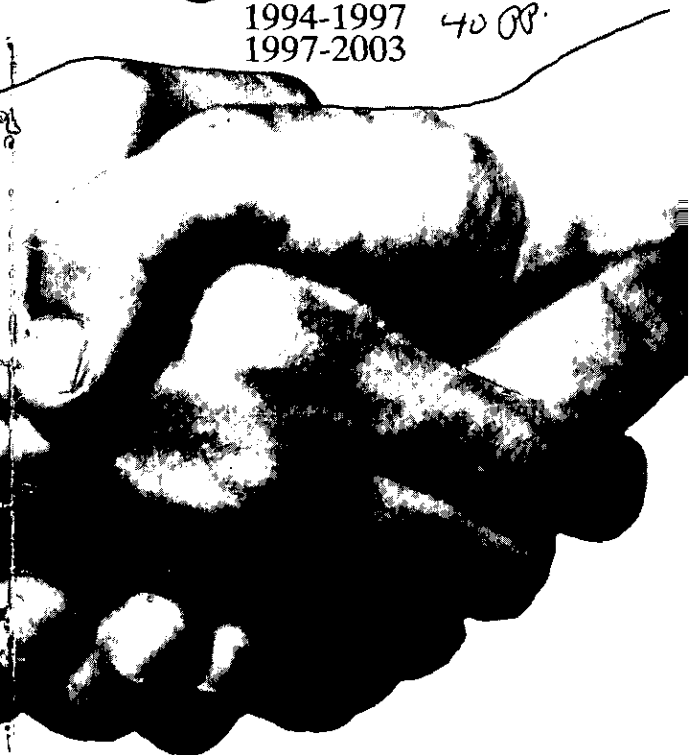


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Long Term
Agreement

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1997-2003



between Philip Morris, U.S.A.
and International Association of Machinists
and Aerospace Workers,
Lodge No.10
A.F.L.-C.I.O. C.L.C.

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LONG TERM AGREEMENT

**Between Philip Morris U.S.A.
and International Association of Machinists
and Aerospace Workers,
Lodge #10, A.F.L.-C.I.O. C.L.C.**

Long Term Agreement

This Long Term Agreement is made and entered into on this 6th day of June 1994, by and between Philip Morris, USA with facilities located at Richmond, Virginia, hereinafter referred to as the Employer, and the International Association of Machinists and Aerospace Workers, Lodge #10, AFL-CIO, CLC, hereinafter referred to as the Union.

Article I *Purpose*

Section 1

It is in the mutual interest of the Employer and Union to provide stability of production and continuous reliable employment for the benefit of employees, customers, suppliers, shareholders and the public. To attain this objective requires the expeditious and peaceful resolution of issues which arise during the course of collective bargaining. The parties being confident that they possess the requisite skills and ability to resolve differences which may develop in future negotiations through the process of free collective bargaining without the need for strikes and/or lockouts hereby agree that in consideration for certain

benefits to insure financial and employment stability for employees to enter into a long term no strike/no lockout contract which will prevent disruptions in operations and employment and avert strike hedge inventory build-up.

Section 2

In view of the foregoing, it is agreed by the parties that they will make every effort to resolve all differences for basic collective bargaining agreements through free collective bargaining. If after such thorough good faith bargaining the parties fail to reach agreement, either party may submit unresolved issues to arbitration in accordance with the terms of this Long Term Agreement.

Article II ***Gender***

The use of masculine gender in this Agreement shall be deemed to refer to persons of both sexes.

Article III ***Recognition and Union Security***

Section 1 *Recognition*

Philip Morris U.S.A., hereinafter referred to as "The Employer" recognized the International Association of Machinists and Aerospace Workers Local Lodge #10, hereinafter referred to as "the Union", as being the duly elected or legally accredited representatives of the employees at their Richmond, Virginia, plants and immediate vicinity, who are employed as maintenance mechanics, instrument electricians, sheet metal workers, carpenters, pipefitters, painters, apprentices of the above crafts, firemen, and assistant firemen exclu-

sive of such employees as supervisors, assistant supervisors, clerical or office workers, salaried executives, and all salaried employees, and of such other jobs which are covered by separate Agreements. Lodge #10 shall constitute the sole bargaining agency for those it represents for the purpose of collective bargaining in all matters pertaining to wages, hours and working conditions.

Section 2 Union Security

In the event of a change in either Federal or State laws relative to Union security clauses, at the request of either party, the parties shall enter into negotiations for the purpose of reaching agreement on a new and more liberal Union Security clause. It is further understood that the checkoff provision contained in the Basic Collective Bargaining Agreement shall continue for the term of this Long Term Agreement.

Article IV ***Payment, Duration and Effective Date***

Section 1

This Long Term Agreement shall commence on June 6, 1994 and shall expire on June 5, 2003. On each anniversary date of this Agreement, commencing on June 6, 1994, each active permanent employee on the payroll of the Employer including persons absent due to occupational injury/illness, medical and maternity leave of absence covered by this Agreement shall receive an annual bonus payment as follows:

- a. A lump sum payment of six hundred dollars (\$600.00) to be paid in 1994.
- b. Effective June 6, 1995, the following shall apply:

1. Eligibility

Each active full-time employee on the payroll of the Company, including employees absent due to occupational injury or illness, Medical Leave of Absence, Maternity Leave of Absence or other authorized leave under the Family Medical Leave Act, covered by this agreement, on June 6, 1995 shall be eligible for a Long Term Agreement Bonus. Any active, full-time employee who joins the payroll after June 6, 1995 shall be eligible for an \$800.00 lump sum bonus on each succeeding anniversary date of this agreement through June 6, 2002.

2. Election of Options

Eligible employees shall be provided with three (3) payment options. Employees must make an irrevocable election of a payment option prior to the first LTA Bonus payment date of June 6, 1995. The Company will make available option forms to employees between March 15, 1995 and the first payment date. If an employee does not make an election, the default election shall be option 1 as specified below.

3. Options

A. Option 1 — Cash Payment

Employees electing this option or failing to affirmatively elect Options 2 or 3 below shall receive payment according to the following schedule:

June 6, 1995—	\$800.00
June 6, 1996—	\$800.00

June 6, 1997—	\$800.00
June 6, 1998—	\$800.00
June 6, 1999—	\$800.00
June 6, 2000—	\$800.00
June 6, 2001—	\$800.00
June 6, 2002—	\$800.00

In order to receive payment as specified above, employees must continue eligibility as defined in paragraph 1 above on each of the dates shown.

B. Option 2 — Annual Receipt of Stock

Eligible employees electing this option shall be granted Promissory Shares in an amount equal to the mean of the common share trading price (highest/lowest) on June 6, 1995 (or the last trading day prior to that date if June 6, 1995 is not a trading day) divided into \$4,826.00 less any required Federal, State and Local withholding taxes and FICA requirements on the equivalent of the \$800 initial payment. This dollar amount represents the net present value as of June 6, 1995 of eight annual payments of \$800.00.

The number of shares of equivalent Promissory Shares will be increased by the value of any Philip Morris Common Stock dividend(s) as declared which would accrue during the one (1) year period between the award date and the date of receipt.

On each anniversary of the LTA renewal date of June 6, 1995, employees will be awarded

at their option the stock or cash equivalent of the total account balance including any reinvested accrued dividend in accordance with the following schedule:

June 6, 1996 — One seventh (1/7) of the total remaining balance including reinvested dividends.

June 6, 1997 — One sixth (1/6) of the total remaining balance including reinvested dividends.

June 6, 1998 — One fifth (1/5) of the total remaining balance including reinvested dividends.

June 6, 1999 — One fourth (1/4) of the total remaining balance including reinvested dividends.

June 6, 2000 — One third (1/3) of the total remaining balance including reinvested dividends.

June 6, 2001 — One half (1/2) of the total remaining balance including reinvested dividends.

June 6, 2002 — The total remaining balance including reinvested dividends.

The number of shares of Philip Morris Common Stock or the cash payment delivered will immediately be reduced by such additional amount equal to the employee's liability for FICA taxable earnings and Federal, State, and Local tax withholding requirements if any. Any resulting partial

shares will be paid in cash. The value of an equivalent Promissory Share will be equal to the mean of the common share trading price (highest/lowest) on June 6, 1996 and any subsequent payment date or the last trading day prior to that date if June 6th is not a trading day.

Employees electing Option 2 who are laid off, retire, separate under a Company sponsored separation program, or receive LTD between the date of the grant and the date of delivery shall receive the cash equivalent or stock as described above only on the next annual payment date following separation.

Employees electing Option 2 who voluntarily resign or are discharged prior to the date of delivery shall forfeit any unpaid shares.

In the event of an employee's death between the date of the grant and the date of delivery, the cash equivalent or stock scheduled to be delivered only on the next annual payment date will be delivered to the employee's designated beneficiary if a designation of beneficiary form is completed, or the estate of the employee if no form is completed by the date stock is scheduled to be delivered.

C. Option 3 — Deferred Shares

Eligible employees electing this option shall be granted Promissory Shares in an amount equal to the mean of the common share trading price (highest/lowest) on June 6, 1995 (or

the last trading day prior to that date if June 6, 1995 is not a trading day) divided into \$4,826.00 less any required Federal, State and Local withholding taxes and FICA requirements on the equivalent of the \$800 initial payment. This dollar amount represents the net present value as of June 6, 1995 of eight annual payments of \$800.00.

The number of shares of equivalent Promissory Shares will be increased by the value of any Philip Morris common Stock dividend(s) as declared which would accrue from the award date and the date of receipt on June 6, 2002.

On June 6, 2002, the number of shares of Philip Morris Common Stock of equivalent Promissory Shares will immediately be reduced by such additional amount equal to the employee's liability for FICA taxable earnings and Federal, State and local tax withholding requirements if any. Any resulting partial shares will be paid in cash. The value of an equivalent Promissory Share will be equal to the mean of Common Stock trading price (highest/lowest) on the date the equivalent Promissory Shares are granted.

Employees electing Option 3 who voluntarily resign or are discharged between the date of the grant and the date of delivery shall forfeit all shares.

Employees who are laid off, retire or separate under a Company sponsored separation

program or receive LTD between the date of the grant and the date of the delivery shall receive a prorated amount in the form of stock or cash equivalent of the account balance equal to one seventh (1/7th) of the balance for each full year of continuous service from the date of the grant on June 6, 1995. Such prorated balance shall be delivered on June 6, 2002. In the event of an employee's death, the prorated award in the form of stock or cash equivalent will be delivered to the employee's designated beneficiary if a designation of beneficiary form is completed or the estate of the employee if no form is completed. Such prorated balance shall be delivered on June 6, 2002. Prorated balances delivered in the manner described above shall continue to accrue reinvested dividend earnings until the final delivery date of June 6, 2002.

4. General

An employee may not assign the award of equivalent Promissory Shares to anyone else.

Equivalent Promissory Shares will be adjusted for any Philip Morris Common Stock splits which might occur prior to the date of receipt.

Since the award is equivalent Promissory Shares, there will be no Stockholder voting rights associated with any equivalent Promissory Shares.

Equivalent Promissory Shares or PM Common Stock issued or cash payments elected under

any payment option will not be considered as "earnings" for purposes of DPS, Retirement, Life Insurance, and LTD.

The Company will issue a prospectus in accordance with applicable law outlining the details of this Promissory Stock proposal.

Any employee who is hired and does not complete a probationary period prior to June 6, 1995 shall not be eligible for payment under Options 2 or 3.

- c. Probationary employees, on the payroll at the time a bonus payment is made will have their bonus payment deferred until they have successfully completed their probationary period.

This payment shall not be construed to be part of any rate or pay structure of any contract or agreement collateral to this Agreement.

Section 2

Unless specifically enumerated below, all terms and conditions of this Long Term Agreement shall expire on June 5, 2003.

Section 3

The following provisions of this Long Term Agreement shall expire on June 5, 2003, or the expiration of any renewal of the Basic Collective Bargaining Agreement whichever is later:

Article III (Recognition, Union Security and Checkoff)

Article V (No Strike/No Lockout)

- Article VI (Arbitration of Unresolved Contractual Disputes)
- Article IX Section 2, Subsection A (Layoff Pay)
- Article XI (Grievance Procedure) and Article XII (Arbitration)-to the extent that such Article(s) is applicable to any part or parts of Article III, V, VI, IX and XIII which continue in effect after June 5, 2003.
- Article XIII (Contingent Cost of Living Allowance)
- Section 4

Unless specifically superseded by this Long Term Agreement, all terms and conditions contained in the Basic Collective Bargaining Agreement in effect on June 5, 2003 shall continue in effect until the expiration of such Basic Collective Bargaining Agreement.

ARTICLE V

No Strike/No Lockout

Section 1

The Union and the Employer in the interest of a sound labor/management relationship, continuity of operations and for considerations negotiated in this Agreement, agree that during the term of this Agreement neither the Union nor its members shall initiate and/or participate in any strikes, picketing, work stoppages, sympathy strikes, slowdowns, or other concerted activity, nor shall the Employer engage in any lockout.

Section 2

In the event of any unauthorized strike, picketing, work stoppages, sympathy strikes, slowdowns, or

other concerted activity, the Union agrees in good faith to immediately inform its members that such actions are a violation of this Agreement and advise its members to return to work immediately.

Section 3

Any employee who violates the Agreement by initiating or participating in any unauthorized strikes, picketing, work stoppages, sympathy strikes, slowdowns or concerted activity shall be subject to discipline up to and including discharge. The Employer agrees that in imposing discipline for violations of this provision, the discipline imposed shall be commensurate with the offense of the individuals involved. Should such discipline and/or discharge be questioned under the grievance and/or arbitration provisions of Articles XI and XII of this Long Term Agreement, the arbitrator's authority shall extend to a determination as to the employee's participation in such unauthorized strike, picketing, work stoppage, sympathy strike, slowdown or concerted activity. The arbitrator shall have the authority to review the severity of the penalty imposed and to modify such penalty if such penalty is not commensurate with the offense committed.

ARTICLE VI

Arbitration of Unresolved Contractual Disputes

Section 1 Contract Negotiations

- A. It shall be the intention of the parties to bargain in good faith to resolve all issues required to be negotiated which arise during the negotiation for renewal of the Basic Collective Bargaining Agreement. Collective bargaining shall commence no later than

ninety (90) days prior to the expiration of the Basic Agreement. Should the parties fail to reach agreement on all issues thirty (30) days prior to the expiration date of said Basic Agreement, all unresolved issues shall be submitted to impartial arbitration in accordance with Section 2 of this Article for a final and binding decision.

- B. Negotiations between the parties may continue until such time as a decision is rendered by the arbitration panel.
- C. If any issues are subject to negotiation during the term of the Basic Collective Bargaining Agreement and remain unresolved after negotiation, such issues shall be submitted to arbitration in accordance with Section 2 of this Article for a final and binding decision.
- D. The following items shall not be subject to negotiation or renegotiation for renewal of the Basic Agreement and shall be specifically superseded by this Long Term Agreement even though such provision(s) may be contained in the Basic Agreement:
 - 1. Layoff Pay
 - 2. Contingent Cost of Living Allowance
 - 3. No Strike/No Lockout
 - 4. Recognition
 - 5. Union Security
- E. Unless specifically indicated to the contrary, no aspect or provision of this Long Term Agreement shall be subject to change as a result of any negotiation for a renewal of the Basic Agreement.

Section 2 Arbitration and Procedure

- A. Each party shall have the right to nominate an arbitrator of its own choosing to a panel of three (3) arbitrators. The third arbitrator shall be impartial and, if the parties are unable to agree upon such impartial arbitrator, the impartial arbitrator shall be selected in accordance with the rules and procedures of the Federal Mediation and Conciliation Service.
- B. Arbitration pursuant to this Article shall be limited to matters not resolved during collective bargaining for the Basic Agreement.
- C. A final and binding decision by the arbitration panel shall require an affirmative vote of two (2) arbitrators. However, when the impartial arbitrator determines that a majority vote is unlikely, within five (5) days after making such a determination, he will issue a decision which shall constitute the decision of the panel and shall be final and binding.
- D. The location for any arbitration hearing shall be a place mutually acceptable to the parties.
- E. The arbitration panel's power shall be limited as per this Long Term Agreement to deciding issues which remain unresolved after negotiations and the arbitration panel shall be precluded from either adding to, subtracting from or modifying this Long Term Agreement.
- F. Each party to the arbitration shall have the right to present to the arbitration panel its position with respect to disputed items at a hearing to be held in accordance with the procedures established pur-

suant to this Long Term Agreement. Thereafter, each party shall have the right to file post-hearing briefs.

- G. Upon the close of the arbitration hearing, the arbitration panel shall attempt to render its decision before the expiration of the Basic Agreement. However, in no event shall the panel have more than thirty (30) days to render its decision in accordance with the procedures contained herein.
- H. The decision of the panel shall be final and binding on the parties and delivered in writing.
- I. In the event the decision of the arbitration panel is rendered after the expiration of the Basic Collective Bargaining Agreement, such decision shall be retroactive to the expiration of any such Agreement.
- J. All costs and fees of the impartial arbitrator shall be shared equally between the parties.

ARTICLE VII

Complete Agreement

The parties agree that the terms and conditions set forth herein represent their full and complete understandings whether or not specifically referred to during negotiations as to the terms and conditions of this Long Term Agreement and that neither party shall be legally obligated to negotiate further regarding the terms of this Long Term Agreement, except as specifically required in Articles III and VIII.

ARTICLE VIII
Separability

In the event that any of the provisions of this Agreement shall be in violation of any Federal, State or Local law or regulation, such determination shall not in any way affect the remaining provisions of this Agreement. The parties shall negotiate such modifications as are necessary for compliance with the law.

ARTICLE IX
Income Protection Program

Section 1 Purpose

The *Income Protection Program* is intended to provide eligible, permanent employees with income security for a specific period of time in the event such employees are laid off as a result of a reduction in the work force.

Section 2 Provisions

The *Income Protection Program* shall include two components:

- A. **Layoff Pay** - as provided in the "Reduction of Force" section of the Basic Collective Bargaining Agreement, which provision is specifically removed from the Basic Collective Bargaining Agreement and incorporated into this Agreement as follows:
1. Employees laid off in reduction of force will be paid lay off pay subject to the following terms and conditions:
 - a) Only those who have been in the continuous service of the Employer for one (1) year or

more at the time they are laid off will be eligible.

- b) The maximum number of weekly payments available to any individual employee shall be equal to the total number of his full years of continuous service with the Employer. A week's pay shall be computed by multiplying the employee's regular hourly base rate at the time of layoff (which does not include either premiums or allowances) by the number of hours in the normal workweek.
- c) Each week while an employee is laid off he shall receive one (1) week's pay computed as set forth above.

B. Income Protection Supplement - which shall commence when the layoff pay referred to in Subsection A above is exhausted.

Section 3 *Income Protection Supplement*

Payments under this component shall:

Amount to one hundred percent (100%) of an eligible employee's base wage rate and C.O.L.A. (paid employee at the time of his layoff).

Continue for a period of time dependent upon the employee's permanent seniority at the time of his layoff, per the following schedule:

Length of Service	Length of Benefit Payments*
1 year but less than 2	13 weeks
2 years but less than 5	26 weeks
5 years but less than 10	33 weeks
10 years but less than 20	39 weeks
20 years or more	52 weeks

*This is in addition to the layoff pay as provided in Section 2A of this Article.

Section 4 *Lump Sum Option*

A laid off employee eligible to receive or receiving income protection under either the layoff plan (Provision A) or the Income Protection Supplement (Provision B) may, at any time, after receiving a notice of layoff and prior to the Employer's mailing a written notice of recall, elect to receive in lieu of any further payments under these programs, a lump sum payment equal to seventy-five percent (75%) of the remaining amount such employee would have been entitled to receive on the date he so elects. In such an event, the employee will forfeit any recall or transfer rights to which he is otherwise entitled under the Basic Collective Bargaining Agreement or this Long Term Agreement. Payment shall be made within thirty (30) days following receipt of a written notice by the employee to elect this option.

Section 5 *Other Benefits*

Employees receiving payments under the Income Protection Program shall be eligible for participation in the following employee benefits as provided in the Basic Collective Bargaining Agreement:

1. Group Dental
2. Group Medical
3. Group Life Insurance

An employee who (i) elects the lump sum option or (ii) exhausts weekly benefit payments as provided above shall cease to be eligible for participation in these benefits effective thirty (30) days following the Company's final payment under this Program.

Section 6 *Recall from Layoff*

If a laid off employee is recalled from layoff before he exhausts the maximum benefits available to him under this Program, and such employee is subsequently laid off, the employee shall be entitled to the benefits then available to him less any weekly benefits previously received under this Program.

Section 7 *Refusal of Recall*

If any employee is recalled to work and does not return within the period contained in the Basic Collective Bargaining Agreement, such employee shall be deemed to have resigned his position and shall be ineligible for any further payments and continued inclusion under the Income Protection Program.

Section 8 *Acceptance of Transfer*

Employees accepting transfer pursuant to the transfer provision of this Agreement will become ineligible for any further payments and continued inclusion in the Income Protection Program effective on the date such person is scheduled to report for work.

ARTICLE X *Transfer Program*

Section 1 *Purpose*

The Philip Morris Transfer Program is intended to provide opportunities for transfer to available openings at any other Philip Morris U.S.A. manufacturing facilities in the event of a layoff of permanent, eligible employees at Richmond, Virginia.

Section 2 *Explanation of Available Openings*

For purpose of transfer, the job openings at any other Philip Morris U.S.A. manufacturing facilities to which eligible Philip Morris employees can transfer, will be of two (2) types. Type 1 jobs will be categorized as Production Related. Type 2 will be categorized as Production Support.

A. Employees whose job classification is categorized as Type 1, Production Related, will be eligible for transfer to entry level production jobs. Type 1 category consists of the following:

- Fireman
- Assistant Fireman

B. Employees whose job classification is categorized as Type 2, Production Support, will be eligible for transfer to like jobs they are performing at time of transfer. Type 2 category consists of the following:

- Maintenance Mechanic
- Instrument Electrician
- Sheet Metal Worker
- Pipefitter
- Carpenter
- Painter

Section 3 *Conditions for Transfer*

Transfer opportunities will be available providing both of the following conditions exist:

There are available openings at any other manufacturing facilities, and

There is a layoff involving permanent eligible employees in Richmond, Virginia.

The number of such transfers to any other manufacturing facilities will be limited to the number of available Type 1 or 2 openings at such facilities and the number of eligible, permanent employees on the appropriate Type 1 or 2 layoff list of Richmond who are eligible for transfer to any other manufacturing facilities.

Section 4 Employee Eligibility and Qualifications

1. Employees must have been hired on or before February 1, 1995 in order to be included in this transfer program.
2. Eligible employees must be capable in the opinion of the Employer to perform the major elements of the job duties and responsibilities with reasonable amount of training. The criteria used will be the employee's previous experience at Philip Morris.

Section 5 Selection Process

Eligible, permanent employees who are currently working or who are on layoff at the time available job openings exist at other manufacturing facilities will be offered transfer opportunities provided the Employer gives notice of layoff in permanent employment at Richmond, Virginia, and if available job openings exist at any other manufacturing facilities.

- A. The Employer will then contact eligible employees by seniority at the Richmond, Virginia location(s) and determine interest of transfer, on a Notice of Transfer Interest Form, for any current or future job openings that may exist at any other manufacturing facilities.
- B. Employees will be given one (1) calendar week from the date the Notice of Transfer Interest Form

is issued in which to notify the Employer in writing of their interest in transfer opportunities.

- C. Working employees indicating interest in transfer and eligible laid off employee as provided in Section 4 will have their names placed on the appropriate list, by seniority, for current or future transfer opportunities.
- D. Once an employee has his name placed on the transfer list, he can at any time, prior to the time of his notification of transfer, notify the Employer in writing that he is no longer interested in transfer opportunities.
- E. As available openings are declared at any other manufacturing facilities and if eligible, permanent employees are on layoff at the Richmond, Virginia location(s), the Employer will contact eligible employees, by seniority, on the appropriate transfer list and notify them of their date of transfer.
- F. Employees notified of their selection for transfer will be given two (2) weeks notice before being required to report to work at any other manufacturing facilities.

Employees who transfer to any other manufacturing facilities will be ineligible for recall or any further payments under the Income Protection Program. However, said employees will be included in the Employer's Benefit Plans at the manufacturing facility to which they are transferred.

- G. Employees who decline transfer opportunities as provided above will be eligible for future transfer to any other manufacturing facilities as follows:

1. Working employees who do not sign the Interest of Transfer Notice or who decline transfer interest at any time prior to a job transfer offer being made will not be eligible for any future transfer opportunities for twelve (12) calendar months dating from time of decline except as provided in H below, unless the transfer offered is to a manufacturing facility other than the one originally offered.
 2. Working employees who decline an offer of transfer will be ineligible for any future transfer opportunities as working employees, unless the transfer offered is to a manufacturing facility other than the one originally offered.
- H. Working employees as described in G, 1 or 2 above who are later laid off or employees who are laid off prior to being given an opportunity to indicate an interest to transfer will be given one (1) such opportunity for transfer provided:
1. The employees are receiving income protection as described in Article IX above, and
 2. Their seniority on the list described in C above would entitle them to such an opportunity.

Such employees must meet the eligibility requirements described in Section 4 above.

Section 6 Transfer by Combined Seniority Lists

When layoff of permanent employees exist in more than one (1) manufacturing facility and available openings exist at any other manufacturing facilities, a combined seniority list of eligible employees from all locations will be used in determining the order of job

transfers. However, the number of transfers from a location will be limited to the number of permanent employees on the appropriate Type 1 or 2 layoff list at the affected location who are eligible for transfer to any other manufacturing facilities.

Section 7 Service Credit for Transferred Employees

Employees who transfer to any other manufacturing facilities under the provision of this Agreement will maintain their years of Company service solely for the purpose of meeting service requirements for eligibility for any applicable fringe benefit programs in effect at the other manufacturing facilities.

Section 8 Relocation

The Employer agrees to reimburse a transferred employee for reasonable and necessary costs relating to, but not limited to, such items as transportation, meals, lodging and shipment of household effects.

The Employer further agrees that prior to giving an eligible employee three (3) weeks notice of layoff, to meet with the Union to negotiate further details of a relocation cost program.

ARTICLE XI

Grievance Procedure

Section 1 Definition

It is the intent of this Article to establish means for prompt adjustment of all disputes arising out of the administration and interpretation of this Long Term Agreement not specifically provided for pursuant to Article VI of this Agreement.

For the purposes of this Article, a grievance under this Agreement is defined as a written statement by the Union claiming a violation by the Employer of the administration or interpretation of this Long Term Agreement.

Section 2 Notification of Grievance

The grievance must be presented within ten (10) working days from the occurrence, situation, condition, or action of the Employer or within ten (10) working days from when knowledge thereof could reasonably have been obtained giving rise to the grievance or the grievance shall be considered waived.

Section 3 Step Procedure

Step 1-The grievance must be submitted in writing within ten (10) working days from the action of the Employer which gave rise to the grievance. The Manager of Labor Relations or his representative and the General Manager(s) or his representative will meet with the designated Union representatives to resolve the matter. If the matter is not resolved within five (5) working days, the written grievance may be submitted to Step 2.

Step 2-The written grievance must be submitted to Step 2 within three (3) working days immediately following the Union's receipt of the Employer's first step decision. The Director of Labor Relations and the Director, Plant Operations or their representatives will meet to resolve the matter with the designated Union representatives. In the event no settlement is reached within five (5) working days, a dispute shall exist and the resolution thereto shall be subject to Article XII of this Agreement.

Section 4 *Time Limits*

The parties agree to follow the two (2) steps in the processing of a grievance. Failure of the Employer to respond within the time limits prescribed shall result in the grievance being automatically advanced to the next step. If at any step the employee or Union fails to request that the grievance be submitted to the next step within three (3) working days following the expiration of such time limit as set forth in the step procedure, the grievance will be deemed by both parties to be settled.

The Employer and the Union may extend the time limits set forth in the grievance procedure by mutual agreement. The party requesting the extension must do so in writing.

ARTICLE XII ***Arbitration***

Section 1 *Arbitrable Issues*

If a grievance arising out of the administration and interpretation of this Long Term Agreement is not resolved in accordance with Article XI and the Union desires to submit it to arbitration, the Union must do so by notifying the Employer in writing within fifteen (15) working days unless extended by mutual agreement between the parties, after receiving the Employer's reply at Step 2 of the grievance procedure.

Unresolved collective bargaining issues are not subject to the grievance procedure. Such issue(s) will be submitted to arbitration as stated in Article VI.

Section 2 Arbitration Procedure

Upon receipt of the Union's request to submit an issue to arbitration, the Employer and the Union shall meet and attempt to agree upon a neutral person whom they shall designate the arbitrator. If they are unable to agree upon the selection of such an arbitrator, they shall request a list from the Federal Mediation and Conciliation Service containing the names of seven (7) practicing members, and they shall alternately strike names from such list until the name of only one (1) arbitrator remains and the remaining arbitrator shall arbitrate the dispute. Any arbitrator selected under the provisions of this Article shall have the authority to render a decision which shall be final and binding upon the parties to this Agreement. Such decision must be rendered within thirty (30) days, if practical. The arbitrator shall have no power to alter or modify any of the terms of this Agreement or to impose on any party hereto a limitation or obligation not explicitly provided for in this Agreement. All costs and fees of the arbitration shall be borne equally between the parties.

ARTICLE XIII

Contingent Cost of Living Allowance

Section 1

Effective February 1, 1994, the temporary Cost of Living Allowance payments shall be folded into the base rate of such Collective Bargaining Agreement and shall constitute the base wage rate for the purpose of the first renewal of the Basic Agreement.

Section 2

Effective February 1, 1994, for each .3 rise in the Index points of the Consumer Price Index for Urban Wage Earners and Clerical Workers utilizing the November 1993 Index as the base, a temporary Cost of Living Allowance of one cent (1¢) per hour shall be paid. These payments (if any) will be paid on a quarterly basis beginning the first full week in April 1994 and will be based upon the November 1993 Index compared with the February 1994 Index. The Cost of Living Allowance will be recalculated each quarter and payment, if any, will be folded into the base rate on February 1, 1995.

Section 3

Commencing on February 1, 1994 and annually each February 1 thereafter through February 1, 2003, a temporary Cost of Living Allowance of one cent (1¢) for each .3 rise in the Index paid for the preceding year shall be folded into the base wage rate except as provided in Section 5 of this Article. During 1995, any Cost of Living Allowance will be calculated using the November 1994 Index as the base.

In succeeding years, during the term of this Agreement, any Cost of Living Allowance will be calculated using the Consumer Price Index for the November preceding the annual fold-in date as the base.

Effective June 6, 1997, the Cost of Living Allowance will be calculated based on the Revised Consumer Price Index for Urban Wage Earners and Clerical Workers (1982-1984 Base = 100). The first quarterly payment under the revised Index will be October 1997.

Section 4

Any sum in the temporary Cost of Living Allowance amounting to less than one cent (1¢) (less than .3 rise in Index points) shall not be paid. However, such amount shall be carried forward and added to the Index in the succeeding quarter for the length of the Long Term Agreement.

Section 5

One cent (1¢) will be diverted from the increase in the Cost of Living Allowance each quarter, provided that an increase of at least one cent (1¢) in temporary Cost of Living Allowance, when compared to the temporary Cost of Living Allowance in the previous quarter, would otherwise be paid. Such temporary Cost of Living Allowance paid during the prior year shall be folded into the base rate on an annual basis.

The one cent (1¢) quarterly Cost of Living Allowance diversion will be eliminated from all payments of temporary Cost of Living Allowance calculated using the 1982-1984 CPI-W Base = 100. The first temporary Cost of Living Allowance calculation after June 6, 1997 using the 1982-1984 CPI-W Base = 100 will be paid in October 1997.

Section 6

In consideration for the benefits provided in this Article, the Union and the Company agree to waive the right to negotiate changes to the contingent Cost of Living Allowance that would become effective prior to February 1, 2003.

ARTICLE XIV
Definition of the Basic
Collective Bargaining Agreement

The Basic Collective Bargaining Agreement shall be defined as the Collective Bargaining Agreement dated March 15, 1992 in effect at the time this Long Term Agreement becomes effective.

ARTICLE XV
Term of Agreement

This agreement represents the second and third extensions of the Long Term Agreement. The second extension shall become effective June 6, 1994, and shall remain in full force and effect through June 5, 1997. The third extension shall become effective June 6, 1997 and remain in full force and effect through June 5, 2003, and shall be renewed automatically thereafter for periods of one (1) year each unless either party gives notice in writing of the desire to change or of termination sixty (60) days prior to the current expiration date of this Long Term Agreement.

IN WITNESS WHEREOF the parties hereto have executed this LONG TERM AGREEMENT on the day and year below written:

Dated: Richmond, Virginia
 September 8, 1995

Philip Morris, U.S.A.

D. L. Milby
Senior Vice President, Manufacturing

D. A. Lynch, Jr.
Director, Industrial Relations

S. Rivera
General Manager, Manufacturing - Richmond

J. M. Whitman
General Manager, Processing Plants

D. A. Parks
Manager Labor Relations

Representing I.A.M. & A.W. Lodge #10

S. W. Spain, Directing Business Representative

W. L. Eacho, Business Representative

C. R. Chalkley, Chief Steward

P. M. Farkas, Chief Steward

J. E. Plageman, Jr., Chief Steward

C. D. Anderson

D. L. Barfield

W. G. Beasley, Jr.

G. W. Cox, Jr.

L. M. Fournier

F. A. Helfert

W. R. Nunnally

S. L. Painter

D. R. Riddle

July 1, 1979

**MEMORANDUM OF UNDERSTANDING
Between
PHILIP MORRIS USA
and
LODGE # 10, I.A.M.**

Subject: Jurisdictional Disputes

Jurisdictional disputes arising during the life of this Long Term Agreement shall be treated in accordance with established past practice, namely,

1. The Employer will meet with the Business Agents of the respective Unions and attempt to resolve the matter.
2. If the matter cannot be resolved as described in paragraph 1, the employer shall meet with the International Representatives of the respective Unions and attempt to resolve the matter.
3. If the matter remains unresolved, it shall be submitted by the respective Unions to the A.F.L.-C.I.O. Jurisdictional Board for resolution.

July 1, 1979

MEMORANDUM OF UNDERSTANDING
Between
PHILIP MORRIS USA
and
LODGE # 10, I.A.M.

Subject: General Wage Increases

During the term of the Long Term Agreement, all general wage increases effective with the March 15 renewal of the Basic Collective Bargaining Agreement, will be paid effective February 1 of that year.

July 1, 1988

MEMORANDUM OF UNDERSTANDING
Between
PHILIP MORRIS USA
and
LODGE # 10, I.A.M.

Subject: Coordinated Bargaining

This Memorandum of Understanding is entered into between:

The International Association of Machinists and
Aerospace Workers, District No. 27

*The International Association of Machinists and
Aerospace Workers, Local Lodge No. 108*

The International Association of Machinists and
Aerospace Workers, Local Lodge No. 10
(Richmond, Virginia)

The International Association of Machinists and
Aerospace Workers, Local Lodge No. 10 (Park
500 - Chester, Virginia)

Kentucky State District Council of Carpenters,
Local #64

International Brotherhood of Electrical Workers,
Local No. 369

International Brotherhood of Firemen & Oilers,
Local No. 320

United Association of Journeymen Pipefitters and
Plumbers, Local No. 522 and No. 107

*United Association of Journeyman Pipefitters,
Local No. 522 (Air Conditioning)*

Sheet Metal Workers, Local No. 110

and Philip Morris USA as a supplement to the Long Term Agreement dated June 6, 1988.

The parties agree that irrespective of the expiration date of the Basic Collective Bargaining Agreement(s) as defined in the Long Term Agreement, such Agreement(s) shall expire on March 14, 1989.

The parties further agree that negotiations for renewal of the Basic Collective Bargaining Agreement insofar as economic issues are concerned shall be conducted on a coordinated basis. Such coordinated bargaining shall continue for the duration of the Long Term Agreement.

July 1, 1979

MEMORANDUM OF UNDERSTANDING
Between
PHILIP MORRIS USA
and
LODGE # 10, I.A.M.

Subject: Neutrality Clause

Philip Morris, USA agrees that in the event that the International Association of Machinists and Aerospace Workers, A.F.L. - C.I.O. - C.L.C. attempts to organize classifications of employees whom they represent in organized facilities in any facility of the Company which is presently unorganized, the Company will remain neutral to such organizing activity providing the union conducts itself in a manner which neither demeans the Corporation as an organization nor its representatives as individuals.

The term "neutral" or "neutrality" shall not be construed to limit the Company's right to discuss with its employees any benefits which the company provides to its employees.

July 1, 1988

MEMORANDUM OF UNDERSTANDING
Between
PHILIP MORRIS USA
and
LODGE # 10, I.A.M.

Subject: Negotiations Regarding Wages and Benefits

The Company will not, in the course of negotiations regarding the Basic Collective Bargaining Agreement, initiate any proposal regarding a reduction in the current wage and benefit levels, except in the event of adverse business conditions under which circumstances the Company reserves the right to initiate any proposal(s) it deems appropriate. In the absence of such adverse conditions, should the Union initiate proposals and/or increases in wage or benefit levels, the Company reserves the right to respond with such changes it deems appropriate. The Company agrees that it will not implement any change in wage or benefit levels without the agreement of the Union.

July 1, 1988

MEMORANDUM OF UNDERSTANDING
Between
PHILIP MORRIS USA
and
LODGE # 10, I.A.M.

Subject: Union Wage and Benefit Proposals
Raised in Local Negotiations

Should the Union initiate proposals for increases in wage and benefit levels at local negotiations, such proposals shall be deferred to Coordinated Bargaining. Should the Union subsequently raise such proposal(s) at Coordinated Bargaining, the Memorandum of Understanding concerning Negotiations Regarding Wages and Benefits shall apply.

1994-2003

