Colgate’s Strategy

Colgate-Palmolive is a $9.1 billion global company serving people in more than 200 countries with consumer products that make lives healthier and more enjoyable. The Company focuses on five core businesses—Oral Care, Personal Care, Household Surface Care, Fabric Care and Pet Nutrition. Colgate is following a tightly defined strategy to increase market leadership positions in key product categories, such as toothpaste, toothbrushes, bar and liquid soap, deodorants/antiperspirants, dishwashing detergents, household cleaners, fabric softeners and specialty pet food. This leadership strategy involves understanding consumer needs and meeting them with innovative new products, effective advertising and an efficient customer supply chain.

Strong 7 percent unit volume growth included excellent gains in developed economies as well as the high-growth areas of the world. All divisions had positive volume.

Colgate-Latin America increased unit volume by 10 percent, North America by 7 percent, and Europe and Asia/Africa each by 5 percent, while Hill’s Pet Nutrition’s unit volume was up 9 percent.

Sales would have increased 8 percent without the impact of translating foreign currencies into the stronger dollar.

Net income increased 17 percent to a record $740.4 million, also setting a record as a percentage of sales, 8.2 percent versus 7.3 percent in 1996, reflecting growing productivity.

Gross profit margin reached a record as well, rising 1.6 percentage points to 50.7 percent.

A 17 percent dividend increase and two-for-one common stock split took effect in the second quarter. The common stock dividend has grown at a 13 percent compound rate over the past five years, and payments have increased every year for 35 years.

Consistent with Colgate’s long-standing objective of building increased shareholder value, the Company on February 3, 1998 announced a new 20-million-share stock buyback program, expected to take place over the next three years.
The dedicated efforts of Colgate people throughout the Company made 1997 one of Colgate’s strongest years of this decade. The upward momentum carried through all of 1997. Your Company achieved record sales and earnings, strong unit volume growth and record profit margins. More new products were introduced in 1997 than in any previous year, and they proved their value in the world’s marketplaces. We supported our new products with increased advertising, increased consumer research and increased promotions. The higher returns generated by Colgate productivity/savings programs made these growth investments possible.

Colgate’s geographic balance was a major factor in achieving record results and helped to offset foreign currency weakness in Europe and Asia/Africa. Please refer to the Highlights table on the opposite page for a summary of our results. Key achievements included:

- $2.8 billion of 1997 sales came from products that did not exist five years ago. This is nearly $400 million greater than new product sales in 1996 and accounts for almost one-third of 1997 revenues.
- Concurrent with the launch of Colgate Total plaque-fighting toothpaste, Colgate gained leadership of the U.S. toothpaste market in the fourth quarter. Around the world, new leadership positions were created and existing ones strengthened in all of our core categories.
- Growth was fastest in Oral Care, Personal Care and Pet Dietary Care, all high-margin businesses, adding to the Company’s overall increased profitability.
- The implementation of SAP integrated software across the Colgate supply chain contributed to increased profitability. Now installed in operations that produce over 35 percent of Colgate’s worldwide sales, SAP will be expanded to all Colgate divisions worldwide by 2001. Global efficiencies in purchasing—combined with product and packaging standardization—also produced large savings.
- Greater efficiency helped reduce working capital at year-end to 4 percent of sales, versus 5 percent in 1996 and 13 percent ten years ago.
- The $180 million increase in operating cash flow enabled the Company to lower its net debt-to-capital ratio to 53 percent at 1997 year-end, down from 58 percent at 1996 and 64 percent at 1995.
- In Brazil, Sorriso brand toothpaste was introduced throughout the country and achieved full market distribution. As part of the regulatory approval of Colgate’s acquisition of Kolynos, the Kolynos brand of toothpaste has been discontinued in Brazil for four years.
- Hill’s Pet Nutrition had another strong year, increasing sales by 11 percent, accompanied by improved profitability. One especially good market was Japan, where Hill’s strengthened its market leadership by introducing 11 new products and launching television advertising.
Growing Leadership with Powerful Global Brands
Colgate people’s ability to innovate and respond to consumers everywhere is a major factor behind the 1997 growth and strong market leadership of the Company. Colgate's growing success is directly related to its strategic plan to increase market leadership in its most important product categories, such as toothpaste, deodorants and cleaners. Colgate has achieved global leadership in toothpaste, liquid soap, all-purpose cleaner and specialty pet food, and is No. 1 in vast regions of the world in toothbrushes, dishwashing products, men’s stick deodorants, fabric softeners and bleach.

To build on this success, our long-term plan lays out specific leadership targets in core categories by region today and into the 21st century.

Performance is on target: The expansion of Colgate Sensation whitening toothpaste, now in 41 countries, and of Colgate Total, now in 104 countries, is adding to Colgate’s overwhelming global leadership. Colgate baking soda & peroxide, expanded to 46 countries, has added incremental toothpaste market share as well. Colgate’s share of fabric softeners in its markets has increased by almost three share points since 1995, and the 1997 introduction of Ajax Fête des Fleurs all-purpose cleaner brought new No. 1 positions. Underarm revenues grew at a double-digit rate globally in 1997 with expansion of Mennen Speed Stick gel and Lady Speed Stick Invisible Dry. In the U.S., introductions of Palmolive antibacterial, Ajax antibacterial and Palmolive for pots & pans have boosted dishwashing liquid market share to record levels. In other areas, Colgate is pioneering underdeveloped categories, including Fabuloso cleaner in Southeast Asia and Axion dishwashing paste in India.

Global Management Structure Drives Region-Specific Strategies
Early in 1997, a new global management structure was created to take advantage of the different opportunities present in High Growth Markets and Developed Markets, with two of Colgate’s most experienced and proven senior executives heading these new geographical groupings. David Metzler oversees High Growth Markets and Lois Juliber heads Developed Markets.

Strategic regional initiatives are being implemented. In Europe, Colgate’s headquarters are being centrally located in Paris, supported by a high-tech administrative center in Ireland and three category-specific product innovation centers. For Latin America, we have based our product innovation center for all categories in Mexico, and similar moves are planned for other regions in 1998 to speed products to market and increase profitability.

Adding to region-specific initiatives is the Company’s vast consumer intelligence. We interview over 500,000 consumers in more than 30 countries annually to learn more about their habits and usage of our products. The findings from this research pay off in rising sales from new products, evidenced by the $2.8 billion of our sales coming from recently introduced products in 1997.

To support new products and existing brands, Colgate increased the ratio of total advertising to sales to its highest level in more than a decade and boosted absolute total ad spending 12 percent. Enhanced productivity/cost-savings programs provide the funds to do this.

Cost-Savings Programs Fund Growth
Colgate’s use of SAP integrated software and related streamlining has already realized significant cost-savings. But the biggest savings are expected to come onstream in 1999-2000 as we change processes and organizational structure while implementing best practices in each region. Using SAP, Colgate will continue to improve supply chain
performance, reduce working capital, leverage shared services, and realize global opportunities in key areas like purchasing and global customer relations.

We are pleased to report the completion of major restructuring projects in North America and Europe under the program initiated in 1995. Other projects are progressing on target, including plant closures, with additional activity planned in 1998. Throughout our operations, we are reducing the total delivered cost of Colgate products. Our global purchasing plan is designed to save millions more, through such initiatives as changing formulas to use fewer materials and working with fewer, carefully chosen, global suppliers to create broad, long-term partnerships that lower costs.

Supply chain efficiencies, such as reducing the cycle time between purchase of raw materials to delivery of finished goods, helped to reduce working capital in both 1996 and 1997. In the U.S., cycle time has been cut nearly in half, on average, since 1994. The average cost per case in that country declined nearly 10 percent in 1997.

Customers Recognize Colgate’s Service
The cost-savings programs and heightened responsiveness generate increased profitability and cash flow for Colgate and enhanced service for our customers. Today’s more efficient, responsive Colgate is being recognized by our major trade partners. Wal-Mart honored Colgate with its “Vendor of the Quarter” award twice in 1997, and Target named Colgate “Vendor of the Year” for the sixth consecutive year.

Looking Ahead
The end of 1997 was a difficult economic time for some Asian countries and we would like to put this in perspective vis-à-vis Colgate. Of the ASEAN countries experiencing economic difficulty, Colgate competes only in Malaysia, the Philippines and Thailand. These three countries represent less than 4 percent of our total sales and earnings. Moreover, our market shares across Asia remain strong. We continue to make investments in China, where the launch of a high-quality, lower priced toothpaste has met with excellent success. As global managers, Colgate people are accustomed to dealing with wide currency swings. Thus, history supports that our geographic balance will continue to be a major plus for Colgate.

Colgate’s Intangible Assets
Colgate shareholders benefit from owning a company with valuable global brands that have earned the trust and confidence of consumers in 212 countries and territories around the world. Colgate and its shareholders also gain from an experienced, dedicated Board of Directors and the 38,000 committed Colgate people who made 1997 an outstanding success. We take this opportunity to thank all members of the Colgate family.

We look forward to continuing to achieve strong performance—now, and well into the future—as we implement the strategies that will carry Colgate into the 21st century and build value for all shareholders.

Thank you.

Reuben Mark
Chairman and Chief Executive Officer

William S. Shanahan
President and Chief Operating Officer
Completing its third consecutive year of strong and profitable growth in North America, Colgate increased sales 7 percent to $2.0 billion on 7 percent unit volume growth. Earnings before interest and taxes increased strongly. In a year of many achievements, capturing leadership of the U.S. toothpaste market stands out. In late 1997, just prior to the long-awaited introduction of Colgate Total, the Company gained leadership of the $1.9 billion retail toothpaste market for the first time since 1962.

Renewed leadership in toothpaste is only one indicator that Colgate’s growth strategy is working. Altogether, Colgate-U.S. introduced 12 new products and gained market share in key categories.

Greater consumer insight, innovative new products and increased advertising are driving the division’s growth across core categories. Faster recognition of changing consumer preferences, such as the desire for whiter teeth, prompted two successful new toothpastes: Colgate whitening with baking soda & peroxide and Colgate tartar control whitening. Early understanding that consumers desire protection against bacteria helped Colgate-U.S. capture a record 37 percent share of the dishwashing market with the continuing success of Palmolive dishwashing liquid & antibacterial hand soap. Colgate is responding to new trends with antibacterial products in other categories as well. Good initial response has followed the launch of Mennen Speed Stick Ultimate antiperspirant with odor-protection, and excellent trade reaction greeted Softsoap antibacterial hand gel that needs no rinsing, for people on the go.

In both Canada and Puerto Rico, where Colgate is already a strong No. 1 in toothpaste, the introductions of Colgate Sensation and other new toothpastes

The Biggest Launch in Oral Care History

The only toothpaste to gain FDA approval to claim that it helps prevent gingivitis, plaque and cavities, Colgate Total is contributing to Colgate’s lead as No. 1 in toothpaste. The unprecedented first-year $100 million marketing program for Colgate Total includes extensive TV commercials, distribution of more than 400 million coupons and 30 million samples, and a specialized sampling program reaching 165,000 dentists and hygienists. As in the 103 other countries where it is sold, Colgate Total is gaining broad acceptance among consumers in the U.S.
have added incremental share. In Puerto Rico, the new Wave toothbrush helped Colgate gain almost four share points, while several new Mennen brand products drove deodorant/antiperspirant sales up 41 percent.

To support both new and existing products, Colgate-North America has increased advertising spending at a rate considerably faster than sales. This was made possible through the additional funds generated from the Company's broad-ranging productivity programs. These programs have expanded the gross profit margin and reduced fixed overhead. Colgate has reorganized production to specialize by product line and tapped into global purchasing agreements, which assure that the division receives the best prices possible.

The powerful software system known as SAP has enabled Colgate-U.S. to match production with consumer demand and helped to cut the average value of its inventory by more than 40 percent, while improving customer service. Processes have been streamlined as part of the SAP implementation—accounts payable is now handled from one location rather than eight, for instance. Colgate-U.S. continues to identify potential savings and expects benefits well into the future.

Recognizing that new technologies require new skills, Colgate is committed to providing high levels of employee education, training and communication. In 1997, more than 1500 employees from Colgate-U.S. participated in training sessions. And, last year, managers from 15 locations across the country began meeting quarterly with management via videoconferencing.

Growing market leadership, innovative products, more and better advertising, and highly efficient purchasing, production and delivery of goods—combined with talented and dedicated people—are creating a Colgate-North America that...

Continuing Momentum in Deodorants

Colgate’s plant in Morristown, NJ, is supplying the U.S. and 41 other countries with an expanding range of Mennen deodorants/antiperspirants, including Lady Speed Stick Invisible Dry and the newest entry for men, Speed Stick Ultimate, which offers an antibacterial formula. These are contributing to Colgate’s rising market share in underarm products, which has increased in each of the past two years. Pictured here, Mike Bailey, Operator Technician.
A stream of successful new dishwashing products has steadily built market share to 37 percent, up almost seven points in two years. The success of Palmolive dishwashing liquid & antibacterial hand soap, which pioneered a new segment, has been followed by new Palmolive for pots & pans, which provides superior cleaning.

Strengthening Leadership in Liquid Soap

New products like Softsoap gentle antibacterial bodywash with vitamin E helped increase sales of Colgate’s bar and liquid soap products in the U.S. by 8 percent in 1997. In the U.S., as well as globally, Colgate is the leader in liquid soap.
Colgate-Latin America achieved its best year ever. Sales rose 11 percent to a record $2.4 billion, unit volume grew 10 percent and profit margins were at all-time highs. Colgate holds commanding leadership positions throughout the 32 countries of Latin America, from Argentina to Mexico. Already No. 1 in toothpaste, stick deodorant, fabric softeners, cleaners and dishwashing products for the region, Colgate is strengthening these positions and creating new leaders.

This high-potential market has over 500 million consumers with rising purchasing power. Colgate is creating new products specifically for the region from its Mexico-based regional research lab and new product group. It is also expanding through wider distribution, greater outreach and new affordable product sizes.

In 1997, distribution was expanded to reach 40,000 additional retail outlets. More than 50 million product samples introduced consumers to Colgate toothpaste and toothbrushes, Mennen Speed Stick, Protex soap, Fab and Viva detergents, Palmolive shampoo and hair styling products, and Fabuloso and Ajax all-purpose cleaners. Advertising spending was the highest ever in terms of dollars and percent to sales.

With the Mexican economy continuing to recover, Colgate successfully increased volume 14 percent and expanded its market shares there, especially in hair care, fabric softeners and all-purpose cleaners. For fabric softeners, gains linked to new, lower cost, smaller sizes in Mexico helped propel 24 percent category sales growth for the entire region. New hair care styling products, which were added to the Caprice and Palmolive Optims hair care brands in Mexico and elsewhere, contributed to 19 percent higher regional sales in hair care.

For the region, introductions of Colgate baking soda & peroxide, Colgate...
Gaining Market Share in Toothbrushes

In two years, Colgate has added over 13 points to its toothbrush market share to become a strong No. 2 in Argentina, driven by new products like Colgate Total and Kolynos Dr. Flexible. Advertising, programs aimed at dental care professionals, and special displays showcasing the brushes in supermarkets and pharmacies have contributed to the strong performance.

Sensation whitening, Colgate Double Cool Stripe gel and paste, and the Colgate Classic Deluxe toothbrush helped to expand per capita consumption for toothpaste and toothbrushes. Sorriso toothpaste, introduced in Brazil mid-year, gained broad consumer awareness and product trial. As part of the Brazilian regulatory approval of the Kolynos acquisition, Kolynos brand toothpaste has been withdrawn from the market for four years.

In other categories, Fabuloso household cleaner gained market share with new variants, especially in Mexico and Panama. The Protex antibacterial personal care brand also gained share in the region. Among the new entries are Protex Fresh soap and Protex deodorant.

Colgate continues to fund increased advertising for new products through cost-savings from regionalization and standardization. For example, all Mennen Speed Stick for Latin America now comes from one location instead of four. A single Mexican factory produces Colgate personal care products for all of Central America, while all Kolynos brand toothbrushes and a significant portion of other Kolynos and Colgate oral care products are made in Brazil and exported to 16 countries. Such programs have helped raise the division’s gross profit margin by six percentage points in four years.

Additional savings will be generated in the future as Colgate-Latin America starts implementing the same integrated SAP software that has produced supply chain and other efficiencies in North America. Cost-savings coupled with growth activities including new products, increased advertising, greater sampling and expanded distribution will continue to strengthen Colgate’s leading role in this region of rising prosperity.

Strengthening Colgate’s Hair Care Equity

Steadily building its hair care business in Mexico, Colgate with the introduction of the Palmolive Optims styling line in 1997 offers a full range of premium products. Winning formulas, packaging and heavy TV support have been effective in gaining trial and growing market share.
Building the No.1 Soap Brand

With Protex Fresh, Colgate addresses the consumer preference for fragrance and freshness in soap without relinquishing antibacterial protection. Massive sampling at events like this outdoor rally supported the new product's launch and contributed to Protex becoming the No.1 soap brand in Colombia.

Achieving the No.1 Position in Fabric Softeners

Following the introduction of Fiesta de Flores and Baby Fresh variants to the Soflan line, Colgate became the leader in fabric softeners, with Soflan 15 share points ahead of the closest competing brand. The advertising and sampling activities proved critically important for this success in Venezuela.
Colgate-Europe increased unit volume 5 percent in 1997 as its market shares grew throughout the region. Earnings before interest and taxes (EBIT) increased despite the decline of European currencies versus the U.S. dollar. Sales declined 5 percent to $2.0 billion, because of currency translation.

Insight into consumers, innovative new products and concentration on improving customer service have enabled Colgate-Europe to deliver eight consecutive quarters of volume growth. And with continued focus on cost-savings, the EBIT margin to sales increased from 10.9 percent in 1996 to 11.6 percent.

The success of Colgate Sensation toothpaste, which has strengthened Colgate’s No. 1 share across Europe, is an example of how Colgate identified both whitening and deep cleaning as important consumer benefits and responded. The Sensation brand was extended through a companion Sensation toothbrush, which achieved market shares of 2 to 7 percent.

Similarly, in household care, Colgate identified that European consumers want long-lasting fragrance as well as strong cleaning. The result was the launch of Ajax Fête des Fleurs and, with it, an increase in Colgate’s No. 1 share in all-purpose cleaners, gaining category market leadership in France and nine additional market share points in Belgium. Ajax Expel, a new cleaner that repels insects, has had outstanding success in Spain and Portugal as well as Italy, where market shares of cleaners are the highest in more than five years.

By launching superior products and fragrances in the rapidly growing bath and shower gel segment, Colgate-Europe achieved 24 percent unit volume growth.

Colgate-Europe contributed 22% of sales, or $2.0 billion.
in this key market. Stellar performers included France, Germany, Italy and the United Kingdom. In all, Colgate-Europe increased market shares for well over half of the categories in which it competes.

As with all Colgate regions, Colgate-Europe is working to ensure even faster and better customer response. It is establishing its headquarters in Paris and a technology center in Ireland to coordinate management information services and processes based on SAP technology. SAP will be completely implemented throughout the region by early 1999.

The high-growth regions of Central Europe achieved double-digit unit volume and sales growth, increasing oral care school programs and sampling, adding distribution in smaller retail outlets and expanding into new geographies.

Colgate sells its product portfolio throughout Central Europe and Russia and sees significant opportunities as consumer purchasing power improves. In deodorants, the distribution of more than one million Lady Speed Stick samples

**Setting Records with Palmolive Naturals**

Consumers responded so enthusiastically to the new formula and packaging of Palmolive Naturals that it broke annual volume records and increased Colgate's share of the shampoo market by almost 2 points in Poland. The launch was supported by a TV commercial called “Nature & Science” that conveyed the brand’s herbal and vitamin-enriched formula.
Soon after Colgate introduced Ajax Fête des Fleurs cleaner in France and Belgium, the Ajax brand captured the No.1 position in both countries. This new product is set for rollout across Europe this year, where the Ajax equity is already the leading all-purpose cleaner. Voted “Product of the Year” in household products by a large panel of French consumers, Ajax Fête des Fleurs combines high cleaning efficacy with long-lasting fragrance.

contributed to 65+ percent volume growth and the No.1 deodorant stick ranking across the region. As in Western Europe, cost-reduction efforts include focused factories, such as Colgate’s personal care plant in Hungary that has increased production to supply all of Central Europe.

With its mix of developed and high-growth economies, Colgate-Europe should continue to offer high potential and achieve profitable growth.

Germany

Extending the No.1 Position in Dishwashing

Capitalizing on success in the U.S., Colgate introduced antibacterial dishwashing liquids in Austria, Denmark, Germany, Switzerland, Portugal and Greece with excellent results. In Germany, widespread acceptance contributed to Colgate’s strengthening its No.1 position, boosting market share to a record 30.9 percent, according to R1.
Unit volume grew 5 percent from continuing operations, with strong progress in Greater China and India, the two huge markets that lead Colgate’s growth in this region. Sales from continuing businesses were flat at $17 billion—reflecting weaker foreign currency and economic uncertainty in the ASEAN countries. These factors also impacted earnings before interest and taxes of the ASEAN countries.

Of the ASEAN countries experiencing economic problems, Colgate competes only in Malaysia, the Philippines and Thailand. Market shares are strong throughout Asia, and Colgate is benefiting from its years of experience in operating successfully in a variety of economic conditions.

Colgate’s strategy is to build consumption, protect strong franchises and focus activities in areas of strength. No.1 in toothpaste in most countries in the region, Colgate-Asia is adding share with Colgate Sensation, Colgate stripe gel and a new specially priced toothpaste in China. Dentifrice unit volume rose 9 percent. In fabric softeners, where Colgate is No.1 in Hong Kong and Malaysia, new sizes and fragrances are adding incremental market share.

The established leader in dishwashing in the Philippines and Malaysia, Colgate pioneered in India with the national expansion of Axion dishwashing paste. Fabuloso was introduced into its first Asian markets, Thailand and Malaysia, quickly becoming the No. 2 household cleaner in the latter country.

New products also fueled strong sales and market share growth in dishwashing and body cleansing in Australia and New Zealand. And Colgate Sensation’s introduction reinforced leadership positions in toothpaste for both these countries.
Most Successful Launch of ‘97

Supported by the largest personal care sampling campaign ever in South Africa (one million samples distributed in gyms, shopping centers and door-to-door), Mennen Speed Stick exceeded volume expectations by almost one-third and was named the year’s most successful launch by prestigious local organizations. Recent shares show Speed Stick at 8 percent of the men’s antiperspirant market.

In Africa and the Middle East, Colgate is building consumption through traveling demonstrations of products like Protex soap, Colgate toothpaste, Axion dish paste and bleach. Examples of resultant growth include the doubling of Colgate’s African bleach business since 1994.

Throughout Africa, Colgate is reducing its cost structure. The toothpaste portfolio is being simplified from 32 different tube sizes to six. More than 20 sizes and shapes of soap will become three, while preserving consumer preferences.

Sampling and Education Programs Expand Usage

Colgate’s sampling and education programs increase consumption in markets like China and India; 1997 toothpaste unit volume rose strongly in both countries. Colgate reaches 12 million children annually through its oral education programs in Asia.
Hill's Pet Nutrition achieved strong growth in 1997, increasing sales 11 percent and unit volume 9 percent. Profitability improved significantly. New products, stepped-up advertising and close relationships with veterinary professionals strengthened Hill's global leadership.

Consumer research on preferences of pets and their owners converted into successful new products, such as chunky-style canned varieties for dogs and tuna recipes for cats in Japan and feline tuna meal products in Europe.

In the U.S., working closely with veterinarians helped Hill's identify dental care as a fast-growing area. Hill's then launched Prescription Diet canine t/d with tartar control in 1994 and, in early 1997, Prescription Diet feline t/d. Approximately 10,000 veterinary clinics participated in Pet Dental Health Month in February, sponsored by Hill's, the American Veterinary Medical Association and the American Veterinary Dental Society.

Celebrating 50 years since its pioneering launch of Prescription Diet, Hill's is supporting the publication of the fourth edition of Small Animal Clinical Nutrition, a popular textbook used extensively in veterinary schools. The introduction of an improved Prescription Diet canine i/d for gastrointestinal disease further reinforced Hill's clinical and nutritional superiority.

First-time television advertising for Science Diet brand pet food in Japan and an increased schedule in the U.S. helped support growth, as did the sponsorship of contests in conjunction with veterinarians in Europe. Overweight pets, almost half those visiting clinics, competed for the designation “Slimmer of the Year.”
Hill’s continues to improve operating efficiency and is in the midst of projects that will take significant expense out of the supply chain. The manufacturing start-up in the Netherlands is saving on net delivered product costs and improving customer service.

Hill’s enters 1998 with more new products and programs. Growth potential is especially large internationally, where consumption of prepared pet food is about one-third the U.S. level.

Increasing its market share in the Italian specialty channel, Hill’s is encouraging growth by distributing over one million samples of pet food through vet clinics and visiting pet shops regularly. Paolo Cavalcanti responds to a “customer” in his shop, I Cuccioli.
Financial Review

(Dollars in Millions Except Per Share Amounts)
Results of Operations

Worldwide Net Sales by Business Segment and Geographic Region

<table>
<thead>
<tr>
<th>Segment</th>
<th>1997</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oral, Personal and Household Care</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>$1,992.5</td>
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<td>$1,784.7</td>
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<tr>
<td>Latin America</td>
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<td>Asia/Africa</td>
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<td>1,644.1</td>
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<tr>
<td>Total Oral, Personal and Household Care</td>
<td>8,091.4</td>
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<tr>
<td>Pet Nutrition*</td>
<td>965.3</td>
<td>868.7</td>
<td>792.5</td>
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<tr>
<td>Total Net Sales</td>
<td>$9,056.7</td>
<td>$8,749.0</td>
<td>$8,358.2</td>
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</tbody>
</table>

*Sales outside North America represented approximately 30%, 29% and 29% of total sales of Pet Nutrition products in 1997, 1996 and 1995, respectively.

Net Sales
Worldwide net sales increased 4% to $9,056.7 in 1997 on volume growth of 7%, reflecting volume increases in every geographic region. Sales would have grown 8%, excluding the negative effect of foreign exchange declines. Sales in the Oral, Personal and Household Care segment were up 3% on 7% volume growth.

In 1997, sales and unit volume each rose 7% in North America. U.S. sales led the region, with strong new products including the launch of Colgate Total, which is the first toothpaste approved by the Food and Drug Administration for its ability to help prevent gingivitis, plaque and cavities. Other new products, supported by increased advertising, which fueled growth in the region were Colgate tartar control whitening, Palmolive for pots & pans dishwashing liquid, Speed Stick Ultimate antiperspirant and Softsoap bodywash with vitamin E.

Sales in Latin America were up 11% on 10% volume growth. Widespread growth throughout the division included sizable gains in Mexico, Ecuador, Colombia and Central America. In Brazil, Sorriso brand toothpaste was launched and achieved full market distribution. As part of the regulatory approval of the Company’s acquisition of Kolynos, Kolynos brand toothpaste has been withdrawn from the market for four years. Other new product introductions which have contributed to the growth in this region included Colgate Double Cool Stripe toothpaste, Protex Fresh soap and Lady Speed Stick Invisible Dry antiperspirant.

Sales in Europe decreased 5% in 1997 due to the negative effects of weaker European currencies, while volume grew 5%. Germany, Italy, the United Kingdom and Poland achieved the strongest volume increases in the region. The ongoing success of new product launches such as Ajax Fêtes des Fleurs, Colgate Sensation whitening, Ajax Expel cleaner with insect repellent and Palmolive antibacterial dishwashing liquid helped the region increase volume in this highly competitive market.

Overall, sales of the Asia/Africa region decreased 2%. Excluding divested businesses, sales were flat on 5% volume growth for the year 1997. China led the region in both strong sales and volume growth. Partially offsetting this growth was the negative impact of the weakening ASEAN currencies. Of the ASEAN countries undergoing economic problems, Colgate competes in Malaysia, the Philippines and Thailand. New product launches drove the volume growth in Asia/Africa.

Sales for Hill's Pet Nutrition increased 11% on 9% volume growth. Hill’s enjoyed sales and volume growth in both the domestic and international markets. Growth was strongest in Japan, where Hill’s has introduced 11 new products and begun successful television advertising, and Europe, where new manufacturing capacity is enabling Hill’s to meet growing demand.

In 1996, worldwide net sales increased 5% to $8,749.0, reflecting volume increases by all divisions. North America posted overall sales growth of 5% on the same percentage of volume growth. Europe sales decreased slightly in 1996 on 3% higher volume, due primarily to weaker currencies. Latin America led the Oral, Personal and Household Care segment with an 8% increase in sales on 7% volume growth. Asia/Africa sales increased 6% on 7% volume growth. The Pet Nutrition segment increased sales 10% on 6% volume gains. During 1996, Hill’s completed its transition to a company-owned distribution and sales network.

Gross Profit
Gross profit margin was 50.7%, above both the 1996 level of 49.1% and the 1995 level of 47.9%. All regions improved margins over 1996. The favorable trend reflects cost-reduction programs including supply chain management and the restructuring program, as well as emphasis on higher margin products.

Selling, General and Administrative Expenses
Selling, general and administrative expenses as a percentage of sales were 36% in 1997, 35% in 1996 and 34% in 1995. The increasing trend primarily represents additional advertising spending in every region. The Company continues to focus on expense-containment strategies.
Provision for Restructured Operations
In September 1995, the Company announced a major worldwide restructuring of its manufacturing and administrative operations designed to further enhance profitable growth over the next several years by generating significant efficiencies and improving competitiveness. The charge included employee termination costs and expenses associated with the realignment of the Company’s global manufacturing operations, as well as settlement of contractual obligations. The worldwide restructuring program resulted in a 1995 third quarter pretax charge of $460.5 ($369.2 net of tax) or $1.27 per share for the year. The restructuring programs are expected to be substantially completed during 1998.

Other Expense, Net
Other expense, net, consists principally of amortization of goodwill and other intangible assets, minority interest in earnings of less-than-100%-owned consolidated subsidiaries, earnings from equity investments and other miscellaneous gains and losses. Other expense, net, decreased in 1997 primarily due to gains from sales of non-core product lines and other assets, gains on derivative financial instruments and changes in the level of amortization.

Worldwide Earnings by Business Segment and Geographic Region
<table>
<thead>
<tr>
<th>1995</th>
<th>Excluding Restructuring</th>
<th>As Reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oral, Personal and Household Care</td>
<td>1,132.8</td>
<td>1,033.3</td>
</tr>
<tr>
<td>North America</td>
<td>269.7</td>
<td>214.1</td>
</tr>
<tr>
<td>Latin America</td>
<td>466.7</td>
<td>397.1</td>
</tr>
<tr>
<td>Europe</td>
<td>237.4</td>
<td>234.3</td>
</tr>
<tr>
<td>Asia/Africa</td>
<td>159.0</td>
<td>187.8</td>
</tr>
<tr>
<td>Total Oral, Personal and Household Care</td>
<td>1,132.8</td>
<td>1,033.3</td>
</tr>
<tr>
<td>Total Pet Nutrition</td>
<td>160.9</td>
<td>125.7</td>
</tr>
<tr>
<td>Total Segment Earnings</td>
<td>1,293.7</td>
<td>1,159.0</td>
</tr>
<tr>
<td>Unallocated Expense, Net</td>
<td>(7.9)</td>
<td>(7.0)</td>
</tr>
<tr>
<td>Earnings Before Interest and Taxes</td>
<td>1,285.8</td>
<td>1,152.0</td>
</tr>
<tr>
<td>Interest Expense, Net</td>
<td>1,285.8</td>
<td>1,152.0</td>
</tr>
<tr>
<td>Income Before Income Taxes</td>
<td>$1,102.3</td>
<td>$954.6</td>
</tr>
</tbody>
</table>

EBIT increased 12% in 1997 to $1,285.8 compared with $1,152.0 in 1996. EBIT for the Oral, Personal and Household Care segment was up 10% with North America, Latin America and Europe posting gains of 26%, 18% and 1%, respectively. Results in Asia/Africa decreased by 15% due to the economic weakening in the ASEAN countries, difficult economic conditions in Africa and continued investment in China. The Pet Nutrition segment EBIT increased 28%.

Interest Expense, Net
Interest expense, net, was $183.5 compared with $197.4 in 1996 and $205.4 in 1995. The decline in interest expense is the result of decreasing debt levels. In 1995, substantial debt was incurred to finance the Kolynos acquisition. Free cash flow has been used to reduce the Company’s debt in 1996 and 1997.

Income Taxes
The effective tax rate on income was 32.8% in 1997 versus 33.5% in 1996 and 52.7% in 1995. The overall effective rate in 1995 was impacted by the charge for restructuring, the tax benefit of which was 20% due to the effect of tax benefits in certain jurisdictions not expected to be realized. Excluding the charge, the effective income tax rate was 34.3% in 1995. Global tax planning strategies benefited the effective tax rate in all three years presented.

Net Income
Net income was $740.4 in 1997 or $2.44 per share compared with $635.0 in 1996 or $2.09 per share and $172.0 in 1995 or $.52 per share. Excluding the restructuring charge in 1995, earnings were $541.2 or $179 per share. In 1997, there was a two-for-one stock split. All financial information contained herein has been adjusted to reflect this split.

Liquidity and Capital Resources
Net cash provided by operations increased 20% to $1,097.8 compared with $917.4 in 1996 and $830.2 in 1995. The increasing trend reflects the Company’s improved profitability, lower cash taxes and working capital management. Cash generated from operations was used to fund capital spending, reduce debt levels and increase dividends. During 1997, long-term debt decreased from $2,897.2 to $2,518.6, while total debt decreased from $3,069.5 to $2,671.1. The decrease resulted primarily from repayment of a $406.0 loan with a foreign commercial bank and net commercial paper reductions from free cash flow.
As of December 31, 1997, $607.5 million of domestic and foreign commercial paper was outstanding. These borrowings carry a Standard & Poor's rating of A1 and a Moody's rating of P1. The commercial paper, as well as other short-term borrowings, are classified as long-term debt at December 31, 1997, as it is the Company's intent and ability to refinance such obligations on a long-term basis. The Company has additional sources of liquidity available in the form of lines of credit maintained with various banks. At December 31, 1997, such unused lines of credit amounted to $158.6 million. In addition, at December 31, 1997, the Company had $697.8 million available under previously filed shelf registrations.

In 1996, the Company entered into a $496.3 million loan agreement and obtained a $406.0 million term loan with foreign commercial banks. In addition, the Company issued $100.0 million of notes in private placement and issued $75.0 million of medium-term notes under previously filed shelf registrations.

During 1995, the Company issued $89.2 million of Swiss franc bonds and $71.7 million of Luxembourg franc bonds, both of which were immediately swapped into U.S. dollar floating rate debt. In addition, $220.0 million of medium-term notes were issued under the shelf registration filed in May 1994. Also in 1995, the Company obtained a $75.0 million term note and filed a shelf registration for $700.0 million of debt securities.

The ratio of net debt to total capitalization (defined as the ratio of the book values of debt less cash and marketable securities ["net debt"] to net debt plus equity) decreased to 53% during 1997 from 58% in 1996 and 64% in 1995. The decrease in 1997 was primarily the result of higher earnings and related operating cash flow available to reduce debt levels.

Capital expenditures were 5% of net sales for all three years presented. Capital spending continues to be focused primarily on projects that yield high after-tax returns, thereby reducing the Company's cost structure. Capital expenditures for 1998 are expected to continue at the current rate of approximately 5% of net sales.

Other investing activities in 1997, 1996 and 1995 included strategic acquisitions and dispositions around the world. The most significant acquisition was the 1995 purchase of Kolynos in Latin America. The aggregate purchase price of all 1997, 1996 and 1995 acquisitions was $20.3 million, $38.5 million, and $132.1 million, respectively. The Sterno fuel product line was sold in 1997. The aggregate sale price of all 1997, 1996 and 1995 sales of businesses or product lines was $301.4 million, $251.1 million, and $20.2 million, respectively.

Dividend payments were $333.4 million, up from $296.2 million in 1996 and $276.5 million in 1995. Common stock dividend payments increased to $1.06 per share in 1997 from $.94 per share in 1996 and $.88 in 1995. The Series B Preference Stock dividends were declared and paid at the stated rate of 4.88% per share in all three years.

Internally generated cash flows appear to be adequate to support currently planned business operations, acquisitions and capital expenditures. Significant acquisitions, similar to the acquisition of Kolynos discussed previously, would require external financing.

The Company is a party to various Superfund and other environmental matters and is contingently liable with respect to lawsuits, taxes and other matters arising out of the normal course of business. Management proactively reviews and manages its exposure to, and the impact of, environmental matters. While it is possible that the Company's cash flows and results of operations in particular quarterly or annual periods could be affected by the one-time impacts of the resolution of such contingencies, it is the opinion of management that the ultimate disposition of these matters, to the extent not previously provided for, will not have a material impact on the Company's financial condition or ongoing cash flows and results of operations.
Derivative Financial Instruments
The Company is exposed to market risk from interest rates and foreign currency exchange rate fluctuations. The Company utilizes simple instruments, such as non-leveraged interest rate swaps and foreign currency exchange contracts, to manage these exposures. The principal objective of such financial derivative contracts is to moderate the effect of fluctuations in interest rates and foreign exchange rates. The Company, as a matter of policy, does not speculate in financial markets and therefore does not hold these contracts for trading purposes.

Interest rate swap contracts are used to manage the Company’s mix of fixed and floating rate debt. The Company’s target floating rate obligations as a percentage of the Company’s global debt is set by policy. The Company utilizes foreign exchange contracts principally to hedge European and ASEAN currency exposures associated with its net investment in subsidiaries, inventory purchases and debt.

Value at Risk
The Company’s risk management procedures include the monitoring of interest rate and foreign exchange exposures and the Company’s offsetting hedge positions utilizing analytical analysis of cash flows, market value, sensitivity analysis and value-at-risk estimations. However, the use of these techniques to quantify the market risk of such instruments should not be construed as an endorsement of their accuracy or the accuracy of the related assumptions. The Company utilizes a Value-at-Risk (VAR) model and an Earnings-at-Risk (EAR) model that are intended to measure the maximum potential loss in its interest rate and foreign exchange financial instruments assuming adverse market conditions occur, given a 95% confidence level. The models utilize a variance/covariance modeling technique. Historical interest rates and foreign exchange rates from the preceding year are used to estimate the volatility and correlation of future rates. The estimated maximum potential one-day loss in fair value of interest rate or foreign exchange rate instruments, calculated using the VAR model, is not material to the consolidated financial position, results of operations or cash flows of the Company. The estimated maximum yearly loss in earnings due to interest rate or foreign exchange rate instruments, calculated utilizing the EAR model, is not material to the Company’s results of operations. Actual results in the future may differ materially from these projected results due to actual developments in the global financial markets.

A discussion of the Company’s accounting policies for financial instruments is included in the Summary of Significant Accounting Policies in the notes to the Consolidated Financial Statements, and further disclosure relating to financial instruments is included in the Fair Value of Financial Instruments note.

Outlook
Looking forward into 1998, the Company is well positioned for strong growth in most of its markets, particularly Latin America and North America. However, movements in foreign currency exchange rates can impact future operating results as measured in U.S. dollars. In particular, economic turmoil in the ASEAN countries may continue to impact overall results of Asia/Africa, and projected growth may be tempered until these economies become more stable. Of the ASEAN countries undergoing economic problems, Colgate competes in Malaysia, the Philippines and Thailand, which represent less than 4% of total Company sales and earnings. At this time, management does not anticipate that this ASEAN economic crisis will meaningfully extend to other parts of the world. If conditions were to significantly deteriorate, however, such an event could impact the Company.

Competitive pressures in Western European markets are expected to persist as business in this region will continue to be affected by slow economic growth, high unemployment and retail trade consolidation. In Latin America, the Company will continue to account for the Brazilian operations as highly inflationary and assess the status throughout the year. Ceasing to treat Brazil as highly inflationary would not be expected to be material to the financial statements.

The Company has developed preliminary plans to address the possible exposures related to the impact of the year 2000 on the Company’s computers, as well as the computers of its suppliers and customers. Given that the SAP computer system is compliant with year 2000, and most Colgate regions will be using SAP by the year 2000, the financial impact of making required changes to non-SAP Colgate systems is not expected to be material.

The Company expects the continued success of Colgate Total, using patented proprietary technology, to bolster worldwide oral care leadership and expects new products in all other categories to add potential for further growth. Overall, subject to global economic conditions, the Company does not expect the 1998 market conditions to be materially different from those experienced in 1997 and the Company expects its positive momentum to continue. Historically, the consumer products industry has been less susceptible to changes in economic growth than many other industries, and therefore the Company constantly evaluates projects that will focus operations on opportunities for enhanced growth potential. Over the long term, Colgate’s continued focus on its consumer products business and the strength of its global brand names, its broad international presence in both developed and developing markets, and its strong capital base all position the Company to take advantage of growth opportunities and to continue to increase profitability and shareholder value.
Report of Management

The management of Colgate-Palmolive Company has prepared the accompanying consolidated financial statements and is responsible for their content as well as other information contained in this annual report. These financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include amounts which are based on management’s best estimates and judgments.

The Company maintains a system of internal accounting control designed to be cost-effective while providing reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management’s authorization and are properly recorded in the financial records. Internal control effectiveness is supported through written communication of policies and procedures, careful selection and training of personnel, and audits by a professional staff of internal auditors. The Company’s control environment is further enhanced through a formal Code of Conduct which sets standards of professionalism and integrity for employees worldwide.

The Company has retained Arthur Andersen LLP, independent public accountants, to examine the financial statements. Their accompanying report is based on an examination conducted in accordance with generally accepted auditing standards, which includes a review of the Company’s systems of internal control as well as tests of accounting records and procedures sufficient to enable them to render an opinion on the Company’s financial statements.

The Audit Committee of the Board of Directors is composed entirely of non-employee directors. The Committee meets periodically and independently throughout the year with management, internal auditors and the independent accountants to discuss the Company’s internal accounting controls, auditing and financial reporting matters. The internal auditors and independent accountants have unrestricted access to the Audit Committee.

Report of Independent Public Accountants

To the Board of Directors and Shareholders of
Colgate-Palmolive Company:

We have audited the accompanying consolidated balance sheets of Colgate-Palmolive Company (a Delaware corporation) and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, retained earnings, changes in capital accounts and cash flows for each of the three years in the period ended December 31, 1997. 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 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 financial position of Colgate-Palmolive Company and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

New York, New York
February 2, 1998
### Consolidated Statements of Income

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$9,056.7</td>
<td>$8,749.0</td>
<td>$8,358.2</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>4,461.5</td>
<td>4,451.1</td>
<td>4,353.1</td>
</tr>
<tr>
<td>Gross profit</td>
<td>4,595.2</td>
<td>4,297.9</td>
<td>4,005.1</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>3,237.0</td>
<td>3,052.1</td>
<td>2,879.6</td>
</tr>
<tr>
<td>Provision for restructured operations</td>
<td>—</td>
<td>—</td>
<td>460.5</td>
</tr>
<tr>
<td>Other expense, net</td>
<td>72.4</td>
<td>93.8</td>
<td>96.1</td>
</tr>
<tr>
<td>Interest expense, net</td>
<td>183.5</td>
<td>197.4</td>
<td>205.4</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>1,102.3</td>
<td>954.6</td>
<td>363.5</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>361.9</td>
<td>319.6</td>
<td>191.5</td>
</tr>
<tr>
<td>Net income</td>
<td>$ 740.4</td>
<td>$ 635.0</td>
<td>$ 172.0</td>
</tr>
<tr>
<td>Earnings per common share, basic</td>
<td>$ 2.44</td>
<td>$ 2.09</td>
<td>$ .52</td>
</tr>
<tr>
<td>Earnings per common share, diluted</td>
<td>$ 2.27</td>
<td>$ 1.96</td>
<td>$ .51</td>
</tr>
</tbody>
</table>

See Notes to Consolidated Financial Statements.
## Consolidated Balance Sheets

**Assets**

**Current Assets**
- Receivables (less allowances of $35.8 and $33.8, respectively): 1,037.4 (1997), 1,064.4 (1996)
- Inventories: 728.4 (1997), 770.7 (1996)

**Total current assets**: 2,196.5 (1997), 2,372.3 (1996)

**Property, plant and equipment, net**: 2,441.0 (1997), 2,428.9 (1996)

**Goodwill and other intangibles, net**: 2,585.3 (1997), 2,720.4 (1996)

**Other assets**: 315.9 (1997), 379.9 (1996)

**Total assets**: $7,538.7 (1997), $7,901.5 (1996)

**Liabilities and Shareholders’ Equity**

**Current Liabilities**
- Accounts payable: 716.9 (1997), 751.7 (1996)
- Accrued income taxes: 67.0 (1997), 93.1 (1996)
- Other accruals: 838.9 (1997), 776.8 (1996)

**Total current liabilities**: 1,959.5 (1997), 1,904.3 (1996)

**Long-term debt**: 2,340.3 (1997), 2,786.8 (1996)

**Deferred income taxes**: 284.5 (1997), 234.3 (1996)

**Other liabilities**: 775.8 (1997), 942.0 (1996)

**Shareholders’ Equity**
- Preferred stock: 385.3 (1997), 392.7 (1996)
- Common stock, $1 par value (1,000,000,000 shares authorized, 366,426,590 shares issued): 366.4 (1997), 366.4 (1996)
- Retained earnings: 3,138.0 (1997), 2,731.0 (1996)
- Cumulative translation adjustments: (693.7) (1997), (534.7) (1996)


**Total liabilities and shareholders’ equity**: $7,538.7 (1997), $7,901.5 (1996)

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See Notes to Consolidated Financial Statements.
### Consolidated Statements of Retained Earnings

<table>
<thead>
<tr>
<th>Year</th>
<th>1997</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, January 1</td>
<td>$2,731.0</td>
<td>$2,392.2</td>
<td>$2,496.7</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>740.4</td>
<td>635.0</td>
<td>172.0</td>
</tr>
<tr>
<td>Deduct:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends declared:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series B Convertible Preference Stock, net of income taxes</td>
<td>20.6</td>
<td>20.9</td>
<td>21.1</td>
</tr>
<tr>
<td>Preferred stock</td>
<td>.5</td>
<td>.5</td>
<td>.5</td>
</tr>
<tr>
<td>Common stock</td>
<td>312.3</td>
<td>274.8</td>
<td>254.9</td>
</tr>
<tr>
<td>Balance, December 31</td>
<td>$3,138.0</td>
<td>$2,731.0</td>
<td>$2,392.2</td>
</tr>
</tbody>
</table>

### Consolidated Statements of Changes in Capital Accounts

<table>
<thead>
<tr>
<th></th>
<th>Common Stock</th>
<th>Additional Paid-In Treasury Stock</th>
<th>Treasury Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Shares</td>
<td>Amount</td>
<td>Capital</td>
</tr>
<tr>
<td>Balance, January 1, 1995</td>
<td>288,808,474</td>
<td>$366.4</td>
<td></td>
</tr>
<tr>
<td>Shares issued for stock options, net</td>
<td>2,309,312</td>
<td>–</td>
<td>13.7</td>
</tr>
<tr>
<td>Treasury stock acquired</td>
<td>(37,600)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other</td>
<td>627,558</td>
<td>–</td>
<td>(4)</td>
</tr>
<tr>
<td>Balance, December 31, 1995</td>
<td>291,707,744</td>
<td>366.4</td>
<td>850.5</td>
</tr>
<tr>
<td>Shares issued for stock options, net</td>
<td>2,206,216</td>
<td>–</td>
<td>44.4</td>
</tr>
<tr>
<td>Treasury stock acquired</td>
<td>(688,800)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other</td>
<td>1,042,476</td>
<td>–</td>
<td>23.5</td>
</tr>
<tr>
<td>Balance, December 31, 1996</td>
<td>294,267,636</td>
<td>366.4</td>
<td>918.4</td>
</tr>
<tr>
<td>Shares issued for stock options, net</td>
<td>3,163,141</td>
<td>–</td>
<td>64.2</td>
</tr>
<tr>
<td>Treasury stock acquired</td>
<td>(2,795,926)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other</td>
<td>767,844</td>
<td>–</td>
<td>44.8</td>
</tr>
<tr>
<td>Balance, December 31, 1997</td>
<td>295,402,695</td>
<td>$366.4</td>
<td>$1,027.4</td>
</tr>
</tbody>
</table>

See Notes to Consolidated Financial Statements.
## Consolidated Statements of Cash Flows

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$ 740.4</td>
<td>$ 635.0</td>
<td>$ 172.0</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operations:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restructured operations, net</td>
<td>(48.5)</td>
<td>(105.6)</td>
<td>424.9</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>319.9</td>
<td>316.3</td>
<td>300.3</td>
</tr>
<tr>
<td>Income taxes and other, net</td>
<td>18.5</td>
<td>13.2</td>
<td>(121.0)</td>
</tr>
<tr>
<td>Cash effects of changes in:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>(61.6)</td>
<td>(15.4)</td>
<td>(44.1)</td>
</tr>
<tr>
<td>Inventories</td>
<td>(50.9)</td>
<td>(1.2)</td>
<td>(26.1)</td>
</tr>
<tr>
<td>Other current assets</td>
<td>—</td>
<td>—</td>
<td>(42.4)</td>
</tr>
<tr>
<td>Payables and accruals</td>
<td>180.0</td>
<td>75.1</td>
<td>146.6</td>
</tr>
<tr>
<td><strong>Net cash provided by operations</strong></td>
<td>1,097.8</td>
<td>917.4</td>
<td>810.2</td>
</tr>
<tr>
<td><strong>Investing Activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>(478.5)</td>
<td>(459.0)</td>
<td>(431.8)</td>
</tr>
<tr>
<td>Payment for acquisitions, net of cash acquired</td>
<td>(31.5)</td>
<td>(59.3)</td>
<td>(1,300.4)</td>
</tr>
<tr>
<td>Sale of non-core product lines</td>
<td>96.4</td>
<td>25.1</td>
<td>2.0</td>
</tr>
<tr>
<td>Sale of marketable securities and investments</td>
<td>68.5</td>
<td>1.2</td>
<td>4.2</td>
</tr>
<tr>
<td>Other, net</td>
<td>7.7</td>
<td>(12.0)</td>
<td>(17.2)</td>
</tr>
<tr>
<td><strong>Net cash used for investing activities</strong></td>
<td>(337.4)</td>
<td>(504.0)</td>
<td>(1,743.2)</td>
</tr>
<tr>
<td><strong>Financing Activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal payments on debt</td>
<td>(670.7)</td>
<td>(1,164.6)</td>
<td>(17.1)</td>
</tr>
<tr>
<td>Proceeds from issuance of debt, net</td>
<td>350.4</td>
<td>1,077.4</td>
<td>1,220.0</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(333.4)</td>
<td>(296.2)</td>
<td>(276.5)</td>
</tr>
<tr>
<td>Purchase of common stock</td>
<td>(175.1)</td>
<td>(27.4)</td>
<td>(1.2)</td>
</tr>
<tr>
<td>Proceeds from exercise of stock options and other, net</td>
<td>15.8</td>
<td>39.2</td>
<td>51.0</td>
</tr>
<tr>
<td><strong>Net cash (used for) provided by financing activities</strong></td>
<td>(813.0)</td>
<td>(371.6)</td>
<td>976.2</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td>(12.5)</td>
<td>(2.4)</td>
<td>(4.3)</td>
</tr>
<tr>
<td>Net (decrease) increase in cash and cash equivalents</td>
<td>(65.1)</td>
<td>39.4</td>
<td>38.9</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at beginning of year</strong></td>
<td>248.2</td>
<td>208.8</td>
<td>169.9</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of year</strong></td>
<td>$ 183.1</td>
<td>$ 248.2</td>
<td>$ 208.8</td>
</tr>
<tr>
<td><strong>Supplemental Cash Flow Information</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>$ 261.3</td>
<td>$ 273.0</td>
<td>$ 292.5</td>
</tr>
<tr>
<td>Interest paid</td>
<td>230.6</td>
<td>229.1</td>
<td>228.6</td>
</tr>
<tr>
<td>Non-cash consideration in payment for acquisitions</td>
<td>—</td>
<td>—</td>
<td>48.9</td>
</tr>
<tr>
<td>Principal payments on ESOP debt, guaranteed by the Company</td>
<td>5.5</td>
<td>5.0</td>
<td>4.4</td>
</tr>
</tbody>
</table>

See Notes to Consolidated Financial Statements.
1. Nature of Operations

The Company manufactures and markets a wide variety of products in the U.S. and around the world in two distinct business segments: Oral, Personal and Household Care, and Pet Nutrition. Oral, Personal and Household Care products include toothpastes, oral rinses and toothbrushes, bar and liquid soaps, shampoos, conditioners, deodorants and antiperspirants, baby and shave products, laundry and dishwashing detergents, fabric softeners, cleansers and cleaners, bleaches and other similar items. These products are sold primarily to wholesale and retail distributors worldwide. Pet Nutrition products include pet food products manufactured and marketed by Hill's Pet Nutrition. The principal customers for Pet Nutrition products are veterinarians and specialty pet retailers. Principal global trademarks include Colgate, Palmolive, Mennen, Protex, Ajax, Soupline/Suavitel, Fab, Science Diet and Prescription Diet in addition to various regional trademarks.

The Company’s principal classes of products accounted for the following percentages of worldwide sales for the past three years:

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oral Care</td>
<td>31%</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>Personal Care</td>
<td>23</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Household Surface</td>
<td>16</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Care</td>
<td>16</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Fabric Care</td>
<td>11</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>Pet Nutrition</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Company products are marketed under highly competitive conditions. Products similar to those produced and sold by the Company are available from competitors in the U.S. and overseas. Product quality, brand recognition and acceptance, and marketing capability largely determine success in the Company’s business segments. The financial and descriptive information on the Company’s geographic area and industry segment data, appearing in the tables contained in Results of Operations, is an integral part of these financial statements. More than 60% of the Company’s net sales, operating profit and identifiable assets are attributable to overseas operations. Transfers between geographic areas are not significant.

The Company’s products are generally marketed by a sales force employed by each individual subsidiary or business unit. In some instances, distributors and brokers are used. Most raw materials are purchased from others, are available from several sources and are generally available in adequate supply. Products and commodities such as tallow and essential oils are subject to wide price variations. No one of the Company’s raw materials represents a significant portion of total material requirements. Trademarks are considered to be of material importance to the Company’s business; consequently, the practice is followed of seeking trademark protection by all available means. Although the Company owns a number of patents, no one patent is considered significant to the business taken as a whole.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Colgate-Palmolive Company and its majority-owned subsidiaries. Intercompany transactions and balances have been eliminated. Investments in companies in which the Company's interest is between 20% and 50% are accounted for using the equity method. The Company’s share of the net income from such investments is recorded as equity earnings and is classified as Other expense, net in the Consolidated Statements of Income.

Revenue Recognition

Sales are recorded at the time products are shipped to trade customers. Net sales reflect units shipped at selling list prices reduced by promotion allowances.

Use of Estimates

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 gains and losses at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Changes

In 1997, the Financial Accounting Standards Board (FASB) issued Statement No. 128, “Earnings Per Share,” which revises the manner in which earnings per share is calculated. The Company adopted this statement as of December 31, 1997, and all per share amounts included herein have been restated accordingly. The effect of the adoption was not material.

Additionally, in 1997, the FASB issued Statement No. 130, “Reporting Comprehensive Income,” and Statement No. 131, “Disclosures about Segments of an Enterprise and Related Information.” These statements, which are effective beginning in 1998, expand and modify disclosures and, accordingly, will have no impact on the Company’s reported financial position, results of operations or cash flows.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Investments in short-term securities that do not meet the definition of cash equivalents are classified as marketable securities. Marketable securities are reported at cost, which approximates market.
Inventories
Inventories are valued at the lower of cost or market. The first-in, first-out (FIFO) method is used to value most inventories. The remaining inventories are valued using the last-in, first-out (LIFO) method.

Property, Plant and Equipment
Land, buildings, and machinery and equipment are stated at cost. Depreciation is provided, primarily using the straight-line method, over estimated useful lives ranging from 3 to 40 years.

Goodwill and Other Intangibles
Goodwill represents the excess of purchase price over the fair value of identifiable tangible and intangible net assets of businesses acquired. Goodwill and other intangibles are amortized on a straight-line basis over periods not exceeding 40 years. The recoverability of carrying values of intangible assets is evaluated on a recurring basis. The primary indicators of recoverability are current and forecasted profitability of a related acquired business. For the three-year period ended December 31, 1997, there were no material adjustments to the carrying values of intangible assets resulting from these evaluations.

Income Taxes
Deferred taxes are recognized for the expected future tax consequences of temporary differences between the amounts carried for financial reporting and tax purposes. Provision is made currently for taxes payable on remittances of overseas earnings; no provision is made for taxes on overseas retained earnings that are deemed to be permanently reinvested.

Translation of Overseas Currencies
The assets and liabilities of subsidiaries, other than those operating in highly inflationary environments, are translated into U.S. dollars at year-end exchange rates, with resulting translation gains and losses accumulated in a separate component of shareholders’ equity. Income and expense items are converted into U.S. dollars at average rates of exchange prevailing during the year. For subsidiaries operating in highly inflationary environments, inventories, goodwill and property, plant and equipment are translated at the rate of exchange on the date the assets were acquired, while other assets and liabilities are translated at year-end exchange rates. Translation adjustments for these operations are included in net income.

Financial Instruments
The net effective cash payment of the interest rate swap contracts combined with the related interest payments on the debt that they hedge are accounted for as interest expense. Those interest rate instruments that do not qualify as hedge instruments for accounting purposes are marked to market and recorded at fair value.

Gains and losses from foreign exchange contracts that hedge the Company’s investments in its foreign subsidiaries are shown in the cumulative translation adjustments account included in shareholders’ equity. Gains and losses from contracts that hedge firm commitments are recorded in the balance sheets as a component of the related receivable or payable until realized, at which time they are recognized in the statements of income. The contracts that hedge anticipated sales and purchases do not qualify as hedges for accounting purposes. Accordingly, the related gains and losses are calculated using the current forward rates and are recorded in the Consolidated Statements of Income as Other expense, net.

Geographic Areas and Industry Segments
The financial and descriptive information on the Company’s geographic area and industry segment data, appearing in the tables contained in the Results of Operations of this report, is an integral part of these financial statements.

Reclassifications
Certain prior year balances have been reclassified to conform with current year presentation.

3. Acquisitions and Divestitures
The aggregate purchase price of all 1997, 1996 and 1995 acquisitions was $20.3, $38.5 and $1,321.9. The most significant purchase was the 1995 acquisition of the worldwide Kolynos oral care business (“Kolynos”) for $1,040.0. Kolynos is an oral care business operating primarily in South America. The transaction was structured as a multinational acquisition of assets and stock. The net book value of Kolynos assets was approximately $50.0.

All of these acquisitions have been accounted for as purchases, and, accordingly, the purchase prices were allocated to the net tangible and intangible assets acquired based on estimated fair values at the dates of the respective acquisitions. The results of operations have been included in the Consolidated Financial Statements since the respective acquisition dates. The inclusion of pro forma financial data for all acquisitions would not have materially affected the financial information included herein.

The aggregate sale price of all 1997, 1996 and 1995 divestitures was $101.4, $25.1 and $2.0, respectively. In 1997, the Sterno fuel brand and related assets were sold for $70.0.
4. Long-Term Debt and Credit Facilities

Long-term debt consists of the following at December 31:

<table>
<thead>
<tr>
<th>Description</th>
<th>Weighted Average Interest Rate</th>
<th>Maturities</th>
<th>1997</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes</td>
<td>7.0%</td>
<td>1998-2030</td>
<td>$1,186.6</td>
<td>$1,292.9</td>
</tr>
<tr>
<td>Commercial paper and other short-term borrowings, reclassified</td>
<td>5.0</td>
<td>1998</td>
<td>607.5</td>
<td>375.1</td>
</tr>
<tr>
<td>ESOP notes, guaranteed by the Company</td>
<td>8.6</td>
<td>2001-2009</td>
<td>379.7</td>
<td>385.2</td>
</tr>
<tr>
<td>Payable to banks</td>
<td>5.5</td>
<td>2000-2003</td>
<td>339.2</td>
<td>836.0</td>
</tr>
<tr>
<td>Capitalized leases</td>
<td></td>
<td></td>
<td>5.6</td>
<td>8.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2,518.6</td>
<td>2,897.2</td>
</tr>
<tr>
<td>Less: current portion of long-term debt</td>
<td></td>
<td></td>
<td>178.3</td>
<td>110.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$2,340.3</td>
<td>$2,786.8</td>
</tr>
</tbody>
</table>

Commercial paper and certain other short-term borrowings are classified as long-term debt as it is the Company’s intent and ability to refinance such obligations on a long-term basis. Scheduled maturities of debt outstanding at December 31, 1997, excluding short-term borrowings reclassified, are as follows: 1998—$178.3; 1999—$198.6; 2000—$456.8; 2001—$99.5; 2002—$162.9, and $815.0 thereafter. The Company has entered into interest rate swap agreements and foreign exchange contracts related to certain of these debt instruments (see Note 12).

At December 31, 1997, the Company had unused credit facilities amounting to $1,586.4. Commitment fees related to credit facilities are not material. The weighted average interest rate on short-term borrowings, excluding amounts reclassified, as of December 31, 1997 and 1996 was 8.5% and 7.5%, respectively.

The Company’s long-term debt agreements include various restrictive covenants and the maintenance of certain defined financial ratios with which the Company is in compliance.

5. Capital Stock and Stock Compensation Plans

Preferred Stock

Preferred Stock consists of 250,000 authorized shares without par value. It is issuable in series, of which one series of 125,000 shares, designated §4.25 Preferred Stock, with a stated and redeemable value of $100 per share, has been issued and is outstanding. The $4.25 Preferred Stock is redeemable only at the option of the Company.

Preference Stock

In 1988, the Company authorized the issuance of 50,000,000 shares of Preference Stock, without par value. The Series B Convertible Preference Stock, which is convertible into four shares of common stock, ranks junior to all series of the Preferred Stock. At December 31, 1997 and 1996, 5,734,940 and 5,849,039 shares of Series B Convertible Preference Stock, respectively, were outstanding and issued to the Company’s Employee Stock Ownership Plan.

Common Stock

On March 6, 1997, the Company’s Board of Directors approved a two-for-one common stock split. As a result of the split, the shareholders received one additional share of common stock for each share they held as of April 25, 1997. Par value remained $1.

The Consolidated Financial Statements and financial information contained elsewhere in this report have been adjusted to reflect the effects of the impact of the common stock split for all periods presented. In conjunction with the split, on May 8, 1997, the shareholders approved an increase in authorized shares of common stock from 500,000,000 to 1,000,000,000.

Shareholder Rights Plan

Under the Company’s Shareholder Rights Plan, each share of the Company’s common stock carries with it one Preference Share Purchase Right (“Rights”). The Rights themselves will at no time have voting power or pay dividends. The Rights become exercisable only if a person or group acquires 20% or more of the Company’s common stock or announces a tender offer, the consummation of which would result in ownership by a person or group of 20% or more of the common stock. When exercisable, each Right entitles a holder to buy one four-hundredth of a share of a new series of preference stock at an exercise price of $43.75.

If the Company is acquired in a merger or other business combination, each Right will entitle a holder to buy, at the Right’s then current exercise price, a number of the acquiring company’s common shares having a market value of twice such price. In addition, if a person or group acquires 30% or more of the Company’s common stock, other than pursuant to a cash tender offer for all shares in which such person or group increases its stake from below 20% to 80% or more of the outstanding shares, each Right will entitle its holder (other than such person or members of such group) to purchase, at the Right’s then current exercise price, a number of shares of the Company’s common stock having a market value of twice the Right’s exercise price.

Further, at any time after a person or group acquires 30% or more (but less than 50%) of the Company’s common stock, the Board of Directors may, at its option, exchange part or all of the Rights (other than Rights held by the acquiring person or group) for shares of the Company’s common stock on a one-for-one basis.
The Company, at the option of its Board of Directors, may redeem the Rights for $0.005 at any time before the acquisition by a person or group of beneficial ownership of 20% or more of its common stock. The Board of Directors is also authorized to reduce the 20% and 30% thresholds to not less than 15%. Unless redeemed earlier, the Rights will expire on October 24, 1998.

Incentive Stock Plan
The Company has a plan which provides for grants of restricted stock awards for officers and other executives of the Company and its major subsidiaries. A committee of non-employee members of the Board of Directors administers the plan. During 1997 and 1996, 335,270 and 252,458 shares, respectively, were awarded to employees in accordance with the provisions of the plan.

Stock Option Plans
The Company's Stock Option Plans ("Plans") provide for the issuance of non-qualified stock options to officers and key employees. Options are granted at prices not less than the fair market value on the date of grant. At 1997 year-end, 23,173,483 shares of common stock were available for future grants. The Plans contain an accelerated ownership feature which provides for the grant of new options when previously owned shares of Company stock are used to exercise existing options. The number of new options granted under this feature is equal to the number of shares of previously owned Company stock used to exercise the original options and to pay the related required U.S. income tax. The new options are granted at a price equal to the fair market value on the date of the new grant and have the same expiration date as the original options exercised.

Stock option plan activity is summarized below:

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Weighted Average Exercise Price</td>
<td>Weighted Average Exercise Price</td>
</tr>
<tr>
<td>Options outstanding, January 1</td>
<td>21,415,198 $32</td>
<td>20,991,790 $29</td>
</tr>
<tr>
<td>Granted</td>
<td>7,703,057 73</td>
<td>5,709,222 41</td>
</tr>
<tr>
<td>Exercised</td>
<td>(6,095,277) 32</td>
<td>(5,114,564) 29</td>
</tr>
<tr>
<td>Canceled or expired</td>
<td>(255,586) 38</td>
<td>(171,250) 31</td>
</tr>
<tr>
<td>Options outstanding, December 31</td>
<td>22,767,392 46</td>
<td>21,415,198 32</td>
</tr>
<tr>
<td>Options exercisable, December 31</td>
<td>14,683,179 38</td>
<td>13,983,844 29</td>
</tr>
</tbody>
</table>

The following table summarizes information relating to currently outstanding and exercisable options as of December 31, 1997:

<table>
<thead>
<tr>
<th>Range of Exercise Prices</th>
<th>Weighted Average Remaining Contractual Life in Years</th>
<th>Weighted Options Outstanding</th>
<th>Weighted Average Exercise Price</th>
<th>Weighted Options Exercisable</th>
<th>Weighted Average Exercise Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>$11.11-$28.13</td>
<td>4</td>
<td>5,013,590</td>
<td>$23</td>
<td>5,013,590</td>
<td>$23</td>
</tr>
<tr>
<td>$28.16-$36.47</td>
<td>6</td>
<td>5,225,508</td>
<td>33</td>
<td>4,307,208</td>
<td>32</td>
</tr>
<tr>
<td>$36.56-$49.89</td>
<td>7</td>
<td>5,466,426</td>
<td>42</td>
<td>3,471,800</td>
<td>43</td>
</tr>
<tr>
<td>$49.97-$74.85</td>
<td>8</td>
<td>4,907,318</td>
<td>65</td>
<td>855,014</td>
<td>61</td>
</tr>
<tr>
<td>$75.00-$106.04</td>
<td>10</td>
<td>2,144,550</td>
<td>98</td>
<td>1,035,567</td>
<td>99</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>22,767,392</td>
<td>46</td>
<td>14,683,179</td>
<td>38</td>
</tr>
</tbody>
</table>

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for options granted under the Plans. Accordingly, no compensation expense has been recognized. Had compensation expense been determined based on the Black-Scholes option pricing model value at the grant date for awards in 1997, 1996 and 1995 consistent with the provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), the Company's net income, basic earnings per common share and diluted earnings per common share would have been $716.1, $2.35 per share and $2.19 per share, respectively, in 1997; $621.7, $2.05 per share and $1.92 per share, respectively, in 1996; and $361.1, $1.50 per share and $.49 per share, respectively, in 1995.

The weighted average Black-Scholes value of grants issued in 1997, 1996 and 1995 was $7.85, $5.40 and $4.73, respectively. The Black-Scholes value of each option granted is estimated using the Black-Scholes option pricing model with the following assumptions: option term until exercise ranging from 2 to 7 years, volatility ranging from 17% to 26%, risk-free interest rate ranging from 5.8% to 6.4% and an expected dividend yield of 2.5%. The Black-Scholes model used to determine the option values shown above was developed to estimate the fair value of short-term freely tradable, fully transferable options without vesting restrictions and was not designed to value reloads, all of which significantly differ from the Company's stock option awards. The value of this model is also limited by the inclusion of highly subjective assumptions which greatly affect calculated values.

6. Employee Stock Ownership Plan
In 1989, the Company expanded its Employee Stock Ownership Plan ("ESOP") through the introduction of a leveraged ESOP covering certain employees who have met certain eligibility requirements. The ESOP issued $410.0 of long-term notes due through 2009 bearing an average interest rate of 8.6%. The long-term notes, which are guaranteed by the Company, are reflected in the accompanying Consolidated Balance Sheets. The ESOP used the proceeds of the notes to purchase 6.3 mil-
lion shares of Series B Convertible Preference Stock from the Company. The Stock has a minimum redemption price of $65 per share and pays semiannual dividends equal to the higher of $2.44 or the current dividend paid on four common shares for the comparable six-month period.

Dividends on these preferred shares, as well as common shares also held by the ESOP, are paid to the ESOP trust and, together with contributions, are used by the ESOP to repay principal and interest on the outstanding notes. Preferred shares are allocated to participant accounts. Each allocated share may be converted by the trustee into four common shares, but preferred shares generally only convert after the employee ceases to work for the Company.

Dividends on these preferred shares are deductible for income tax purposes and, accordingly, are reflected net of their tax benefit in the Consolidated Statements of Retained Earnings. Annual expense related to the leveraged ESOP, determined as interest incurred on the notes, less employee contributions and dividends received on the shares held by the ESOP, plus the higher of either principal repayments on the notes or the cost of shares allocated, was $3.0 in 1997, $3.9 in 1996 and $8.3 in 1995. Similarly, unearned compensation, shown as a reduction in shareholders’ equity, is reduced by the higher of principal payments or the cost of shares allocated.


7. Retirement Plans and Other Postretirement Benefits

Retirement Plans
The Company, its U.S. subsidiaries and a majority of its overseas subsidiaries maintain pension plans covering substantially all of their employees. Most plans provide pension benefits that are based primarily on years of service and employees’ career earnings. In the Company’s principal U.S. plans, funds are contributed to trusts in accordance with regulatory limits to provide for current service and for any unfunded projected benefit obligation over a reasonable period. To the extent these requirements are exceeded by plan assets, a contribution may not be made in a particular year. Plan assets consist principally of common stocks, guaranteed investment contracts with insurance companies, investments in real estate funds and U.S. Government obligations.

Net periodic pension expense of the plans includes the following components:

<table>
<thead>
<tr>
<th>1997</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>U.S.</td>
<td>U.S.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Service cost—benefits earned during the period</th>
<th>$24.9</th>
<th>$16.1</th>
<th>$24.5</th>
<th>$15.1</th>
<th>$19.1</th>
<th>$15.4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest cost on projected benefit obligation</td>
<td>67.6</td>
<td>17.6</td>
<td>64.4</td>
<td>17.5</td>
<td>64.5</td>
<td>16.8</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>(134.0)</td>
<td>(13.5)</td>
<td>(96.9)</td>
<td>(13.6)</td>
<td>(134.7)</td>
<td>(13.0)</td>
</tr>
<tr>
<td>Net amortization and deferral</td>
<td>59.0</td>
<td>1.0</td>
<td>26.1</td>
<td>4.0</td>
<td>61.5</td>
<td>4.7</td>
</tr>
<tr>
<td>Net pension expense</td>
<td>$ 17.5</td>
<td>$ 21.2</td>
<td>$ 18.1</td>
<td>$ 23.0</td>
<td>$ 10.4</td>
<td>$ 23.9</td>
</tr>
</tbody>
</table>

The following table sets forth the funded status of the plans at December 31:

<table>
<thead>
<tr>
<th>1997</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>Overseas</td>
</tr>
</tbody>
</table>

| Plan assets at fair value | $907.3 | $193.4 | $842.8 | $171.2 |
|---|---|---|---|
| Actuarial present value of benefit obligations: | | | | |
| Vested obligation | 878.0 | 225.7 | 836.2 | 219.2 |
| Nonvested obligation | 39.4 | 18.0 | 41.1 | 16.5 |
| Accumulated benefit obligation | 917.4 | 243.7 | 877.3 | 235.7 |
| Additional benefits related to assumed future compensation levels | 59.2 | 35.1 | 48.4 | 36.2 |
| Projected benefit obligation | 976.6 | 278.8 | 925.7 | 217.9 |
| Plan assets less than projected benefit obligation | (69.3) | (85.4) | (82.9) | (100.7) |
| Deferral of net actuarial changes and other, net | 58.7 | 5.6 | 75.9 | 4.9 |
| Unrecognized prior service cost | 44.6 | 4.5 | 50.9 | 4.2 |
| Unrecognized transition asset | (13.6) | (2.2) | (21.6) | (4.2) |
| Additional liability | (3.9) | (1.2) | | |
| Prepaid (accrued) pension cost recognized in the Consolidated Balance Sheets | $ 20.4 | $(81.4) | $ 22.3 | $(97.0) |

The actuarial assumptions used to determine the projected benefit obligation of the plans were as follows:

<table>
<thead>
<tr>
<th>U.S.</th>
<th>Overseas (weighted average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Settlement rates</td>
<td>7.25%</td>
</tr>
<tr>
<td>Long-term rates of compensation increase</td>
<td>5.50</td>
</tr>
</tbody>
</table>
When remeasuring the pension obligation, the Company reassesses each actuarial assumption. The settlement rate assumption is pegged to long-term bond rates to reflect the cost to satisfy the pension obligation currently, while the other assumptions reflect the long-term outlook of rates of compensation increases and return on assets.

Other Postretirement and Postemployment Benefits
The Company and certain of its subsidiaries provide health care and life insurance benefits for retired employees to the extent not provided by government-sponsored plans. The Company utilizes a portion of its leveraged ESOP, in the form of future retiree contributions, to reduce its obligation to provide these postretirement benefits. Postretirement benefits are not otherwise currently funded.

Postretirement benefits expense includes the following components:

<table>
<thead>
<tr>
<th>Component</th>
<th>1997</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost—benefits earned</td>
<td>$2.3</td>
<td>$1.7</td>
<td>$1.9</td>
</tr>
<tr>
<td>Annual ESOP allocation</td>
<td>(10.1)</td>
<td>(5.0)</td>
<td>(4.2)</td>
</tr>
<tr>
<td>Interest cost on accumulated</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>postretirement benefit obligation</td>
<td>13.4</td>
<td>12.6</td>
<td>13.7</td>
</tr>
<tr>
<td>Amortization of unrecognized net gain</td>
<td>(2.1)</td>
<td>(2.2)</td>
<td>(3.4)</td>
</tr>
<tr>
<td>Net postretirement expense</td>
<td>$ 3.5</td>
<td>$ 7.1</td>
<td>$ 8.0</td>
</tr>
</tbody>
</table>

The actuarial present value of postretirement benefit obligations included in Other liabilities in the Consolidated Balance Sheets is comprised of the following components, at December 31:

<table>
<thead>
<tr>
<th>Component</th>
<th>1997</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirees</td>
<td>$140.5</td>
<td>$144.8</td>
<td></td>
</tr>
<tr>
<td>Active participants eligible for retirement</td>
<td>1.6</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Other active participants</td>
<td>1.6</td>
<td>6.9</td>
<td></td>
</tr>
<tr>
<td>Accumulated postretirement benefit obligation</td>
<td>143.7</td>
<td>152.7</td>
<td></td>
</tr>
<tr>
<td>Unrecognized net gain and prior service cost</td>
<td>46.9</td>
<td>43.8</td>
<td></td>
</tr>
<tr>
<td>Accrued postretirement benefit liability</td>
<td>$190.6</td>
<td>$196.5</td>
<td></td>
</tr>
</tbody>
</table>

The principal actuarial assumptions used in the measurement of the accumulated benefit obligation were as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>1997</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>7.25%</td>
<td>7.50%</td>
<td>7.00%</td>
</tr>
<tr>
<td>Current medical cost trend rate</td>
<td>5.75</td>
<td>6.50</td>
<td>8.00</td>
</tr>
<tr>
<td>Ultimate medical cost trend rate</td>
<td>4.75</td>
<td>5.00</td>
<td>5.00</td>
</tr>
<tr>
<td>Medical cost trend rate decreases</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ratably to ultimate in year</td>
<td>1999</td>
<td>1999</td>
<td>1999</td>
</tr>
<tr>
<td>ESOP growth rate</td>
<td>10.00%</td>
<td>10.00%</td>
<td>10.00%</td>
</tr>
</tbody>
</table>

When remeasuring the accumulated benefit obligation, the Company reassesses each actuarial assumption.

The cost of these postretirement medical benefits is dependent upon a number of factors, the most significant of which is the rate at which medical costs increase in the future. The effect of a 1% increase in the assumed medical cost trend rate would increase the accumulated postretirement benefit obligation by approximately $13.2; annual expense would increase by $2.1.

8. Income Taxes
The provision for income taxes consists of the following for the years ended December 31:

<table>
<thead>
<tr>
<th>Component</th>
<th>1997</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>$ 91.0</td>
<td>$ 67.2</td>
<td>$ 18.0</td>
</tr>
<tr>
<td>Overseas</td>
<td>270.9</td>
<td>252.4</td>
<td>173.5</td>
</tr>
<tr>
<td></td>
<td>$361.9</td>
<td>$319.6</td>
<td>$191.5</td>
</tr>
</tbody>
</table>

Differences between accounting for financial statement purposes and accounting for tax purposes result in taxes currently payable being (lower) higher than the total provision for income taxes as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>1997</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excess of tax over book depreciation</td>
<td>$(12.7)</td>
<td>$(15.9)</td>
<td>$(18.9)</td>
</tr>
<tr>
<td>Net restructuring (spending) accrual</td>
<td>(47.5)</td>
<td>(26.3)</td>
<td>70.5</td>
</tr>
<tr>
<td>Other, net</td>
<td>5.2</td>
<td>21.5</td>
<td>(5.3)</td>
</tr>
<tr>
<td></td>
<td>$(55.0)</td>
<td>$(20.7)</td>
<td>$ 46.3</td>
</tr>
</tbody>
</table>

The components of income before income taxes are as follows for the three years ended December 31:

<table>
<thead>
<tr>
<th>Component</th>
<th>1997</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>$ 271.8</td>
<td>$171.3</td>
<td>$(121.1)</td>
</tr>
<tr>
<td>Overseas</td>
<td>830.5</td>
<td>783.3</td>
<td>484.6</td>
</tr>
<tr>
<td></td>
<td>$1,102.3</td>
<td>$954.6</td>
<td>$ 363.5</td>
</tr>
</tbody>
</table>

The difference between the statutory United States federal income tax rate and the Company's global effective tax rate as reflected in the Consolidated Statements of Income is as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>1997</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of Income Before Tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax at U.S. statutory rate</td>
<td>35.0%</td>
<td>35.0%</td>
<td>35.0%</td>
</tr>
<tr>
<td>State income taxes, net of federal benefit</td>
<td>.6</td>
<td>.3</td>
<td>.6</td>
</tr>
<tr>
<td>Earnings taxed at other than U.S. statutory rate</td>
<td>(1.8)</td>
<td>(1.4)</td>
<td>(4)</td>
</tr>
<tr>
<td>Restructured operations</td>
<td></td>
<td></td>
<td>18.4</td>
</tr>
<tr>
<td>Other, net</td>
<td>(1.0)</td>
<td>(4.1)</td>
<td>(9.2)</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>32.8%</td>
<td>33.5%</td>
<td>52.7%</td>
</tr>
</tbody>
</table>
In addition, net tax benefits of $49.2 in 1997 and $32.6 in 1996 were recorded directly through equity.

The components of deferred tax assets (liabilities) are as follows at December 31:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued liabilities</td>
<td>$ 78.8</td>
<td>$ 63.7</td>
</tr>
<tr>
<td>Restructuring</td>
<td>27.7</td>
<td>24.5</td>
</tr>
<tr>
<td>Other, net</td>
<td>17.9</td>
<td>28.2</td>
</tr>
<tr>
<td><strong>Total deferred taxes current</strong></td>
<td><strong>124.4</strong></td>
<td><strong>116.4</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible assets</td>
<td>(251.6)</td>
<td>(212.9)</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>(188.4)</td>
<td>(175.7)</td>
</tr>
<tr>
<td>Postretirement benefits</td>
<td>65.6</td>
<td>73.1</td>
</tr>
<tr>
<td>Restructuring</td>
<td>—</td>
<td>50.7</td>
</tr>
<tr>
<td>Tax loss and tax credit carryforwards</td>
<td>159.5</td>
<td>116.3</td>
</tr>
<tr>
<td>Other, net</td>
<td>54.7</td>
<td>29.1</td>
</tr>
<tr>
<td>Valuation allowance</td>
<td>(124.3)</td>
<td>(114.9)</td>
</tr>
<tr>
<td><strong>Total deferred taxes long-term</strong></td>
<td><strong>(284.5)</strong></td>
<td><strong>(234.3)</strong></td>
</tr>
</tbody>
</table>

**Net deferred taxes** | $(160.1) | $(117.9) |

The major component of the 1997 and 1996 valuation allowance relates to tax benefits in certain jurisdictions not expected to be realized.

9. Foreign Currency Translation

Cumulative translation adjustments, which represent the effect of translating assets and liabilities of the Company’s non-U.S. entities, except those in highly inflationary economies, were as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Effect of balance sheet translations</td>
<td>(159.0)</td>
<td>(21.7)</td>
<td>(73.7)</td>
</tr>
<tr>
<td><strong>Balance, December 31</strong></td>
<td><strong>$(693.7)</strong></td>
<td><strong>$(534.7)</strong></td>
<td><strong>$(513.0)</strong></td>
</tr>
</tbody>
</table>

Foreign currency charges, resulting from the translation of balance sheets of subsidiaries operating in highly inflationary environments and from foreign currency transactions, are included in the Consolidated Statements of Income.

10. Supplemental Income Statement Information

<table>
<thead>
<tr>
<th>Other Expense, Net</th>
<th>1997</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortization of intangibles</td>
<td>$ 86.5</td>
<td>$ 91.7</td>
<td>$ 87.7</td>
</tr>
<tr>
<td>Earnings from equity investments</td>
<td>(5.6)</td>
<td>(7.8)</td>
<td>(7.3)</td>
</tr>
<tr>
<td>Minority interest</td>
<td>29.1</td>
<td>33.4</td>
<td>37.1</td>
</tr>
<tr>
<td>Other</td>
<td>(37.6)</td>
<td>(23.5)</td>
<td>(21.4)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$72.4</strong></td>
<td><strong>$93.8</strong></td>
<td><strong>$96.1</strong></td>
</tr>
</tbody>
</table>
12. Fair Value of Financial Instruments

The Company utilizes interest rate swap contracts and foreign currency exchange contracts to manage interest rate and foreign currency exposures. (See the Results of Operations—Derivative Financial Instruments for further discussion.) In assessing the fair value of financial instruments at December 31, 1997 and 1996, the Company has used available market information and other valuation methodologies. Some judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The carrying amounts of cash and cash equivalents, marketable securities, long-term investments and short-term debt approximated fair value as of December 31, 1997 and 1996. The estimated fair value of the Company's remaining financial instruments at December 31 are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Liabilities)/Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt, including current portion (including foreign exchange contracts)</td>
<td>$(2,518.6)</td>
<td>$(2,665.6)</td>
</tr>
<tr>
<td>Other liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate contracts</td>
<td>(7.1)</td>
<td>(18.4)</td>
</tr>
<tr>
<td>Foreign exchange contracts</td>
<td>10.3</td>
<td>9.0</td>
</tr>
<tr>
<td>Equity: Foreign exchange contracts (to hedge investments in subsidiaries)</td>
<td>1.4</td>
<td>6.6</td>
</tr>
<tr>
<td></td>
<td>1997</td>
<td>1996</td>
</tr>
<tr>
<td>Carrying Amount</td>
<td>($2,518.6)</td>
<td>$(2,665.6)</td>
</tr>
<tr>
<td>Fair Value</td>
<td>($2,897.2)</td>
<td>$(2,994.9)</td>
</tr>
</tbody>
</table>

As of December 31, 1997 and 1996, the Company had interest rate agreements outstanding with an aggregate notional amount of $929.8 and $1210.9, respectively, with maturities through 2011.

13. Restructured Operations

In September 1995, the Company announced a major worldwide restructuring of its manufacturing and administrative operations, primarily in North America and Europe, designed to further enhance profitable growth over the next several years by generating significant efficiencies and improving competitiveness. The worldwide restructuring program resulted in a 1995 pretax charge of $460.5 ($369.2 net of tax) or $1.27 per share for the year. The charge includes employee termination costs, expenses associated with the realignment of the Company's global manufacturing operations as well as settlement of contractual obligations. As a result of this rationalization, 20 of the 112 factories worldwide have been closed or reconfigured as of December 1997. The restructuring will be substantially completed during 1998 in facilities around the world. A summary of the restructuring reserve established is as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Workforce</td>
<td>$210.0</td>
<td>$ (97.6)</td>
<td>$112.4</td>
<td>$ (45.0)</td>
</tr>
<tr>
<td>Manufacturing plants</td>
<td>204.1</td>
<td>(125.8)</td>
<td>78.3</td>
<td>(48.0)</td>
</tr>
<tr>
<td>Settlement of</td>
<td>46.4</td>
<td>(33.9)</td>
<td>12.5</td>
<td>(11.0)</td>
</tr>
<tr>
<td>contractual obligations</td>
<td>$460.5</td>
<td>$(257.3)</td>
<td>$203.2</td>
<td>$(104.0)</td>
</tr>
</tbody>
</table>

Of the restructuring reserve remaining as of December 31, 1997 and 1996, $79.0 and $115.2, respectively, is classified as a current liability, $0 and $38.0, respectively, as a noncurrent liability, and $20.2 and $50.0, respectively, as a reduction of fixed assets.
14. Quarterly Financial Data (Unaudited)

<table>
<thead>
<tr>
<th>Year</th>
<th>First Quarter</th>
<th>Second Quarter</th>
<th>Third Quarter</th>
<th>Fourth Quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>$2,147.1</td>
<td>$2,300.9</td>
<td>$2,297.2</td>
<td>$2,311.5</td>
</tr>
<tr>
<td></td>
<td>1,080.6</td>
<td>1,168.1</td>
<td>1,166.7</td>
<td>1,179.8</td>
</tr>
<tr>
<td></td>
<td>169.6</td>
<td>175.8</td>
<td>188.6</td>
<td>206.4</td>
</tr>
<tr>
<td></td>
<td>.56</td>
<td>.58</td>
<td>.62</td>
<td>.68</td>
</tr>
<tr>
<td></td>
<td>.52</td>
<td>.54</td>
<td>.58</td>
<td>.63</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>First Quarter</th>
<th>Second Quarter</th>
<th>Third Quarter</th>
<th>Fourth Quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>$2,053.7</td>
<td>$2,167.3</td>
<td>$2,230.6</td>
<td>$2,297.4</td>
</tr>
<tr>
<td></td>
<td>1,003.3</td>
<td>1,061.0</td>
<td>1,094.8</td>
<td>1,138.8</td>
</tr>
<tr>
<td></td>
<td>143.5</td>
<td>148.9</td>
<td>160.9</td>
<td>181.7</td>
</tr>
<tr>
<td></td>
<td>.47</td>
<td>.49</td>
<td>.53</td>
<td>.60</td>
</tr>
<tr>
<td></td>
<td>.44</td>
<td>.46</td>
<td>.50</td>
<td>.56</td>
</tr>
</tbody>
</table>

15. Market and Dividend Information
The Company's common stock and $4.25 Preferred Stock are listed on the New York Stock Exchange. The trading symbol for the common stock is CL. Dividends on the common stock have been paid every year since 1895, and the amount of dividends paid per share has increased for 35 consecutive years.

<table>
<thead>
<tr>
<th>Market Price</th>
<th>Common Stock</th>
<th>$4.25 Preferred Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarter Ended</td>
<td>High Low</td>
<td>High Low</td>
</tr>
<tr>
<td>March 31</td>
<td>$56.88 $45.44</td>
<td>$41.50 $34.44</td>
</tr>
<tr>
<td>June 30</td>
<td>66.50 49.75</td>
<td>42.82 37.69</td>
</tr>
<tr>
<td>September 30</td>
<td>77.13 61.81</td>
<td>44.38 39.07</td>
</tr>
<tr>
<td>December 31</td>
<td>74.50 62.25</td>
<td>47.75 43.00</td>
</tr>
<tr>
<td>Closing Price</td>
<td>$73.50</td>
<td>$46.13</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31</td>
<td>.235</td>
<td>.235</td>
<td>$1.0625</td>
<td>$1.0625</td>
</tr>
<tr>
<td>June 30</td>
<td>.275</td>
<td>.235</td>
<td>1.0625</td>
<td>1.0625</td>
</tr>
<tr>
<td>September 30</td>
<td>.275</td>
<td>.235</td>
<td>1.0625</td>
<td>1.0625</td>
</tr>
<tr>
<td>December 31</td>
<td>.275</td>
<td>.235</td>
<td>1.0625</td>
<td>1.0625</td>
</tr>
<tr>
<td>Total</td>
<td>$1.06</td>
<td>.94</td>
<td>$4.25</td>
<td>$4.25</td>
</tr>
</tbody>
</table>
16. Earnings Per Share

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Income</td>
<td>Shares</td>
<td>Per Share</td>
</tr>
<tr>
<td>Net income</td>
<td>$740.4</td>
<td>295.3</td>
<td>$2.44</td>
</tr>
<tr>
<td>Preferred dividends</td>
<td>(21.1)</td>
<td>(21.4)</td>
<td>(21.6)</td>
</tr>
<tr>
<td>Basic EPS</td>
<td>719.3</td>
<td>295.3</td>
<td></td>
</tr>
<tr>
<td>Stock options</td>
<td>6.9</td>
<td>5.1</td>
<td></td>
</tr>
<tr>
<td>ESOP conversion</td>
<td>17.9</td>
<td>22.9</td>
<td></td>
</tr>
<tr>
<td>Diluted EPS</td>
<td>$737.2</td>
<td>325.1</td>
<td>$2.27</td>
</tr>
</tbody>
</table>

*Diluted earnings per share excludes the effect of antidilutive securities for 1995.

17. Commitments and Contingencies

Minimum rental commitments under noncancellable operating leases, primarily for office and warehouse facilities, are $65.2 in 1998, $56.4 in 1999, $53.3 in 2000, $46.4 in 2001, $43.9 in 2002 and $164.1 thereafter. Rental expense amounted to $94.4 in 1997, $93.3 in 1996 and $91.8 in 1995. Contingent rentals, sublease income and capital leases, which are included in fixed assets, are not significant.

The Company is a party to various superfund and other environmental matters and is contingently liable with respect to lawsuits, taxes and other matters arising out of the normal course of business. Management proactively reviews and manages its exposure to, and the impact of, environmental matters. While it is possible that the Company’s cash flows and results of operations in particular quarterly or annual periods could be affected by the one-time impacts of the resolution of such contingencies, it is the opinion of management that the ultimate disposition of these matters, to the extent not previously provided for, will not have a material impact on the Company’s financial condition or ongoing cash flows and results of operations.
Reuben Mark, 59
Chairman and Chief Executive Officer of Colgate-Palmolive Company. Mr. Mark joined Colgate in 1963 and held a series of significant positions in the United States and abroad before being elected CEO in 1984. Elected director in 1963.

Jill K. Conway, 63

Ronald E. Ferguson, 56
Chairman and Chief Executive Officer of General Re Corporation since 1987. Mr. Ferguson has been with General Re since 1969. Elected director in 1987.

Ellen M. Hancock, 54
President, Exodus Communications, Inc., a computer network and Internet systems company. Mrs. Hancock previously was Executive Vice President and Chief Technology Officer at Apple Computer Inc., 1996-1997. Executive Vice President and Chief Operating Officer at National Semiconductor, 1995-1996, and Senior Vice President at IBM. Elected director in 1988.

Your Management Team

Corporate Officers
Reuben Mark, 59
Chairman of the Board and Chief Executive Officer
See biographical information above.
William S. Shanahan, 57
President and Chief Operating Officer
Mr. Shanahan joined Colgate in 1965 and held a series of important positions in the United States and abroad. These include Vice President-General Manager for the Western Hemisphere, and Group Vice President for Europe/Africa, Colgate-U.S. and other countries. He was elected Chief Operating Officer in 1989 and President in 1992.

Lois D. Juliber, 49
Executive Vice President, Chief of Operations, Developed Markets
Ms. Juliber joined Colgate in 1988 from General Foods, where she was Vice President. Before being promoted to her current position in 1997, she had been President of the Far East/Canada division, Chief Technological Officer and President of Colgate-North America.

Andrew D. Hendry, 50
Senior Vice President, General Counsel and Secretary
These include Vice President-Global Human Resources, such as General Counsel and Corporate Controller and Vice President-Finance for Colgate-Latin America.

Jill N. Reid, 57
Chief Technological Officer
Jill N. Reid joined Colgate in 1982 after having been a Manager at Price Waterhouse. Before being named CFO in 1996, Mr. Patrick held a series of key financial positions, including Vice President and Corporate Controller and Vice President-Finance for Colgate-Latin America.

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Jill N. Reid, 57
Chief Technological Officer
Jill N. Reid joined Colgate in 1982 after having been a Manager at Price Waterhouse. Before being named CFO in 1996, Mr. Patrick held a series of key financial positions, including Vice President and Corporate Controller and Vice President-Finance for Colgate-Latin America.

Jill N. Reid, 57
Chief Technological Officer
Jill N. Reid joined Colgate in 1982 after having been a Manager at Price Waterhouse. Before being named CFO in 1996, Mr. Patrick held a series of key financial positions, including Vice President and Corporate Controller and Vice President-Finance for Colgate-Latin America.
From 1987 to 1990, he served as Chairman and Chief Executive Officer of Gerber Products Company. Elected director in 1991.

David W. Johnson, 65
Chairman of Campbell Soup
Company since 1993.
Mr. Johnson was Campbell
President and Chief
Executive Officer, 1990-1997.
From 1987 to 1990, he
served as Chairman and
Chief Executive Officer of

J ohn P. Kendall, 69
Officer, Faneuil Hall
Associates, Inc., a private
investment company, since
1973. Mr. Kendall is a former
Chairman of The Kendall
Company. He joined that
company in 1956 and held
a series of significant
positions. Elected director
in 1972.

Richard J. Kogan, 56
President and Chief
Executive Officer of
Schering-Plough
Corporation since 1996.
Mr. Kogan joined Schering-
Plough as Executive Vice
President, Pharmaceutical
Operations, in 1982 and
then became President and
Chief Operating Officer of
that company in 1988. Elected
director in 1996.

Delano E. Lewis, 59
President and Chief
Executive Officer, National
Mr. Lewis was President and
Chief Executive Officer of
Chesapeake & Potomac
Telephone Company from
1988 to 1993, having joined
that company in 1973, and
held positions of increasing
responsibility. Elected
director in 1991.

Howard B. Wentz, Jr., 68
Chairman of Tambrands,
Inc., 1993-1996. Mr. Wentz
was Chairman of ESSTAR
Incorporated, 1989-1995,
and Chairman, President
and Chief Executive Officer
of Amstar Company,

Audit Committee
Ronald E. Ferguson, Chair
John K. Conway
John P. Kendall
Howard B. Wentz, Jr.
Committee on Directors
Delano E. Lewis, Chair
John K. Conway
John P. Kendall
Howard B. Wentz, Jr.
Finance Committee
Howard B. Wentz, Jr., Chair
Ronald E. Ferguson
Ellen M. Hancock
John P. Kendall
Richard J. Kogan
Reuben Mark
Personnel and
Organization Committee
John K. Conway, Chair
Ronald E. Ferguson
David W. Johnson
John P. Kendall
Delano E. Lewis

J. Nicholas Vinke
VP-General Manager
Colgate Oral
Pharmaceuticals
Anthony R. Volpe
VP-Clinical Dental Research
Gregory Woodson
VP-Global Business
Development
Fabric Care
Douglass R. Wright
VP-Environment
Occupational Health
and Safety
John E. Zoog
VP-Human Resources
Services
Operating Executives
Colgate-International
S. Peter Dam
President
Colgate-Africa
Keith W. Bates
VP-Manufacturing
Europe
David P. Bencze
VP-Manufacturing
Latin America
Philip A. Berry
VP-Human Resources
Latin America
Jose-Maria Castro
VP-Finance
and Strategic Planning
Europe
Peter C. Chase
VP-Marketing
Latin America

Alec de Guichemmidt
VP-Benelux Operations
and ECR-Europe
Patrick Haverlals
VP-Finance and
Strategic Planning
Asia Pacific
Colomano de Hagedus
VP-Kolynos Operations
Dale Dvorak
VP-Manufacturing
Central Europe and Russia
Stephen J. Fogarty
VP-Marketing
Asia Pacific
James Gerchow
VP-Manufacturing
Africa/Middle East
Walter H. Golembeski
VP-Manufacturing
and Technology
Asia Pacific
Jean-Mathieu Hellich
VP-Legal Director-Europe
Associate General Counsel
Seamus McBride
VP-Marketing
Europe
Richard Mener
VP-General Manager
Global Export/Middle East
Morgan J. O’Brien
VP-Financial Director
Central Europe and Russia
Leonard D. Smith
VP-Finance
Africa/Middle East

Karel van Brink
VP-Managing Director
New Geographies
and Acquisitions
Central Europe and Russia
Mario B. Vitiera
VP-Human Resources
Europe
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Andreas Brouzos
VP-General Manager
Greece
David Conn
VP-General Manager
South Africa
Graeme Dalziel
VP-General Manager
Portugal
Steven E. Elliott
VP-General Manager
Thailand
Guillermo Fernandez
VP-President and
General Manager
Mexico
Chester Fong
VP-General Manager
Greater China
Jill Garrity
VP-General Manager
Puerto Rico

Karen Guerra
VP-General Manager
United Kingdom & Ireland
Luiz Gutierrez
VP-General Manager
Central America
William A. Houlzetz
VP-General Manager
France
N. Jay Jayarajan
VP-General Manager
India
Jorgen Lauridsen
VP-Chairman
France
Angel D. Martinez
VP-General Manager
Brazil
Franck Molson
VP-General Manager
Italy
Graeme B. Murray
VP-General Manager
Canada
Chris E. Pedersen
VP-General Manager
Nordic Group
Roger Pratt
VP-General Manager
Kolynos-Brazil
Friedrich Reinschagen
VP-General Manager
Poland/Hungary/Czeck
Republic/Baltic States
Derrick Samuel
VP-General Manager
South Pacific Region
Raffy Santos
VP-General Manager
Hawaii & Hazel
Taiwan

James H. Shoulitz
VP-General Manager
Venezuela
Malcolm Stokoe
VP-General Manager
Caricom Region
Heiko Tietke
VP-General Manager
Germany
Daniel Vettoretti
VP-General Manager
Russia/Belarus/Ukraine
Paul Witmond
VP-General Manager
Dominican Republic
Seng Aun Yeoh
VP-General Manager
Malaysia

Colgate-U.S.
Robert E. Blanchard
VP-General Manager
Fabric Care
John Bourne
VP-Financial Business
Development
North America
Richard J. Coté
VP-Finance
James S. Figura
VP-Human Resources
行政 Officer
Ronald E. Ferguson
VP-Marketing
Raffy Santos
VP-General Manager
Oral Care
Tarek Hallaba
VP-Marketing

Suzan Harrison
VP-General Manager
Household Surface Care
Sheila Hopkins
VP-General Manager
Personal Care
Robert R. Martin
President
Institutional Products
Robert F. Maruska
VP-Financial Planning
Louis Mignone
VP-Sales

Hill’s Pet Nutrition
Dorset P. Sutton
President and Chief
Operating Officer
Richard F. Hawkins
President
Hills-International
Warren B. Schmidigall
Executive Vice President
Operations and
Information Services
Virgil W. Weiss
Executive Vice President
Science and Technology
Joseph A. Douglas
Senior Vice President
Global Product Supply/MET/
Manufacturing Effectiveness
Virginia M. Dotzauer
VP-General Manager
Hills-Domestic Diets
James S. Figura
VP-General Manager
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Global Product Supply/MET/
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Virginia M. Dotzauer
VP-General Manager
Hills-Domestic Diets
James S. Figura
VP-General Manager
Hills International

From 1987 to 1990, he
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Chief Executive Officer of
Corporate Offices
Colgate-Palmolive Company
300 Park Avenue
New York, New York 10022-7499
(212) 330-2000

Annual Meeting
The annual meeting of Colgate shareholders will be Thursday, May 7, 1998 at 10:00 a.m. in the Broadway Ballroom of the Marriott Marquis Hotel, Sixth Floor, Broadway at 45th Street, New York, NY. Please sign and return your proxy promptly even if you plan to attend the meeting.

Stock Exchanges
The common stock of Colgate-Palmolive Company is listed and traded on the New York Stock Exchange under the symbol CL and on other world exchanges including those in Amsterdam, Frankfurt, London, Paris and Zurich.

Financial Information at http://www.colgate.com and by calling 1-800-850-2654
Financial results, dividend news and other information are available on Colgate’s World Wide Web site on the Internet, at the address above.

Colgate also offers earnings information, dividend news and other corporate announcements toll-free at 1-800-850-2654. The information can be read to the caller and can also be received by mail or fax.

Shareholder Account Assistance
To transfer stock, report address changes or pose questions about dividend checks or Colgate’s Dividend Reinvestment Plan, contact the Company’s transfer agent and registrar:

Attn: Colgate-Palmolive Company
First Chicago Trust Company of New York
P. O. Box 2500
Jersey City, NJ 07303-2500
TOLL-FREE: 1-800-756-8700
FAX: (201) 222-4842
email: fctc@em.fcnbdc.com
Internet address: http://www.fctc.com

Dividend Reinvestment Plan
Colgate offers an automatic Dividend Reinvestment Plan for common and $4.25 preferred stockholders and a voluntary cash feature. Any brokers’ commissions or service charges for stock purchases under the plan are paid by Colgate-Palmolive.

Independent Public Accountants
Arthur Andersen LLP

Shareholder Contacts/Reports
Copies of annual or interim reports, product brochures, Form 10-K and other publications are available from the Investor Relations Department:
- by mail directed to the corporate address
- by e-mail, investor_relations@colpal.com
- by calling 1-800-850-2654 or by calling Investor Relations at (212) 330-3207

Individual investors with other requests:
- please write Investor Relations at the corporate address or
- call (212) 330-2575

Institutional investors:
- call Bina Thompson at (212) 310-3072

Environmental Policy
Colgate-Palmolive is committed to the protection of the environment everywhere. Our commitment reflects both the 1997 and the 1991 two-for-one stock splits. All share and per share amounts have been restated to reflect both the 1997 and the 1991 two-for-one stock splits.

Environmental Policy
Colgate-Palmolive is committed to the protection of the environment everywhere. Our commitment is an integral part of Colgate’s mission to become the best truly global consumer products company. We continue to work on developing innovative environmental solutions in all areas of our business around the world. The health and safety of our customers, our employees and the communities in which we operate are paramount in all that we do. Colgate-Palmolive’s concern has been translated into many varied programs dealing with our products, packaging, factories and business decisions. Projects such as concentrated cleaners and detergents, refill packages, recycled and recyclable bottles, and packaging materials are all part of working toward long-term solutions.

Financial Position
Current ratio
Property, plant and equipment, net
Capital expenditures
Total assets
Long-term debt
Shareholders’ equity

Share and Other
Book value per common share
Cash dividends declared and paid per common share
Closing price
Number of common shares outstanding (in millions)
Number of shareholders of record

Average number of employees

Printed entirely on recycled paper
©1998 Colgate-Palmolive Company
Design by Robert Webster Inc
Major photography by Richard Alcom
Other photos by Tom Ferraro and John Abbott
Printing by Acme Printing Company
Typography by Grid Typographic Services, Inc.
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Colgate Clock Gets a New Look

The enormous Colgate Clock, which sits on the banks of the Hudson River in Jersey City, NJ, and faces lower Manhattan, has a new look, to announce the introduction of Colgate Total toothpaste. The corporate logo has been transformed into a giant replica of Colgate Total, the first and only toothpaste to receive the American Dental Association Seal of Acceptance for protection against plaque, gingivitis and cavities. The transformation of the clock is part of the record-breaking $100 million introduction of Colgate Total.