NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN MILLIONS)

The purchase of Flavors resulted in an increase in the tax bases of assets and liabilities. Accordingly, the Company has recorded deferred tax assets for the temporary differences arising as a result of the acquisition of Flavors.

As a result of the Merger, the Company has reduced the valuation allowance on net deferred tax assets. Based upon the historical results of the Company projected for a period which takes into consideration the current operating environment in the tobacco industry, the Company believes that it is more likely than not that it will be able to utilize these benefits.

The effective tax rate on earnings before income taxes and extraordinary loss varies from the current statutory federal income tax rate as follows:

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
Statutory rate	35.0%	35.0%	35.0%
State and local taxes, net	3.3	3.7	3.3
Decrease in valuation allowance	(1.3)	-	-
Other, net	0.7	0.3	0.5
	37.7%	39.0 %	38.8%

At December 31, 1996, the Company had available Federal net operating loss carryforwards of approximately $194.0, which expire in the years 2000 through 2011.

On November 25, 1996, the Company entered into a tax sharing agreement with its parent, PCT. Pursuant to such agreement, the Company agrees to pay its parent an amount equal to the federal and state income tax liability calculated as if the Company were filing separate tax returns.

In order to protect the availability of the Company's net operating loss carryforwards, the PCT charter prohibits, subject to certain exceptions, transfers of PCT common stock until such date as fixed by the Board of Directors of PCT to any person who owns, or after giving effect to such transfer would own, at least 5% of the outstanding PCT common stock. The Company has been advised by counsel that the transfer restriction in the PCT charter is enforceable. The Company intends to take all appropriate action to preserve the benefit of the restriction including, if necessary, the institution of legal proceedings seeking enforcement.

In connection with the Abex Merger and the Transfer, Mafco and PCT entered into a tax sharing agreement. Under the indemnification provisions of the tax sharing agreement and with respect to periods ending on or prior to June 15, 1995, Mafco will generally be required to pay any tax liabilities of the Company, except for foreign income taxes related to the Abex NWL Aerospace division.

The IRS is currently examining the returns for the years 1989, 1990 and 1991. The Company has been notified by the IRS that its 1994 return and its short period 1995 return will be examined. The amount of net operating loss carryforwards available at December 31, 1996 could be affected by the outcome of this examination.