# Global Financial Review

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## Results of Operations

| Worldwide Net Sales by Business Segment and Geographic Region | 1998 | 1997 | 1996 |
|---|---|---|---|
| Oral, Personal and Household Care | | | |
| North America [(1)] | **$2,047.5** | $1,992.5 | $1,869.0 |
| Latin America | **2,407.9** | 2,363.8 | 2,124.8 |
| Europe | **2,067.7** | 2,078.8 | 2,173.4 |
| Asia/Africa | **1,452.6** | 1,656.3 | 1,713.1 |
| Total Oral, Personal and Household Care | **7,975.7** | 8,091.4 | 7,880.3 |
| Total Pet Nutrition [(2)] | **995.9** | 965.3 | 868.7 |
| **Total Net Sales** | **$8,971.6** | $9,056.7 | $8,749.0 |

(1) Sales in the United States for Oral, Personal and Household Care were $1,799.6, $1,756.1 and $1,610.4 in 1998, 1997 and 1996, respectively.
(2) Sales in the United States for Pet Nutrition were $688.6, $689.4 and $630.1 in 1998, 1997 and 1996, respectively.

### Net Sales

Worldwide net sales decreased 1% to $8,971.6 in 1998 on volume growth of 3.5%. Sales would have grown 6%, excluding the effect of foreign exchange declines and divestments. Sales in the Oral, Personal and Household Care segment decreased 1% on 3% volume growth, while sales in Pet Nutrition increased 3% on 4% volume growth.

In 1998, sales from continuing businesses in North America increased 6% as unit volume rose 5%. Included in the strong growth in Oral Care were launches of new products such as Colgate Total toothpaste, which was launched in late 1997. Success in Personal Care resulted from the launch of three new fragrance varieties of Softsoap body wash, Softsoap hand gel, Speed Stick Ultimate odor-fighting antiperspirant and Lady Speed Stick gel. Adding new market shares were Palmolive lemon dishwashing liquid & antibacterial hand soap.

Sales in Latin America increased 2% on 7% volume growth. The largest increases were achieved in Mexico, Brazil, Venezuela and Central America. Contributing to the strong growth in the region were Oral and Personal Care sales. Increased Oral Care sales were driven by Colgate great regular flavor and Colgate Double Cool Stripe toothpastes. Personal Care sales were increased by Palmolive Botanicals shampoo, Palmolive soap and Protex Fresh soap.

Sales in Europe remained flat in 1998 due to the effects of weak economic conditions in Russia, while volume grew 1%. The United Kingdom, Italy, Belgium and Greece achieved the strongest sales growth and volume increases in the region. Sales in the United Kingdom and other countries were helped by strong sales of Palmolive shower gels and Colgate Sensation whitening toothpaste. The continued success of products such as Ajax Fêtes des Fleurs, in three different fragrances, and the introduction of two new dishwashing products also contributed to the volume increase in this highly competitive market.

Sales in the Asia/Africa region decreased 12% as volume decreased 1%, reflecting weaker ASEAN currencies. Volume declined in the ASEAN countries of Malaysia, the Philippines and Thailand, reflecting continued economic difficulties, and in India as a result of aggressive competition. Partially offsetting declines in the ASEAN countries were strong growth in China and increases in Australia, Taiwan and Vietnam.

Sales for Hill's Pet Nutrition increased 3% on 4% volume growth. Within the United States, sales of Prescription Diet products increased due to the introduction of new products including Prescription Diet n/d, the first product clinically proven to improve the quality and life expectancy of dogs undergoing cancer treatment. Strongest growth occurred in Japan and Europe, where introduction of new products and increased advertising fueled that growth.

In 1997, worldwide net sales increased 4% to $9,056.7 on volume growth of 7%, reflecting volume increases by all divisions. North America posted overall sales and volume growth of 7%. In Europe, sales decreased 4% in 1997 on 5% higher volume, due primarily to weaker European currencies. Latin America led the Oral, Personal and Household Care segment with an 11% increase in sales on 10% volume growth. Sales in the Asia/Africa region decreased 3%. Excluding divested businesses, sales in

Asia/Africa declined 2% on 5% volume growth. The Pet Nutrition segment increased sales 11% on 9% volume gains.

### Gross Profit

Gross profit margin increased to 52.2%, above both the 1997 level of 50.7% and the 1996 level of 49.1%. This favorable trend reflects the Company's financial strategy to improve all aspects of its supply chain through global sourcing, restructuring and other cost reduction initiatives, as well as its emphasis on higher margin products.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percentage of sales were generally level: 36% in 1998, 36% in 1997 and 35% in 1996, reflecting higher advertising costs offset by the Company's continued focus on expense containment.

### 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 1998 from $72.4 to $61.2, primarily due to lower amortization expense and gains from sales of non-core product lines and other assets.

During the third quarter of 1998, the Company divested certain non-core brands and recorded a one-time pretax gain of $42.4 ($26.0 aftertax) on the sale of the U.S. HandiWipes brand, which was offset by one-time charges, primarily to cover a decision to substantially reduce the Company's operations in Russia, following the severe contraction of the Russian economy, as well as the Company's continuing program of product standardization and organization redesign. The pretax charge for Russia was $25.0, which covered a write-down of assets, employee termination costs and the settlement of contractual obligations, which were substantially implemented before year-end.

| Worldwide Earnings by Business Segment and Geographic Region | 1998 | 1997 | 1996 |
|---|---|---|---|
| Oral, Personal and Household Care | | | |
| North America | **$ 395.5** | $ 312.6 | $ 258.2 |
| Latin America | **502.0** | 483.0 | 410.7 |
| Europe | **317.5** | 283.5 | 280.7 |
| Asia/Africa | **158.6** | 178.3 | 215.3 |
| Total Oral, Personal and Household Care | **1,373.6** | 1,257.4 | 1,164.9 |
| Total Pet Nutrition | **173.8** | 162.5 | 127.3 |
| Corporate | **(124.4)** | (134.1) | (140.2) |
| **Earnings Before Interest and Taxes** | **1,423.0** | 1,285.8 | 1,152.0 |
| Interest Expense, Net | **(172.9)** | (183.5) | (197.4) |
| **Income Before Income Taxes** | **$1,250.1** | $1,102.3 | $ 954.6 |

### Earnings Before Interest and Taxes (EBIT)

EBIT increased 11% in 1998 to $1,423.0 compared with $1,285.8 in 1997. EBIT for the Oral, Personal and Household Care segment was up 9%, with North America, Latin America and Europe posting gains of 27%, 4% and 12%, respectively. The North America and Europe profitability increase includes the effect of higher margins on higher volumes. In Latin America, the increase in profitability was 3% less than the increase in volume, primarily due to the impact of foreign exchange. EBIT in Asia/Africa decreased 11%, reflecting weakened economies in the ASEAN countries and increased competition in India. EBIT in the Pet Nutrition segment increased 7% on both higher volumes and gross profit margins.

### Interest Expense, Net

Interest expense, net, was $172.9 compared with $183.5 in 1997 and $197.4 in 1996. The decline in interest expense is primarily the result of lower average debt levels during the year compared with 1997 and a decrease in interest rates.

### Income Taxes

The effective tax rate on income was 32.1% in 1998 versus 32.8% in 1997 and 33.5% in 1996. Global tax planning strategies, including the realization of tax credits, benefited the effective tax rate in all three years presented.

### Net Income

Net income was $848.6 in 1998 or $2.81 per share compared with $740.4 in 1997 or $2.44 per share and $635.0 in 1996 or $2.09 per share.

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| **Identifiable Assets** | | | |
| Oral, Personal and Household Care | | | |
| North America | **$2,591.0** | $2,553.2 | $2,531.4 |
| Latin America | **2,128.3** | 2,204.8 | 2,365.1 |
| Europe | **1,329.9** | 1,201.5 | 1,236.3 |
| Asia/Africa | **952.4** | 891.9 | 1,001.5 |
| Total Oral, Personal and Household Care | **7,001.6** | 6,851.4 | 7,134.3 |
| Total Pet Nutrition | **502.6** | 517.3 | 578.6 |
| Total Corporate | **181.0** | 170.0 | 188.6 |
| **Total Identifiable Assets** [1] | **$7,685.2** | $7,538.7 | $7,901.5 |

[1] Long-lived assets in the United States, primarily fixed assets and goodwill, represented approximately one-third of total long-lived assets of $5,330.0, $5,234.9 and $5,415.6 in 1998, 1997 and 1996, respectively.

### Liquidity and Capital Resources

Net cash provided by operations increased 7.4% to $1,178.8 compared with $1,097.8 in 1997 and $917.4 in 1996. The increases reflect the Company's improved profitability, lower cash taxes and working capital management. Cash generated from operations was used to fund capital spending, repurchase stock and increase dividends.

During 1998, long-term debt increased from $2,518.6 to $2,582.2 and total debt increased from $2,677.1 to $2,757.5. The increase includes additional net issuances of medium-term notes of approximately $210 partially offset by lower commercial paper borrowings.

As of December 31, 1998, $461.2 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, 1998, 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, 1998, such unused lines of credit amounted to $1,670.9. In addition, at December 31, 1998, the Company had $203.8 available under previously filed shelf registrations.

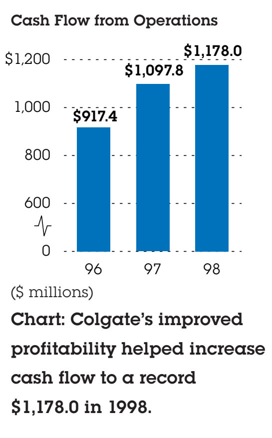



**Chart: Colgate's improved profitability helped increase cash flow to a record $1,178.0 in 1998.**

As of December 31, 1997, $607.5 of domestic and foreign commercial paper was outstanding. An unused line of credit of approximately $1,586.4 was available in addition to $697.8 available under previously filed shelf registrations.

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

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) increased to 55% during 1998 from 53% in 1997. The ratio had decreased in 1997 from 58% in 1996. The increase in 1998 was primarily the result of increased borrowings related to stock repurchases offset partially by operating cash flow.

| | **1998** | 1997 | 1996 |
|---|---|---|---|
| **Capital Expenditures** | | | |
| North America | **$ 90.1** | $114.2 | $119.8 |
| Latin America | **99.2** | 105.2 | 86.1 |
| Europe | **83.7** | 104.6 | 107.3 |
| Asia/Africa | **80.5** | 104.9 | 85.6 |
| Total Oral, Personal and Household Care | **353.5** | 428.9 | 398.8 |
| Total Pet Nutrition | **20.7** | 29.8 | 45.4 |
| Total Corporate | **15.4** | 19.8 | 14.8 |
| **Total Capital Expenditures** | **$389.6** | $478.5 | $459.0 |
| **Depreciation and Amortization** | | | |
| North America | **$ 95.6** | $ 87.1 | $ 77.1 |
| Latin America | **75.6** | 70.2 | 77.4 |
| Europe | **67.9** | 68.0 | 71.0 |
| Asia/Africa | **42.1** | 45.4 | 43.8 |
| Total Oral, Personal and Household Care | **281.2** | 270.7 | 269.3 |
| Total Pet Nutrition | **32.5** | 32.1 | 30.1 |
| Total Corporate | **16.6** | 17.1 | 16.9 |
| **Total Depreciation and Amortization** | **$330.3** | $319.9 | $316.3 |

Capital expenditures were 4%, 5% and 5% of net sales for 1998, 1997 and 1996, respectively. Capital spending continues to be focused primarily on projects that yield high aftertax returns, thereby reducing the Company's cost structure. The higher levels in 1997 and 1996 primarily reflect capital spending relating to the Company's restructuring programs. Capital expenditures for 1999 are expected to continue at the current rate of approximately 4% of net sales.

Other investing activities in 1998, 1997 and 1996 included strategic acquisitions and divestitures around the world. The aggregate purchase price of all 1998, 1997 and 1996 acquisitions was $22.6, $20.3 and $38.5, respectively. The HandiWipes brand was sold in 1998, and the Sterno fuel brand was sold in 1997. The aggregate sale price of all 1998, 1997 and 1996 sales of brands was $57.4, $101.4 and $25.1, respectively.

The Company repurchases common shares in the open market and private transactions to provide for employee benefit plans and to maintain its targeted capital structure. Aggregate repurchases for 1998 were 7.1 million shares, with a total purchase price of $542.5. In 1997, 2.8 million shares were repurchased with a total purchase price of $175.1.

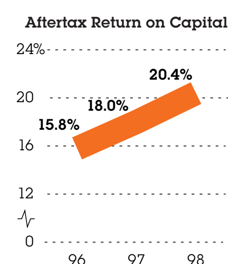



**Chart: Colgate's return on capital increased by 2.4 percentage points to 20.4% in 1998, reflecting improved profitability as well as effectiveness in managing capital.**

Dividend payments were $345.6, up from $333.4 in 1997 and $296.2 in 1996. Common stock dividend payments increased to $1.10 per share in 1998 from $1.06 per share in 1997 and $.94 per share in 1996. 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 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.

### Status of Restructuring Reserve

In September 1995, a reserve of $460.5 was established to cover a worldwide restructuring of manufacturing and administrative operations. The primary elements of the reserve related to employee termination costs and expenses associated with the realignment of the Company's global manufacturing operations, as well as settlement of contractual obligations. The costs of completing the restructuring activities to date approximated the original estimate. As planned, the restructuring has produced savings that increase pretax earnings by over $150 annually.

The planned restructuring projects, primarily in North America and Europe but also affecting Hill's Pet Nutrition and Colgate locations in Asia/Africa and certain Latin America locations, are substantially completed. The remaining reserve amount of $39.6 primarily covers the reconfiguring of two factories in Asia/Africa and the consolidation of administrative operations following the implementation of SAP computer systems and related process changes in Europe and Asia/Africa. All remaining projects will be completed in 1999. The financing for remaining cash requirements will come from operations.

### Managing Foreign Currency and Interest Rate Exposure

The Company is exposed to market risk from foreign currency exchange rate fluctuations and interest rates. To manage the volatility relating to foreign currency exposures on a consolidated basis, the Company utilizes a number of techniques, including selective borrowings in local currencies, purchases of forward foreign currency exchange contracts, balance sheet management and increases in selling prices.

The Company operates in over 200 countries and territories and is exposed to currency fluctuation related to manufacturing and selling its products in currencies other than the U.S. dollar. The major foreign currency exposures involve the markets in Mexico, Brazil and France, each of which represents individually 6% to 8% of worldwide sales. Each of the other countries' operations represent less than 4% of worldwide sales. In the countries of Mexico, Brazil and France during the three-year period from 1996 to 1998, the combination of selling price increases and cost containment measures have more than offset the impact of foreign currency rate movements resulting in increased gross profit margins during the periods presented.

The Company utilizes simple instruments such as interest rate swaps 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. As a matter of policy, the Company does not speculate in financial markets and therefore does not hold or issue derivative financial instruments for trading purposes.

### 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.

### Year 2000 Update

The Company has developed plans to address the possible exposures related to the year 2000 on the Company's internal systems and equipment. In the critical area of internal operating systems, in 1994 the Company decided to convert its worldwide business systems to SAP, which is year 2000 compliant. The Company's conversion to SAP is progressing on schedule, with conversion in operations representing over 70% of the Company's global business to be complete by mid-year 1999. When completed, the Company's investment in SAP systems will cumulatively total approximately $430, half of which will be capitalized and the remainder expensed as incurred. The computer systems and embedded microprocessors and control systems in all operations are planned to be made compliant by June 30, 1999.

The Company is also in discussions with suppliers and customers to assess the potential impact on operations in the event their systems are not made compliant.

The first two phases of the year 2000 project plan—forming teams at the corporate, division and subsidiary levels worldwide, and the inventory of systems and equipment—were complete at July 31, 1998. The third phase, risk assessment and contingency planning, is substantially complete with respect to all internal computing systems and embedded chips and is under way with respect to critical external business partners.

The fourth phase, planned to be substantially completed by the end of the first quarter of 1999, will be to accomplish systems testing, remediation and contingency plans regarding critical systems and equipment with a high risk assessment. Contingency planning for suppliers includes backup procedures and processes, alternative suppliers and increases in inventory

levels. Review of data interface capability of key business partners and all remaining internal testing and plan implementation are scheduled to be substantially completed by mid-year 1999 in the fifth phase of the project. Progress against project plan timelines is monitored through a system of internal reporting and is presented to senior management and the Audit Committee of the Board of Directors or the full Board on a frequent basis.

The Company currently estimates that the total incremental cost, including external contractor costs, costs to modify existing systems and costs of internal resources dedicated to preparing for the year 2000, to be approximately $30, of which 40% has been spent to date. These costs are charged to expense as incurred and are incremental to the above noted investment in SAP systems which were previously planned and in the process of being implemented.

The Company is taking steps to prevent major interruptions in the business related to year 2000 issues. The effect, if any, if the Company, its suppliers or the public sector is not fully year 2000 compliant is not reasonably estimable. The Company believes, however, that the successful completion of its year 2000 project will significantly reduce the risk of a major business interruption due to year 2000 failures.

### Conversion to the Euro Currency

On January 1, 1999, certain member countries of the European Union established fixed conversion rates between their existing currencies and adopted the euro as their new common legal currency. As of that date, the euro began trading on currency exchanges and the legacy currencies were to remain legal tender in the participating countries for a transition period between January 1, 1999 and January 1, 2002.

The Company is addressing most of the issues involved with the introduction of the euro through its worldwide conversion to the SAP system. The more important issues facing the Company include reassessing currency risk and processing tax and accounting records.

Based upon progress to date, the Company believes that use of the euro will not have a significant impact on the manner in which it conducts its business affairs and processes its business and accounting records. Accordingly, conversion to the euro is not expected to have a material effect on the Company's financial condition, cash flows or results of operations.

### Outlook

Looking forward into 1999, the Company is well positioned for strong growth in most of its markets, particularly North America and Western Europe. However, movements in foreign currency exchange rates can impact future operating results as measured in U.S. dollars. In particular, recent economic turmoil in Brazil and continued economic uncertainty in Asia may impact the overall results of Latin America and Asia/Africa. Projected growth in these parts of the world may be tempered until these economies become more stable.

During 1998, as required by generally accepted accounting principles, the Company ceased to account for its Brazilian operations as highly inflationary as historical inflation levels had fallen sharply. However, since the close of 1998, the Brazilian currency has devalued sharply. Based on management's best estimates and events to date, this devaluation will result in a charge to cumulative translation adjustments of approximately $250 to be recognized in 1999 which will be, in effect, a write-down of our foreign-currency-denominated assets (primarily goodwill and property, plant and equipment). This will be accompanied by lower amortization and depreciation expense in future periods. The Company remains cautious on the outlook for operations in Brazil in 1999. Management expects that the net impact on 1999 results of operations will be a reduction of net income of approximately $20 to $25, primarily in the first quarter. In addition, effective January 1999, the Company's operations in Mexico will no longer be accounted for as highly inflationary. The effect of this change on future results of operations is not determinable.

The Company expects the continued success of Colgate Total toothpaste, 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 1999 market conditions to be materially different from those experienced in 1998 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.

### Forward-Looking Statements

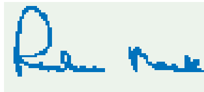
Readers are cautioned that the Results of Operations and other sections of this report contain forward-looking statements that are based on management's estimates, assumptions and projections. A description of some of the factors that could cause actual results to differ materially from expectations expressed in the Company's forward-looking statements set forth in the Company's Form 8-K filed with the Securities and Exchange Commission on November 13, 1998 under the caption "Cautionary Statement on Forward-Looking Statements," is incorporated herein by reference. These factors include, but are not limited to, the risks associated with international operations, the activities of competitors, retail trade practices, the success of new product introductions, cost pressures, manufacturing and environmental matters.

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.



Reuben Mark
Chairman and
Chief Executive Officer

Stephen C. Patrick
Chief Financial Officer

## 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, 1998 and 1997, and the related consolidated statements of income, retained earnings, comprehensive income and changes in capital accounts, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements and the schedules referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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.

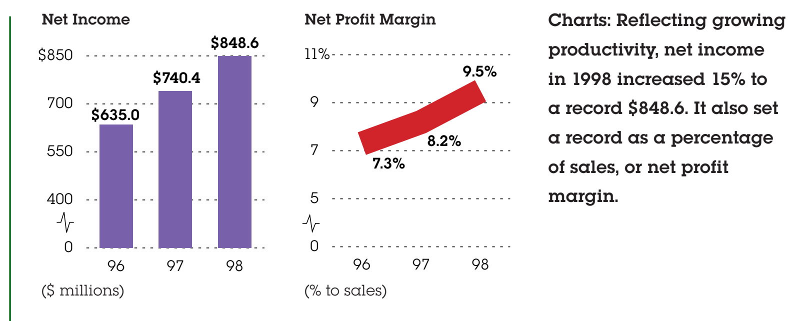
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Colgate-Palmolive Company and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the index to financial statements are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

New York, New York
February 2, 1999

# Consolidated Statements of Income

| | **1998** | 1997 | 1996 |
|---|---|---|---|
| Net sales | **$8,971.6** | $9,056.7 | $8,749.0 |
| Cost of sales | **4,290.3** | 4,461.5 | 4,451.1 |
| Gross profit | **4,681.3** | 4,595.2 | 4,297.9 |
| Selling, general and administrative expenses | **3,197.1** | 3,237.0 | 3,052.1 |
| Other expense, net | **61.2** | 72.4 | 93.8 |
| Interest expense, net | **172.9** | 183.5 | 197.4 |
| Income before income taxes | **1,250.1** | 1,102.3 | 954.6 |
| Provision for income taxes | **401.5** | 361.9 | 319.6 |
| Net income | **$ 848.6** | $ 740.4 | $ 635.0 |
| Earnings per common share, basic | **$ 2.81** | $ 2.44 | $ 2.09 |
| Earnings per common share, diluted | **$ 2.61** | $ 2.27 | $ 1.96 |




**Charts: Reflecting growing productivity, net income in 1998 increased 15% to a record $848.6. It also set a record as a percentage of sales, or net profit margin.**

See Notes to Consolidated Financial Statements.

# Consolidated Balance Sheets

| | 1998 | 1997 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash and cash equivalents | **$ 181.7** | $ 183.1 |
| Marketable securities | **12.8** | 22.2 |
| Receivables (less allowances of $35.9 and $35.8, respectively) | **1,085.6** | 1,037.4 |
| Inventories | **746.0** | 728.4 |
| Other current assets | **218.8** | 225.4 |
| Total current assets | **2,244.9** | 2,196.5 |
| Property, plant and equipment, net | **2,589.2** | 2,441.0 |
| Goodwill and other intangibles, net | **2,524.1** | 2,585.3 |
| Other assets | **327.0** | 315.9 |
| | **$7,685.2** | $7,538.7 |
| **Liabilities and Shareholders' Equity** | | |
| Current Liabilities | | |
| Notes and loans payable | **$ 175.3** | $ 158.4 |
| Current portion of long-term debt | **281.6** | 178.3 |
| Accounts payable | **726.1** | 716.9 |
| Accrued income taxes | **74.2** | 67.0 |
| Other accruals | **857.2** | 838.9 |
| Total current liabilities | **2,114.4** | 1,959.5 |
| Long-term debt | **2,300.6** | 2,340.3 |
| Deferred income taxes | **448.0** | 284.5 |
| Other liabilities | **736.6** | 775.8 |
| Shareholders' Equity | | |
| Preferred stock | **376.2** | 385.3 |
| Common stock, $1 par value (1,000,000,000 shares authorized, 366,426,590 shares issued) | **366.4** | 366.4 |
| Additional paid-in capital | **1,191.1** | 1,027.4 |
| Retained earnings | **3,641.0** | 3,138.0 |
| Cumulative translation adjustments | **(799.8)** | (693.7) |
| | **4,774.9** | 4,223.4 |
| Unearned compensation | **(355.5)** | (364.5) |
| Treasury stock, at cost | **(2,333.8)** | (1,680.3) |
| Total shareholders' equity | **2,085.6** | 2,178.6 |
| | **$7,685.2** | $7,538.7 |

See Notes to Consolidated Financial Statements.

# Consolidated Statements of Retained Earnings, Comprehensive Income and Changes in Capital Accounts

| | Common Shares | | Additional Paid-in Capital | Treasury Shares | | Retained Earnings | Cumulative Translation Adjustment | Comprehensive Income |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | | Shares | Amount | | | |
| Balance, January 1, 1996 | 291,707,744 | $366.4 | $ 850.5 | 74,718,846 | $1,441.8 | $2,392.2 | $(513.0) | |
| Net income | | | | | | 635.0 | | $635.0 |
| Other comprehensive income: | | | | | | | | |
| Cumulative translation adjustment | | | | | | | (21.7) | (21.7) |
| Total comprehensive income | | | | | | | | $613.3 |
| Dividends declared: | | | | | | | | |
| Series B Convertible Preference Stock, net of income taxes | | | | | | (20.9) | | |
| Preferred stock | | | | | | (.5) | | |
| Common stock | | | | | | (274.8) | | |
| Shares issued for stock options | 2,206,216 | | 44.4 | (2,206,216) | 22.0 | | | |
| Treasury stock acquired | (688,800) | | | 688,800 | 27.4 | | | |
| Other | 1,042,476 | | 23.5 | (1,042,476) | (22.4) | | | |
| Balance, December 31, 1996 | 294,267,636 | $366.4 | $ 918.4 | 72,158,954 | $1,468.8 | $2,731.0 | $(534.7) | |
| Net income | | | | | | 740.4 | | $740.4 |
| Other comprehensive income: | | | | | | | | |
| Cumulative translation adjustment | | | | | | | (159.0) | (159.0) |
| Total comprehensive income | | | | | | | | $581.4 |
| Dividends declared: | | | | | | | | |
| Series B Convertible Preference Stock, net of income taxes | | | | | | (20.6) | | |
| Preferred stock | | | | | | (.5) | | |
| Common stock | | | | | | (312.3) | | |
| Shares issued for stock options | 3,163,141 | | 64.2 | (3,163,141) | 54.4 | | | |
| Treasury stock acquired | (2,795,926) | | | 2,795,926 | 175.1 | | | |
| Other | 767,844 | | 44.8 | (767,844) | (18.0) | | | |
| Balance, December 31, 1997 | 295,402,695 | $366.4 | $1,027.4 | 71,023,895 | $1,680.3 | $3,138.0 | $(693.7) | |
| Net income | | | | | | 848.6 | | $848.6 |
| Other comprehensive income: | | | | | | | | |
| Cumulative translation adjustment | | | | | | | (106.1) | (106.1) |
| Total comprehensive income | | | | | | | | $742.5 |
| Dividends declared: | | | | | | | | |
| Series B Convertible Preference Stock, net of income taxes | | | | | | (20.4) | | |
| Preferred stock | | | | | | (.5) | | |
| Common stock | | | | | | (324.7) | | |
| Shares issued for stock options | 3,357,425 | | 129.0 | (3,357,425) | 145.1 | | | |
| Treasury stock acquired | (7,149,456) | | | 7,149,456 | 542.5 | | | |
| Other | 1,099,076 | | 34.7 | (1,099,076) | (34.1) | | | |
| **Balance, December 31, 1998** | **292,709,740** | **$366.4** | **$1,191.1** | **73,716,850** | **$2,333.8** | **$3,641.0** | **$(799.8)** | |

See Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

| | **1998** | 1997 | 1996 |
|---|---|---|---|
| **Operating Activities** | | | |
| Net income | **$ 848.6** | $ 740.4 | $ 635.0 |
| Adjustments to reconcile net income to net cash provided by operations: | | | |
| Restructured operations | **(34.8)** | (48.5) | (105.6) |
| Depreciation and amortization | **330.3** | 319.9 | 316.3 |
| Income taxes and other, net | **60.7** | 18.5 | 13.2 |
| Cash effects of changes in: | | | |
| Receivables | **(15.2)** | (61.6) | (15.4) |
| Inventories | **(19.5)** | (50.9) | (1.2) |
| Payables and accruals | **8.7** | 180.0 | 75.1 |
| Net cash provided by operations | **1,178.8** | 1,097.8 | 917.4 |
| **Investing Activities** | | | |
| Capital expenditures | **(389.6)** | (478.5) | (459.0) |
| Payment for acquisitions, net of cash acquired | **(22.6)** | (31.5) | (59.3) |
| Sale of non-core product lines | **57.4** | 96.4 | 25.1 |
| Sale of marketable securities and investments | **18.7** | 68.5 | 1.2 |
| Other | **(15.8)** | 7.7 | (12.0) |
| Net cash used for investing activities | **(351.9)** | (337.4) | (504.0) |
| **Financing Activities** | | | |
| Principal payments on debt | **(677.5)** | (670.7) | (1,164.6) |
| Proceeds from issuance of debt | **762.9** | 350.4 | 1,077.4 |
| Dividends paid | **(345.6)** | (333.4) | (296.2) |
| Purchase of common stock | **(542.5)** | (175.1) | (27.4) |
| Other | **(27.3)** | 15.8 | 39.2 |
| Net cash used for financing activities | **(830.0)** | (813.0) | (371.6) |
| Effect of exchange rate changes on cash and cash equivalents | **1.7** | (12.5) | (2.4) |
| Net (decrease) increase in cash and cash equivalents | **(1.4)** | (65.1) | 39.4 |
| Cash and cash equivalents at beginning of year | **183.1** | 248.2 | 208.8 |
| Cash and cash equivalents at end of year | **$ 181.7** | $ 183.1 | $ 248.2 |
| **Supplemental Cash Flow Information** | | | |
| Income taxes paid | **$ 273.8** | $ 261.3 | $ 273.0 |
| Interest paid | **202.8** | 230.6 | 229.1 |
| Principal payments on ESOP debt, guaranteed by the Company | **6.1** | 5.5 | 5.0 |

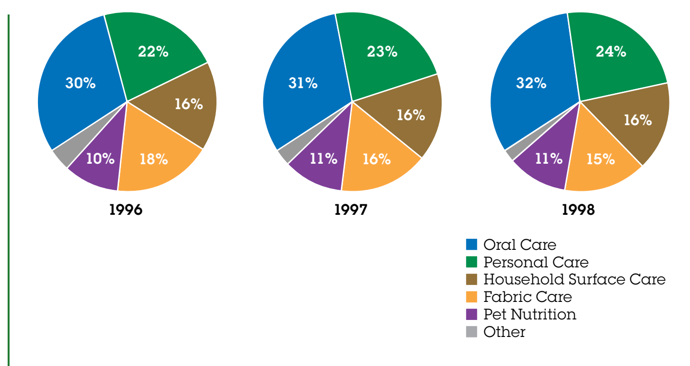
See Notes to Consolidated Financial Statements.

# 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 toothpaste, 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:




## 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. 130, "Reporting Comprehensive Income." The Company adopted this statement as of January 1, 1998, and, accordingly, disclosures were expanded to include the Consolidated Statement of Retained Earnings, Comprehensive Income and Changes in Capital Accounts. There was no impact on the Company's financial position, results of operations or cash flows.

The Company also adopted FASB Statements No. 131 and No. 132, which revised reporting and disclosures as to operating segments, pension and other postretirement benefits. Prior years' information has been restated to conform to the requirements of the new statements.

In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Statement No. 133 will be effective, prospectively, for the Company's financial statements in the year 2000. The statement is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

During 1998, as required by generally accepted accounting principles, the Company ceased to account for its Brazilian operations as highly inflationary as historical inflation levels had fallen sharply. The effect of this change was to reduce shareholders' equity by $98.4, primarily related to the recognition of deferred tax benefits expected to be realized in the future. However, since the close of 1998, the Brazilian currency has devalued sharply. Based on management's best estimates and events to date, this devaluation will result in a charge to cumulative translation adjustments of approximately $250 to be recognized in 1999 which will be, in effect, a write-down of our foreign-currency-denominated assets (primarily goodwill and property, plant and equipment). This will be accompanied by lower amortization and depreciation expense in future periods. The Company remains cautious on the outlook for operations in Brazil in 1999.

### 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

Intangible assets principally consist of goodwill, which is amortized on the straight-line method, generally over a period of 40 years. Other intangible assets, principally non-compete agreements and customer lists, are amortized on the straight-line method over periods ranging from 5 to 20 years depending on their useful lives.

The recoverability of the carrying values of intangible assets is evaluated periodically based on a review of forecasted operating cash flows and the profitability of the related business. For the three-year period ended December 31, 1998, there were no material adjustments to the carrying values of intangible assets resulting from these evaluations.

### Advertising

Advertising costs are expensed in the year incurred.

### 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.

### Segment Information

The Company operates in two product segments: Oral, Personal and Household Care, and Pet Nutrition. The operations of the Oral, Personal and Household Care segment are managed geographically in four reportable operating segments: North America, Latin America, Europe and Asia/Africa.

Management measures segment profit as operating income, which is defined as income before interest expense and income taxes. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Corporate operations include research and development costs, unallocated overhead costs, and gains and losses on sales of non-strategic brands and assets. Corporate assets include primarily real estate and benefit plan assets.

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, 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

During 1998, 1997 and 1996, the Company made several acquisitions totaling $22.6, $20.3 and $38.5, respectively. Individually, none of these acquisitions were significant.

The acquisitions were 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 the acquisitions were consummated. The results of operations of the acquired businesses 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 1998, 1997 and 1996 divestitures was $57.4, $101.4 and $25.1, respectively. In 1998, the HandiWipes brand and related assets were sold for $53.0, and 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:

| | Weighted Average Interest Rate | Maturities | **1998** | 1997 |
|---|---|---|---|---|
| Notes | 7.1% | 1999-2030 | **$1,382.4** | $1,186.6 |
| Commercial paper and other short-term borrowings, reclassified | 5.2 | 1999 | **461.2** | 607.5 |
| ESOP notes, guaranteed by the Company | 8.7 | 2001-2009 | **373.6** | 379.7 |
| Payable to banks | 5.5 | 2000-2004 | **361.8** | 339.2 |
| Capitalized leases | | | **3.2** | 5.6 |
| | | | **2,582.2** | 2,518.6 |
| Less: current portion of long-term debt | | | **281.6** | 178.3 |
| | | | **$2,300.6** | $2,340.3 |

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, 1998, excluding short-term borrowings reclassified, are as follows: 1999—$281.6; 2000—$411.8; 2001—$109.5; 2002—$159.7; 2003—$266.5, and $891.9 thereafter. The Company has entered into interest rate swap agreements and foreign exchange contracts related to certain of these debt instruments (see Note 11).

At December 31, 1998, the Company had unused credit facilities amounting to $1,670.9. 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, 1998 and 1997, was 6.2% and 8.5%, respectively.

The Company's long-term debt agreements include various restrictive covenants and require 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 122,620 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, 1998 and 1997, 5,598,808 and 5,734,940 shares of Series B Convertible Preference Stock, respectively, were outstanding and issued to the Company's Employee Stock Ownership Plan.

**Shareholder Rights Plan**

On October 23, 1998, the Board of Directors adopted a new Shareholder Rights Plan to replace its previous plan, which expired October 24, 1998, with a comparable plan. Under the 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 15% 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 15% or more of the common stock. When exercisable, each Right entitles a holder to buy one one-hundredth of a share of a new series of preference stock at an exercise price of $440.00, subject to adjustment.

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 15% or more of the Company's common stock, 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 15% 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 amend the Rights or redeem the Rights for $.01 at any time before the acquisition by a person or group of beneficial ownership of 15% or more of its common stock. The Board of Directors is also authorized to reduce the 15% threshold to not less than 10%. Unless redeemed earlier, the Rights will expire on October 31, 2008.

**Stock Repurchases**

During 1998, the Company entered into a series of forward purchase agreements on its common stock. These agreements are settled on a net basis in shares of the Company's common stock. To the extent that the market price of the Company's common stock on a settlement date is higher (lower) than the forward purchase price, the net differential is received (paid) by the Company. As of December 31, 1998, agreements were in place covering approximately $458.6 of the Company's common stock (5.0 million shares) that had forward prices averaging $91.68 per share. If these agreements were settled based on the December 31, 1998 market price of the Company's common stock ($92.88 per share), the Company would be entitled to receive approximately 64,000 shares. During 1998, settlements resulted in the Company receiving 321,331 shares, which were recorded as treasury stock.

**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 1998 and 1997, 285,077 and 335,270 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 1998 year-end, 17,286,622 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:

| | **1998** | | 1997 | | 1996 | |
|---|---|---|---|---|---|---|
| | **Shares** | **Weighted Average Exercise Price** | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Options outstanding, January 1 | **22,767,392** | **$46** | 21,415,198 | $32 | 20,991,790 | $29 |
| Granted | **6,268,644** | **78** | 7,703,057 | 73 | 5,709,222 | 41 |
| Exercised | **(7,458,754)** | **44** | (6,095,277) | 32 | (5,114,564) | 29 |
| Canceled or expired | **(184,159)** | **42** | (255,586) | 38 | (171,250) | 31 |
| Options outstanding, December 31 | **21,393,123** | **56** | 22,767,392 | 46 | 21,415,198 | 32 |
| **13,344,382** | **$46** | 14,683,179 | $38 | 13,983,844 | $29 | |

The following table summarizes information relating to currently outstanding and exercisable options as of December 31, 1998:

| Range of Exercise Prices | Weighted Average Remaining Contractual Life In Years | Options Outstanding | Weighted Average Exercise Price | Options Exercisable | Weighted Average Exercise Price |
|---|---|---|---|---|---|
| $11.44 – $ 21.28 | 1 | 1,163,047 | $15 | 1,163,047 | $15 |
| $25.03 – $ 34.34 | 5 | 4,771,853 | 31 | 4,771,853 | 31 |
| $34.38 – $ 44.47 | 6 | 3,655,279 | 40 | 2,731,609 | 40 |
| $44.56 – $ 62.16 | 7 | 3,503,605 | 58 | 1,871,727 | 54 |
| $62.44 – $ 79.38 | 9 | 4,009,582 | 70 | 1,138,721 | 73 |
| $79.47 – $106.04 | 6 | 4,289,757 | 94 | 1,667,425 | 94 |
| | 6 | 21,393,123 | $56 | 13,344,382 | $46 |

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 1998, 1997 and 1996 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 $803.5, $2.65 per share and $2.49 per share, respectively, in 1998; $716.1, $2.35 per share and $2.19 per share, respectively, in 1997; and $621.7, $2.05 per share and $1.92 per share, respectively, in 1996.

The weighted average Black-Scholes value of grants issued in 1998, 1997 and 1996 was $12.47, $7.85 and $5.40, 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 30%, risk-free interest rate ranging from 5.0% to 6.2% 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 million 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 released for allocation to participants based upon the ratio of the current year's debt service to the sum of total principal and interest payments over the life of the loan. At December 31, 1998, 1,528,450 shares were allocated to participant accounts. Each allocated share may be converted by the trustee into four common shares but preferred shares generally convert only 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, Comprehensive Income and Changes in Capital Accounts.

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 $2.4 in 1998, $3.0 in 1997 and $3.9 in 1996. Similarly, unearned compensation, shown as a reduction in shareholders' equity, is reduced by the higher of principal payments or the cost of shares allocated.

Interest incurred on the ESOP's notes amounted to $32.5 in 1998, $33.0 in 1997 and $33.5 in 1996. The Company paid dividends on the stock held by the ESOP of $29.3 in 1998, $29.8 in 1997 and $31.1 in 1996. Company contributions to the ESOP were $0 in 1998, $1.0 in 1997 and $4.1 in 1996. Employee contributions to the ESOP were $9.4 in 1998, $8.2 in 1997 and $5.9 in 1996.

## 7. Retirement Plans and Other Retiree Benefits

### Retirement Plans

The Company, its U.S. subsidiaries and some of its overseas subsidiaries maintain defined benefit retirement plans covering substantially all of their employees. Benefits are based primarily on years of service and employees' career earnings. In the Company's principal U.S. plans, funds are contributed to the 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. Assets of the plans consist principally of common stocks, guaranteed investment contracts with insurance companies, investments in real estate funds and U.S. Government obligations. Domestic plan assets also include investments in the Company's common stock representing 7% and 6% of plan assets at December 31, 1998 and 1997, respectively.

### Other Retiree 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 and offset its current service costs. Postretirement benefits otherwise are not currently funded.

Summarized information of the Company's defined benefit retirement plans and postretirement plans are as follows:

| | Pension Benefits | | | | Other Retiree Benefits | |
|---|---|---|---|---|---|---|
| | **1998** | 1997 | **1998** | 1997 | **1998** | 1997 |
| | North America | | International | | | |
| **Change in Benefit Obligation** | | | | | | |
| Benefit obligation at beginning of year | **$976.6** | $925.7 | **$ 278.8** | $ 271.9 | **$ 143.7** | $ 152.7 |
| Service cost | **28.1** | 24.9 | **17.7** | 16.6 | **(11.0)** | (7.8) |
| Interest cost | **68.9** | 67.6 | **18.2** | 17.6 | **14.7** | 13.4 |
| Participant's contribution | **3.3** | 3.1 | **9.7** | 2.3 | **—** | — |
| Acquisitions/plan amendments | **1.5** | .1 | **4.0** | 9.4 | **(3.7)** | — |
| Actuarial loss/(gain) | **7.9** | 40.8 | **14.1** | 13.6 | **20.0** | (6.0) |
| Foreign exchange impact | **(2.6)** | (1.6) | **4.4** | (38.4) | **—** | (.2) |
| Benefits paid | **(85.4)** | (84.0) | **(17.3)** | (14.2) | **(10.7)** | (8.4) |
| Benefit obligation at end of year | **$998.3** | $976.6 | **$ 329.6** | $ 278.8 | **$ 153.0** | $ 143.7 |
| **Change in Plan Assets** | | | | | | |
| Fair value of plan assets at beginning of year | **$907.3** | $842.8 | **$ 193.4** | $ 171.2 | **$ —** | $ — |
| Actual return on plan assets | **133.1** | 134.5 | **18.5** | 22.7 | **—** | — |
| Company contributions | **6.9** | 13.6 | **16.6** | 11.9 | **10.7** | 8.4 |
| Plan participant contributions | **3.3** | 3.1 | **9.7** | 2.3 | **—** | — |
| Foreign exchange impact | **(2.4)** | (2.7) | **(10.9)** | (10.4) | **—** | — |
| Acquisitions/plan amendments | **—** | — | **5.0** | 9.9 | **—** | — |
| Benefits paid | **(85.4)** | (84.0) | **(17.3)** | (14.2) | **(10.7)** | (8.4) |
| Fair value of plan assets at end of year | **$962.8** | $907.3 | **$ 215.0** | $ 193.4 | **$ —** | $ — |
| **Funded Status** | | | | | | |
| Funded status at end of year | **$ (35.5)** | $ (69.3) | **$(114.6)** | $ (85.4) | **$(153.0)** | $(143.7) |
| Unrecognized net transition asset | **(6.6)** | (13.6) | **(2.5)** | (2.2) | **—** | — |
| Unrecognized net actuarial loss/(gain) | **19.0** | 58.7 | **16.4** | 1.7 | **(22.5)** | (44.3) |
| Unrecognized prior service costs | **39.9** | 44.6 | **3.9** | 4.5 | **(8.3)** | (2.6) |
| Net amount recognized | **$ 16.8** | $ 20.4 | **$ (96.8)** | $ (81.4) | **$(183.8)** | $(190.6) |
| **Amounts Recognized in Balance Sheet** | | | | | | |
| Other assets | **$ 93.3** | $ 83.4 | **$ 40.9** | $ 30.1 | **$ —** | $ — |
| Other liabilities | **(76.5)** | (63.0) | **(137.7)** | (111.5) | **(183.8)** | (190.6) |
| Net amount recognized | **$ 16.8** | $ 20.4 | **$ (96.8)** | $ (81.4) | **$(183.8)** | $(190.6) |
| **Weighted Average Assumptions** | | | | | | |
| Discount rate | **7.25%** | 7.25% | **6.82%** | 7.47% | **7.25%** | 7.25% |
| Long-term rate of return on plan assets | **9.25%** | 9.25% | **8.92%** | 10.21% | **—** | — |
| Long-term rate of compensation increase | **5.00%** | 5.50% | **4.44%** | 4.83% | **—** | — |
| ESOP growth rate | **—** | — | **—** | — | **10.00%** | 10.00% |

| | Pension Benefits | | | | | | Other Retiree Benefits | | |
|---|---|---|---|---|---|---|---|---|---|
| | **1998** | 1997 | 1996 | **1998** | 1997 | 1996 | **1998** | 1997 | 1996 |
| | North America | | | International | | | | | |
| **Components of Net Periodic Benefit Costs** | | | | | | | | | |
| Service cost | **$ 28.1** | $ 24.9 | $ 24.5 | **$ 17.7** | $ 16.6 | $ 15.1 | **$ 4.0** | $ 2.3 | $ 1.7 |
| Interest cost | **68.9** | 67.6 | 64.4 | **18.2** | 17.6 | 17.5 | **14.7** | 13.4 | 12.6 |
| Annual ESOP allocation | **—** | — | — | **—** | — | — | **(15.0)** | (10.1) | (5.0) |
| Expected return on plan assets | **(80.8)** | (77.0) | (73.1) | **(13.9)** | (14.2) | (13.6) | **—** | — | — |
| Amortization of transition/prior service costs | **(.9)** | 1.3 | (1.5) | **.1** | .8 | 3.3 | **(.6)** | (.3) | (.2) |
| Amortization of actuarial loss/(gain) | **1.5** | .7 | 3.8 | **.5** | .4 | .7 | **(1.0)** | (1.8) | (2.0) |
| Net periodic benefit cost | **$ 16.8** | $ 17.5 | $ 18.1 | **$ 22.6** | $ 21.2 | $ 23.0 | **$ 2.1** | $ 3.5 | $ 7.1 |

The accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligtions in excess of plan assets were $206.9 and $8.5, respectively, as of December 31, 1998, and $185.6 and $7.2, respectively, as of December 31, 1997. These amounts represent non-qualified domestic plans and plans at foreign locations that are primarily unfunded, as such book reserves equal to the unfunded amount have been recorded.

The projected benefit obligation and fair value of plan assets for the pension plans with projected benefit obligations in excess of plan assets were $360.0 and $110.1, respectively, as of December 31, 1998, and $311.0 and $98.4, respectively, as of December 31, 1997.

The assumed medical cost trend rate used in measuring the postretirement benefit obligation was 4.75% for 1999 and years thereafter. Changes in this rate can have a significant effect on amounts reported. The effect of a 1% increase/decrease in the assumed medical cost trend rate would change the accumulated postretirement benefit obligation by approximately $14.5; annual expense would change by approximately $2.3.

## 8. Income Taxes

The provision for income taxes consists of the following for the years ended December 31:

| | **1998** | 1997 | 1996 |
|---|---|---|---|
| United States | **$122.6** | $ 91.0 | $ 67.2 |
| International | **278.9** | 270.9 | 252.4 |
| | **$401.5** | $361.9 | $319.6 |

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

| | **1998** | 1997 | 1996 |
|---|---|---|---|
| United States | **$ 362.0** | $ 271.8 | $171.3 |
| International | **888.1** | 830.5 | 783.3 |
| | **$1,250.1** | $1,102.3 | $954.6 |

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:

| **Percentage of Income Before Tax** | **1998** | 1997 | 1996 |
|---|---|---|---|
| Tax at U.S. statutory rate | **35.0%** | 35.0% | 35.0% |
| State income taxes, net of federal benefit | **.7** | .6 | .3 |
| Earnings taxed at other than U.S. statutory rate | **(2.6)** | (1.8) | (1.4) |
| Reversal of valuation allowance | **(2.7)** | (1.5) | — |
| Other, net | **1.7** | .5 | (.4) |
| Effective tax rate | **32.1%** | 32.8% | 33.5% |

In addition, net tax (cost) benefit of $(18.5) in 1998 and $49.2 in 1997 were recorded directly through equity.

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:

| | **1998** | 1997 | 1996 |
|---|---|---|---|
| Excess of tax over book depreciation | **$ (40.0)** | $(12.7) | $(15.9) |
| Net restructuring spending | **(13.6)** | (47.5) | (26.3) |
| Tax credit utilization | **(10.2)** | (11.5) | — |
| Other, net | **(37.0)** | 16.7 | 21.5 |
| | **$(100.8)** | $(55.0) | $(20.7) |

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

| | **1998** | 1997 |
|---|---|---|
| Deferred Taxes — Current: | | |
| Accrued liabilities | **$ 73.8** | $ 78.8 |
| Restructuring | **14.1** | 27.7 |
| Other, net | **22.5** | 17.9 |
| Total deferred taxes current | **110.4** | 124.4 |
| Deferred Taxes — Long-term: | | |
| Intangible assets | **(328.5)** | (251.6) |
| Property, plant and equipment | **(251.1)** | (188.4) |
| Postretirement benefits | **62.6** | 65.6 |
| Tax loss and tax credit carryforwards | **176.9** | 159.5 |
| Other, net | **14.9** | 54.7 |
| Valuation allowance | **(122.8)** | (124.3) |
| Total deferred taxes long-term | **(448.0)** | (284.5) |
| Net deferred taxes | **$(337.6)** | $(160.1) |

The major component of the 1998 and 1997 valuation allowance relates to tax benefits in certain jurisdictions not expected to be realized. The increase in deferred taxes — long-term primarily relates to deferred taxes recognized in Brazil subsequent to their change from a highly inflationary economy.

Applicable U.S. income and foreign withholding taxes have not been provided on approximately $661 of undistributed earnings of foreign subsidiaries at December 31, 1998. These earnings are currently considered to be permanently invested and are not subject to such taxes. Determining the tax liability that would arise if these earnings were remitted is not practicable.

## 9. Supplemental Income Statement Information

| Other Expense, Net | 1998 | 1997 | 1996 |
|---|---|---|---|
| Amortization of intangibles | **$ 81.7** | $ 86.5 | $ 91.7 |
| Earnings from equity investments | **(5.3)** | (5.6) | (7.8) |
| Minority interest | **28.1** | 29.1 | 33.4 |
| Other | **(43.3)** | (37.6) | (23.5) |
| | **$ 61.2** | $ 72.4 | $ 93.8 |

| Interest Expense, Net | 1998 | 1997 | 1996 |
|---|---|---|---|
| Interest incurred | **$216.8** | $241.6 | $244.4 |
| Interest capitalized | **(12.3)** | (10.0) | (12.7) |
| Interest income | **(31.6)** | (48.1) | (34.3) |
| | **$172.9** | $183.5 | $197.4 |
| Research and development | **$166.0** | $166.3 | $159.7 |
| Maintenance and repairs | **109.7** | 113.6 | 107.1 |
| Media advertising | **592.2** | 637.0 | 565.9 |

## 10. Supplemental Balance Sheet Information

| Inventories | 1998 | 1997 |
|---|---|---|
| Raw materials and supplies | **$257.9** | $261.0 |
| Work-in-process | **32.9** | 33.5 |
| Finished goods | **455.2** | 433.9 |
| | **$746.0** | $728.4 |

Inventories valued under LIFO amounted to $162.2 and $157.9 at December 31, 1998 and 1997, respectively. The excess of current cost over LIFO cost at the end of each year was $39.8 and $46.7, respectively. The liquidations of LIFO inventory quantities increased income by $1.3, $0 and $1.4 in 1998, 1997 and 1996, respectively.

| Property, Plant and Equipment, Net | 1998 | 1997 |
|---|---|---|
| Land | **$ 122.6** | $ 120.6 |
| Buildings | **705.0** | 653.0 |
| Machinery and equipment | **3,299.7** | 3,024.8 |
| | **4,127.3** | 3,798.4 |
| Accumulated depreciation | **(1,538.1)** | (1,357.4) |
| | **$ 2,589.2** | $ 2,441.0 |

| Goodwill and Other Intangible Assets, Net | 1998 | 1997 |
|---|---|---|
| Goodwill and other intangibles | **$3,080.8** | $3,060.3 |
| Accumulated amortization | **(556.7)** | (475.0) |
| | **$2,524.1** | $2,585.3 |

| Other Accruals | 1998 | 1997 |
|---|---|---|
| Accrued payroll and employee benefits | **$312.4** | $331.7 |
| Accrued advertising | **232.6** | 170.1 |
| Accrued interest | **51.2** | 49.5 |
| Accrued taxes other than income taxes | **72.0** | 46.7 |
| Restructuring accrual | **39.6** | 79.0 |
| Other | **149.4** | 161.9 |
| | **$857.2** | $838.9 |

| Other Liabilities | 1998 | 1997 |
|---|---|---|
| Minority interest | **$230.5** | $227.0 |
| Pension and other benefits | **398.0** | 365.1 |
| Other | **108.1** | 183.7 |
| | **$736.6** | $775.8 |

## 11. 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—Managing Foreign Currency and Interest Rate Exposure for further discussion.) In assessing the fair value of financial instruments at December 31, 1998 and 1997, 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, 1998 and 1997. The estimated fair value of the Company's remaining financial instruments at December 31 are summarized as follows:

| | 1998 | | 1997 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| (Liabilities)/Assets | | | | |
| Long-term debt, including current portion (including foreign exchange contracts) | **$(2,582.2)** | **$(2,800.0)** | $(2,518.6) | $(2,665.6) |
| Other liabilities: | | | | |
| Interest rate contracts | **(2.4)** | **(3.6)** | (7.1) | (18.4) |
| Foreign exchange contracts | **(8.7)** | **(13.0)** | 10.3 | 9.0 |
| Equity: | | | | |
| Foreign exchange contracts (to hedge investment in subsidiaries) | **(2.9)** | **(2.7)** | 1.4 | 6.6 |

As of December 31, 1998 and 1997, the Company had interest rate agreements outstanding with an aggregate notional amount

As of December 31, 1998 and 1997, the Company had interest rate agreements outstanding with an aggregate notional amount of $825.0 and $929.8, respectively, with maturities through 2018.

As of December 31, 1998 and 1997, the Company had approximately $411.1 and $657.2, respectively, of outstanding foreign exchange contracts. At December 31, 1998, approximately 8% of outstanding foreign exchange contracts served to hedge net investments in foreign subsidiaries, 15% hedged intercompany loans and 77% hedged third-party debt and other firm commitments.

The Company is exposed to credit loss in the event of nonperformance by counterparties on interest rate agreements and foreign exchange contracts; however, nonperformance by these counterparties is considered remote as it is the Company's policy to contract with diversified counterparties that have a long-term debt rating of A or higher. The amount of any such exposure is generally the unrealized gain on such contracts, which at December 31, 1998 was not significant.

## 12. Restructured Operations

In September 1995, a reserve of $460.5 was established to cover a worldwide restructuring of manufacturing and administrative operations. The primary elements of the reserve related to employee termination costs and expenses associated with the realignment of the Company's global manufacturing operations, as well as settlement of contractual obligations. As planned, the restructuring has produced savings that increase pretax earnings by over $150 annually.

The planned restructuring projects, primarily in North America and Europe but also affecting Hill's Pet Nutrition and Colgate locations in Asia/Africa and certain Latin America locations, are substantially completed. The remaining reserve amount of $39.6 primarily covers the reconfiguring of two factories in Asia/Africa and the consolidation of administrative operations following the implementation of SAP and related process changes in Europe and Asia/Africa. All remaining projects will be completed in 1999. The financing for remaining cash requirements will come from operations.

A summary of the changes in the restructuring reserve is as follows:

| | Workforce | Manufacturing Plants | Contractual Settlements | Total |
|---|---|---|---|---|
| Original reserve | $210.0 | $ 204.1 | $ 46.4 | $ 460.5 |
| 1995 activity | (4.2) | (7.2) | (13.5) | (24.9) |
| 1996 activity | (93.4) | (118.6) | (20.4) | (232.4) |
| 1997 activity | (45.0) | (48.0) | (11.0) | (104.0) |
| Balance at December 31, 1997 | 67.4 | 30.3 | 1.5 | 99.2 |
| 1998 activity | (37.1) | (22.5) | — | (59.6) |
| **Balance at December 31, 1998** | **$ 30.3** | **$ 7.8** | **$ 1.5** | **$ 39.6** |

In total, the headcount reductions resulting from the restructuring projects are 4,655. The cumulative headcount reductions as of 1996, 1997 and 1998 were 2,275, 3,133 and 3,986, respectively. Factory closures and/or reconfigurations will total 25. The cumulative factory closures and/or reconfigurations as of 1996, 1997 and 1998 were 14, 20 and 23, respectively. The costs of completing the restructuring activities to date approximated the original reserve. The headcount and factory totals were increased by 513 and 1, respectively, as a result of refinements of original estimates.

Of the restructuring reserve remaining as of December 31, 1998 and 1997, $39.6 and $79.0, respectively, is classified as a current liability, and $0 and $20.2, respectively, as a reduction of fixed assets.

## 13. Quarterly Financial Data (Unaudited)

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| **1998** | | | | |
| Net sales | **$2,159.5** | **$2,256.5** | **$2,265.4** | **$2,290.2** |
| Gross profit | **1,123.5** | **1,172.6** | **1,192.6** | **1,192.6** |
| Net income | **196.0** | **203.5** | **214.9** | **234.2** |
| Earnings per common share: | | | | |
| Basic | **.65** | **.67** | **.71** | **.78** |
| Diluted | **.60** | **.62** | **.66** | **.73** |
| 1997 | | | | |
| Net sales | $2,147.1 | $2,300.9 | $2,297.2 | $2,311.5 |
| Gross profit | 1,080.6 | 1,168.1 | 1,166.7 | 1,179.8 |
| Net income | 169.6 | 175.8 | 188.6 | 206.4 |
| Earnings per common share: | | | | |
| Basic | .56 | .58 | .62 | .68 |
| Diluted | .52 | .54 | .58 | .63 |

## 14. Market and Dividend Information (Unaudited)

The Company's common stock and $4.25 Preferred Stock are listed on the New York Stock Exchange. The trading symbol for 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 36 consecutive years.

| | Common Stock | | | | $4.25 Preferred Stock | | | |
|---|---|---|---|---|---|---|---|---|
| **Market Price** | **1998** | | 1997 | | **1998** | | 1997 | |
| Quarter Ended | **High** | **Low** | High | Low | **High** | **Low** | High | Low |
| March 31 | **$87.81** | **$67.88** | $56.88 | $45.44 | **$79.50** | **$72.50** | $72.50 | $67.00 |
| June 30 | **91.44** | **82.44** | 66.50 | 49.75 | **81.00** | **76.50** | 73.00 | 70.50 |
| September 30 | **96.94** | **65.56** | 77.13 | 61.81 | **87.00** | **80.50** | 74.50 | 68.94 |
| December 31 | **94.75** | **68.00** | 74.50 | 62.25 | **88.00** | **85.00** | 78.00 | 69.50 |
| Closing Price | **$92.88** | | $73.50 | | **$88.00** | | $76.50 | |

**Dividends Paid Per Share**

| Quarter Ended | **1998** | 1997 | **1998** | 1997 |
|---|---|---|---|---|
| March 31 | **$ .275** | $ .235 | **$1.0625** | $1.0625 |
| June 30 | **.275** | .275 | **1.0625** | 1.0625 |
| September 30 | **.275** | .275 | **1.0625** | 1.0625 |
| December 31 | **.275** | .275 | **1.0625** | 1.0625 |
| Total | **$1.10** | $1.06 | **$4.25** | $4.25 |

## 15. Earnings Per Share

| | **For the Year Ended 1998** | | | For the Year Ended 1997 | | | For the Year Ended 1996 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Income** | **Shares** | **Per Share** | Income | Shares | Per Share | Income | Shares | Per Share |
| Net income | **$848.6** | | | $740.4 | | | $635.0 | | |
| Preferred dividends | **(20.9)** | | | (21.1) | | | (21.4) | | |
| **Basic EPS** | **827.7** | **295.0** | **$2.81** | 719.3 | 295.3 | $2.44 | 613.6 | 293.3 | $2.09 |
| Stock options | | **6.8** | | | 6.9 | | | 5.1 | |
| ESOP conversion | **18.4** | **22.4** | | 17.9 | 22.9 | | 16.1 | 23.3 | |
| **Diluted EPS** | **$846.1** | **324.2** | **$2.61** | $737.2 | 325.1 | $2.27 | $629.7 | 321.7 | $1.96 |

## 16. Commitments and Contingencies

Minimum rental commitments under noncancellable operating leases, primarily for office and warehouse facilities, are $67.3 in 1999, $63.5 in 2000, $56.2 in 2001, $51.0 in 2002, $48.9 in 2003 and $122.6 thereafter. Rental expense amounted to $102.7 in 1998, $94.4 in 1997 and $93.3 in 1996. Contingent rentals, sublease income and capital leases, which are included in fixed assets, are not significant.

The Company has various contractual commitments to purchase raw materials, products and services totaling $60.6 that expire through 2001.

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 and other contingencies.

On September 8, 1998, one of the Company's Brazilian subsidiaries, Kolynos do Brasil Ltda. ("Kolynos"), received notice of an administrative proceeding from the Central Bank of Brazil. The notice primarily takes issue with certain filings made with the Central Bank in connection with financing arrangements related to the acquisition of Kolynos in January 1995. The Central Bank seeks to impose fines prescribed by statute, and it, in no way, challenges or seeks to unwind the acquisition. Management believes, based on the opinion of its Brazilian legal counsel, that the filings challenged by the Central Bank fully complied with Brazilian law and that the issues raised in the notice are without merit.

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 the above 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.

# Shareholder Information

**Corporate Offices**
Colgate-Palmolive Company
300 Park Avenue
New York, New York 10022-7499
(212) 310-2000

**Annual Meeting on Wednesday: Note Change**
Colgate shareholders are invited to attend our annual meeting. It will be **Wednesday, May 5,** 1999 at 10:00 a.m. in the Broadway Ballroom of the Marriott Marquis Hotel, Sixth Floor, Broadway at 45th Street, New York, NY. Even if you plan to attend the meeting, please sign and return your proxy promptly.

**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 Internet Site http://www.colgate.com and by 1-800-850-2654**
Financial results, dividend news and other information are available on Colgate's site on the Internet, at the address above.

Colgate also offers earnings information, the stock price, 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.

**Transfer Agent and Registrar**
Our transfer agent can assist you with a variety of shareholder services, including change of address, transfer of stock to another person, questions about dividend checks or Colgate's Dividend Reinvestment Plan.

Attn: Colgate-Palmolive Company
First Chicago Trust Company of New York,
a division of EquiServe
P.O. Box 2500
Jersey City, NJ 07303-2500
TOLL-FREE: 1-800-756-8700
FAX: (201) 222-4842
e-mail: fctc@em.fcnbd.com
Internet address: http://www.equiserve.com
Hearing Impaired: TDD: (201) 222-4955

Registered shareholders can view their accounts on the Internet by calling toll-free 1-877-843-9327 to request a password and sign-on ID be sent to them.

**Dividend Reinvestment Plan**
Colgate offers an automatic Dividend Reinvestment Plan for common and $4.25 preferred shareholders and a voluntary cash feature. Any brokers' commissions or service charges for stock purchases under the Plan are paid by Colgate-Palmolive. Shareholders can sign up for this Plan by contacting our transfer agent, below left.

**Independent Public Accountants**
Arthur Andersen LLP

**Investor Relations/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) 310-3207

Individual investors with other requests:

- please write Investor Relations at the corporate address or call (212) 310-2575

Institutional investors:

- call Bina Thompson at (212) 310-3072

**Other Reports**
You can obtain a copy of Colgate's Environmental Policy Statement, Code of Conduct, Advertising Placement Policy Statement, Product Safety Research Policy or our 1998 Report of Laboratory Research with Animals by writing to Consumer Affairs at Colgate-Palmolive.

**Corporate Responsibility**
Colgate-Palmolive does business in over 200 countries and territories worldwide, affecting the lives of a highly diverse population of employees, consumers, shareholders, business associates and friends. We are committed to the highest standard of ethics, fairness and humanity in all our activities and operations. All employees are guided by a worldwide Code of Conduct, which sets forth Colgate policies on important issues such as nondiscriminatory employment, involvement in community and educational programs, care for the environment, employee safety, and our relationship with consumers, shareholders and government.

**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 people and the communities in which we live and operate is paramount in all that we do. Colgate-Palmolive's concern has been translated into many varied programs dealing with employee safety and with our products, packaging, facilities and business decisions. Extensive worker training programs, a comprehensive audit program, and projects such as concentrated cleaners and detergents, refill packages, recycled and recyclable bottles and packaging materials are all part of our commitment behind this important endeavor.

# Eleven-Year Financial Summary[1]

Dollars In Millions Except Per Share Amounts

**Continuing Operations**
Net sales
Results of operations:
Net income
Per share, basic
Per share, diluted
Depreciation and amortization expense

**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:
$4.25 Preferred
Common
Average number of employees

(1) All share and per share amounts have been restated to reflect both the 1997 and the 1991 two-for-one stock splits.
(2) Income in 1995 includes a net provision for restructured operations of $369.2. (Excluding the charge, earnings per share would have been $1.79, basic and $1.67, diluted.)
(3) Income in 1994 includes a one-time charge of $5.2 for the sale of a non-core business, Princess House.
(4) Income in 1993 includes a one-time impact of adopting new mandated accounting standards, effective in the first quarter of 1993, of $358.2. (Excluding this charge, earnings per share would have been $1.69, basic and $1.58, diluted.)
(5) Income in 1991 includes a net provision for restructured operations of $243.0. (Excluding this charge, earnings per share would have been $1.28, basic and $1.20, diluted.)
(6) Income in 1988 includes Hill's service agreement renegotiation net charge of $42.0. (Excluding this charge, earnings per share would have been $.71, basic and $.70, diluted.)
(7) Due to timing differences, 1988 includes three dividend declarations totaling $.28 per share and four payments totaling $.37 per share while all other years include four dividend declarations.

| 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 | 1988 |
|---|---|---|---|---|---|---|---|---|---|---|
| **$8,971.6** | $9,056.7 | $8,749.0 | $8,358.2[2] | $7,587.9 | $7,141.3 | $7,007.2 | $6,060.3 | $5,691.3 | $5,038.8 | $4,734.3 |
| **848.6** | 740.4 | 635.0 | 172.0[2] | 580.2[3] | 189.9[4] | 477.0 | 124.9[5] | 321.0 | 280.0 | 152.7[6] |
| **2.81** | 2.44 | 2.09 | .52[2] | 1.91[3] | .54[4] | 1.46 | .38[5] | 1.14 | .99 | .56[6] |
| **2.61** | 2.27 | 1.96 | .51[2] | 1.78[3] | .53[4] | 1.37 | .38[5] | 1.06 | .95 | .55[6] |
| **330.3** | 319.9 | 316.3 | 300.3 | 235.1 | 209.6 | 192.5 | 146.2 | 126.2 | 97.0 | 82.0 |
| **1.1** | 1.1 | 1.2 | 1.3 | 1.4 | 1.5 | 1.5 | 1.5 | 1.4 | 1.9 | 1.7 |
| **2,589.2** | 2,441.0 | 2,428.9 | 2,155.2 | 1,988.1 | 1,766.3 | 1,596.8 | 1,394.9 | 1,362.4 | 1,105.4 | 1,021.6 |
| **389.6** | 478.5 | 459.0 | 431.8 | 400.8 | 364.3 | 318.5 | 260.7 | 296.8 | 210.0 | 238.7 |
| **7,685.2** | 7,538.7 | 7,901.5 | 7,642.3 | 6,142.4 | 5,761.2 | 5,434.1 | 4,510.6 | 4,157.9 | 3,536.5 | 3,217.6 |
| **2,300.6** | 2,340.3 | 2,786.8 | 2,992.0 | 1,751.5 | 1,532.4 | 946.5 | 850.8 | 1,068.4 | 1,059.5 | 674.3 |
| **2,085.6** | 2,178.6 | 2,034.1 | 1,679.8 | 1,822.9 | 1,875.0 | 2,619.8 | 1,866.3 | 1,363.6 | 1,123.2 | 1,150.6 |
| **7.05** | 7.30 | 6.84 | 5.67 | 6.23 | 6.20 | 8.10 | 6.27 | 5.06 | 4.20 | 4.12 |
| **1.10** | 1.06 | .94 | .88 | .77 | .67 | .58 | .51 | .45 | .39 | .37[7] |
| **92.88** | 73.50 | 46.13 | 35.13 | 31.69 | 31.19 | 27.88 | 24.44 | 18.44 | 15.88 | 11.75 |
| **292.7** | 295.4 | 294.3 | 291.7 | 288.8 | 298.5 | 320.5 | 294.7 | 266.4 | 264.4 | 276.3 |
| **296** | 320 | 350 | 380 | 400 | 450 | 470 | 460 | 500 | 500 | 550 |
| **45,800** | 46,800 | 45,500 | 46,600 | 44,100 | 40,300 | 36,800 | 34,100 | 32,000 | 32,400 | 33,200 |
| **38,300** | 37,800 | 37,900 | 38,400 | 32,800 | 28,000 | 28,800 | 24,900 | 24,800 | 24,100 | 24,700 |

## Promoting New Toothbrushes to Consumers

**Product sampling and eye-level displays win new customers for Colgate toothbrushes. Top left, new Colgate toothbrushes across the world for all price points and ages, from youngsters on up. Below left, the new Colgate Sensation toothbrush got off to a fast start in Venezuela in 1998.**

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