

GALLAHER LIMITED

INCORPORATED IN ENGLAND

65 KINGSWAY · LONDON · WC2B 6TG

TELEPHONE: 01-242 1290

TELEGRAMS: GALTObac LONDON WC2 · TELEX: 25505

Copy for Confirmation - full text of response attached

April 9, 1986

Mr. B.W. Musgrave
IDB Northern Ireland
IDB House
64 Chichester Street
BELFAST
BT1 4JX

Dear Mr. Musgrave,

MacBride Principles

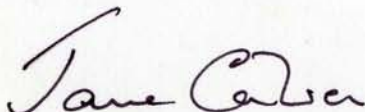
Further to my letter of April 8 regarding Gallaher Limited's initial response to Mr. Harrison Goldin's second report on the MacBride Principles, I attach an additional point, No. 7, which refers to the paragraph regarding the NYCERS shareholder resolution for American Brands' 1986 annual meeting.

We have not referred in our response to Mr. Henshaw's question "Why are there no catholic males employed out of a workforce of about 2000 people?" We estimate that there are about 135 catholic employees at our Belfast location of whom about 35 are males out of a total workforce (male and female) of 1350. Although the number of catholics employed is small this is not indicative of employment discrimination by Gallaher. In a declining market and with little recruitment it is not easy to change the balance, but we can assure you that when the limited opportunities for recruitment arise the Company's policy of non-discrimination is rigorously applied.

Gallaher's response to Mr. Goldin's second report and to Mr. Henshaw is not for publication, but it intended for the use of the IDB only.

I would be grateful if you could let me know to what use you intend to put our response.

Yours sincerely,



JANE CALVER
Public Relations Manager

GALLAHER LIMITED RESPONSE TO MR. H. GOLDIN'S SECOND REPORT
ON THE MACBRIDE PRINCIPLES

Gallaher is an international group involved in tobacco, optics, engineering, distribution, office products and housewares. Of about 24,500 employees in the group in the U.K. (including Northern Ireland) in 1985 and 5,000 overseas, only about 3,400 were employed in Northern Ireland. Approximately 3,000 of the Northern Ireland employees are employed in the group's tobacco sector, the remainder being employed in a wholesaling subsidiary of Gallaher Limited.

Gallaher is committed to a policy of equal opportunity, in Northern Ireland and elsewhere, for all present and future employees. The aim of this policy is to ensure that no employee or job applicant will receive less favourable treatment on the grounds of sex, handicap, religious beliefs, marital status, colour, race or ethnic origins or is disadvantaged by conditions or requirements which cannot be shown to be justifiable. All employees are given equal opportunity and encouraged to progress within the company. Non-compliance by an employee can lead to disciplinary action, including dismissal.

For a number of years the tobacco industry has been contracting in the United Kingdom and within Gallaher's tobacco sector there has been little recruitment except for specialist jobs which are filled from external sources. No discrimination is practised in such recruitment.

Gallaher is a signatory to the declaration of principle and intent of the Fair Employment (Northern Ireland) Act 1976 and has been certified as an Equal Opportunity Employer by the Fair Employment Agency established under that Act. There has only been one complaint brought against Gallaher under the Act. This complaint, made in 1984, alleged that a job applicant had been discriminated against because of his religious beliefs. After investigations the Fair Employment Agency found in favour of the company.

In answer to the specific allegations made against Gallaher in Mr. Goldin's report:

1. No members of the Board of Directors of Gallaher Limited come from Northern Ireland.

Sir Robin Kinahan was a non-Executive Director until his retirement at the end of 1982. He was a Director of many companies including being Chairman of the Ulster Bank, and a Director of the National Westminster Bank. He was appointed to the Board of Gallaher because of his banking expertise.

Mr. Dennis Faulkner is non-Executive Chairman of the Northern Ireland Board of Gallaher Tobacco (UK) Limited; a management company responsible for Gallaher's U.K. tobacco interests. The Northern Ireland Board is concerned solely with those tobacco interests in Northern Ireland. Mr. Faulkner was appointed because of his wide commercial experience in Northern Ireland, including his Chairmanship of the Northern Ireland Development Agency from 1977 to 1983. He is not a Director of Gallaher Limited.

2. Gallaher's Belfast facility is located adjacent to a largely catholic area of North Belfast. It is not located within that area. Gallaher's non-discriminatory employment and recruitment policy is referred to above.
3. Following the signing of the Anglo-Irish Agreement last year, a limited number (only 3 or 4) signs were put up in the Belfast factory, but were all taken down as soon as management became aware of them. They have not been replaced.
4. There have been no attacks on Gallaher's Belfast factory in the last 10 years. The Belfast site as a whole has been extensively re-developed over the last seven years. The number of entrances has been reduced from approximately 30 to 2, as part of this re-development which was undertaken to improve the efficiency of the site as a whole.

5. At the request of the Northern Ireland Industrial Development Board, a visit was arranged for Mr. Goldin, his family and Mr. Patrick Doherty (as staff assistant), to Gallaher's Ballymena factory in June 1985. It was later learned that Mr. Goldin would be accompanied by Mrs. Rita Mullen, Executive Director of the Irish National Caucus, a Washington, D.C. based lobbying group. In the delicate climate which prevails in Northern Ireland, Gallaher has a policy that lobbyists on either side of the controversy should not be permitted to visit its facilities. Shortly before the visit was due to take place Mr. Goldin cancelled it on the grounds that the invitation had not been extended to a representative of the Irish National Caucus. Gallaher would have been pleased to welcome Mr. Goldin to Ballymena had he not insisted on being accompanied by Mrs. Mullen.

6. The Board of Directors of American Brands Inc., has reviewed the MacBride Principles and believes that certain of them would require the favouring of minority interests, and therefore require positive discrimination. U.K. Counsel has advised American Brands that the implementation of such provisions would require discriminatory action in violation of the Fair Employment (Northern Ireland) Act 1976. In addition, the British Government has issued a statement indicating its opposition to the MacBride Principles, and drawing attention to the view of the Fair Employment Agency as the body responsible for the enforcement of the relevant law in Northern Ireland, that adherence to the MacBride Principles would bring companies into conflict with that law.

April 8, 1986

7. New York City Comptroller, Harrison J. Goldin, submitted a resolution to Gallaher's parent company, American Brands, Inc., calling for the implementation of the Macbride Principles and requesting that the resolution be included in the statement to Stockholders of matters to come before the 1986 Annual Meeting of American Brands. Following customary U.S. practice and on the basis of the U.K. Counsel advice and the British Government statement, American Brands sought the concurrence of the staff of the Securities and Exchange Commission (the U.S. Governmental Agency having regulatory jurisdiction over Proxy Solicitations) that the resolution could be excluded from the Statement to Stockholders. The SEC staff ultimately concluded that the resolution need not be submitted to Stockholders.

April 9, 1986