthly, and the Administrator and the Grantor with a statement of trust investments including the market value thereof at least annually. The failure of both the Grantor and the Administrator to object to any matter contained in such statements by written notice signed by either the Grantor or the Administrator within ninety (90) days after receipt of the same shall constitute the Grantor's assent to such statements and shall be final and binding as to all matters contained in such statements upon the Grantor, the Administrator as agent for the Grantor, and all persons, whether or not in being, interested in the Trust Fund. In addition, the Grantor may execute a release, with or without an account, approving the administration of the trust. A release shall discharge the Trustee from any accountability and liability to the Grantor, the Grantor's legal representatives, or any persons, whether or not in being, interested in the Trust Fund, with the same effect as if the account of the Trustee were judicially settled and allowed.

IV. (2). The Trustee shall also furnish the Administrator or the Grantor with such other information relating to the actual or estimated income of the Trust Fund, including the character of such income, and to estimated taxes resulting from such income as the Trustee and the Administrator may from time to time agree is necessary or desirable to assure appropriate reporting and payment of taxes by or on behalf of the Grantor.

IV. (3). The Grantor and the Administrator, or such persons as may be designated by them, shall at any time upon five days' advance written notice to the Trustee have the right to examine, during the normal business hours of the Trustee, all books and records of the Trustee pertaining to the Trust Fund.

ARTICLE V

Investment and Administrative Authority

V. (1). In addition to any powers conferred by law, the Trustee shall have the following powers, authorities and discretions with respect to any property, real or personal, at any time held under any provision hereof and may exercise the same with sole and absolute discretion and without the order or approval of any court, and the Grantor intends that such powers, authorities and discretions (including the following) be construed in the broadest possible manner:

(a) To retain any such property without regard to the proportion any such property or similar property held may bear to the entire amount held and without any

obligation to diversify the same, whether or not the same is of the kind in which fiduciaries are authorized by law or any rule of court to invest funds;

(b) To sell any such property upon such terms and conditions as may be deemed advisable, at public or private sale, for cash or on credit for such period of time as may be deemed advisable, or partly for cash and partly on credit, and with or without security, without obligation to "test the market" by soliciting offers from a third party or to obtain an appraisal to establish the value thereof; and the purchaser of such property shall have no obligation to inquire as to the use or application of the proceeds of sale; to exchange any property held hereunder upon such terms and conditions as may be deemed advisable; and to grant warranties, guaranties, indemnities or options with respect to any of the foregoing without regard to the duration of any trust or any time limitation imposed by law;

(c) To invest and reinvest in and to acquire by purchase, exchange or otherwise property of any character whatsoever, foreign or domestic, or interests or participations therein, including by way of illustration and not of limitation: real property, mortgages, bonds, notes, debentures, certificates of deposit, options, puts, calls, warrants, partnerships, common and preferred stocks, annuity contracts, futures contracts, forward contracts, short sales and swap contracts, in each case whether foreign or domestic and with respect to financial instruments and any group or index of securities (or any interest therein based upon the value thereof) and in connection therewith to deposit any property as collateral with any agent and to grant security interests in such collateral and shares or interests in investment trusts, mutual funds or common trust funds (including without limitation common trust funds maintained by a corporate fiduciary and other trusts or funds with respect to which the Trustee or its affiliates acts as investment advisor or custodian or provides other services), without regard to the proportion any such property or similar property held may bear to the entire amount held and without any obligation to diversify, whether or not the same is of the kind in which fiduciaries are authorized by law or any rule of court to invest funds;

(d) To participate in and to consent to any plan of reorganization, recapitalization, consolidation, merger, combination, dissolution, liquidation or similar plan and any action thereunder, including by way of illustration and not of limitation to receive and retain property under any such plan whether or not the same is

of the kind in which fiduciaries are authorized by law or any rule of court to invest funds;

(e) To exercise all conversion, subscription, voting and other rights of whatsoever nature pertaining to any such property and to grant proxies, discretionary or otherwise, with respect thereto; to appoint voting trustees under voting trust agreements and to delegate to such voting trustees the power to vote and all other powers, authorities and discretions usually conferred upon trustees under voting trust agreements;

(f) To borrow such sums of money at any time and from time to time for such periods of time upon such terms and conditions from such persons or corporations (including any fiduciary hereunder) for such purposes as may be deemed advisable, and to secure such loans by the pledge or hypothecation of any property held hereunder; and the lender shall have no obligation to inquire as to the application of the sums loaned or as to the necessity, expediency or propriety of the loan;

(g) To register and hold any property of any kind, whether real or personal, at any time held hereunder in the name of a nominee or nominees and to hold any such personal property in any State; and to receive and keep any stocks, bonds or other securities unregistered or in such condition that title thereto will pass by delivery;

(h) To distribute (including in satisfaction of any pecuniary disposition) any property in kind at market value unless otherwise directed herein or in cash, or partly in kind and partly in cash, and, without the consent of any beneficiary, to allocate among the recipients the property distributed in kind (including in satisfaction of any pecuniary disposition) in divided or undivided interests and without any obligation to make proportionate distributions or any obligation to distribute to all recipients property having an equivalent Federal income tax cost;

(i) To allocate to principal all dividends and distributions payable in property or in stocks, bonds or other securities whether of the disbursing company or another company;

(j) After the termination of the trust hereunder to exercise all the powers, authorities and discretions herein conferred until the complete distribution of the property held hereunder;

(k) To accept additional property transferred on behalf of the Grantor;

(l) To remove all or any part of the assets of or the situs of administration of the trust hereunder from one jurisdiction to another jurisdiction, either within or without the United States of America, at any time or from time to time;

(m) To employ investment counsel, accountants, depositories, custodians, brokers, consultants, agents, attorneys and other employees, irrespective of whether any person or entity so employed shall be a fiduciary hereunder or shall be a corporate affiliate of a fiduciary hereunder and irrespective of whether any entity so employed shall be one in which a fiduciary hereunder shall be a partner, stockholder, director, officer or corporate affiliate or shall have any interest, and to pay the usual compensation for such services out of principal or income as may be deemed advisable; and such compensation may be paid without diminution of or charging the same against the commissions or compensation of any fiduciary hereunder; and any fiduciary who shall be a partner, stockholder, director, officer or corporate affiliate in any such entity shall nevertheless be entitled as partner, stockholder, director, officer or corporate affiliate to receive such fiduciary's share of the compensation paid to such entity;

(n) To exercise any and all of the powers, authorities and discretions conferred hereunder in respect of any securities of any corporate fiduciary acting hereunder, or in respect of any securities of any holding company or corporation owning securities of any corporate fiduciary acting hereunder; and

(o) To act in any jurisdiction where permitted by law, or to designate one or more persons or a corporation to be ancillary fiduciary who shall serve without bond or security in any jurisdiction in which ancillary administration may be necessary; and to negotiate and determine the compensation to be paid to such ancillary fiduciary whether or not any compensation would otherwise be authorized by law, and to pay such compensation out of principal or income or both; and such ancillary fiduciary shall have with respect to any and all property subject to the ancillary administration all powers, authorities and discretions granted in this Article; provided, however, that any action which may require the investment of additional funds or the assumption of additional obligations shall not be undertaken without prior written consent of the fiduciary or fiduciaries acting hereunder; and if by reason of the law of any jurisdiction in which it may be necessary to perform any act any fiduciary hereunder may be disqualified from acting, then all of the acts

required to be performed in such jurisdiction may be performed by such fiduciary's qualified co-fiduciary or co-fiduciaries then acting hereunder.

V. (2). Notwithstanding the provisions of Section V. (1). hereof,

(a) The Administrator, as agent for the Grantor, shall have the authority to establish and deliver to the Trustee from time to time written investment guidelines setting forth the parameters within which the Trustee shall exercise its discretionary authority with respect to the investment of the Trust Fund subject to the restrictions on investments set forth above, and the Trustee shall have no liability to the Administrator, the Companies, the Grantor or any other person interested in the Trust Fund for any action or any omission in reliance upon such guidelines;

(b) The Administrator, as agent for the Grantor, is authorized to receive any disclosures or other notices delivered by the Trustee with respect to the investment of the Trust Fund in shares or interests in investment trusts or mutual funds with respect to which the Trustee or any of its affiliates acts as investment advisor or custodian or provides other services;

(c) In no event may the Trust Fund be invested in securities (including stock or rights to acquire stock) or obligations issued by the Companies, other than a de minimis amount held in common investment vehicles in which the Trustee invests; and

(d) The Trustee and its affiliates shall discharge their duties with respect to the Trust Fund solely in the interest of the Grantor and his Beneficiary(ies), for the exclusive purpose of accumulating assets to make distributions as provided in Article II hereunder and paying the reasonable expenses of administering the trust.

ARTICLE VI

General Provisions

VI. (1). This Trust Agreement and the trust created hereunder shall be construed, regulated and governed in all respects, not only as to administration but also as to

validity and effect, by the laws of the State of New York in effect from time to time.

VI. (2). The references in this Trust Agreement to the Internal Revenue Code shall mean the Internal Revenue Code of 1986, as amended, and shall include corresponding provisions of all subsequently enacted Federal tax laws.

VI. (3). Any provision of the Trust Agreement prohibited by law, or which would cause the trust to any extent to fail or cease to be a grantor trust as described in Section I. (3). hereof, shall be to such extent ineffective, without invalidating the remaining provisions hereof.

VI. (4). Amounts held in the Trust Fund may not be anticipated, assigned, alienated, pledged, encumbered or subjected to attachment, garnishment, levy, execution or other legal or equitable process, except to the extent specifically permitted herein or as otherwise required by law.

VI. (5). Any notice required under this Trust Agreement shall be delivered (a) personally, (b) by next day courier service (e.g., Federal Express or UPS), or (c) by certified or registered mail, return receipt requested, addressed as follows (or to such other address as any party may so notify the other party):

If to the Trustee:

Diane E. Moyer, Vice President Morgan Guaranty Trust Company of New York 9 West 57th Street
New York, New York 10019

If to the Grantor:

If to the Administrator:

Philip Morris Companies Inc.

Attention: Vice President, Corporate Human Resources 120 Park Avenue
New York, New York 10017-5592

Any notice required under this Trust Agreement may be waived by the person entitled to such notice. Any notice to or from the Grantor under this Trust Agreement shall, in the event of the Grantor's death, be provided to or by the Beneficiary(ies) designated by the Grantor under this Trust Agreement. If more than one beneficiary has been designated, the Grantor shall designate one Beneficiary who shall be entitled to provide any notice required to the Administrator or Trustee.

VI. (6). This Agreement shall be binding on all persons entitled to payments from the Trust Fund and their respective heirs and legal representatives, and on the Trustee and its successors.

VI. (7). The Administrator, acting on behalf of the Grantor, may from time to time amend this Trust Agreement in any respect, provided, however, that no such amendment shall change the duties, responsibilities, or compensation of the Trustee without its written consent or shall cause any amount held in the Trust Fund to be payable to the Companies or to any person other than the Grantor, his Beneficiaries,

his estate, or to the Trustee as compensation for services, or reimbursement for payment to its agents.

VI. (8). In general, a Grantor's Beneficiary(ies) shall be the beneficiary(ies) designated by the Grantor or otherwise determined under the terms of the Plans. In the event, however, that no survivor's benefit or other death benefit is payable on behalf of the Grantor under one or more Plans, the Trust Fund shall first be applied to make payments due under any Plan for which a death benefit is payable; any balance remaining in the Trust Fund following payment of all death benefits under the Plans shall be paid in one lump sum in cash to the Beneficiary(ies) designated by the Grantor hereunder. A beneficiary designation under this Trust Agreement shall be made in writing by the Grantor in such manner and on such form as shall be specified by the Administrator, and a designation shall not be effective until it has been filed with the Administrator. In the absence of a beneficiary designation hereunder or the failure of the Beneficiary to survive, the Beneficiary shall be the Grantor's spouse, if any, and, if none his estate.

IN WITNESS WHEREOF, the Grantor has hereunto set his hand and seal and the undersigned corporate party has caused this Trust Agreement to be executed and its seal affixed hereunto by its officers duly authorized and directed all as of the day and year first above written.

_____ _____(L.S.)
[Executive's Name], Grantor

Morgan Guaranty Trust Company of New York, Trustee

BY_____

Attest:

Schedule A

[List relevant plans and arrangements]

STATE OF)
) ss.:
COUNTY OF)

On this _____ day of _____, 19__, before me personally came [EXECUTIVE'S NAME], to me known and known to me to be the same person described in and who executed the foregoing instrument, and acknowledged to me that such person executed the same.

STATE OF)
) ss.:
COUNTY OF)

On this _____ day of _____, 199__, before me personally came _____, to me known, who, being by me duly sworn, did depose and say that such person resides at _____ in the City of, _____, County of _____, State of _____; that such person is a _____ of MORGAN GUARANTY TRUST COMPANY OF NEW YORK, the corporation described in and which executed the foregoing instrument; that such person knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that such person signed such person's name thereto by like order.

BENEFICIARY DESIGNATION
EMPLOYEE GRANTOR TRUST

I understand that assets of the Employee Grantor Trust (the "Grantor Trust") established with Morgan Guaranty Trust Company of New York will be applied to pay benefits to me or on my behalf under the nonqualified supplemental benefit plans specified in Schedule A attached to the Grantor Trust (the "Plans"). Generally, the beneficiary(ies) entitled to receive benefits under the Grantor Trust in the event of my death shall be the beneficiary(ies) designated or otherwise determined under the terms of the Plans. If, however, after my death any assets of the Grantor Trust remain after all payments due under the Plans have been made to me or to my beneficiary(ies) under the Plans, those remaining assets of the Grantor Trust shall be paid to the beneficiary designated below. I understand that my spouse must consent to the designation of any beneficiary other than my spouse. I further understand that in the event my beneficiary does not survive, any remaining assets of the Grantor Trust will be paid to my spouse, if any, or if none, my estate. [To designate more than one beneficiary, attach additional sheet(s) with the name, SSN and address of each beneficiary, indicate each beneficiary's share and which beneficiary is entitled to provide notices regarding the Grantor Trust, and obtain spouse's consent in the same form as below.]

Name of Beneficiary:_____

Social Security Number:_____

Address:_____

_____ _____
Date Signature of Employee

_____
Witness

CONSENT OF SPOUSE

I understand that I am entitled to be designated as the 100% beneficiary of the Grantor Trust. I give my consent to the designation of the above-named beneficiary. I am aware that in the event of my spouse's death, I will not receive 100% of the remaining assets of the Grantor Trust, and I may not receive any such assets. [Spouse's consent must be witnessed by the

Administrator or a Notary Public.]

_____ _____
Date Signature of Employee's Spouse

_____
Administrator or Notary Public

ADDITIONAL BENEFICIARY DESIGNATION

Name of Beneficiary:_____

Social Security Number:_____

Address:_____

Beneficiary Share:_____

Name of Beneficiary:_____

Social Security Number:_____

Address:_____

Beneficiary Share:_____

Name of Beneficiary:_____

Social Security Number:_____

Address:_____

Beneficiary Share:_____

_____ _____
Date Signature of Employee

_____
Witness

CONSENT OF SPOUSE

I understand that I am entitled to be designated as the 100% beneficiary of the Grantor Trust. I give my consent to the designation of the above-named beneficiary. I am aware that in the event of my spouse's death, I will not receive 100% of the remaining assets of the Grantor Trust, and I may not receive any such assets. [Spouse's consent must be witnessed by the Administrator or a Notary Public.]

_____ _____
Date Signature of Employee's Spouse

_____
Administrator or Notary Public

Exhibit 13

**A WORLD
OF GROWTH
IN STORE**

FINANCIAL CONTENTS

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

CONSOLIDATED OPERATING RESULTS--OPERATING REVENUES

(in millions)	1995	1994	1993
Tobacco	$32,316	$28,671	$25,973
Food	29,074	31,669	30,372
Beer	4,304	4,297	4,154
Financial services and real estate	377	488	402
Total	$66,071	$65,125	$60,901

CONSOLIDATED OPERATING RESULTS--OPERATING INCOME

(in millions)	1995	1994	1993
Tobacco	$ 7,177	$6,162	$4,910
Food	3,188	3,108	2,608
Beer	444	413	215
Financial services and real estate	164	208	249
Operating profit	10,973	9,891	7,982
Unallocated corporate expenses	(447)	(442)	(395)
Total	$10,526	$9,449	$7,587

1995 Compared with 1994

Operating revenues for 1995 increased $946 million (1.5%) over 1994, primarily due to increases in tobacco revenues, partially offset by the impact of divestitures of food businesses. Operating profit, as defined for segment reporting purposes (operating income excluding unallocated corporate expenses), increased $1.1 billion (10.9%), reflecting increases in all consumer products business segments. Currency movement, primarily the Japanese yen and German mark, increased operating profit by $213 million in 1995. Although the Company cannot predict future movement in currency rates, it currently estimates that currency movement may have an unfavorable impact on operating profit in 1996. Excluding the results of divested food businesses (discussed below), operating revenues and operating profit increased $5.1 billion (8.7%) and $1.2 billion (13.0%), respectively, over 1994.

Interest and other debt expense, net, decreased $54 million (4.4%) in 1995, due primarily to lower average outstanding debt during the year, partially offset by higher average commercial paper rates.

Excluding the cumulative effect of accounting changes discussed below, earnings increased by $753 million (15.9%) in 1995, primarily due to increased operating profit ($1.1 billion), which was partially offset by a higher income tax provision ($378 million).

Excluding the cumulative effect of accounting changes discussed below, earnings per share increased by 19.4% in 1995, due to a 15.9% increase in earnings to $5.5 billion and fewer shares outstanding. As a result of the Company's share repurchase program, the weighted average

number of shares outstanding decreased to 842 million in 1995 from 867 million in 1994.

Effective January 1, 1995, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," for its non-U.S. retiree benefit plans and SFAS No. 116, "Accounting for Contributions Received and Contributions Made." The adoption of these Statements reduced 1995 net earnings by $21 million ($.02 per share) and $7 million ($.01 per share), respectively. However, the application of these standards did not materially reduce operating income or earnings before cumulative effect of accounting changes in 1995.

1994 Compared with 1993

Operating revenues for 1994 increased $4.2 billion (6.9%) over 1993. Operating profit increased $1.9 billion (23.9%), due primarily to increases in all consumer products business segments, the 1993 restructuring charge (discussed below) and the 1993 domestic tobacco business strategy (discussed below in Domestic tobacco--1994 Compared with 1993). Excluding the 1993 restructuring charge, operating profit increased $1.2 billion (13.4%) over 1993.

Interest and other debt expense, net, decreased $158 million (11.4%) in 1994, due primarily to lower average outstanding debt during the year, partially offset by higher interest rates on debt.

Excluding the cumulative effect of an accounting change discussed below, earnings increased by $1.2 billion (32.4%) in 1994,

due to increased operating profit ($1.9 billion) and lower interest and other debt expense, net ($158 million), partially offset by a higher income tax provision ($863 million). Excluding the 1993 restructuring charge and cumulative effect of accounting change, earnings increased 17.4% over 1993.

Excluding the cumulative effect of an accounting change discussed below, earnings per share increased by 34.2% in 1994, due to a 32.4% increase in earnings to $4.7 billion and fewer shares outstanding. Excluding the 1993 restructuring charge and cumulative effect of accounting change, earnings per share increased 19.0% over 1993. As a result of the Company's share repurchase programs, the weighted average number of shares outstanding decreased to 867 million in 1994 from 878 million in 1993.

Effective January 1, 1993, the Company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." The cumulative effects at January 1, 1993 of adopting SFAS No. 112 were a reduction of 1993 net earnings by $477 million ($.54 per share), net of $297 million of income tax benefits and the recording of a liability of $774 million. Adoption of SFAS No. 112 did not materially reduce 1993 earnings before cumulative effect of accounting change.

1993 Restructuring

In the fourth quarter of 1993, the Company provided for the restructuring of its worldwide operations to reduce its cost structure significantly and to improve its future growth, profitability and cash flow. 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. Included in this charge were asset write-downs of $429 million, with the remainder of the charge representing anticipated cash expenditures to be funded with cash proxvided by operating activities. During 1995 and 1994, the Company expended approximately $230 million in connection with this program. The SFAS No. 112 liability described above is sufficient to provide for costs associated with the workforce reduction contemplated by the restructuring.

Savings from the planned actions are being used for both business-building initiatives and profit improvement. Originally, the Company had estimated that the restructuring would result in approximately $600 million of annual after-tax savings by 1997. As reported in 1994, due to higher worldwide demand for American-style cigarettes and the corresponding impact on shipment volumes of the Company's tobacco subsidiaries, downsizing of certain tobacco manufacturing plants has been delayed and the resultant restructuring savings are also expected to be delayed. Accordingly, the estimate of planned annual after-tax savings by 1997 was revised in 1994 to $500 million.

OPERATING RESULTS BY BUSINESS SEGMENT

TOBACCO--OPERATING REVENUES

(in millions)	1995	1994	1993
Domestic tobacco	$11,493	$11,110	$10,227
International tobacco	20,823	17,561	15,746
Total	$32,316	$28,671	$25,973

TOBACCO--OPERATING PROFIT

(in millions)	1995	1994	1993
Domestic tobacco	$ 3,740	$ 3,302	$ 2,808
International tobacco	3,453	2,877	2,360
Amortization of goodwill	(16)	(17)	(13)
Restructuring charges			(245)
Total	$ 7,177	$ 6,162	$ 4,910

Business Environment

The tobacco industry, including Philip Morris Incorporated ("PM Inc."), the Company's domestic tobacco subsidiary, has faced, and continues to face, a number of issues which have affected or which may affect volume, operating revenues and operating profit. These issues include proposed federal regulatory controls (including, as discussed below, the publication of proposed regulations by the United States Food and Drug Administration (the "FDA") which purport to regulate tobacco products as "drugs" or medical "devices"); actual and proposed excise tax increases; federal, state and local governmental and private restrictions on smoking (including additional restrictions imposed by airlines); new and proposed restrictions on tobacco manufacturing, marketing, advertising and sales; new and proposed regulations to ban or severely restrict smoking in workplaces and in buildings permitting public access, to require substantial additional health warning and product content information on cigarette packages and in advertising, and to eliminate the tax deductibility of a portion of the cost of tobacco advertising; increased assertions of adverse health effects associated with both smoking and exposure to environmental tobacco smoke (and legislation or other governmental action seeking to ascribe to the industry responsibility and liability therefor), the diminishing social acceptance of smoking, governmental and grand jury investigations, and private plaintiff class action litigation as well as actions by states seeking Medicaid reimbursement. See Note 15 to the Consolidated Financial Statements regarding litigation in which the Company and/or its subsidiaries

(including PM Inc.) are defendants.

In June 1995, PM Inc. entered into a consent decree with the Department of Justice pursuant to which PM Inc. agreed to reposition its brand advertising at professional football, baseball, basketball and hockey arenas so as not to be inadvertently exposed to prominent television coverage.

In June 1995, PM Inc. announced that it has voluntarily undertaken a program to limit minors' access to cigarettes. Elements of the program include discontinuing free cigarette sampling to consumers in the United States, discontinuing the distribution of cigarettes by mail to consumers in the United States, placing a

notice on cigarette cartons and packs for sale in the U.S. stating "Underage Sale Prohibited," taking measures to encourage retailer compliance with minimum-age laws, and independent auditing of the program.

In August 1995, President Clinton announced and the FDA initiated a rule-making proceeding purportedly designed to prevent minors from smoking. In the proposed regulations, the FDA asserted that it has jurisdiction over nicotine as a "drug" and over cigarettes as a medical "device" (a nicotine delivery system) under the provisions of the Food, Drug and Cosmetic Act. The proposed regulations include severe restrictions on the distribution, marketing and advertising of cigarettes. The period for public comment on the proposal ended on January 2, 1996. The FDA's assertion of jurisdiction, if not reversed by judicial or legislative action, could lead to more expansive FDA-imposed restrictions on cigarette operations than those set forth in the current proposed regulations. PM Inc., four other domestic cigarette manufacturers and an advertising firm have sued the FDA, seeking a judicial declaration that the FDA has no authority to regulate cigarettes and asking the court to issue an injunction requiring the FDA to withdraw its proposed regulations. Similar suits have been filed against the FDA by manufacturers of smokeless tobacco products, by a trade association of cigarette retailers, and by advertising agency associations.

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.

It is not possible to determine the outcome of the FDA regulatory initiative announced by President Clinton or the related litigation or to predict what, if any, other foreign or domestic governmental legislation or regulations will be adopted relating to the advertising, sale or use of cigarettes or to the tobacco industry generally. However, if any or all of the foregoing were to be implemented, the volume, operating revenues and operating profit of PM Inc., Philip Morris International Inc. ("PMI"), the Company's international tobacco subsidiary, and the Company could be adversely impacted, in amounts that cannot be determined.

In addition to the foregoing, there is litigation pending against the Company and its subsidiaries which is discussed in Note 15 to the Consolidated Financial Statements. The Company's position with regard to this litigation is set forth therein.

1995 Compared with 1994

Domestic tobacco. During 1995, PM Inc.'s operating revenues increased 3.4% from 1994, due primarily to pricing ($174 million), volume ($120 million) and improved product mix ($83 million). Operating profit for 1995 increased 13.3% from 1994, due primarily to pricing ($174 million), volume ($73 million), improved product mix ($76 million) and lower marketing, administration and research costs ($60 million).

The premium and discount segments (based on shipments) accounted for approximately 70.0% and 30.0%, respectively, of domestic cigarette industry volume in 1995, versus approximately 67.5% for the premium segment and 32.5% for the discount segment in 1994, continuing the shift toward the premium segment that began following the pricing strategy implemented by PM Inc. in 1993 (discussed below).

PM Inc.'s volume (based on shipments) for 1995 was 221.8 billion units, an increase of 1.1% over 1994, compared with an industry decline of 1.7% during 1995.

PM Inc.'s market share (based on shipments) for 1995 was 46.1%, an increase of 1.3 share points over 1994. In the premium segment, volume in PM Inc.'s brands increased 3.5%, compared with a 1.9% increase for the industry, resulting in a premium segment share of 54.5%, an increase of 0.9 share points from 1994. Marlboro volume was up 7.1 billion units (5.2%) for a 30.1% share of the total industry, an increase of 2.0 share points from 1994. In the discount segment, PM Inc.'s shipments decreased 9.1%, to 38.5 billion units, in 1995 compared with an industry decline of 9.2%, resulting in a discount segment share at 26.6%, an increase of 0.1 share points from 1994.

Retail sales data (compiled by the A.C. Nielsen Company), indicate PM Inc. and Marlboro market shares of 47.3% and 30.7%, respectively, in 1995, compared with 46.2% and 28.6%, respectively, in 1994. The market share for PM Inc.'s other premium brands as a group was 8.9% in 1995, unchanged from 1994. In the discount segment, Basic increased its segment share 1.3 points, to 15.8%, in 1995.

PM Inc. cannot predict change or rates of change in the relative sizes of the premium and discount segments or in PM Inc.'s shipments, market share (based on shipments) or retail market share.

International tobacco. During 1995, operating revenues of PMI increased 18.6%, due primarily to higher foreign excise taxes ($1.6 billion), currency movement ($708 million), higher volume/mix ($713 million) and price increases ($264 million). Operating profit increased 20.0% due primarily to higher volume/mix ($338 million), price increases ($264 million) and currency movement ($210 million), partially offset by higher marketing, administration and research costs ($264 million).

PMI's volume grew 57.2 billion units (10.7%) in 1995 to 593.2 billion units. Volume advanced in most major markets, including Germany, Italy, Spain, the Netherlands, Belgium, Central and Eastern Europe, Turkey, the Middle East, Japan, Korea, the Philippines, Australia and Argentina. In Eastern Europe, which includes parts of the former Soviet Union, PMI's volume climbed 54%. This emerging market has in part driven PMI's volume growth to double its historic growth level of 5% to 6%. Volume declined in France, due to tax-driven price increases; in Mexico, due to continued poor economic conditions; and in Brazil, due to competition. Importantly, however, volume and market share for Marlboro increased in France and Brazil. In the growing American-style segment, PMI's international and U.S.-heritage brands grew a collective 13.4% in volume during 1995.

PMI's market shares reached record levels in most major international markets, with strong gains in Germany, Italy, the Netherlands, Belgium, Spain, the Czech and Slovak Republics, Turkey, Japan, Korea, Hong Kong, Singapore, Australia and Argentina.

1994 Compared with 1993

Domestic tobacco. During 1994, PM Inc.'s operating revenues increased 8.6%, due primarily to volume increases ($1.3 billion) and favorable product mix ($461 million), partially offset by price decreases ($887 million). Operating profit in 1994 increased 17.6%, due primarily to volume increases ($802 million), favorable product mix ($452 million) and lower marketing, administration and

research costs ($245 million), partially offset by price decreases and higher costs (aggregating $1.0 billion).

The premium and discount segments accounted for approximately 67.5% and 32.5%, respectively, of the domestic cigarette industry in 1994, compared with 63.2% and 36.8%, respectively, in 1993. The shift toward the premium segment reflected a pricing strategy implemented by PM Inc. in 1993 in response to the domestic tobacco market, which was becoming increasingly price-sensitive. Specifically, PM Inc. created a two-category pricing structure for its tobacco brands, premium and discount. Prices were lowered on premium brands and the net list price of deep discount brands was increased, effectively narrowing the price gap between PM Inc.'s premium cigarette brands and competitors' discount products.

PM Inc.'s volume (based on shipments) was 219.4 billion units in 1994, an increase of 12.7%, reflecting the success of PM Inc.'s 1993 pricing strategy discussed above and its marketing and promotional programs. This compared with an industry increase of 6.2%. PM Inc.'s market share for 1994 was 44.8%, an increase of 2.6 share points from 1993. In the premium segment, volume in PM Inc.'s brands increased 22.3% in 1994, compared with a 13.3% increase for the industry, resulting in a category share gain of 3.9 share points, to 53.6%. Marlboro volume was up 29.3 billion units (27.0%) for a 28.1% share of the total industry, as compared with a 23.5% share in 1993. In the discount segment, PM Inc.'s shipments decreased 15.2%, to 42.3 billion units in 1994, compared with an industry decrease of 6.1%, resulting in a decrease of 2.8 share points in this segment, to 26.5%.

Nielsen retail sales data indicate PM Inc. and Marlboro 1994 market shares of 46.2% and 28.6%, respectively, as compared with 43.8% and 24.9%, respectively, during 1993, and 41.6% and 22.0%, respectively, at their low point in March 1993. Additionally, retail share of PM Inc.'s other premium brands, as a group, climbed to 8.9% during 1994, up from 8.8% during 1993 and 8.3% in August 1993, when PM Inc. lowered its premium brands' wholesale list prices.

International tobacco. Operating revenues in 1994 increased 11.5%, due primarily to favorable volume/mix ($756 million), higher foreign excise taxes ($752 million), price increases ($260 million) and currency movement ($59 million). Operating profit increased 21.9%, due primarily to price increases and lower costs (aggregating $426 million) and volume/mix increases ($351 million), partially offset by higher marketing expenses ($179 million) and currency movement ($71 million).

Total international unit volume increased 76.2 billion units (16.6%), to 536.0 billion units. Volume advanced in most markets, including Germany, Italy, France, Spain, the Netherlands, Belgium, Central and Eastern Europe, the Middle East, Hong Kong, Japan, Korea, Argentina and Brazil. Volume declined in Turkey, reflecting reduced consumer purchasing power as poor economic conditions persisted.

PMI's market share advanced in most of its major international markets, with record shares achieved in Germany, Italy, France, Spain, the Netherlands, Belgium, Finland, Japan, Korea, Hong Kong, Singapore, Argentina and Brazil. International volume continued to grow for Marlboro and PMI's international and U.S. heritage brands.

FOOD--OPERATING REVENUES

(in millions)	1995	1994	1993
North American food	$17,891	$21,556	$20,940
International food	11,183	10,113	9,432
Total	$29,074	$31,669	$30,372

FOOD--OPERATING PROFIT

(in millions)	1995	1994	1993
North American food	$ 2,542	$ 2,539	$ 2,404
International food	1,218	1,153	1,114
Amortization of goodwill	(572)	(584)	(553)
Restructuring charges			(357)
Total	$ 3,188	$ 3,108	$ 2,608

Business Environment

Several steps have been taken to build the value of premium brands, reduce costs and increase profitability in the food businesses. Effective January 1995, the North American food business was reorganized to fully integrate the operations of Kraft USA and General Foods USA. The combined organization, named Kraft Foods, Inc., has streamlined operations and improved effectiveness and customer response. In December 1995, the international food business was realigned to capitalize on future growth opportunities and reorganized into separate regional units: Western Europe; Northern Europe; Central and Eastern Europe, Middle East and Africa; Asia/Pacific; and Latin America.

During 1995, Kraft Foods sold its bakery businesses and its North American margarine, specialty oils, marshmallows, caramels and Kraft Foodservice distribution businesses. In addition, several smaller international food businesses were sold. Operating revenues and operating

profit of these businesses for the period owned in 1995 were $2.0 billion and $107 million, respectively, and for the year ended December 31, 1994 were $5.9 billion and $267 million, respectively. Total proceeds and net pretax gains from the sales of these businesses were $2.1 billion and $275 million, respectively. As part of this divestiture program, Kraft Foods offered an early retirement program and is downsizing or closing other food facilities. The cost of these actions offset the gains from businesses sold. In 1994, Kraft Foods sold The All American Gourmet Company, maker of frozen meals and side dishes. These divestitures are not expected to have a material effect on Kraft Foods' future results of operations and are expected to improve the operating profit margin of North American food operations.

During the second half of 1994 and into the first quarter of 1995, both the North American and International food businesses were affected by higher coffee prices due to higher green coffee bean costs, resulting from frosts in Brazil in the second quarter of 1994. Throughout 1995, green coffee bean prices remained volatile, but have moderated compared with the latter part of 1994. Volatile green coffee bean costs significantly affected consumption and consumer buying patterns. In some markets, such as Germany, these volatile costs resulted in intense price competition among coffee companies.

1995 Compared with 1994

North American food. During 1995, operating revenues decreased 17.0%, due primarily to the impact of divestitures ($4.2 billion), partially offset by increases in price/mix ($311 million) and volume ($226 million). Operating profit increased 0.1% over 1994, due primarily to price increases, net of cost increases ($61 million), gains on sales of businesses ($202 million), volume increases ($97 million) and lower marketing, administration and research costs ($14 million), partially offset by the reduction in operating profit resulting from divestitures ($166 million) and provisions for an early retirement program and the write-down of assets of facilities to be closed or downsized (aggregating $202 million).

Excluding operating results of divested businesses (discussed above), North American food operating revenues and operating profit increased 3.4% and 7.5%, respectively, in 1995 compared with 1994.

Volume grew in beverages, on the strength of ready-to-drink fruit juices; cheese, led by growth in the process and natural cheese segments; processed meats, driven by lunch combinations and cold cuts, both of which were aided by new product introductions; ready-to-eat and packaged desserts, due to enhanced marketing efforts and the introduction of line extensions; frozen pizza, helped by geographic expansion and new product introductions; and coffee, which reported volume growth in premium products. Volume decreased in cereals, due to a general slowdown in industry sales and heightened competition; and in pourable and spoonable salad dressings, due to declines in industry sales. In Canada, volume decreased, due primarily to weakness in the foodservice business, partially offset by higher retail sales, which benefited from enhanced advertising and marketing support. Market shares were higher in the majority of North American food's top categories.

International food. Operating revenues for 1995 increased 10.6% over 1994, due primarily to currency movement ($652 million), price increases ($477 million, primarily coffee) and the impact of acquisitions ($92 million), partially offset by volume decreases ($151 million). Operating profit increased 5.6% over 1994, due primarily to gains on sales of businesses as discussed below ($73 million), the gain on sale of an equity investment ($43 million), and income from unconsolidated subsidiaries, reflecting higher volume in emerging markets ($77 million), partially offset by provisions recorded primarily to write-down assets of facilities to be closed ($73 million) and lower volume ($50 million).

During 1995, Kraft Foods International sold a Scandinavian cereal operation, a U.K. frozen foods operation and the international distribution rights of Kraft Foods, Inc.'s baked goods.

Overall volume declined in 1995. In Western Europe, volume declined, due to market softness and intense competition for core coffee and confectionery products, particularly in Germany, Kraft Foods' largest European market. Despite intense price competition in coffee and a soft confectionery market resulting from an unusually hot summer, market shares increased in Germany in both the roast and ground coffee and chocolate tablet categories. In Central and Eastern Europe, volume increased in coffee and confectionery products, while the Asia/ Pacific region recorded increases in the coffee, and cheese and grocery categories. In Latin America, total volume was higher in 1995, driven by powdered soft drinks in Argentina and Brazil and higher ice cream volume in Brazil, partially offset by lower ice cream volume in Argentina and lower powdered soft drink volume in Mexico.

1994 Compared with 1993

North American food. In 1994, North American food operating revenues increased 2.9%, due to volume increases ($807 million) and price increases ($493 million, due primarily to rising commodity costs), partially offset by the impact of dispositions, net of acquisitions ($629 million) and currency movement ($85 million). Operating profit in 1994 increased 5.6%, due primarily to volume increases ($307 million) and price increases, net of cost increases ($139 million), partially offset by higher marketing expenses ($322 million).

Volume rose from increases in cheese; in cereals and processed meats, due primarily to new products and line extensions; in frozen pizza, due to geographic expansion and category growth; and in foodservice and Canadian operations. Volume declined in commodity oil products, dinners and enhancers (rice products, stuffing mixes and syrups) and coffee (reflecting category contraction from higher pricing, due to increased green bean costs).

International food. Operating revenues in 1994 for International food increased 7.2%, due primarily to acquisitions ($336 million) and commodity driven price increases, partially offset by volume decreases ($104 million) and currency movement ($32 million). Operating profit in 1994 increased 3.5%, due primarily to acquisitions ($34 million) and price increases, partially offset by higher marketing, administration and research costs ($89 million, due partly to geographic expansion), volume decreases ($63 million) and currency movement ($22 million).

Coffee volume was unfavorably impacted by higher retail prices, a result of frosts in Brazil which substantially increased green bean costs. Confectionery volume increased, benefiting from successful marketing programs and new product launches. Overall, cheese and grocery volume was also higher as key brands continued to perform well in Europe and Asia.

BEER

1995 Compared with 1994

Operating revenues of Miller Brewing Company ("Miller") for 1995 increased $7 million (0.2%) from 1994, due to price/mix improvements ($27 million), partially offset by volume decreases. Operating profit increased $31 million (7.5%) over 1994, due to price/mix improvements

and lower costs (aggregating $39 million), partially offset by volume decreases ($9 million).

Miller's 1995 shipment volume of 45.0 million barrels of beer decreased 0.5% from 1994, in line with the industry. Miller's domestic shipments were 1.1% lower in 1995, reflecting the current softness in the domestic beer industry, but were partially offset by growth in Miller's international sales. Shipments of premium-priced beers rose 1.3% to account for 81.8% of shipments in 1995 compared with 80.4% in 1994. Premium brand growth was led by the initial success of Red Dog and increased shipments of Miller Lite, reflecting enhanced advertising and marketing. Shipments of Miller Genuine Draft and ice beers

were down versus the prior year. Miller's market share of the U.S. malt beverage industry (based on shipments) was 22.7% in 1995, unchanged from 1994.

Miller expects cost increases for aluminum and other packaging and brewing materials as supply agreements expire during 1996.

1994 Compared with 1993

Operating revenues for Miller in 1994 increased $143 million (3.4%), due to price/mix increases ($93 million), the acquisition of Molson Breweries U.S.A. Inc. in the second quarter of 1993 ($71 million) and volume increases ($61 million), partially offset by the disposition of distributorships ($82 million). Operating profit, excluding the $139 million impact of the 1993 restructuring, increased $59 million (16.7%), due primarily to price/mix increases ($75 million), lower costs due to a reduction in workforce ($38 million) and higher volume ($25 million), partially offset by higher marketing, administration and research costs ($77 million) and dispositions ($11 million).

Miller's shipment volume increased 2.8% in 1994, reflecting strong growth in premium brands (7.6%), partially offset by a decrease in budget brands. Premium brand growth was led by the introduction of ice-brewed products and Red Dog. Miller Lite volume declined, but volume for the Lite brand family grew, due to the introduction of Lite Ice. Miller's market share of the U.S. malt beverage industry (based on shipments) was 22.7% in 1994, compared with 22.2% in 1993.

FINANCIAL SERVICES AND REAL ESTATE

1995 Compared with 1994

For 1995, operating revenues from financial services, Philip Morris Capital Corporation ("PMCC"), and real estate operations, Mission Viejo Company, decreased 22.7%, and operating profit decreased 21.1% from 1994. Lower financial services operating profit reflects the gains recognized in 1994 related to the sale of PMCC's marketable securities portfolio. Moreover, the proceeds were remitted to Philip Morris Companies Inc. Operating profit from real estate operations increased from 1994 levels, due primarily to improved residential land sales volume in Colorado, and higher profit margins in California.

1994 Compared with 1993

Operating revenues from financial services and real estate operations increased 21.4%, and operating profit decreased 16.5% in 1994. Operating revenues from financial services decreased 7.0%, due primarily to lower finance asset levels, resulting from PMCC's sale of its marketable securities portfolio in the first quarter of 1994. The majority of the proceeds from the sales were not reinvested, but used for a $475 million dividend to Philip Morris Companies Inc. Operating profit from financial services decreased 22.1%, due primarily to higher 1993 income recorded after an adjustment to PMCC's leveraged lease portfolio to account for the new federal income tax rate and lower 1994 finance asset investment income. Operating profit from real estate operations increased from 1993 levels, due primarily to higher residential land sales in Southern California and Colorado.

FINANCIAL REVIEW

Net Cash Provided by Operating Activities

During 1995, cash provided by operating activities decreased $178 million (2.5%), to $6.9 billion. The decrease was due primarily to an investment in working capital, partially offset by higher net earnings.

In 1994, cash provided by operating activities was $7.1 billion, compared with $7.0 billion in 1993. The increase was due primarily to higher earnings, partially offset by an investment in working capital (including approximately $300 million of expenditures related to the 1993 restructuring program and corresponding workforce reductions).

Cash provided by operating activities excludes payments of income taxes on sales of businesses in 1995 and PMCC's interest payment on zero coupon bonds, which matured in 1994.

Net Cash Used in Investing Activities

Cash used in investing activities for 1995 was $109 million, compared with $1.2 billion for 1994. The change is due primarily to cash received from sales of businesses in 1995, partially offset by a $797 million decrease in cash provided by PMCC, reflecting the sale of PMCC's marketable securities portfolio in 1994.

Capital expenditures for 1995 decreased 6.1%, to $1.6 billion, of which 58% related to food operations and 32% related to tobacco operations, primarily for modernization and consolidation of manufacturing facilities and expansion of certain production capacity. Capital expenditures are estimated to be $1.8 billion in 1996 and a total of approximately $8.0 billion for the five-year period 1996-2000, of which approximately 41% and 46%, respectively, are projected for food operations and approximately 53% and 44%, respectively, are projected for tobacco operations.

During 1995, Kraft Foods sold its bakery businesses and its North American margarine, specialty oils, marshmallows, caramels and Kraft Foodservice distribution businesses. In addition, several smaller international food businesses were sold. Total gross proceeds from the sales of

these businesses were $2.1 billion.

Cash used in investing activities was $1.2 billion in 1994 compared with $4.2 billion in 1993, reflecting less spent on acquisitions in 1994. Capital expenditures were $1.7 billion in 1994, of which approximately 62% related to food and 31% related to tobacco.

In 1994, cash provided by net proceeds from finance assets was $307 million, as compared with cash used for net investments in finance assets of $70 million in 1993.

During 1994, the Company made several strategic international acquisitions in its tobacco and food operations at a cost of $146 million. Also during 1994, the Company sold The All American Gourmet Company (frozen dinners business) and several beer distributorships. The proceeds from the sales of these businesses and other smaller divestitures aggregated $300 million.

Net Cash Used in Financing Activities

During 1995, the Company's net cash used in financing activities was $5.6 billion, compared with $5.7 billion during 1994. The change reflects lower repayment of debt ($901 million), partially offset by a 37.8% increase in cash used for stock repurchases and an 18.2% increase in dividends paid.

Debt

The Company's total debt was $15.8 billion, $16.5 billion and $18.2 billion at December 31, 1995, 1994 and 1993, respectively.

Total consumer products debt decreased $606 million in 1995 and $1.4 billion in 1994, both due primarily to scheduled debt maturities. During 1993, total consumer products debt increased $95 million, representing a $1.2 billion net issuance of short-term borrowings, partially offset by $1.1 billion of scheduled maturities of long-term debt.

Fixed rate debt constituted approximately 79% and 81% of total consumer products debt at December 31, 1995 and 1994, respectively. The average interest rate on total consumer products debt was approximately 8.0% and 7.7% during 1995 and 1994, respectively. At December 31, 1995, the average interest rate on total consumer products debt, including the impact of currency swap agreements discussed below, was approximately 7.7%.

The Company operates internationally, with manufacturing and sales facilities in various locations around the world. The Company continually evaluates its foreign currency exposure (primarily the Swiss franc, German mark, Swedish krona, Canadian dollar and Norwegian krone) based on current market conditions and business strategies. It acts to manage such exposure, when deemed prudent, through various hedging transactions. The Company has entered into currency and related interest rate swap agreements to manage exposure to currency movements. The aggregate notional principal amounts of these agreements outstanding at December 31, 1995 and 1994 were $2.0 billion and $1.6 billion, respectively, of which $1.5 billion and $1.2 billion related to consumer products debt at December 31, 1995 and 1994, respectively.

The Company enters into forward exchange contracts, for purposes other than trading, to reduce the effects of fluctuating foreign currency on foreign currency denominated assets, liabilities, commitments and short-term intercompany transactions. At December 31, 1995 and 1994, the Company had forward exchange contracts, with maturities of less than one year, of $1.2 billion and $1.6 billion, respectively.

At December 31, 1995, the Company's credit facilities amounted to approximately $15.4 billion, of which approximately $15.3 billion were unused. Included in these facilities is a revolving credit facility for $8 billion expiring in 2000, which enables the Company to reclassify short-term debt on a long-term basis, and a $4 billion credit facility expiring in October 1996. 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, 1995, 1994 and 1993 were "P-1" in the commercial paper market and "A2" for long-term debt obligations. The Company's credit ratings by Standard & Poor's at December 31, 1995, 1994 and 1993 were "A-1" in the commercial paper market and "A" for long-term debt obligations.

Equity and Dividends

During 1995, the Company repurchased 28.2 million shares of its common stock at an aggregate cost of $2.1 billion. These purchases were made in accordance with the Company's 1994 announcement of its intention to spend up to $6 billion to repurchase common stock in open market transactions over three years. The program began in October 1994. Through December 31, 1995, cumulative purchases under the program totaled 35.4 million shares at a cost of $2.5 billion.

At December 31, 1995, the ratio of consumer products debt to total equity was 1.03, compared with 1.17 at December 31, 1994. The Company's ratio of total debt to total equity at December 31, 1995 was 1.13 compared with 1.29 at December 31, 1994. The decrease in these ratios primarily reflects an increase in stockholders' equity, due to net earnings in 1995 and favorable movement in the currency translation adjustments ($514 million), and net repayment of long-term debt, partially offset by dividends declared ($3.1 billion) and repurchases of outstanding stock.

Dividends paid in 1995 increased 18.2% over 1994, reflecting the increase in dividends declared, partially offset by fewer shares outstanding. On August 30, 1995, the Board of Directors increased the Company's quarterly dividend rate to $1.00 per share, a 21.2% increase, resulting in an annualized dividend rate of $4.00 per share.

Return on average stockholders' equity was 40.7% in 1995 and 38.7% in 1994. The increase from 1994 reflects higher earnings and favorable movement in the currency translation adjustment, as well as the impact of stock acquired pursuant to the common stock repurchase program.

Cash and Cash Equivalents

Cash and cash equivalents increased $954 million in 1995. The increase represents cash earned and retained outside of North America in 1995. This cash will be used for payment of excise taxes to local governments, new investments and dividend remittances.

Recently Issued Financial Accounting Pronouncements

During 1995, the Financial Accounting Standards Board issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," which will be adopted by the Company effective January 1, 1996. The Company estimates that the effect of adoption will not be material.

During 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation." The Statement allows companies to measure compensation cost in connection with employee stock compensation plans using a fair value based method or to continue to use an intrinsic value based method, which generally does not result in compensation cost. The Company currently plans to continue using the intrinsic value based method.

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)

	1995	1994	1993	1992	1991
Summary of Operations:					
Operating revenues	$ 66,071	$ 65,125	$ 60,901	$ 59,131	$ 56,458
United States export sales	5,920	4,942	4,105	3,797	3,061
Cost of sales	26,685	28,351	26,771	26,082	25,612
Federal excise taxes on products	3,446	3,431	3,081	2,879	2,978
Foreign excise taxes on products	9,486	7,918	7,199	6,157	5,416
Operating income	10,526	9,449	7,587	10,059	8,622
Interest and other debt expense, net (consumer products)	1,179	1,233	1,391	1,451	1,651
Earnings before income taxes and cumulative effect of accounting changes	9,347	8,216	6,196	8,608	6,971
Pretax profit margin	14.1%	12.6%	10.2%	14.6%	12.3%
Provision for income taxes	$ 3,869	$ 3,491	$ 2,628	$ 3,669	$ 3,044
Earnings before cumulative effect of accounting changes	5,478	4,725	3,568	4,939	3,927
Cumulative effect of accounting changes	(28)		(477)		(921)
Net earnings	5,450	4,725	3,091	4,939	3,006
Earnings per share before cumulative effect of accounting changes	6.51	5.45	4.06	5.45	4.24
Per share cumulative effect of accounting changes	(.03)		(.54)		(.99)
Net earnings per share	6.48	5.45	3.52	5.45	3.25
Dividends declared per share	3.65	3.03	2.60	2.35	1.91
Weighted average shares (millions)	842	867	878	906	925
Capital expenditures (consumer products)	$ 1,621	$ 1,726	$ 1,592	$ 1,573	$ 1,562
Depreciation (consumer products)	1,023	1,025	1,042	963	938
Property, plant and equipment, net (consumer products)	11,116	11,171	10,463	10,530	9,946
Inventories (consumer products)	7,862	7,987	7,358	7,785	7,445
Total assets	53,811	52,649	51,205	50,014	47,384
Total long-term debt	13,107	14,975	15,221	14,583	14,213
Total debt-consumer products	14,372	14,978	16,364	16,269	15,289
-financial services and real estate	1,454	1,494	1,792	1,934	1,611
Total deferred income taxes	2,827	2,496	2,168	2,248	1,803
Stockholders' equity	13,985	12,786	11,627	12,563	12,512
Common dividends declared as a % of net earnings	56.3%	55.6%	73.8%	43.0%	58.7%
Book value per common share	$ 16.83	$ 14.99	$ 13.26	$ 14.07	$ 13.60
Market price of common share-high/low	94 3/8-55 3/4	64 1/2-47 1/4	77 5/8-45	86 5/8-69 1/2	81 3/4-48 1/4
Closing price of common share at year-end	90 1/4	57 1/2	55 5/8	77 1/8	80 1/4
Price/earnings ratio at year-end	14	11	14	14	19
Number of common shares outstanding at year-end (millions)	831	853	877	893	920
Number of employees	151,000	165,000	173,000	161,000	166,000

See notes to the consolidated financial statements regarding the 1995 divestitures of food businesses, the 1995 adoptions of SFAS No. 116 and SFAS No. 106 for non-U.S. benefit plans, the 1993 adoption of SFAS No. 112 and the 1993 restructuring of the Company's worldwide operations.

In 1991, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" for its U.S. retiree benefit plans. The cumulative effect of adopting SFAS No. 106 reduced 1991 net earnings by $921 million ($.99 per share).

In 1991, the Company provided for the costs of restructuring its worldwide food operations. The restructuring charge reduced 1991 earnings before income taxes, net earnings and earnings per share by $455 million, $275 million and $.30, respectively.

1990	1989	1988	1987	1986	1985	1984	1983	1982	1981
$51,169	$44,080	$31,273	$27,650	$25,542	$16,158	$14,102	$13,256	$11,720	$10,886
2,928	2,288	1,863	1,592	1,193	923	925	970	978	834
24,430	21,868	13,565	12,183	11,901	6,709	5,840	5,665	5,532	5,253
2,159	2,140	2,127	2,085	2,075	2,049	2,041	1,983	1,180	1,169
4,687	3,608	3,755	3,331	2,653	1,766	1,635	1,527	1,435	1,411
7,946	6,789	4,397	3,990	3,537	2,664	1,908	1,840	1,547	1,312
1,635	1,731	670	646	772	311	276	230	244	232
6,311	5,058	3,727	3,344	2,765	2,353	1,632	1,610	1,303	1,080
12.3%	11.5%	11.9%	12.1%	10.8%	14.6%	11.6%	12.1%	11.1%	9.9%
$ 2,771	$ 2,112	$ 1,663	$ 1,502	$ 1,287	$ 1,098	$ 743	$ 706	$ 521	$ 420
3,540	2,946	2,064	1,842	1,478	1,255	889	904	782	660
		273							
3,540	2,946	2,337	1,842	1,478	1,255	889	904	782	660
3.83	3.18	2.22	1.94	1.55	1.31	.91	.90	.78	.66
		.29							
3.83	3.18	2.51	1.94	1.55	1.31	.91	.90	.78	.66
1.55	1.25	1.01	.79	.62	.50	.43	.36	.30	.25
925	927	932	951	954	959	981	1,008	1,005	999
$ 1,355	$ 1,246	$ 1,024	$ 718	$ 678	$ 347	$ 298	$ 566	$ 918	$ 1,019
876	755	608	564	514	367	341	294	250	211
9,604	8,457	8,648	6,582	6,237	5,684	4,014	4,381	4,178	3,583
7,153	5,751	5,384	4,154	3,836	3,827	2,653	2,599	2,834	2,922
46,569	38,528	36,960	21,437	19,482	18,712	9,880	9,908	9,756	9,180
16,121	14,551	16,812	5,983	6,887	8,035	2,239	2,549	3,776	3,499
17,182	14,887	16,442	6,355	6,889	7,887	2,566	3,054	3,728	3,804
1,560	1,538	1,504	1,378	1,141	944	436	141	83	3
2,083	1,732	1,559	2,044	1,519	1,233	907	825	627	455
11,947	9,571	7,679	6,823	5,655	4,737	4,093	4,034	3,663	3,234
40.5%	39.3%	40.3%	40.6%	39.9%	38.1%	46.8%	40.5%	38.6%	37.9%
$ 12.90	$ 10.31	$ 8.31	$ 7.21	$ 5.94	$ 4.96	$ 4.21	$ 4.03	$ 3.64	$ 3.22
52-36	45 1/2-25	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	9-6 3/4	8 1/2-5 1/2	6 7/8-5 1/4
51 3/4	41 5/8	25 1/2	21 3/8	18	11	10 1/8	9	7 1/2	6 1/8
14	13	11	11	11	8	11	10	9	9
926	929	924	947	951	955	971	1,000	1,007	1,003
168,000	157,000	155,000	113,000	111,000	114,000	68,000	68,000	72,000	72,000

Consolidated Balance Sheets (in millions of dollars, except per share data)

at December 31,	1995	1994
ASSETS		
CONSUMER PRODUCTS		
Cash and cash equivalents	$ 1,138	$ 184
Receivables, net	4,508	4,382
Inventories:		
Leaf tobacco	3,332	3,029
Other raw materials	1,721	1,943
Finished product	2,809	3,015
	7,862	7,987
Other current assets	1,371	1,355
Total current assets	14,879	13,908
Property, plant and equipment, at cost:		
Land and land improvements	726	743
Buildings and building equipment	4,976	4,834
Machinery and equipment	11,542	11,248
Construction in progress	1,357	1,429
	18,601	18,254
Less accumulated depreciation	7,485	7,083
	11,116	11,171
Goodwill and other intangible assets (less accumulated amortization of $3,873 and $3,342)	19,319	19,744
Other assets	2,866	2,633
TOTAL CONSUMER PRODUCTS ASSETS	48,180	47,456
FINANCIAL SERVICES AND REAL ESTATE		
Finance assets, net	4,991	4,519
Real estate held for development and sale	339	401
Other assets	301	273
TOTAL FINANCIAL SERVICES AND REAL ESTATE ASSETS	5,631	5,193
TOTAL ASSETS	$53,811	$52,649

See notes to consolidated financial statements.

	1995	1994
LIABILITIES		
CONSUMER PRODUCTS		
Short-term borrowings	$ 122	$ 181
Current portion of long-term debt	1,926	712
Accounts payable	3,364	3,789
Accrued liabilities:		
Marketing	2,114	2,086
Taxes, except income taxes	1,075	948
Employment costs	995	926
Other	2,706	2,290
Income taxes	1,137	1,325
Dividends payable	834	708
Total current liabilities	14,273	12,965
Long-term debt	12,324	14,085
Deferred income taxes	356	385
Accrued postretirement health care costs	2,273	2,164
Other liabilities	5,643	5,609
TOTAL CONSUMER PRODUCTS LIABILITIES	34,869	35,208
FINANCIAL SERVICES AND REAL ESTATE		
Short-term borrowings	671	604
Long-term debt	783	890
Deferred income taxes	3,382	3,010
Other liabilities	121	151
TOTAL FINANCIAL SERVICES AND REAL ESTATE LIABILITIES	4,957	4,655
Total liabilities	39,826	39,863
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	19,779	17,489
Currency translation adjustments	467	(47)
	21,181	18,377
Less cost of repurchased stock (104,150,433 and 82,461,374 shares)	7,196	5,591
Total stockholders' equity	13,985	12,786
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$53,811	$52,649

Consolidated Statements of Earnings (in millions of dollars, except per share data)

for the years ended December 31,	1995	1994	1993
Operating revenues	$66,071	$65,125	$60,901
Cost of sales	26,685	28,351	26,771
Excise taxes on products	12,932	11,349	10,280
Gross profit	26,454	25,425	23,850
Marketing, administration and research costs	15,337	15,372	15,694
Amortization of goodwill	591	604	569
Operating income	10,526	9,449	7,587
Interest and other debt expense, net	1,179	1,233	1,391
Earnings before income taxes and cumulative effect of accounting changes	9,347	8,216	6,196
Provision for income taxes	3,869	3,491	2,628
Earnings before cumulative effect of accounting changes	5,478	4,725	3,568
Cumulative effect of changes in method of accounting	(28)		(477)
Net earnings	$ 5,450	$ 4,725	$ 3,091
Per share data:			
Earnings before cumulative effect of accounting changes	$ 6.51	$ 5.45	$ 4.06
Cumulative effect of changes in method of accounting	(.03)		(.54)
Net earnings	$ 6.48	$ 5.45	$ 3.52

Consolidated Statements of Cash Flows (in millions of dollars)

for the years ended December 31,	1995	1994	1993
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Net earnings--CONSUMER PRODUCTS	$ 5,345	$ 4,591	$ 2,960
--FINANCIAL SERVICES AND REAL ESTATE	105	134	131
Net earnings	5,450	4,725	3,091
Adjustments to reconcile net earnings to operating cash flows:			
CONSUMER PRODUCTS			
Depreciation and amortization	1,671	1,722	1,619
Deferred income tax provision (benefit)	15	237	(430)
(Gains) losses on sales of businesses	(275)	19	(46)
Cumulative effect of accounting changes	46		774
Restructuring charge			741
Cash effects of changes, net of the effects from acquired and divested companies:			
Receivables, net	(466)	(239)	105
Inventories	(5)	(387)	396
Accounts payable	(260)	582	700
Income taxes	504	202	158
Other working capital items	(482)	(288)	(736)
Other	354	180	203

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows (continued)

for the years ended December 31,	1995	1994	1993
FINANCIAL SERVICES AND REAL ESTATE			
Deferred income tax provision	$ 299	$ 376	$ 461
Decrease (increase) in real estate receivables	35	(30)	34
Decrease (increase) in real estate held for development and sale	61	86	(2)
Other	(22)	(82)	(64)
Operating cash flow before income taxes on sales of businesses and interest payment on zero coupon bonds	6,925	7,103	7,004
Income taxes on sales of businesses	(238)	(8)	(37)
Interest payment on zero coupon bonds--financial services and real estate		(156)	
Net cash provided by operating activities	6,687	6,939	6,967
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES			
CONSUMER PRODUCTS			
Capital expenditures	(1,621)	(1,726)	(1,592)
Purchase of businesses, net of acquired cash	(217)	(146)	(3,161)
Proceeds from sales of businesses	2,202	300	553
Other	17	28	49
FINANCIAL SERVICES AND REAL ESTATE			
Investments in finance assets	(613)	(582)	(597)
Proceeds from finance assets	123	889	527
Net cash used in investing activities	(109)	(1,237)	(4,221)
Net cash provided by operating and investing activities	6,578	5,702	2,746
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES			
CONSUMER PRODUCTS			
Net (repayment) issuance of short-term borrowings	(21)	172	1,220
Long-term debt proceeds	564	97	1,027
Long-term debt repaid	(1,302)	(1,817)	(2,154)
FINANCIAL SERVICES AND REAL ESTATE			
Net issuance (repayment) of short-term borrowings	67	(325)	171
Long-term debt proceeds		185	
Long-term debt repaid	(139)	(44)	(290)
Repurchase of outstanding stock	(2,111)	(1,532)	(1,218)
Dividends paid	(2,939)	(2,487)	(2,291)
Stock rights redemption	(9)		
Issuance of shares	291	54	39
Other	(28)	(20)	(34)
Net cash used in financing activities	(5,627)	(5,717)	(3,530)
Effect of exchange rate changes on cash and cash equivalents	3	17	(55)
Cash and cash equivalents:			
Increase (decrease)	954	2	(839)
Balance at beginning of year	184	182	1,021
Balance at end of year	$ 1,138	$ 184	$ 182
Cash paid: Interest--Consumer products	$ 1,293	$ 1,340	$ 1,391
--Financial services and real estate	$ 89	$ 229	$ 81
Income taxes	$ 3,067	$ 2,449	$ 2,092

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity (in millions of dollars, except per share data)

	Common Stock	Earnings Reinvested in the Business	Currency Translation Adjustments	Cost of Repurchased Stock	Total Stockholders' Equity
Balances, January 1, 1993	$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 repurchased				(1,218)	(1,218)
Net unrealized appreciation on securities		91			91
Balances, December 31, 1993	935	15,718	(711)	(4,315)	11,627
Net earnings		4,725			4,725
Exercise of stock options and issuance of other stock awards		(217)		324	107
Cash dividends declared ($3.03 per share)		(2,623)			(2,623)
Currency translation adjustments			664		664
Stock repurchased				(1,600)	(1,600)
Net unrealized depreciation on securities		(114)			(114)
Balances, December 31, 1994	935	17,489	(47)	(5,591)	12,786
Net earnings		5,450			5,450
Exercise of stock options and issuance of other stock awards		(77)		470	393
Cash dividends declared ($3.65 per share)		(3,065)			(3,065)
Redemption of stock rights		(9)			(9)
Currency translation adjustments			514		514
Stock repurchased				(2,075)	(2,075)
Net unrealized depreciation on securities		(9)			(9)
Balances, December 31, 1995	$935	$19,779	$467	$(7,196)	$13,985

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of presentation:

The consolidated financial statements include all significant subsidiaries. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of operating revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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.

Advertising costs:

Advertising costs are expensed generally as incurred.

Depreciation, amortization and goodwill valuation:

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. The Company periodically evaluates the recoverability of goodwill and measures any impairment by comparison to estimated undiscounted cash flows from future operations.

Financial instruments:

Derivative financial instruments are used by the Company to manage its foreign currency and interest rate exposures. Realized and unrealized gains and losses on foreign currency swaps that are effective as hedges of net assets in foreign subsidiaries are offset against the foreign exchange gains or losses as a component of stockholders' equity. The interest differential to be paid or received under the currency and related interest rate swap agreements is recognized over the life of the related debt and is included in interest and other debt expense, net. Unrealized gains and losses on forward contracts that are effective as hedges of assets, liabilities and commitments are deferred and recognized in income as the related transaction is realized.

Accounting changes:

Effective January 1, 1995, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 116, "Accounting for Contributions Received and Contributions Made." This Statement requires the Company to recognize an unconditional promise to make a contribution as an expense in the period the promise is made. The Company had previously expensed contributions when payment was made. The cumulative effect at January 1, 1995 of adopting SFAS No. 116 reduced 1995 net earnings by $7 million ($.01 per share), net of $4 million of income tax benefits. The application of SFAS No. 116 did not materially reduce earnings before cumulative effect of accounting changes.

The Company's adoption of SFAS No. 106 for non-U.S. postretirement benefits other than pensions, effective January 1, 1995, is discussed in Note 14. The Company's adoption of SFAS No. 112 for postemployment benefits, effective January 1, 1993, is discussed in Note 13.

SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" will be adopted by the Company on January 1, 1996. The Company estimates that the effect of adoption will not be material.

NOTE 2. DIVESTITURES AND ACQUISITIONS:

During 1995, the Company sold its bakery businesses and its North American margarine, specialty oils, marshmallows, caramels and Kraft Foodservice distribution businesses. In addition, several smaller international food businesses were sold. Operating revenues and operating income of these businesses for the period owned in 1995 were $2.0 billion and $107 million, respectively, and for the year ended December 31,

1994 were $5.9 billion and $267 million, respectively. Net assets of the businesses sold were $1.8 billion. Total proceeds and net pretax gains from the sales of these businesses were $2.1 billion and $275 million, respectively. As part of this divestiture program, the Company offered an early retirement program and is downsizing or closing other food facilities. The cost of these actions offset the gains from businesses sold.

During 1994, the Company sold The All American Gourmet Company (frozen dinners business) for $170 million. The effect of this disposition, and other smaller acquisitions and dispositions, was not material to the Company's 1994 results of operations.

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 cereal 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 material to the Company's 1993 results of operations.

During 1993, the Company sold its North American ice cream and frozen vegetables businesses and beer can manufacturing plants. The proceeds from the sales of these businesses aggregated $498 million. The effects of these sales of businesses were not material to the Company's 1993 results of operations.

NOTE 3. RESTRUCTURING:

In 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.

NOTE 4. INVENTORIES:

The cost of approximately 50% of inventories in 1995 and 48% of inventories in 1994 was determined using the LIFO method. The stated LIFO values of inventories were approximately $750 million and $870 million lower than the current cost of inventories at December 31, 1995 and 1994, respectively.

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:

	1995		1994	
(in millions)	Amount Outstanding	Average Year-End Rate	Amount Outstanding	Average Year-End Rate
Consumer products:				
Bank loans	$ 209	13.1%	$ 215	12.0%
Commercial paper	2,495	5.8%	2,505	5.9%
Amount reclassified as long-term debt	(2,582)		(2,539)	
	$ 122		$ 181	
Financial services and real estate:				
Commercial paper	$ 671	5.9%	$ 604	5.9%

The fair values of the Company's short-term borrowings at December 31, 1995 and 1994, based upon market rates, approximate the amounts disclosed above.

The Company and its subsidiaries maintain credit facilities with a number of lending institutions, amounting to approximately $15.4 billion at December 31, 1995. Approximately $15.3 billion of these facilities were unused at December 31, 1995. Certain of these facilities are used to support commercial paper borrowings, are available for acquisitions and other corporate purposes and require the maintenance of a fixed charges coverage ratio.

The Company's credit facilities include revolving bank credit agreements totaling $12.0 billion. An agreement for $4.0 billion expires in October 1996, and an agreement for $8.0 billion expires in 2000 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.

NOTE 6. LONG-TERM DEBT:

At December 31, the Company's long-term debt consisted of the following:

(in millions)	1995	1994
Consumer products:		
Short-term borrowings, reclassified	$ 2,582	$ 2,539
Notes, 6.15% to 9.75% (average effective rate 8.20%), due through 2004	8,598	9,760
Debentures, 6.0% to 8.5% (average effective rate 10.71%), $1.3 billion face amount, due through 2017	1,018	995
Foreign currency obligations:		

Swiss franc, 2.0% to 7.0% (average effective rate 6.03%), due through 2000	1,303	942
Deutsche mark, 2.75% to 6.38% (average effective rate 6.12%), due through 2000	392	182
Other	102	118
Other	255	261
	14,250	14,797
Less current portion of long-term debt	(1,926)	(712)
	$12,324	$14,085
Financial services and real estate:		
Eurodollar notes, 6.75% and 6.625% (average effective rate 6.7%), due 1997 and 1999	$ 400	$ 400
Foreign currency obligations:		
Swiss franc, 4.75%, due 1996	--	123
ECU notes, 9.25% and 8.50%, due 1997 and 1998	383	367
	$ 783	$ 890

Aggregate maturities of long-term debt, excluding short-term borrowings reclassified as long-term debt, are as follows:

(in millions)	Consumer Products	Financial Services and Real Estate
1996	$1,926	
1997	1,852	$392
1998	1,555	192
1999	1,789	199
2000	874	
2001-2005	3,283	
2006-2010	169	
Thereafter	487	

The revolving credit facility under which the consumer products short-term debt was reclassified as long-term debt expires in 2000 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, 1995 and 1994 was $15.9 billion and $15.7 billion, respectively.

NOTE 7. CAPITAL STOCK:

Shares of authorized common stock are 4 billion; issued, repurchased and outstanding were as follows:

	Shares Issued	Shares Repurchased	Net Shares Outstanding
Balances, January 1, 1993	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
Repurchased		(17,278,900)	(17,278,900)
Balances, December 31, 1993	935,320,439	(58,229,749)	877,090,690
Exercise of stock options and issuance of other stock awards		4,569,731	4,569,731
Repurchased		(28,801,356)	(28,801,356)
Balances, December 31, 1994	935,320,439	(82,461,374)	852,859,065
Exercise of stock options and issuance of other stock awards		6,470,262	6,470,262
Repurchased		(28,159,321)	(28,159,321)
Balances, December 31, 1995	935,320,439	(104,150,433)	831,170,006

At December 31, 1995, 42,021,339 shares of common stock were reserved for stock options and other stock awards under the Company's stock plans 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 were not exercisable until ten days after public announcement that any person had acquired 10% or more of the Company's common stock or ten business days after any person announced a tender offer for 10% or more of the Company's common stock. In 1995, the Company redeemed the rights for $.01 per right, at a total cost of $9 million.

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 of not less than fair value on the date of the grant.

At December 31, 1995 and 1994, options under the 1992 plan and previous plans were exercisable for 20,700,934 shares and 27,253,547

shares, respectively. Shares available to be granted at December 31, 1995 and 1994 were 12,639,175 and 20,064,190, respectively.

Options activity was as follows for the years ended December 31,

	1995	1994	1993
Balances, beginning of year	27,765,157	30,035,681	23,802,744
Granted	7,983,200	511,610	8,433,540
Exercised	(6,750,112)	(2,394,089)	(1,821,944)
Cancelled	(590,121)	(388,045)	(378,659)
Balances, end of year	28,408,124	27,765,157	30,035,681
Range of exercise prices at year-end	$18.44-$100.00	$10.66-$100.00	$8.67-$100.00
Price range of shares exercised during the year	$10.66-$77.81	$8.67-$49.06	$7.26-$63.69
Weighted average grant price per share	$74.78	$69.73	$49.09

The Company may grant shares of restricted stock to eligible 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. During 1995 and 1994, the Company granted 212,000 shares and 2,636,940 shares, respectively, of restricted stock to eligible U.S. based employees and also issued to eligible non-U.S. employees rights to receive 48,000

and 1,034,320 like shares, respectively. Such shares and rights are subject to forfeiture if certain employment conditions are not met. No shares of restricted stock or rights were granted in 1993. At December 31, 1995, restrictions on the stock, net of forfeitures, lapse as follows: 1996-295,110 shares; 1997-2,912,270 shares; 1998-50,000 shares; 1999-20,000 shares; 2000-225,000 shares and 2001 and thereafter-163,000 shares.

The fair value of the restricted shares and rights at the date of grant is amortized to expense ratably over the restriction period. At December 31, 1995 the unamortized portion of $103 million is reported as a reduction of earnings reinvested in the business.

In June 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation". The Statement allows companies to measure compensation cost in connection with employee stock compensation plans using a fair value based method or to continue to use an intrinsic value based method, which generally does not result in compensation cost. The Company currently plans to continue using the intrinsic value based method.

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 841,558,296, 867,288,869 and 878,120,884 for 1995, 1994 and 1993, respectively.

NOTE 10. PRETAX EARNINGS AND PROVISION FOR INCOME TAXES:

Pretax earnings and provision for income taxes consisted of the following:

(in millions)	1995	1994	1993
Pretax earnings:			
United States	$6,622	$5,781	$4,078
Outside United States	2,725	2,435	2,118
Total pretax earnings	$9,347	$8,216	$6,196
Provision for income taxes:			
United States federal:			
Current	$1,946	$1,540	$1,199
Deferred	97	458	278
	2,043	1,998	1,477
State and local	434	419	311
Total United States	2,477	2,417	1,788
Outside United States:			
Current	1,175	919	830
Deferred	217	155	10
Total outside United States	1,392	1,074	840
Total provision for income taxes	$3,869	$3,491	$2,628

At December 31, 1995 applicable United States federal income taxes and foreign withholding taxes have not been provided on approximately $4.7 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 $285 million would have been provided.

The effective income tax rate on pretax earnings differed from the U.S. federal statutory rate for the following reasons:

	1995	1994	1993
Provision computed at U.S. federal statutory rate	35.0%	35.0%	35.0%
Increase (decrease) resulting from:			
State and local income taxes, net of federal tax benefit	3.0	3.3	3.3
Rate differences--foreign operations	1.9	1.0	0.6
Goodwill amortization	2.1	2.4	3.0
Other	(0.6)	0.8	0.5
Provision for income taxes	41.4%	42.5%	42.4%

The tax effects of temporary differences which gave rise to consumer products deferred income tax assets and liabilities consisted of the following:

(in millions)	December 31, 1995	1994
Deferred income tax assets:		
Accrued postretirement and postemployment benefits	$ 968	$ 925
Accrued liabilities	451	542
Restructuring, strategic and other reserves	331	315
Other	814	754
Gross deferred income tax assets	2,564	2,536
Valuation allowance	(125)	(108)
Total deferred Income tax assets	2,439	2,428
Deferred income tax liabilities:		
Property, plant and equipment	(1,687)	(1,691)
Prepaid pension costs	(197)	(223)
Total deferred income tax liabilities	(1,884)	(1,914)
Net deferred income tax assets	$ 555	$ 514

Financial services and real estate deferred income tax liabilities are primarily attributable to temporary differences 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 major products are cigarettes, cheese, coffee, chocolate confections, processed meat products, various packaged grocery products and beer. 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 divestitures and acquisitions and Note 3 regarding restructuring. 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:

Data by Segment for the years ended December 31, (in millions)	1995	1994	1993
Operating revenues:			
Tobacco	$32,316	$28,671	$25,973
Food	29,074	31,669	30,372
Beer	4,304	4,297	4,154
Financial services and real estate	377	488	402
Total operating revenues	$66,071	$65,125	$60,901
Operating profit:			
Tobacco	$ 7,177	$ 6,162	$ 4,910
Food	3,188	3,108	2,608
Beer	444	413	215
Financial services and real estate	164	208	249
Total operating profit	10,973	9,891	7,982
Unallocated corporate expenses	447	442	395
Operating income	$10,526	$ 9,449	$ 7,587
Identifiable assets:			
Tobacco	$11,196	$ 9,926	$ 9,523
Food	33,447	34,822	33,253
Beer	1,751	1,706	1,706
Financial services and real estate	5,632	5,193	5,659
	52,026	51,647	50,141
Other assets	1,785	1,002	1,064
Total assets	$53,811	$52,649	$51,205
Depreciation expense:			
Tobacco	$ 350	$ 360	$ 342
Food	556	539	538
Beer	101	108	140
Financial services and real estate	1	2	
Capital expenditures:			
Tobacco	$ 525	$ 529	$ 527
Food	948	1,072	944
Beer	115	121	92

Data by Geographic Region for the years ended December 31, (in millions)	1995	1994	1993
Operating revenues:			
United States--domestic	$32,479	$35,936	$34,282
--export	5,920	4,942	4,105
Europe	23,076	19,888	18,304
Other	4,596	4,359	4,210
Total operating revenues	$66,071	$65,125	$60,901
Operating profit:			
United States	$ 8,031	$ 7,306	$ 5,695
Europe	2,366	1,914	1,689
Other	576	671	598
Total operating profit	10,973	9,891	7,982

Unallocated corporate expenses	447	442	395
Operating income	$10,526	$ 9,449	$ 7,587
Identifiable assets:			
United States	$32,521	$33,622	$34,522
Europe	15,981	14,845	12,766
Other	3,524	3,180	2,853
	52,026	51,647	50,141
Other assets	1,785	1,002	1,064
Total assets	$53,811	$52,649	$51,205

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 laws 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 cost (income) consisted of the following:

(in millions)	1995	1994	1993
Service cost--benefits earned during the year	$ 110	$ 130	$ 151
Interest cost on projected benefit obligation	367	342	362
(Return) loss on assets			
--actual	(1,344)	94	(796)
--deferred gain (loss)	848	(605)	314
Amortization of net gain upon adoption of SFAS No. 87	(26)	(28)	(28)
Other cost (income)	75	49	(47)
Net pension cost (income)	$ 30	$ (18)	$ (44)

During 1995, 1994 and 1993, the Company sold businesses and instituted early retirement and workforce reduction programs resulting in other pension expense of $103 million and curtailment gains of $28 million in 1995, additional pension expense of $49 million in 1994 and curtailment gains of $47 million in 1993.

The funded status of U.S. plans at December 31 was as follows:

(in millions)	1995	1994
Actuarial present value of accumulated benefit obligation--vested	$4,116	$3,491
--nonvested	354	270
	4,470	3,761
Benefits attributable to projected salaries	786	549
Projected benefit obligation	5,256	4,310
Plan assets at fair value	6,649	5,735
Excess of assets over projected benefit obligation	1,393	1,425
Unamortized net gain upon adoption of SFAS No. 87	(140)	(169)
Unrecognized prior service cost	131	140
Unrecognized net gain from experience differences	(807)	(802)
Prepaid pension cost	$577	$594

The projected benefit obligation at December 31, 1995, 1994 and 1993 was determined using an assumed discount rate of 7.25%, 8.5% and 7.5%, respectively, and assumed compensation increases of 4.5%, 5.0% and 4.0% at December 31, 1995, 1994 and 1993, respectively. The assumed long-term rate of return on plan assets was 9% at December 31, 1995, 1994 and 1993. 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, nonunion and union employees. Contributions and costs are determined generally as a percentage of 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 $201 million, $191 million and $214 million in 1995, 1994 and 1993, respectively.

Non-U.S. Plans

Net pension cost consisted of the following:

(in millions)	1995	1994	1993
Service cost--benefits earned during the year	$ 80	$ 72	$ 63
Interest cost on projected benefit obligation	160	136	138
(Return) loss on assets			
--actual	(195)	4	(153)
--deferred gain (loss)	74	(113)	55
Amortization of net loss (gain) upon			

adoption of SFAS No. 87	1	(1)	(1)
Net pension cost	$ 120	$ 98	$ 102

The funded status of the non-U.S. plans at December 31 was as follows:

	Assets Exceed Accumulated Benefits		Accumulated Benefits Exceed Assets	
(in millions)	1995	1994	1995	1994
Actuarial present value of accumulated benefit obligation				
--vested	$1,257	$1,046	$703	$606
--nonvested	46	76	69	63
	1,303	1,122	772	669
Benefits attributable to projected salaries	324	316	125	115
Projected benefit obligation	1,627	1,438	897	784
Plan assets at fair value	1,780	1,532	59	51
Plan assets in excess of (less than) projected benefit obligation	153	94	(838)	(733)
Unamortized net loss (gain) upon adoption of SFAS No. 87	11	(13)	14	6
Unrecognized net gain from experience differences	(42)		(34)	(12)
Prepaid (accrued) pension cost	$122	$81	$(858)	$(739)

The assumptions used in 1995, 1994 and 1993 were as follows:

	1995	1994	1993
Discount rates	4.5% to 10.0%	5.0% to 13.0%	5.0% to 12.0%
Compensation increases	3.5% to 9.0%	3.5% to 11.0%	3.5% to 11.0%
Long-term rates of return on plan assets	4.5% to 11.0%	5.5% to 12.0%	5.0% to 12.0%

Plan assets consist primarily of common stock and fixed income securities.

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 changes.

NOTE 14. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS:

Since January 1, 1991, the Company has accrued the estimated cost of retiree benefit payments, other than pensions, during employees' active service periods as prescribed by SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," for its U.S. retiree benefit plans.

Effective January 1, 1995, the Company adopted SFAS No. 106 for its Canadian retiree benefit plans. Consistent with the transition methodology for U. S. plans adopted in 1991, the Company recognized this change in accounting on the immediate recognition basis. The cumulative effects as of January 1, 1995 of adopting SFAS No. 106 for the Canadian plans were an increase in other assets of $14 million, an increase in accrued postretirement health care costs of $35 million and a decrease in 1995 net earnings of $21 million ($.02 per share). However, application of SFAS No. 106 for Canadian employees during the year ended December 31, 1995 did not materially reduce earnings before cumulative effect of accounting changes. Prior to January 1, 1995, the cost of postretirement health care benefits for Canadian employees was expensed as incurred and was not significant for the years ended December 31, 1994 and 1993.

Health care benefits for retirees outside the United States and Canada are generally covered through local government plans. The Company and its U.S. and Canadian 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 at least 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 costs consisted of the following:

(in millions)	1995	1994	1993
Service cost--benefits earned during the period	$ 46	$ 57	$ 59
Interest cost on accumulated postretirement benefit obligation	179	165	159
Amortization of unrecognized net (gain) loss from experience differences	(2)	6	
Amortization of unrecognized prior service cost	(13)	(15)	(16)
Other (income) cost	(13)	32	(59)
Net postretirement health care costs	$197	$245	$143

During 1995, 1994 and 1993, the Company sold businesses and instituted early retirement and workforce reduction programs resulting in other pension expense of $21 million and curtailment gains of $34 million in 1995, additional expense of $32 million in 1994 and net curtailment and settlement gains of $59 million in 1993.

The Company's postretirement health care plans currently are not funded. The status of the plans at December 31 was as follows:

(in millions)	1995	1994
Actuarial present value of accumulated postretirement benefit obligation:		
Retirees	$1,353	$1,165
Fully eligible active plan participants	253	133
Other active plan participants	927	804
	2,533	2,102
Unrecognized net (loss) gain from experience differences	(303)	14

Unrecognized prior service cost	140	186
Accrued postretirement health care costs	$2,370	$2,302

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation for U.S. plans was 9.5% in 1994, 9.0% in 1995 and 8.5% in 1996, gradually declining to 5.0% by the year 2003 and remaining at that level thereafter. For Canadian plans, the assumed health care cost trend rate was 15.0% in 1995 and 14.0% in 1996, gradually declining to 5.0% by the year 2005 and remaining at that level thereafter. A one-percentage-point increase in the assumed health care cost trend rates for each year would increase the accumulated postretirement benefit obligation as of December 31, 1995 and net postretirement health care cost for the year then ended by approximately 11% and 17%, respectively.

The accumulated postretirement benefit obligations for U.S. plans at December 31, 1995, 1994 and 1993 were determined using assumed discount rates of 7.25%, 8.5% and 7.5%, respectively. The accumulated postretirement benefit obligation at December 31, 1995 for Canadian plans was determined using an assumed discount rate of 9.75%.

NOTE 15. CONTINGENCIES:

Legal proceedings covering a wide range of matters are pending in various U.S. and foreign jurisdictions against the Company and its subsidiaries, including Philip Morris Incorporated ("PM Inc.").

In certain of the proceedings pending against PM Inc. and, in some cases, the Company and/or certain of its other subsidiaries, plaintiffs allege injury resulting from cigarette smoking, addiction to cigarette smoking or exposure to environmental tobacco smoke ("ETS") and seek compensatory and, in some cases, punitive damages. As of December 31, 1995, there were 125 such smoking and health cases pending in the United States. Of these cases, 88 were filed in the state of Florida and served between April 28, 1995 and December 31, 1995. One-hundred nine of the smoking and health cases involve allegations of various injuries allegedly related to cigarette smoking, four of which purport to be class actions. Eleven of the smoking and health cases, including one which purports to be a class action, involve allegations of various personal injuries allegedly related to exposure to environmental tobacco smoke. Five of these cases involve states that have commenced actions seeking reimbursement for Medicaid and other expenditures claimed to have been made to treat diseases allegedly caused by cigarette smoking. In addition, a purported class action involving allegations of various personal injuries allegedly related to cigarette smoking is pending in Canada against, among others, an entity in which the Company has a 40% indirect ownership interest, and another such action is pending in Brazil against a subsidiary of the Company, among others. In addition, other tobacco related litigation includes five lawsuits arising from the recall of certain of PM Inc.'s products, one of which purports to be a class action. In addition, there is one lawsuit pending, which purports to be a class action, involving allegations of defective filtered products. There are also three lawsuits pending in which plaintiffs have alleged that PM Inc. failed to manufacture a fire-safe cigarette, including one which purports to be a class action.

The plaintiffs' allegations of liability in those cases in which individuals seek recovery for personal injuries allegedly caused by cigarette smoking are based on various theories of recovery, including negligence, gross negligence, strict liability, fraud, misrepresentation, design defect, failure to warn, breach of express and implied warranties, conspiracy, concert of action, unjust enrichment, common law public nuisance, indemnity, market share liability, and violations of deceptive trade practices laws and antitrust statutes. Plaintiffs also seek punitive damages in many of these cases. Defenses raised by defendants in these cases include lack of proximate cause, assumption of the risk, comparative fault and/or contributory negligence, lack of design defect, statutes of limitations or repose, equitable defenses such as "unclean hands" and lack of benefit, failure to state a claim and preemption by the Federal Cigarette Labeling and Advertising Act, as amended (the "Act"). In June 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 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, were enacted. It is not possible to predict whether any such legislation will be enacted.

A description of pending class action and state Medicaid litigation follows.

Smoking and Health Class Action and Medicaid Litigation

In 1991, a purported class action was filed against the leading United States cigarette manufacturers, in which certain flight attendants, claiming to represent a class of approximately 60,000 individuals, alleged personal injury caused by exposure to ETS aboard aircraft. Broin, et al. v. Philip Morris **Incorporated, et al., Circuit of the Eleventh Judicial Circuit in and for Dade County Florida, Case No. 91-49738-CA-20. In December 1994, the trial court** certified a class consisting of "all non-smoking flight attendants who are or have been employed by airlines based in the United States and are suffering from diseases and disorders caused by their exposure to second hand cigarette smoke in airline cabins." Defendants appealed the class certification decision and order to the Florida Third District Court of Appeals. On January 3, 1996, the Florida Third District Court of Appeals affirmed the trial court's class certification decision. On January 18, 1996, defendants filed with the Florida Third District Court of Appeals, a motion for rehearing, rehearing en banc or certification of the case to the Florida Supreme Court.

In May 1994, an action was filed in a Florida state court against the leading United States tobacco manufacturers and others, including the Company, by plaintiffs alleging injury and purporting to represent a class of certain smokers, certain former smokers and their heirs. Engle, et al. v. R.J. Reynolds **Tobacco Company, et al., Circuit Court of the Eleventh Judicial Circuit in and** for Dade County, Florida, Case No. 94-08273-CA-20. Subsequently, the Company was voluntarily dismissed from this action, which otherwise continues against the tobacco manufacturers, including PM Inc. In October 1994, the trial court granted plaintiffs' motion for class certification. The class, as certified, comprises "all United States citizens and residents and their survivors who have... suffered, presently suffer, or who have died from diseases and medical conditions caused by their addiction to cigarettes that contain nicotine." Defendants appealed the class certification decision and order to the Florida Third District Court of Appeals. Oral argument on the appeal was held in September 1995 at which time the court took the matter under advisement.

In May 1994, the State of Florida enacted a statute which purports to abolish affirmative defenses in actions brought by the state seeking reimbursement of Medicaid costs. The statute

purports in such actions to adopt a market share liability theory, to permit the introduction of statistical evidence to prove causation, and to allow the state not to identify the individual Medicaid recipients who received the benefits at issue in such action. Two lawsuits are presently pending relating to the statute: (1) In June 1994, PM Inc. and others filed suit in Florida state court challenging the constitutionality of the statute. Associated **Industries of Florida, Inc., et al. v. State of Florida Agency for Health Care Administration, et al., Circuit Court of the Second Judicial Circuit in and** for Leon County, Florida, Case No. 94-3128. In June 1995, the Court declared certain parts of the statute to be unconstitutional and declared other parts to be constitutional. The Court also declared that the agency charged with enforcing the statute was unconstitutional. In July, the State of Florida appealed the ruling and PM Inc. then cross-appealed. In August 1995, the Florida Supreme Court accepted the appeal. The Florida Supreme Court heard oral arguments on the appeal in November 1995 and took the matter under advisement;
(2) In February 1995, the State of Florida filed an action against the tobacco industry under the statute, attempting to recover certain Medicaid costs and seeking certain injunctive relief, the funding of certain programs and the disgorging of profits from the sale of cigarettes in Florida. The State of **Florida, et al. v. The American Tobacco Company, et al., Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida, Case No. CL** 95 1466 AO. This action had been stayed by the trial court pending further order of the court. In October 1995, the court partially lifted the stay to allow the entry of a case management order and to permit plaintiffs to file a motion seeking permission to take discovery. In addition to these two lawsuits, during the second quarter of 1995, legislation repealing the statute was passed by the Florida legislature and vetoed by the Governor of Florida after the legislature had adjourned. At its next session, the legislature may consider overriding the veto.

In March 1994, an action was filed in the United States District Court for the Eastern District of Louisiana against the leading United States cigarette manufacturers and others, including the Company, seeking certification of a purported class action on behalf of all United States residents who allege that they are addicted, or are the legal survivors of persons who were addicted, to tobacco products. Castano, et al. v. The American Tobacco Company Inc., et al., **United States District Court, Eastern District of Louisiana, Case No. 94-1044.** Plaintiffs allege that the cigarette manufacturers concealed and/or misrepresented information regarding the addictive nature of nicotine and manipulated the levels of nicotine in their tobacco products to make such products addictive. Plaintiffs' motion for class certification was heard in December 1994, and in February 1995, the court conditionally certified the class for certain issues relating to allegations of fraud, breach of warranty, intentional tort, negligence, strict liability, consumer protection and punitive damages. However, the court declined to certify a class on the issues of injury in fact, causation, reliance, compensatory damages, certain affirmative defenses and on plaintiffs' claim for medical monitoring. Defendants, including the Company, asked the District Court to certify its class certification decision for immediate appeal to the United States Court of Appeals for the Fifth Circuit. The Court granted that request and the Fifth Circuit has agreed to hear the appeal.

In March 1994, an action was filed in an Alabama state court against three leading United States cigarette manufacturers, including PM Inc. Lacey, et al. v. Lorillard Tobacco Company, Inc., et al., Circuit Court of Fayette County, Alabama, Case No. CV-94-024. Plaintiff, claiming to represent all smokers who have smoked or are smoking cigarettes sold by defendants in the State of Alabama, seeks compensatory and punitive damages not to exceed $48,500 per each class member as well as injunctive relief arising from defendants' alleged failure to disclose additives used in their cigarettes. In April 1994, defendants removed the case to the United States District Court for the Northern District of Alabama and filed a motion to dismiss the complaint. Plaintiff subsequently filed a motion to remand to an Alabama state court. The motion to remand has not been ruled upon. A motion to stay the proceedings until the court rules upon the motion to remand was granted in June 1994.

In May 1994, an action was filed in Mississippi state court against the leading United States cigarette manufacturers and others, including the Company, by the Attorney General of Mississippi seeking reimbursement of Medicaid and other expenditures by the State of Mississippi claimed to have been made to treat diseases allegedly caused by cigarette smoking. Moore v. The American **Tobacco Company, et al., Chancery Court of Jackson County, Mississippi, Case No.** 94-1429. Plaintiff also seeks punitive damages and an injunction barring defendants from selling or encouraging the sale of cigarettes to minors. In February 1995, the Court granted plaintiff's motion to strike certain of defendants' challenges to the sufficiency of the complaint and denied defendants' motion for judgement on the pleadings. The court subsequently denied defendants' motion for partial summary judgment, which asserted that the Attorney General lacked the authority to bring those claims seeking Medicaid reimbursement. In July 1995, plaintiffs filed a motion seeking to preclude defendants, including PM Inc., from asserting their "set off" defenses which seek reduction or elimination of damages based on benefits arising to the state through the sale of cigarettes. That motion is still pending.

In August 1994, an action was filed in Minnesota state court against the leading United States cigarette manufacturers and others by the Attorney General of Minnesota and Blue Cross and Blue Shield of Minnesota seeking reimbursement of Medicaid and other expenditures by plaintiffs claimed to have been made to treat diseases allegedly caused by cigarette smoking. Minnesota, et al. v. **Philip Morris Incorporated, et al., Minnesota District Court, Second Judicial** District, County of Ramsey, Case No. C1-94-8565. Plaintiffs' asserted causes of action include negligent performance of a voluntary undertaking, violation of Minnesota antitrust laws, violation of consumer protection statutes, restitution, and conspiracy. Plaintiffs also seek injunctive relief, as well as treble damages for the alleged antitrust violations. In August 1995, defendants requested that the Minnesota Supreme Court determine whether Blue Cross/Blue Shield of Minnesota has standing to bring a direct cause of action against defendants to recover alleged increased health care cost. In September 1995, the Supreme Court accepted review of this matter, and oral argument was heard on January 29, 1996.

In September 1994, an action was filed in West Virginia state court against the leading United States cigarette manufacturers

and others, including the Company, by the Attorney General of West Virginia seeking reimbursement of Medicaid and other expenditures by the State of West Virginia claimed to have been made to treat diseases allegedly caused by cigarette smoking. McGraw v. The American Tobacco Company, et al., Circuit Court of Kanawha County, West Virginia, Case 94-1707. Plaintiff asserts causes of action for restitution, public nuisance, negligent performance of a voluntary undertaking, fraud, conspiracy and concert of action, aiding and abetting, violation of consumer protection statutes, and violation of the West Virginia Antitrust Act. Plaintiff also seeks an injunction barring defendants from selling or encouraging the sale of cigarettes to minors. In December 1994, defendants filed a motion to dismiss, claiming that the Attorney General did not have standing to assert certain counts in the complaint, and separate motions to dismiss the antitrust and consumer fraud counts of the complaint. In addition, the non-manufacturing defendants, including the Company, have moved to dismiss based upon the absence of personal jurisdiction. In May 1995, the Court dismissed eight of ten counts of the complaint for lack of standing and in October 1995, the Court issued a final order entering judgment on behalf of defendants as to those eight counts. The Court did not rule on the antitrust and consumer fraud counts. In October 1995, the Court granted defendants' motion to prohibit prosecution of this case pursuant to a contingent fee agreement with private counsel ruling that the Attorney General lacked the authority to enter into such an agreement.

In November 1995, PM Inc., the other leading United States cigarette manufacturers and the Tobacco Institute filed a lawsuit in the District Court of Travis County, Texas against the Attorney General of the State of Texas, the Health and Human Services Commission of the State of Texas, the Department of Health of the State of Texas, and the Department of Human Services of the State of Texas. The suit seeks to obtain declaratory relief to enjoin the filing and prosecution of a lawsuit, which the Attorney General has threatened to bring against plaintiffs seeking to recover Medicaid costs related to medical conditions allegedly caused by cigarette smoking. The complaint asserts that the threatened lawsuit would violate the United States Constitution and federal law as well as the Texas Constitution and Texas statutory and common law. Philip **Morris Incorporated, et al. v. Dan Morales, Attorney General of the State of Texas, et al., District Court of Travis County, Texas, No. 94-14807.**

In November 1995, PM Inc., along with four other tobacco manufacturers, commenced an action in the United States District Court of Massachusetts against the Attorney General of Massachusetts seeking declaratory and injunctive relief in connection with, inter alia, the constitutionality of two recently enacted Massachusetts statutory provisions (as construed by the Attorney General). The complaint alleges that the Attorney General of Massachusetts had threatened to bring a lawsuit seeking to recover Medicaid costs against plaintiffs purportedly pursuant to these statutory provisions. The complaint asserts claims based upon the United States Constitution and federal law, as well as certain Massachusetts state constitutional, statutory and common law claims. Philip Morris Incorporated, et al. v. Scott Harshbarger, United States District Court, **District of Massachusetts, Case No. 95-12574-GAO. In December 1995, the Attorney** General moved to dismiss the complaint.

In December 1995, the Commonwealth of Massachusetts filed a complaint in the Superior Court, Middlesex County, Massachusetts against PM Inc. and nine other parties. The Commonwealth's complaint seeks certain declaratory and equitable relief, damages, and restitution, including recovery of "the smoking-related costs to the Commonwealth", such as increased expenditures for medical assistance provided under Massachusetts' Medicaid program...[and] medical assistance provided under the Common Health Program. The Commonwealth's complaint asserts five counts: undertaking of special duty, breach of warranty, conspiracy and concert of action, restitution, and unjust enrichment. By letters dated the date of the complaint, the Massachusetts Attorney General advised PM Inc. and certain other parties that the Attorney General intended to add claims under a Massachusetts "Consumer Protection" Act, demanded that $1,372,440,000 be paid, and asserted that if that sum were not paid (or if a reasonable written settlement offer were not made), "double or treble damages, together with interest, costs, and attorneys' fees" could be sought. On January 2, 1996, defendants removed the Commonwealth's action to the United States District Court for the District of Massachusetts. Commonwealth of Massachusetts v. Philip **Morris Inc., et al., United States District Court, the District of Massachusetts, Case No. 96-10014-GAD.**

On January 22, 1996, PM Inc., four other leading United States cigarette manufacturers, the Tobacco Institute and a local retailer, commenced an action in the Circuit Court of Talbot County, Maryland against the Governor and Attorney General of the State of Maryland and the Department of Health and Mental Hygiene of Maryland seeking certain declaratory relief. The action was commenced in response to the Governor and Attorney General's threatened lawsuit against the cigarette manufacturers seeking to recover Medicaid costs related to medical conditions allegedly caused by cigarette smoking. The complaint seeks a declaration that, under Maryland law, any contingent fee contract between the Attorney General and private attorneys to be appointed assistant counsel for the State and compensated in such a manner is an unauthorized exercise of the Attorney General's constitutional and statutory powers, and is illegal and void as against the laws and public policy of the State. Philip Morris Incorporated, et al. v. Parris N. Glendening, Governor of the State of Maryland, et al., **Circuit Court for Talbot County, Maryland, Case No. CG 2829.**

In February 1995, Rothman's, Benson & Hedges, Inc. (in which the Company, through subsidiaries, owns a 40% interest) was served with a statement of claim commencing a purported class action in the Ontario Court of Justice, Toronto, Canada, against Imperial Tobacco Limited, RJR-MacDonald Inc., and Rothman's, Benson & Hedges. LeTourneau v. Rothman's et al., Ontario Court of Justice, Toronto, Canada. Court File No. 95-CU-82186. The lawsuit seeks damages in the amount of $1,000,000 and punitive and exemplary damages and an order requiring the funding of rehabilitation centers. Plaintiffs seek certification of a class of persons who have suffered loss as a result of their alleged nicotine addiction and their estates and persons with related Family Law Act claims. Defendants have requested a more particular statement of claim prior to delivering their statement of defense. In July 1995, the court granted Mr. LeTourneau's motion to withdraw as a class representative and two new class representatives have been substituted.

In July 1995, a purported class action on behalf of all Brazilian smokers and former smokers was filed in State Court in Sao Paulo, Brazil, naming Philip Morris Marketing, S.A. ("PM Marketing") as a codefendant. The Smoker Health Defense Association, et al. v. Souza Cruz, S.A. and Philip Morris Marketing,
S.A., 19th Lower Civil Court of the Central Courts of the Judiciary District of
Sao Paulo, Brazil. Plaintiffs allege that defendants failed to warn that smoking is "addictive" and engaged in misleading advertising. Plaintiffs have obtained an ex-parte order reversing the burden of proof and placing the burden on defendants. PM Marketing has appealed the order and has denied all material allegations in the complaint. In October 1995, PM Marketing requested that the action be dismissed based on plaintiffs' lack of standing and failure to follow proper filing procedures. In December 1995, the court denied PM Marketing's request for dismissal as well as its request to seek recusal of the judge assigned to this matter.

Other Tobacco Related Class Action Litigation
In June 1995, a complaint was filed in the United States District Court for the District of Maryland naming PM Inc. as the sole defendant. Sacks, et al. v. **Philip Morris Inc., United States District Court, District of Maryland, Case**
No. WMN-95-1840. The lawsuit seeks certification of a class consisting of "all persons and estates injured as a result of the defendant's alleged failure to manufacture a fire safe cigarette since 1987." Plaintiffs allege in their complaint that PM Inc. intentionally withheld and suppressed material information relating to technology to produce a cigarette less likely to cause fires and failed to design and sell its cigarettes using the alleged technology. Causes of action are asserted based on federal and state consumer protection statutes, strict liability, negligence and breach of implied warranties. Compensatory and punitive damages are sought. In September 1995, PM Inc. filed a motion to dismiss the complaint based on plaintiffs' failure to state a claim.

In May 1995, PM Inc. announced a recall of certain of its products and in June and July four purported class actions relating to the recall were filed, one in New Jersey, one in Texas and two in Louisiana. Netherland, et al. v. **Philip Morris USA, et al., United States District Court, Western District of**
Louisiana, Monroe Division, Case No. CV95-1249-M; Sansone, et al. v. Hoechst
Celanese Corporation, et al., Superior Court of New Jersey, Hudson County, Case
No. HUD-L-4342-95; Tijerina, et al. v. Philip Morris, Inc., et al., United
States District Court, Northern District of Texas, Amarillo Division, Case No.
2-95-CV-120; and Walton, et al. v. Philip Morris, Inc., United States District
Court, Middle District of Louisiana, Case No. 95-693. The actions alleged, among other things, that PM Inc. sold defective products that caused injury to plaintiffs. In the Louisiana cases, PM Inc. has removed the cases to federal court. In the Sansone action in New Jersey, PM Inc., in July 1995, filed an answer denying the material allegations of the complaint and filed a motion to dismiss portions of plaintiffs' complaint. In September 1995, a consent order was entered with the court dismissing all of plaintiffs' claims except strict liability. In December 1995, a consent order dismissing the remaining claim in the Sansone action was submitted to the court. In the Walton action in Louisiana, plaintiff voluntarily dismissed the case in November 1995.

In September 1995, plaintiffs in the Tijerina action (referenced above), filed a second amended complaint to change the scope of the complaint to allege that PM Inc., has, for many years, knowingly manufactured filtered products that are defective because they contain "defective filters". The second amended complaint also names two additional plaintiffs. The second amended complaint also purports to be brought on behalf of a class of all persons who have used filtered products manufactured by PM Inc. and who have suffered adverse health effects. Tijerina, et al v. Philip Morris, Inc., et al., United States District **Court, Northern District of Texas, Amarillo Division, Case No. 2-95-CV-120.**
Plaintiffs allege that the filters in these products contain hazardous chemicals, that cellulose acetate fibers break away from the filters and are inhaled and ingested by the consumer when the filtered products are used and that the tobacco in these products contains harmful pesticide residues. Plaintiffs further allege that they relied on PM Inc.'s false and fraudulent misrepresentations, made through advertising, regarding the safety of the use of the filters. Motions to dismiss certain of plaintiffs' claims and their putative expert witness designations are pending.

Other Class Action Litigation
In April 1993, the Company and certain officers and directors 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. San Leandro Emergency Medical Group Profit **Sharing Plan, et al. v. Philip Morris Companies Inc., et al., United States**
District Court for the Southern District of New York, Case No. 93 Civ. 2131.
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. In December 1994, defendants' motion to dismiss, heard by the Court in November 1993, was granted and the case was dismissed. Plaintiffs' appeal was argued before the United States Court of Appeals for the Second Circuit in September 1995. On January 25, 1996, the Second Circuit affirmed the District Court's dismissal of the complaint against the Company, but reinstated a claim of alleged insider trading against one of the individual defendants.

In April 1994, the Company, PM Inc. and certain officers and directors were named as defendants in a complaint filed as a purported class action in the United States District Court in the Eastern District of New York. Lawrence, et al. v. Philip Morris Companies Inc., et al., United States District Court,
Eastern District of New York, Case No. 94 Civ. 1494 (JG). Plaintiffs allege that defendants violated the federal securities laws by maintaining artificially high levels of profitability through an inventory management practice pursuant to which defendants allegedly shipped more inventory to customers than was necessary to satisfy market demand. In December 1994, a motion to dismiss by defendants was denied. Defendants have filed an answer denying the material allegations of the complaint. In August 1995, the Court granted plaintiffs' motion for class certification, certifying this action as a class action on behalf of all persons (other than persons associated with defendants) who purchased common stock of the Company during the period July 10, 1991 through April 1, 1993, inclusive, and who held such stock at the close of business

on April 1, 1993. In December 1995, the Court denied the Company's motion to amend the court's class certification order to permit the Company to take an interlocutory appeal from that order to the United States Court of Appeals for the Second Circuit.

In April 1994, the Company, PM Inc. and certain officers and directors were named as defendants in several purported class actions that have been consolidated in the United States District Court in the Southern District of New York. Kurzweil, et al. v. Philip Morris Companies Inc., et al., United States
District Court for the Southern District of New York, Case Nos. 94 Civ. 2373
(MBM) and 94 Civ. 2546 (MBM) and State Board of Administration of Florida, et
al. v. Philip Morris Companies Inc., et al., United States District Court for
the Southern District of New York, Case No. 94 Civ. 6399 (MBM). In those cases, plaintiffs assert that defendants violated federal securities laws by, among other things, making allegedly false and misleading statements regarding the allegedly addictive qualities of cigarettes. In each case, plaintiffs claim to have been misled by defendants' knowing and intentional failure to disclose material information. In September 1995, the court granted defendants' motion to dismiss the two complaints in their entirety. The court granted plaintiff in the State Board action leave to replead one of its claims.

In March 1995, an antitrust action was filed in California state court against four leading United States cereal manufacturers, including the Post Division of Kraft Foods, Inc., by plaintiffs purporting to represent all California residents who purchased defendants' cereal products for consumption during the four years preceding the date upon which the complaint was filed. McIver, et al. v. General Mills, Inc., et al., Superior Court of the State of
California, County of Santa Barbara, Case No. 206666. Plaintiffs seek treble damages and the return of profits resulting from defendants' alleged conspiracy to fix and raise prices of cereal products sold to California consumers. In April 1995, a second purported class action similar to the earlier action was filed in the same court. In August 1995, the two cases were consolidated. In September 1995, the court granted defendants' motions for summary judgment. In December 1995, plaintiffs filed an appeal of that decision with the California Court of Appeals.

The Company and each of its subsidiaries named as a defendant believes, and each has been so advised by counsel handling the respective cases, that it has a number of valid defenses to all litigation pending against it. 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. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. There have also been a number of adverse legislative, regulatory, political and other developments concerning cigarette smoking and the tobacco industry. These developments generally receive widespread media attention. The Company is not able to evaluate the effect of these developing matters on pending litigation and the possible commencement of additional litigation.

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 or its financial position could be materially affected by an ultimate unfavorable outcome of certain pending litigation. Management believes, however, that the ultimate outcome of all pending litigation should not have a material adverse effect on the Company's financial position.

NOTE 16. ADDITIONAL INFORMATION:

(in millions)	1995	1994	1993
Years ended December 31:			
Depreciation expense	$1,024	$1,027	$1,042
Rent expense	$ 390	$ 426	$ 380
Research and development expense	$ 481	$ 435	$ 421
Advertising expense	$3,724	$3,358	$2,970
Interest and other debt expense, net:			
Interest expense	$1,259	$1,288	$1,478
Interest income	(80)	(55)	(87)
	$1,179	$1,233	$1,391
Interest expense of financial services and real estate operations included in cost of sales	$ 84	$ 78	$ 87

NOTE 17. FINANCIAL SERVICES AND REAL ESTATE OPERATIONS:

Philip Morris Capital Corporation ("PMCC") is a wholly-owned subsidiary of the Company. 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 subsidiaries. Additionally, PMCC is engaged through its wholly-owned subsidiary, Mission Viejo Company, in land planning, development and sales activities in California and Colorado.

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 1995, 1994 or 1993.

Condensed balance sheet data at December 31 follow:

(in millions)	1995	1994
Assets		
Finance leases	$6,858	$6,048
Other investments	471	542
	7,329	6,590
Less unearned income and allowances	2,336	2,067
Finance assets, net	4,993	4,523
Real estate held for development and sale	339	401
Goodwill, net of accumulated amortization	35	36
Other assets	267	276
Total assets	$5,634	$5,236
Liabilities and stockholder's equity		
Short-term borrowings	$ 671	$ 604
Long-term debt	783	890
Deferred income taxes	3,382	3,010
Other liabilities	121	151
Stockholder's equity	677	581
Total liabilities and stockholder's equity	$5,634	$5,236

The amounts shown above include receivables and payables with the Company and its other subsidiaries. These amounts were eliminated in the Company's consolidated balance sheets.

Finance leases consist of a portfolio of investments in transportation, power generation, manufacturing 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, net of related deferred tax effects.

Other investments also include real estate and commercial receivables, the total estimated fair values of which, at December 31, 1995 and 1994, approximated their carrying values. 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 follow for the years ended December 31,

(in millions)	1995	1994	1993
Revenues:			
Financial services	$197	$257	$276
Real estate	184	236	134
Total revenues	381	493	410
Expenses:			
Financial services	107	114	105
Real estate	129	190	90
Total expenses	236	304	195
Equity in earnings of limited partnership investments	15	17	8
Earnings before income taxes and cumulative adjustment	160	206	223
Cumulative pretax adjustment related to leveraged leases			23
Earnings before income taxes	160	206	246
Provision for income taxes:			
Current year	55	72	75
Cumulative adjustment related to leveraged leases			40
Total provision for income taxes	55	72	115

Net earnings	$105	$134	$131

During 1993, 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 1993 earnings before income taxes, increased the provision for income taxes and decreased net earnings by $23 million, $40 million and $17 million, respectively.

NOTE 18. FINANCIAL INSTRUMENTS:

Derivative financial instruments

The Company operates internationally, with manufacturing and sales facilities in various locations around the world. Derivative financial instruments are used by the Company for purposes other than trading, principally to reduce exposures to market risks resulting from fluctuations in interest rates and foreign exchange rates by creating offsetting exposures. The Company is not a party to leveraged derivatives.

The Company has foreign currency and related interest rate swap agreements which were executed to reduce the Company's borrowing costs and serve as hedges of the Company's net assets in foreign subsidiaries, principally those denominated in Swiss francs. At December 31, 1995 and 1994, the notional principal amounts of these agreements were $2.0 billion and $1.6 billion, respectively. Aggregate maturities at December 31, 1995 were as follows (in millions): 1996-$489; 1997-$737; 1998-$185; 1999-$350 and 2000-$215. The notional amount is the amount used for the calculation of interest payments which are exchanged over the life of the swap transaction and is equal to the amount of foreign currency or dollar principal exchanged at maturity.

Forward exchange contracts are used by the Company to reduce the effect of fluctuating foreign currencies on short-term foreign currency denominated intercompany and third party transactions. At December 31, 1995 and 1994, the Company had forward exchange contracts, with maturities of less than one year, of $1.2 billion and $1.6 billion, respectively.

Credit exposure and credit risk

The Company is exposed to credit loss in the event of nonperformance by counterparties to the swap agreements. However, such exposure was not material at December 31, 1995, and the Company does not anticipate nonperformance. Further, the Company does not have a significant credit exposure to an individual counterparty.

Fair value

The aggregate fair value, based on market quotes, of the Company's total debt at December 31, 1995 was $16.7 billion as compared to its carrying value of $15.8 billion. The aggregate fair value of the Company's total debt did not differ materially from its carrying value at December 31, 1994. The estimated fair value of financial services and real estate other investments, including commercial and real estate receivables, approximated their carrying values at December 31, 1995 and 1994.

The carrying values of the foreign currency and related interest rate swap agreements and of the forward contracts, which did not differ materially from their fair values, were not material.

See Notes 5, 6 and 17 for additional disclosures of fair value for short-term borrowings, long-term debt and financial instruments within the financial services and real estate operations, respectively.

NOTE 19. QUARTERLY FINANCIAL DATA (UNAUDITED):

	1995 Quarters			
(in millions, except per share data)	1st	2nd	3rd	4th
Operating revenues	$16,517	$17,129	$16,689	$15,736
Gross profit	$ 6,467	$ 6,816	$ 6,764	$ 6,407
Earnings before cumulative effect of accounting changes	$ 1,363	$ 1,410	$ 1,433	$ 1,272
Cumulative effect of changes in method of accounting (See Notes 1 and 14)	(28)			
Net earnings	$ 1,335	$ 1,410	$ 1,433	$ 1,272
Per share data:				
Earnings before cumulative effect of accounting changes	$ 1.60	$ 1.67	$ 1.71	$ 1.53
Cumulative effect of changes in method of accounting	(.03)			
Net earnings	$ 1.57	$ 1.67	$ 1.71	$ 1.53
Dividends declared	$ .825	$ .825	$ 1.00	$ 1.00
Market price-high	$ 68	$76 5/8	$84 1/8	$94 3/8
-low	$55 3/4	$65 1/4	$71 3/8	$82 5/8

During the year, the Company sold its bakery businesses and its North American margarine, specialty oils, marshmallows, caramels and Kraft Foodservice distribution businesses. In addition, several smaller international food businesses were sold. Pretax net gains from the sales of these businesses were $275 million, most of which were reflected in fourth quarter earnings. In the fourth quarter of 1995, the Company also recorded provisions in connection with these divestitures, primarily for an early retirement program and the write-down of assets of food facilities to be downsized or closed. The net impact of these divestitures and provisions was not material to fourth quarter operating income, pretax earnings or earnings per share.

	1994 Quarters			
(in millions, except per share data)	1st	2nd	3rd	4th
Operating revenues	$15,500	$16,414	$16,710	$16,501
Gross profit	$ 5,929	$ 6,480	$ 6,579	$ 6,437
Net earnings	$ 1,171	$ 1,232	$ 1,230	$ 1,092
Per share data:				
Net earnings	$ 1.34	$ 1.42	$ 1.42	$ 1.27

Dividends declared	$ .69	$ .69	$ .825	$ .825
Market price-high	$ 61	$55 3/8	$62 3/8	$64 1/2
-low	$49 5/8	$47 1/4	$51 3/4	$56 1/8

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, 1996 there were approximately 144,400 holders of record of the Company's common stock.

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, 1995 and 1994, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1995. 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, 1995 and 1994, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

As discussed in Note 13 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.

COOPERS & LYBRAND L.L.P.

New York, New York
January 29, 1996

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 L.L.P., 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 L.L.P., the Company's internal auditors and management representatives to review internal accounting control, auditing and financial reporting matters. Both Coopers & Lybrand L.L.P. and the internal auditors have unrestricted access to the Audit Committee and may meet with it without management representatives being present.

EXHIBIT 21

Certain active subsidiaries of the Company and their subsidiaries as of December 31, 1995, are listed below. The names of certain subsidiaries, which considered in the aggregate would not constitute a significant subsidiary, have been omitted.

Name	State or Country of Organization
464088 Ontario Limited	Canada
AB Estrella	Sweden
AB Kraft Jacobs Suchard Lietuva	Lithuania
AB Malaco	Sweden
AB Marabou	Sweden
AB Slotts	Sweden
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
A/S Trans-Scandia	Norway
Ajinomoto General Foods, Inc.	Japan
American Specialty & Craft Beer Co.	Delaware
Beijing Kraft Food Corporation Limited	China
C.A. Tabacalera Nacional	Venezuela
Cafe GRAND'MERE S.A.	France
Cafe HAG Sarl	France
Callard & Bowser-Suchard, Inc.	Delaware
Capri Sun, Inc.	Delaware
Carlton Lebensmittelvertriebs GmbH	Germany
Celis Brewery, Inc.	Texas
Century Importers Inc.	Delaware
Churny Company, Inc.	Delaware
Closed Joint Stock Company Kraft Jacobs Suchard Petroconf..	Russian Federation
COFFEE HAG (U.K.) LIMITED	United Kingdom
Comptoir De La Confiserie	France
Consolidated Beverage Distributors, Inc.	California
Cote d'Or Italia S.r.l.	Italy
DE LA S.r.l.	Italy
Daesung Machinary	Korea
Dart Resorts Inc.	Delaware
Dart & Kraft Finance N.V.	Netherlands Antilles
Di Giorno Foods Co.	Delaware
Dong Suh Foods Corporation	Korea
Dong Suh Oil & Fats Co., Ltd.	Korea

Name	State or Country of Organization
Egri Dohanygyar kft.	Hungary
El Gallito Industrial, S.A.	Costa Rica
Estrella A/S	Denmark
Estrella Holding A/S	Denmark
FTR Holding S.A.	Switzerland
Fabriques de Tabac Reunies S.A.	Switzerland
Foodco Corporation	Delaware
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 Sverige AB	Sweden
Gardner's Good Foods, Inc.	New Jersey
General Foods Credit Corporation	Delaware
General Foods Credit Investors No. 1 Corporation	Delaware
General Foods Credit Investors No. 2 Corporation	Delaware
General Foods Credit Investors No. 3 Corporation	Delaware
General Foods Foreign Sales Corporation	Virgin Islands (U.S.)
General Foods Pty. Ltd.	Australia
Grant Holdings, Inc.	Pennsylvania
Grundstucksgemeinschaft Kraft Jacobs Suchard GbR	Germany
Guangtong Food Company Ltd.	China
HAG GF AG	Germany
HAG GF Vertriebs & Marketing Corporation	Delaware
Hansung Life Insurance Co. Ltd.	Korea
HNB Investment Corp.	Delaware
International Pet Foods Ltd.	New Zealand
ION SA	Greece
Jacob Leinenkugel Brewing Company, Inc.	Wisconsin
Jacobs Caffe S.p.A.	Italy
Jacobs Erzeugnisse GmbH	Germany
Jacobs Kaffee Gesellschaft mbH Vienna	Austria
Jacobs Suchard Beteiligungs Gesellschaft GmbH	Austria
Jacobs Suchard China Limited	Hong Kong
Jacobs Suchard Dadak A.S.	Czechoslovakia
Jacobs Suchard Figaro A.S.	Czechoslovakia
Jacobs Suchard Pavlides SA	Greece
Jacobs Suchard SPA	Italy
KJS 1995 Limited	United Kingdom
Kaffee HAG AG	Switzerland
Kaffee Handels Gesellschaft G.m.b.H.	Germany
The Kenco Coffee Company Limited	United Kingdom
Kharkov Tobacco Factory	Ukraine
Kraft Beverage (Tianjin) Co., Ltd.	China
Kraft Canada Inc.	Canada
Kraft Chorzele Sp. z o.o.	Poland
Kraft Food Ingredients Corp.	Delaware
Kraft Foods AB	Sweden
Kraft Foods de Mexico S.A. de C.V.	Mexico

Name	State or Country of Organization
Kraft Foods Holdings Norway, Inc.	Delaware
Kraft Foods, Inc.	Delaware
Kraft Foods (Philippines), Inc.	Philippines
Kraft Foods (Puerto Rico), Inc.	Puerto Rico
Kraft Foods International, Inc.	Delaware
Kraft Foods (Australia) Limited	Australia
Kraft Foods Limited (Australia)	Australia
Kraft Foods Limited (United Kingdom)	United Kingdom
Kraft Foods Manufacturing Corporation	Delaware
Kraft Freia Marabou ApS	Denmark
Kraft Freia Marabou Danmark A/S	Denmark
Kraft Freia Marabou Norden a.s.	Norway
Kraft General Foods Europe GmbH	Germany
Kraft General Foods New Zealand Limited	New Zealand
Kraft General Foods Norge AS	Norway
Kraft General Foods S.p.A.	Italy
Kraft Hellas SA	Greece
Kraft Holdings Limited (United Kingdom)	United Kingdom
Kraft Jacobs Suchard AG	Switzerland
Kraft Jacobs Suchard (Schweiz) AG	Switzerland
Kraft Jacobs Suchard BV	Netherlands
Kraft Jacobs Suchard Berlin & Co. GmbH KG	Germany
Kraft Jacobs Suchard Bulgaria AD	Bulgaria
Kraft Jacobs Suchard CS SPOL. S.R.O.	Czechoslovakia
Kraft Jacobs Suchard Central & Eastern Europe Service BV	Netherlands
Kraft Jacobs Suchard Coffex	France
Kraft Jacobs Suchard Coordination Center SA	Belgium
Kraft Jacobs Suchard - Cote d'Or S.A/N.V.	Belgium
Kraft Jacobs Suchard Erzeugnisse GmbH & Co. KG	Germany
Kraft Jacobs Suchard Food & Beverage Service GmbH	Germany
Kraft Jacobs Suchard France S.A.	France
Kraft Jacobs Suchard GmbH (Bremen)	Germany
Kraft Jacobs Suchard Hungaria KFT	Hungary
Kraft Jacobs Suchard Iberia, S.A.	Spain
Kraft Jacobs Suchard Ireland Ltd.	Ireland
Kraft Jacobs Suchard Kaffeeveredelungs GmbH & Co KG	Germany
Kraft Jacobs Suchard La Vosgienne	France
Kraft Jacobs Suchard Laverune	France
Kraft Jacobs Suchard Limited	United Kingdom
Kraft Jacobs Suchard (Holdings) Limited (United Kingdom)	United Kingdom
Kraft Jacobs Suchard (Middle East & Africa) Limited	United Kingdom
Kraft Jacobs Suchard Management & Consulting AG	Switzerland
Kraft Jacobs Suchard Manufacturing GmbH & Co KG	Germany
Kraft Jacobs Suchard Polska Sp. z o.o.	Poland
Kraft Jacobs Suchard R & D, Inc.	Delaware
Kraft Jacobs Suchard Reims	France
Kraft Jacobs Suchard Romania SA	Romania
Kraft Jacobs Suchard Service AG (Switzerland)	Switzerland

Name	State or Country of Organization
Kraft Jacobs Suchard Service GmbH & Co. KG	Germany
Kraft Jacobs Suchard Strasbourg	France
Kraft Jacobs Suchard Ukraina Open Joint Stock Company	Ukraine
Kraft Japan, K.K.	Japan
Kraft Manufacturing GmbH	Germany
Kraft Pizza Company	Delaware
Kraft Suchard Brasil S.A.	Brazil
Kraft Tianmei Food (Tianjin) Co., Ltd.	China
Krema Limited	Ireland
MBC Holdings, Inc.	Wisconsin
Malaco A/S	Denmark
Malaco i Eskilstuna AB	Sweden
Malaco (U.K.) Ltd.	United Kingdom
Marabou Belgium N.V.	Belgium
Marabou GmbH	Germany
Marsa Kraft Jacobs Suchard Sabanci Gida Sanayi ve Ticaret A.S.	Turkey
Martlet Importing Co. Inc.	New York
Massalin Particulares S.A.	Argentina
Maxpax France SA	France
Maxpax (U.K.) Limited	United Kingdom
Miller Brewing 1855, Inc.	Delaware
Miller Brewing Company	Wisconsin
Miller Brewing do Brasil, Ltda.	Brazil
Miller Brewing of Canada, Ltd.	Canada
Miller Brewing of Europe, Ltd.	United Kingdom
Mission Viejo Company	California
Molson Breweries U.S. Holdings Inc.	Delaware
Molson Breweries U.S.A. Inc.	Delaware
N.V. Kraft Jacobs Suchard SA	Belgium
OMFC Service Company	Delaware
ONKO Grossroesterei G.m.b.H.	Germany
Oy Estrella AB	Finland
Oy Marabou, AB	Finland
P.M. Beverage Holdings, Inc.	Delaware
P.T. Kraft Ultrajaya Indonesia	Indonesia
Phenix Leasing Corporation	Delaware
Phenix Management Corporation	Delaware
Philip Morris Asia Incorporated	Delaware
Philip Morris Belgium S.A.	Belgium
Philip Morris Capital Corporation	Delaware
Philip Morris Capital (Bermuda) Limited	Bermuda
Philip Morris Corporate Services Inc.	Delaware
Philip Morris Credit Capital N.V.	Netherlands Antilles
Philip Morris Europe S.A.	Delaware
Philip Morris Finance Europe B.V.	Netherlands
Philip Morris G.m.b.H.	Germany
Philip Morris Holland B.V.	Netherlands
Philip Morris Incorporated	Virginia
Philip Morris International Finance Corporation	Delaware

Name	State or Country of Organization
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 SA, Phillip Morris Sabanci Pazarlama ve Satis A.S.	Turkey
Philip Morris Sales Inc.	Delaware
Philip Morris (Malaysia) Sdn. Bhd.	Malaysia
PHILSA Philip Morris Sabanci Sigara ve Tutunculuk Sanayi ve Ticaret, A.S.	Turkey
PMCC Investors No. 1 Corporation	Delaware
PMCC Investors No. 2 Corporation	Delaware
PMCC Investors No. 3 Corporation	Delaware
PMCC Investors No. 4 Corporation	Delaware
PMCC Leasing Corporation	Delaware
Premierfoods Corporation	Taiwan
Ridg's Finer Foods, Inc.	Delaware
Rye Ventures, Inc.	Delaware
SB Leasing Inc.	Delaware
Seven Seas Foods, Inc.	Delaware
SICMA SA (Societe Industrielle pour la Construction de Materiels Automa)	France
Shunde Kraft Confectionery Company Limited	China
Suchard Limited	United Kingdom
Suchard Schokolade Ges. mbH Bludenz (Austria)	Austria
Suchard Tobler Vertriebs GmbH	Germany
Superior AgResource, Inc.	Delaware
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
UAB Philip Morris Lietuva	Lithuania
Vict. Th. Engwall & Co., Inc.	Delaware
Votesor BV	Netherlands
Zaklady Przemyslu Cukierniczego 'Olza' SA	Poland

Exhibit 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in Post-Effective Amendment No. 13 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 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, 33-48781, 33-59109, 33-63975 and 33-63977), of our reports dated January 29, 1996, on our audits of the consolidated financial statements and financial statement schedule of the Company as of December 31, 1995 and 1994, and for the years ended December 31, 1995, 1994, and 1993, which reports are included or incorporated by reference in this Annual Report on Form 10-K.

/s/ Coopers & Lybrand L.L.P.
COOPERS & LYBRAND L.L.P.

New York, New York

March 26, 1996

EXHIBIT 24

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 Geoffrey C. Bible, Hans G. Storr and William H. Donaldson, 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, 1995 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 28th day of February, 1996.

/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 Geoffrey C. Bible, Hans G. Storr and William H. Donaldson, 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, 1995 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 28th day of February, 1996.

/s/ Murray H. Bring
Murray H. Bring

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 Geoffrey C. Bible, Hans G. Storr and William H. Donaldson, 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, 1995 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 28th day of February, 1996.

/s/ Harold Brown
Harold Brown

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 Geoffrey C. Bible, Hans G. Storr and William H. Donaldson, 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, 1995 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 28th day of February, 1996.

/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 Geoffrey C. Bible, Hans G. Storr and William H. Donaldson, 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, 1995 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 28th day of February, 1996.

/s/ Jane Evans
Jane Evans

POWER OF ATTORNEY

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/s/ Robert E.R. Huntley
Robert E.R. Huntley

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/s/ Rupert Murdoch
Rupert Murdoch

POWER OF ATTORNEY

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/s/ John D. Nichols
John D. Nichols

POWER OF ATTORNEY

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/s/ Richard D. Parsons
Richard D. Parsons

POWER OF ATTORNEY

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/s/ Roger S. Penske
Roger S. Penske

POWER OF ATTORNEY

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/s/ John S. Reed
John S. Reed

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/s/ Stephen M. Wolf
Stephen M. Wolf

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