licorice extract produced by others and certain other flavor ingredients at its facilities in Camden, New Jersey and Gardanne, France Approximately 72% of the Company's licorice sales are to the worldwide tobacco industry for use as flavoring and moistening agents in the manufacture of American blend cigarettes as well as other tobacco products (moist snuff, chewing tobacco and pipe tobacco) While licorice extract represents a small percentage of the total cost of manufacturing American blend cigarettes and other tobacco products, the particular formulation and quantity used by each brand is an important element in the brands flavor The Company also sells licorice extract to worldwide confectioners, food processors and pharmaceutical manufacturers for use as flavoring or masking agents In addition, the Company sells licorice root residue as a garden mulch under the name Right Dress The Company manufactures and sells other non-licorice products which include natural flavors, spices and botanicals that are used as flavoring ingredients in food and tobacco products

2 SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of all material intercompany accounts and transactions The Company accounts for its investments in affiliates on the equity method.

USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes Actual results could differ from those estimates

REVENUE RECOGNITION

Sales are recorded when title passes to customers

CASH EQUIVALENTS.

Cash equivalents with original maturities of 90 days or less (primarily short term money market funds) are carried at cost which approximates market

INVENTORIES

Inventories are stated at the lower of cost or market value Cost is determined principally by the first-in, first-out method.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN MILLIONS)

PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment is recorded at cost and depreciated on a straight-line basis over the estimated useful lives of such assets ranging from 4 to 20 years. Leasehold improvements are amortized over their estimated useful lives or the terms of the leases, whichever is shorter Repairs and maintenance are charged to operations as incurred, and expenditures for additions and improvements are capitalized

INCOME TAXES:

Prior to the Merger on November 25, 1996, Mafco Worldwide was included in