

COLGATE PALMOLIVE CO  
Form 10-Q  
October 30, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2008

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 1-644

**COLGATE-PALMOLIVE COMPANY**

(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State or other jurisdiction of incorporation or organization)

**13-1815595**  
(I.R.S. Employer Identification No.)

**300 Park Avenue, New York, New York**  
(Address of principal executive offices)

**10022**  
(Zip Code)

**(212) 310-2000**

(Registrant's telephone number, including area code)

**NO CHANGES**

(Former name, former address and former fiscal year, if changed since last report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller

reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Shares Outstanding	Date
Common stock, \$1.00 par value	504,714,761	September 30, 2008

**PART I. FINANCIAL INFORMATION****COLGATE-PALMOLIVE COMPANY****CONDENSED CONSOLIDATED STATEMENTS OF INCOME***(Dollars in Millions Except Per Share Amounts)***(Unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net sales	<b>\$ 3,988.0</b>	\$ 3,528.2	<b>\$ 11,665.8</b>	\$ 10,147.5
Cost of sales	<b>1,751.8</b>	1,544.6	<b>5,090.0</b>	4,443.3
Gross profit	<b>2,236.2</b>	1,983.6	<b>6,575.8</b>	5,704.2
Selling, general and administrative expenses	<b>1,415.4</b>	1,277.7	<b>4,187.0</b>	3,671.6
Other (income) expense, net	<b>52.4</b>	37.1	<b>129.7</b>	55.1
Operating profit	<b>768.4</b>	668.8	<b>2,259.1</b>	1,977.5
Interest expense, net	<b>22.9</b>	38.5	<b>82.0</b>	121.6
Income before income taxes	<b>745.5</b>	630.3	<b>2,177.1</b>	1,855.9
Provision for income taxes	<b>245.6</b>	210.2	<b>716.9</b>	533.4
Net income	<b>\$ 499.9</b>	\$ 420.1	<b>\$ 1,460.2</b>	\$ 1,322.5
Earnings per common share, basic	<b>\$ 0.98</b>	\$ 0.81	<b>\$ 2.84</b>	\$ 2.55
Earnings per common share, diluted	<b>\$ 0.94</b>	\$ 0.77	<b>\$ 2.72</b>	\$ 2.43
Dividends declared per common share	<b>\$ 0.40</b>	\$ 0.36	<b>\$ 1.16</b>	\$ 1.04

See Notes to Condensed Consolidated Financial Statements

## COLGATE-PALMOLIVE COMPANY

## CONDENSED CONSOLIDATED BALANCE SHEETS

*(Dollars in Millions)***(Unaudited)**

	September 30, 2008	December 31, 2007
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 634.7	\$ 428.7
Receivables (net of allowances of \$50.2 and \$50.6, respectively)	1,761.1	1,680.7
Inventories	1,306.0	1,171.0
Other current assets	385.4	338.1
<b>Total current assets</b>	<b>4,087.2</b>	<b>3,618.5</b>
Property, plant and equipment:		
Cost	5,996.4	6,138.1
Less: Accumulated depreciation	(2,949.2)	(3,122.9)
	3,047.2	3,015.2
Goodwill, net	2,216.7	2,272.0
Other intangible assets, net	831.4	844.8
Other assets	372.7	361.5
<b>Total assets</b>	<b>\$ 10,555.2</b>	<b>\$ 10,112.0</b>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities		
Notes and loans payable	\$ 93.4	\$ 155.9
Current portion of long-term debt	140.1	138.1
Accounts payable	1,096.0	1,066.8
Accrued income taxes	262.2	262.7
Other accruals	1,664.1	1,539.2
<b>Total current liabilities</b>	<b>3,255.8</b>	<b>3,162.7</b>
Long-term debt	3,284.4	3,221.9
Deferred income taxes	382.4	264.1
Other liabilities	1,164.7	1,177.1
Shareholders' Equity		
Preference stock	182.7	197.5
Common stock	732.9	732.9
Additional paid-in capital	1,559.9	1,517.7
Retained earnings	11,480.9	10,627.5
Accumulated other comprehensive income/(loss)	(1,824.0)	(1,666.8)
	12,132.4	11,408.8
Unearned compensation	(188.6)	(218.9)
Treasury stock, at cost	(9,475.9)	(8,903.7)
<b>Total shareholders' equity</b>	<b>2,467.9</b>	<b>2,286.2</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 10,555.2</b>	<b>\$ 10,112.0</b>

See Notes to Condensed Consolidated Financial Statements

## COLGATE-PALMOLIVE COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

*(Dollars in Millions)***(Unaudited)**

	Nine Months Ended September 30,	
	2008	2007
<b>Operating Activities</b>		
Net income	\$ 1,460.2	\$ 1,322.5
Adjustments to reconcile net income to net cash provided by operations:		
Restructuring, net of cash	(36.3)	(3.6)
Depreciation and amortization	260.9	246.4
Gain before tax on sale of non-core product lines		(48.6)
Stock-based compensation expense	82.3	93.1
Deferred income taxes	37.5	(60.2)
Cash effects of changes in:		
Receivables	(131.5)	(167.0)
Inventories	(175.9)	(118.4)
Accounts payable and other accruals	162.3	364.8
Other non-current assets and liabilities	97.5	9.7
Net cash provided by operations	1,757.0	1,638.7
<b>Investing Activities</b>		
Capital expenditures	(392.4)	(327.1)
Sale of property and non-core product lines	47.3	106.0
Payments for acquisitions, net of cash acquired		(26.5)
Other	4.1	(56.0)
Net cash used in investing activities	(341.0)	(303.6)
<b>Financing Activities</b>		
Principal payments on debt	(1,424.5)	(1,635.9)
Proceeds from issuance of debt	1,447.3	1,530.4
Dividends paid	(606.8)	(550.4)
Purchases of treasury shares	(833.0)	(866.6)
Proceeds from exercise of stock options and excess tax benefits	223.9	313.7
Net cash used in financing activities	(1,193.1)	(1,208.8)
Effect of exchange rate changes on Cash and cash equivalents	(16.9)	12.6
Net increase in Cash and cash equivalents	206.0	138.9
Cash and cash equivalents at beginning of period	428.7	489.5
Cash and cash equivalents at end of period	\$ 634.7	\$ 628.4
<b>Supplemental Cash Flow Information</b>		
Income taxes paid	\$ 662.4	\$ 469.3

See Notes to Condensed Consolidated Financial Statements

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COLGATE-PALMOLIVE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(Dollars in Millions Except Share and Per Share Amounts)*

**(Unaudited)**

1. Basis of Presentation

The Condensed Consolidated Financial Statements reflect all normal recurring adjustments which, in management's opinion, are necessary for a fair statement of the results for interim periods. Results of operations for interim periods may not be representative of results to be expected for a full year.

Reference is made to the Annual Report on Form 10-K of Colgate-Palmolive Company (together with its subsidiaries, the Company or Colgate) filed with the Securities and Exchange Commission for the year ended December 31, 2007 for a complete set of financial notes including the Company's significant accounting policies.

2. Use of Estimates

Provisions for certain expenses, including income taxes, media advertising and consumer promotion, are based on full year assumptions and are included in the accompanying Condensed Consolidated Financial Statements in proportion with estimated annual tax rates, the passage of time or estimated annual sales.

3. Recently Issued Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 161, Disclosures about Derivative Instruments and Hedging Activities - An Amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), and requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. SFAS 161 is effective for the Company's financial statements as of January 1, 2009 and will not have any impact on the Company's financial position or results of operations.

In February 2008, the FASB issued Staff Position No. 157-2, which delays the effective date of SFAS No. 157, Fair Value Measurements (SFAS 157), for one year for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. Based on this guidance, the Company expects to adopt the provisions of SFAS 157 as they relate to long-lived assets, including goodwill and intangibles, effective January 1, 2009. The adoption of these provisions is not expected to have a material impact on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. Certain forms of contingent consideration and certain acquired contingencies will be recorded at fair value at the acquisition date. SFAS 141R also states acquisition costs will generally be expensed as incurred and restructuring costs will be expensed in periods after the acquisition date. The Company will apply SFAS 141R prospectively to business combinations with an acquisition date on or after January 1, 2009.

## COLGATE-PALMOLIVE COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(Dollars in Millions Except Share and Per Share Amounts)***(Unaudited)**

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51 (SFAS 160). SFAS 160 amends Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. It also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; changes in ownership interest be accounted for as equity transactions; and when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary and the gain or loss on the deconsolidation of the subsidiary be measured at fair value. SFAS 160 is effective for the Company on January 1, 2009. Earlier adoption is prohibited. The Company is currently evaluating SFAS 160 and does not expect it will have a material impact on the Company's financial position or results of operations.

## 4. Inventories

Inventories by major class are as follows:

	September 30, 2008	December 31, 2007
Raw materials and supplies	\$ 303.6	\$ 258.2
Work-in-process	50.3	43.7
Finished goods	952.1	869.1
Total Inventories	\$ 1,306.0	\$ 1,171.0

## COLGATE-PALMOLIVE COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(Dollars in Millions Except Share and Per Share Amounts)***(Unaudited)**

## 5. Comprehensive Income

The following are components of comprehensive income:

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Net income	\$ 499.9	\$ 420.1	\$ 1,460.2	\$ 1,322.5
Other comprehensive income/(loss)				
Foreign currency translation adjustments	(340.7)	54.8	(149.3)	172.8
Unrecognized pension and other retiree benefit cost adjustment	(10.1)	22.0	(1.6)	38.4
Unrealized gains/(losses) on cash flow hedges	(13.3)	(2.9)	(11.6)	(6.8)
Other	10.0	1.8	5.3	(1.8)
<b>Total comprehensive income</b>	<b>\$ 145.8</b>	<b>\$ 495.8</b>	<b>\$ 1,303.0</b>	<b>\$ 1,525.1</b>

Accumulated other comprehensive income/(loss), as reflected in the Condensed Consolidated Balance Sheets, primarily consists of cumulative foreign currency translation adjustments and unrecognized pension and other retiree benefit costs.

## 6. Earnings Per Share

	Three Months Ended					
	September 30, 2008			September 30, 2007		
	Income	Shares	Per Share	Income	Shares	Per Share
Net income	\$ 499.9			\$ 420.1		
Preferred dividends	(7.0)			(6.9)		
<b>Basic EPS</b>	<b>492.9</b>	<b>505.5</b>	<b>\$ 0.98</b>	<b>413.2</b>	<b>509.9</b>	<b>\$ 0.81</b>
Stock options and restricted stock			6.2			7.6
Convertible preference stock	7.0	22.6		6.9	24.9	
<b>Diluted EPS</b>	<b>\$ 499.9</b>	<b>534.3</b>	<b>\$ 0.94</b>	<b>\$ 420.1</b>	<b>542.4</b>	<b>\$ 0.77</b>

## COLGATE-PALMOLIVE COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(Dollars in Millions Except Share and Per Share Amounts)***(Unaudited)**

	September 30, 2008		Nine Months Ended September 30, 2007			
	Income	Shares	Per Share	Income	Shares	Per Share
Net income	\$ 1,460.2			\$ 1,322.5		
Preferred dividends	(21.1)			(20.8)		
Basic EPS	1,439.1	507.2	\$ 2.84	1,301.7	511.2	\$ 2.55
Stock options and restricted stock		6.4			7.6	
Convertible preference stock	21.1	23.1		20.8	25.6	
Diluted EPS	\$ 1,460.2	536.7	\$ 2.72	\$ 1,322.5	544.4	\$ 2.43

## 7. Income Taxes

The Company had unrecognized tax benefits of \$159.3 as of September 30, 2008 and \$199.3 as of December 31, 2007. The decrease was primarily due to the reversal of tax reserves following the completion of tax audits and the expiration of statutes of limitations. If all of the unrecognized tax benefits as of September 30, 2008 were recognized, approximately \$123 would impact the effective tax rate.

The Company recognizes interest expense related to the above unrecognized tax benefits within income tax expense. The Company had accrued interest of approximately \$30 as of September 30, 2008 and \$33 as of December 31, 2007.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and in many state and foreign jurisdictions. Although the statutes of limitations have not expired, all U.S. federal income tax returns for the periods ending on or before December 31, 2005 have been audited by and settled with the Internal Revenue Service (IRS). With a few exceptions, the Company is no longer subject to U.S. state and local income tax examination for the years prior to 2003. In addition, the Company has subsidiaries in various foreign jurisdictions that have statutes of limitations generally ranging from three to six years.

## COLGATE-PALMOLIVE COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(Dollars in Millions Except Share and Per Share Amounts)***(Unaudited)****8. Acquisitions and Divestitures**

Consistent with the Company's strategy to prioritize higher-margin businesses, the Company sold its household bleach businesses in Latin America, excluding Colombia, in 2007. The transaction included the sale of the bleach brands Agua Jane and Nevex in Uruguay and Venezuela, respectively, and the license of the Ajax brand for bleach during a transition period in the Dominican Republic and Ecuador. The transaction closed during the first quarter of 2007 with proceeds of \$66.5, resulting in a pretax gain of \$48.6 (\$29.7 aftertax) included in Other (income) expense, net in 2007. These operations were not material to the Company's annual Net sales, Net income or Earnings per share.

**9. Restructuring and Related Implementation Charges**

The Company's previously announced four-year restructuring and business-building program (the 2004 Restructuring Program) to enhance the Company's global leadership position in its core businesses is progressing on schedule and is expected to be completed by December 31, 2008. On April 24, 2007, the Company expanded the 2004 Restructuring Program to encompass additional savings projects identified by the Company during the course of implementing the program. Including the expansion, the cost of implementing the 2004 Restructuring Program is estimated to result in cumulative pretax charges, once all the projects are approved and fully implemented, totaling between \$1,050 and \$1,075 (\$760 and \$775 aftertax). It is estimated that the total cumulative pretax charges of implementing the 2004 Restructuring Program, once completed, will be comprised of the following: termination benefits (40%), incremental depreciation (20%), asset impairments (5%) and other charges consisting primarily of implementation-related charges resulting directly from exit activities (20%) and the implementation of new business strategies (15%). Over the course of the 2004 Restructuring Program, it is estimated that approximately 50%-60% of the charges will result in cash expenditures.

Restructuring and implementation-related charges are reflected in the income statement as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Cost of sales	\$ 11.1	\$ 37.4	\$ 48.0	\$ 103.8
Selling, general and administrative expenses	20.9	11.8	54.8	32.9
Other (income) expense, net	15.2	1.9	21.7	15.7
Total 2004 Restructuring Program charges, pretax	\$ 47.2	\$ 51.1	\$ 124.5	\$ 152.4
Total 2004 Restructuring Program charges, aftertax	\$ 31.2	\$ 36.3	\$ 81.9	\$ 107.9

## COLGATE-PALMOLIVE COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(Dollars in Millions Except Share and Per Share Amounts)***(Unaudited)**

Restructuring and implementation-related charges in the preceding table are recorded in the Corporate segment as these decisions are predominantly centrally directed and controlled and are not included in internal measures of segment operating performance.

Charges for the three months ended September 30, 2008 relate to the 2004 Restructuring Program in North America (27%), Europe/South Pacific (21%), Latin America (1%), Greater Asia/Africa (21%) and Corporate (30%). Charges for the nine months ended September 30, 2008 relate to the 2004 Restructuring Program in North America (33%), Europe/South Pacific (19%), Latin America (1%), Greater Asia/Africa (15%), Pet Nutrition (4%) and Corporate (28%).

Since the inception of the 2004 Restructuring Program in December 2004, the Company has incurred total pretax cumulative charges of \$1,029.9 (\$745.0 aftertax) in connection with the implementation of various projects as follows:

	<b>Cumulative Charges as of September 30, 2008</b>	
Termination Benefits	\$	422.5
Incremental Depreciation		214.7
Asset Impairments		55.4
Other		337.3
<b>Total cumulative 2004 Restructuring Program charges, pretax</b>	<b>\$</b>	<b>1,029.9</b>

The majority of costs incurred since inception relate to the following significant projects: the voluntary early retirement program in the U.S.; the closing of the Jeffersonville, Indiana oral care facility; the consolidation of toothpaste production in Europe; exiting certain manufacturing activities in other categories in Portugal, Denmark, Puerto Rico, Senegal and Kansas City, Kansas; and the realignment of sales, administrative and research and development functions in various locations around the world.

## COLGATE-PALMOLIVE COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(Dollars in Millions Except Share and Per Share Amounts)***(Unaudited)**

The following table summarizes the activity for the restructuring and implementation-related charges discussed above and the related accrual:

	Three Months Ended September 30, 2008				
	Termination Benefits	Incremental Depreciation	Asset Impairments	Other	Total
Restructuring accrual at June 30, 2008	\$ 30.2	\$	\$	\$ 19.8	\$ 50.0
Charges	7.0	2.8	6.6	30.8	47.2
Cash payments	(8.2)			(28.2)	(36.4)
Charges against assets		(2.8)	(6.6)	(2.2)	(11.6)
Other					
Foreign exchange	(1.3)			(1.2)	(2.5)
Restructuring accrual at September 30, 2008	\$ 27.7	\$	\$	\$ 19.0	\$ 46.7

	Nine Months Ended September 30, 2008				
	Termination Benefits	Incremental Depreciation	Asset Impairments	Other	Total
Restructuring accrual at December 31, 2007	\$ 54.6	\$	\$	\$ 9.0	\$ 63.6
Charges	28.7	13.2	(3.7)	86.3	124.5
Cash payments	(56.9)			(85.1)	(142.0)
Charges against assets	(0.4)	(13.2)	3.7	21.1	11.2
Other	(0.1)			(8.4)	(8.5)
Foreign exchange	1.8			(3.9)	(2.1)
Restructuring accrual at September 30, 2008	\$ 27.7	\$	\$	\$ 19.0	\$ 46.7

Termination benefits incurred pursuant to the 2004 Restructuring Program are calculated based on long-standing benefit practices, local statutory requirements and, in certain cases, voluntary termination arrangements. Termination benefits also include pension enhancements, amounting to \$0.4 in the nine months ended September 30, 2008, which are reflected as Charges against assets within Termination benefits in the preceding table, as the corresponding balance sheet amounts are reflected as a reduction of pension assets. During the first nine months of 2008, the Company made an \$18.8 voluntary contribution to partially fund this obligation.

Incremental depreciation was recorded to reflect changes in useful lives and estimated residual values for long-lived assets that will be taken out of service prior to the end of their normal service period. Asset impairments have been recorded to write down assets held for sale or disposal to their fair value based on amounts expected to be realized. Within Asset impairments, charges are net of gains realized on the sale of assets.

## COLGATE-PALMOLIVE COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(Dollars in Millions Except Share and Per Share Amounts)***(Unaudited)**

Other charges primarily consist of implementation-related charges resulting directly from exit activities and the implementation of new strategies as a result of the 2004 Restructuring Program. These charges include ramp-down costs related to the closure of existing facilities, start-up costs for new facilities and third-party incremental costs related to the development and implementation of new business and strategic initiatives. During the three and nine months ended September 30, 2008, charges related to start-up costs for new manufacturing facilities were \$0.4 and \$3.0, respectively, and costs incurred for the development and implementation of new business and strategic initiatives were \$14.8 and \$40.5, respectively. Since the inception of the 2004 Restructuring Program in December 2004, the Company has incurred \$43.7 of charges related to start-up costs for new manufacturing facilities and \$110.8 of costs for the development and implementation of new business and strategic initiatives. Start-up costs for new facilities and third-party incremental costs related to the development and implementation of new business and strategic initiatives are expensed as incurred.

## 10. Retirement Plans and Other Retiree Benefits

Components of net periodic benefit cost for the three and nine months ended September 30, 2008 and 2007 were as follows:

	Pension Benefits				Other Retiree Benefits	
	United States		International		2008	2007
	2008	2007	2008	2007		
	<b>Three Months Ended September 30,</b>					
Service cost	\$ 10.2	\$ 7.2	\$ 4.6	\$ 5.8	\$ 2.7	\$ 1.8
Interest cost	23.7	20.6	8.9	9.6	8.6	7.2
Annual ESOP allocation					(2.3)	0.2
Expected return on plan assets	(28.6)	(27.1)	(6.3)	(8.1)	(0.6)	(0.6)
Amortization of transition & prior service costs (credits)	0.9	1.5	0.1	0.3	(0.1)	
Amortization of actuarial loss	1.6	2.9	0.7	1.8	2.2	3.0
SFAS 88 pension charges		15.4				
Net periodic benefit cost	\$ 7.8	\$ 20.5	\$ 8.0	\$ 9.4	\$ 10.5	\$ 11.6

## COLGATE-PALMOLIVE COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(Dollars in Millions Except Share and Per Share Amounts)***(Unaudited)**

	Pension Benefits				Other Retiree Benefits	
	United States		International		2008	2007
	2008	2007	2008	2007		
	<b>Nine Months Ended September 30,</b>					
Service cost	\$ 30.4	\$ 30.6	\$ 16.7	\$ 17.2	\$ 7.9	\$ 8.3
Interest cost	71.1	65.7	30.1	27.3	25.6	23.5
Annual ESOP allocation					(6.8)	(6.9)
Expected return on plan assets	(85.6)	(81.7)	(25.9)	(21.8)	(1.9)	(1.6)
Amortization of transition & prior service costs (credits)	2.7	4.5	0.6	0.8	(0.2)	(0.1)
Amortization of actuarial loss	4.7	12.0	2.1	5.4	6.7	9.0
SFAS 88 pension charges		15.4				
Net periodic benefit cost	\$ 23.3	\$ 46.5	\$ 23.6	\$ 28.9	\$ 31.3	\$ 32.2

For the nine months ended September 30, 2008 and 2007 the Company made voluntary contributions of \$35.0 and \$45.0, respectively (including \$18.8 and \$34.5, respectively, related to restructuring, refer to Note 9, Restructuring and Related Implementation Charges ), to its U.S. postretirement plans.

For the three and nine months ended September 30, 2007, the Company recognized pretax charges of \$15.4 (\$10.0 aftertax) as required by SFAS No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits (SFAS 88). These charges were the result of lump sum payments of normal retirement benefits associated with a nonqualified retirement plan in the U.S.

#### 11. Contingencies

The Company is contingently liable with respect to lawsuits, environmental matters, taxes and other matters arising in the normal course of business.

Management proactively reviews and monitors the Company's exposure to, and the impact of, environmental matters. The Company is a potentially responsible party to various environmental matters and, as such, may be responsible for all or a portion of the cleanup, restoration and post-closure monitoring of several sites. Substantially all of the Company's potential liability for these matters relates to a single superfund site associated with a prior acquisition. With respect to that site, substantially all of the Company's potential liability has been acknowledged in writing as being covered by the Company's insurance carriers, which are presently making all their required payments and are expected to continue to do so in the future. While it is possible that the nonperformance of other potentially responsible parties or the Company's insurance carriers could affect the cash flows and results of operations in any particular quarter or year, 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 financial position or on-going results of operations and cash flows of the Company.

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**COLGATE-PALMOLIVE COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollars in Millions Except Share and Per Share Amounts)*

**(Unaudited)**

As a matter of course, the Company is regularly audited by the IRS and other tax authorities around the world in countries where it conducts business. In this regard, the IRS has completed its examination of the Company's federal income tax returns through 2005. The amount of additional tax involved as a result of assessments arising from the IRS did not have a material impact on the financial position, results of operations or cash flows of the Company.

In May 2006, one of the Company's subsidiaries received an assessment from the Mexican tax authorities totaling approximately \$670, at the current exchange rate, including interest and penalties, challenging Value Added Tax (VAT) credits claimed in the subsidiary's 2000 and 2001 VAT returns. On October 1, 2008, the Mexican tax authorities issued an administrative resolution holding the assessment of the VAT together with interest and penalties to be invalid as a matter of law, and as such, have withdrawn the assessment. Although it is unlikely, this resolution can be challenged by the Mexican tax authorities within 5 years of its issuance.

In December 2006, another subsidiary of the Company received an income tax assessment from the Mexican tax authorities for the year 1999 totaling approximately \$190, at the current exchange rate, including interest and penalties, challenging the transfer pricing on transactions between that subsidiary and another of the Company's subsidiaries located in the United States. In April 2008, the same subsidiary of the Company received a similar income tax assessment from the Mexican tax authorities for the years 2000 and 2001 totaling approximately \$695, at the current exchange rate, including interest and penalties. The Company, through its subsidiary, requested and received in 1999 a written advance ruling from the Mexican tax authorities for income tax matters on which the Company relied in subsequently claiming on its returns the income tax treatment to which these assessments relate. The Company believes, based on the advice of outside counsel, that its income tax filings are in full compliance with the written advance ruling and applicable tax law and regulations. However, the Company has entered into settlement discussions with the Mexican tax authorities regarding this income tax matter. If such discussions are not resolved to the agreement of both the Company and the U.S. tax authorities under the mutual agreement procedure contemplated under the income tax treaty between Mexico and the United States, the Company intends to vigorously challenge the assessments in the Mexican court system. Although there can be no assurances, the Company believes, based on the advice of outside counsel, that ultimately it will prevail and that the transfer pricing dispute will not result in a material financial exposure to the Company.

In 1995, the Company acquired the Kolynos oral care business from Wyeth (formerly American Home Products) (the Seller), as described in the Company's Form 8-K dated January 10, 1995. On September 8, 1998, the Company's Brazilian subsidiary received notice of an administrative proceeding from the Central Bank of Brazil primarily taking issue with certain foreign exchange filings made with the Central Bank in connection with the financing of this strategic transaction but in no way challenging or seeking to unwind the acquisition. The Central Bank of Brazil in January 2001 notified the Company of its decision in this administrative proceeding to impose a fine which, at the current exchange rate, approximates \$136. The Company appealed the imposition of the fine to the Brazilian Monetary System Appeals Council (the Council), and on January 30, 2007, the Council decided the appeal in the Company's favor, dismissing the fine entirely.

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**COLGATE-PALMOLIVE COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollars in Millions Except Share and Per Share Amounts)*

**(Unaudited)**

In addition, the Brazilian internal revenue authority has disallowed interest deductions and foreign exchange losses taken by the Company's Brazilian subsidiary for certain years in connection with the financing of the Kolynos acquisition. The tax assessments with interest, at the current exchange rate, approximate \$117. The Company has been disputing the disallowances by appealing the assessments within the internal revenue authority's appellate process with the following results to date:

In June 2005, the First Board of Taxpayers ruled in the Company's favor and allowed all of the previously claimed deductions for 1996 through 1998, which represent more than half of the total exposure. The tax authorities have appealed this decision to the next administrative level.

In March 2007, the First Board of Taxpayers ruled in the Company's favor and allowed all of the previously claimed deductions for 1999 through 2001, which represent the remaining exposure. The tax authorities have appealed this decision to the next administrative level.

In the event of an adverse decision within the internal revenue authority's appellate process, further appeals are available within the Brazilian federal courts. Although there can be no assurances, management believes, based on the opinion of its Brazilian legal counsel and other advisors, that the disallowances are without merit and that the Company should prevail on appeal either at the administrative level or, if necessary, in the Brazilian federal courts. The Company intends to challenge these assessments vigorously.

In addition, Brazilian prosecutors reviewed the foregoing transactions as part of an overall examination of all international transfers of Reais through non-resident current accounts during the 1992 to 1998 time frame, a review that the Company understands involved hundreds and possibly thousands of other individuals and companies unrelated to the Company. At the request of these prosecutors, in February 2004, a federal judge agreed to authorize criminal charges against certain current and former officers of the Company's Brazilian subsidiary based on the same allegations made in the Central Bank and tax proceedings discussed above. In September 2008, the court hearing the criminal case found all the defendants not guilty and dismissed the charges. No appeals are available.

In 2002, the Brazilian Federal Public Attorney filed a civil action against the federal government of Brazil, Laboratorios Wyeth-Whitehall Ltda. (the Brazilian subsidiary of the Seller) and the Company, as represented by its Brazilian subsidiary, seeking to annul an April 2000 decision by the Brazilian Board of Tax Appeals that found in favor of the Seller's Brazilian subsidiary on the issue of whether it had incurred taxable capital gains as a result of the divestiture of Kolynos. The action seeks to make the Company's Brazilian subsidiary jointly and severally liable for any tax due from the Seller's Brazilian subsidiary. Although there can be no assurances, management believes, based on the opinion of its Brazilian legal counsel, that the Company should ultimately prevail in this action. The Company intends to challenge this action vigorously.

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COLGATE-PALMOLIVE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(Dollars in Millions Except Share and Per Share Amounts)*

**(Unaudited)**

In December 2005, the Brazilian internal revenue authority issued to the Company's Brazilian subsidiary a tax assessment with interest and penalties of approximately \$60 at the current exchange rate, based on a claim that certain purchases of U.S. Treasury bills by the subsidiary and their subsequent disposition during the period 2000 to 2001 were subject to a tax on foreign exchange transactions. The Company is disputing the assessment within the internal revenue authority's administrative appeals process. In October 2007, the Second Board of Taxpayers ruled in favor of the internal revenue authority. In January 2008, the Company appealed this decision to the next administrative level. Although there can be no assurances, management believes, based on the advice of its Brazilian legal counsel, that the tax assessment is without merit and that the Company should prevail either through administrative appeal or, if necessary, through further appeal in the Brazilian federal courts. The Company intends to challenge this assessment vigorously.

During the period from February 2006 to April 2008, the Company learned that investigations relating to potential competition law violations involving the Company's subsidiaries had been commenced by governmental authorities in France, Germany, Romania, Switzerland and the United Kingdom. In June 2008, the Company learned that additional such investigations had been commenced by authorities in Italy, the Netherlands, Spain and the European Union. In February 2008, the federal competition authority in Germany imposed fines on four of the Company's competitors, but the Company was not fined due to its cooperation with the German authorities, consistent with this policy. The Company understands that many of these investigations also involve other consumer goods companies. At this time, no formal claim for a fine or penalty has been made against the Company in any of the above matters. The Company's policy is to comply with antitrust and competition laws and, if a violation of any such laws is found, to take appropriate remedial action and to cooperate fully with any related governmental inquiry. The Company has undertaken a comprehensive review of its selling practices and related competition law compliance in Europe and elsewhere and, where the Company has identified a lack of compliance, it is undertaking remedial action. While the Company cannot predict the final financial impact of these competition law issues as these matters may change, the Company has taken and will, if necessary, take additional reserves as appropriate.

In October 2007, a putative class action claiming that certain aspects of the cash balance portion of the Colgate-Palmolive Company Employees Retirement Income Plan (the Plan) do not comply with the Employee Retirement Income Security Act was filed against the Plan and the Company in the United States District Court for the Southern District of New York. Specifically, Proesel, et al. v. Colgate-Palmolive Company Employees Retirement Income Plan, et al. alleges improper calculation of lump sum distributions, age discrimination and failure to satisfy minimum accrual requirements, thereby resulting in the underpayment of benefits to Plan participants. Two other putative class actions filed earlier in 2007, Abelman, et al. v. Colgate-Palmolive Company Employees Retirement Income Plan, et al., in the United States District Court for the Southern District of Ohio, and Caufield v. Colgate-Palmolive Company Employees Retirement Income Plan, in the United States District Court for the Southern District of Indiana, both alleging improper calculation of lump sum distributions and, in the case of Abelman, claims for failure to satisfy minimum accrual requirements, have been transferred to the Southern District of New York and consolidated with Proesel into one action, In re Colgate-Palmolive ERISA Litigation. The relief sought includes recalculation of benefits in unspecified amounts, pre- and post-judgment interest, injunctive relief and attorneys' fees. This action has not been certified as a class action as yet. The Company intends to contest this action vigorously.

## COLGATE-PALMOLIVE COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(Dollars in Millions Except Share and Per Share Amounts)***(Unaudited)**

While it is possible that the Company's cash flows and results of operations in a particular quarter or year could be materially affected by the impact of the above noted contingencies, it is the opinion of management that these matters will not have a material impact on the Company's financial position, on-going results of operations or cash flows.

## 12. Segment Information

The Company evaluates segment performance based on several factors, including Operating profit. The Company uses Operating profit as a measure of the operating segment performance because it excludes the impact of corporate-driven decisions related to interest expense and income taxes. Corporate operations include restructuring and related implementation costs, stock-based compensation related to stock options and restricted stock awards, research and development costs, Corporate overhead costs, gains and losses on sales of non-core product lines and assets and, in 2007, the impact on Operating profit of a limited voluntary recall of certain Hill's Pet Nutrition feline products. The Company reports these items within Corporate operations as they relate to Corporate-based responsibilities and decisions and are not included in the internal measures of segment operating performance used by the Company in order to measure the underlying performance of the business segments. Net sales and Operating profit by segment were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<b>Net sales</b>				
Oral, Personal and Home Care				
North America	\$ 717.8	\$ 687.7	\$ 2,142.4	\$ 2,021.6
Latin America	1,081.3	893.7	3,091.9	2,544.9
Europe/South Pacific	948.0	875.3	2,814.7	2,501.8
Greater Asia/Africa	717.3	607.2	2,042.5	1,726.0
Total Oral, Personal and Home Care	3,464.4	3,063.9	10,091.5	8,794.3
Pet Nutrition	523.6	464.3	1,574.3	1,353.2
Total Net sales	\$ 3,988.0	\$ 3,528.2	\$ 11,665.8	\$ 10,147.5
<b>Operating profit</b>				
Oral, Personal and Home Care				
North America	\$ 163.5	\$ 171.0	\$ 497.4	\$ 484.8
Latin America	312.4	250.2	886.9	742.4
Europe/South Pacific	205.5	199.9	600.0	565.7
Greater Asia/Africa	115.9	90.8	326.7	259.2
Total Oral, Personal and Home Care	797.3	711.9	2,311.0	2,052.1
Pet Nutrition	133.3	116.9	390.6	354.5
Corporate	(162.2)	(160.0)	(442.5)	(429.1)
Total Operating profit	\$ 768.4	\$ 668.8	\$ 2,259.1	\$ 1,977.5

## COLGATE-PALMOLIVE COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(Dollars in Millions Except Share and Per Share Amounts)***(Unaudited)**

## 13. Fair Value Measurements

The Company adopted SFAS No. 157, Fair Value Measurements (SFAS 157), on January 1, 2008. SFAS 157 applies to all assets and liabilities that are being measured and reported on a fair value basis. As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The statement requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs reflecting the reporting entity's own assumptions.

SFAS 157 establishes a hierarchy which requires an entity to maximize the use of quoted market prices and minimize the use of unobservable inputs. An asset or liability's level is based on the lowest level of input that is significant to the fair value measurement.

The following table sets forth the Company's financial assets and liabilities that were measured at fair value on a recurring basis during the period, by level within the fair value hierarchy:

	Fair Value Measurements at September 30, 2008			
	Level 1	Level 2	Level 3	Total
Marketable securities	\$ 21.7	\$	\$	\$ 21.7
Available-for-sale securities	2.3			2.3
Derivatives, net	(8.4)	(18.7)		(27.1)

Marketable securities and available-for-sale securities are included within Other current assets and Other assets, respectively, in the Condensed Consolidated Balance Sheets for each period presented. Marketable securities generally consist of bank deposits with original maturities greater than 90 days. Available-for-sale securities are valued using quoted prices on an active exchange.

Derivatives, net consist of interest rate, foreign currency and commodity contracts. The Company utilizes interest rate swap contracts to manage its targeted mix of fixed and floating rate debt, and these swaps are valued using observable benchmark rates at commonly quoted intervals for the full term of the swaps. Forward and swap contracts are utilized to hedge a portion of the Company's foreign currency purchases, assets and liabilities created in the normal course of business and the net investment in certain foreign subsidiaries. These contracts generally have durations no greater than 18 months and are valued using observable forward rates in commonly quoted intervals for the full term of the contracts. Commodity contracts are utilized to hedge the purchases of raw materials used in the Company's operations. These contracts generally have durations no greater than 18 months and are measured using quoted commodity exchange prices.

**COLGATE-PALMOLIVE COMPANY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL**

**CONDITION AND RESULTS OF OPERATIONS**

*(Dollars in Millions Except Share and Per Share Amounts)*

**Executive Overview**

Colgate-Palmolive Company seeks to deliver strong, consistent business results and superior shareholder returns by providing consumers on a global basis with products that make their lives healthier and more enjoyable.

To this end, the Company is tightly focused on two product segments: Oral, Personal and Home Care; and Pet Nutrition. Within these segments, the Company follows a closely defined business strategy to develop and increase market leadership positions in key product categories. These product categories are prioritized based on their capacity to maximize the use of the organization's core competencies and strong global equities and to deliver sustainable long-term growth.

Operationally, the Company is organized along geographic lines with specific regional management teams having responsibility for the business and financial results in each region. The Company competes in more than 200 countries and territories worldwide with established businesses in all regions contributing to the Company's sales and profitability. This geographic diversity and balance helps to reduce the Company's exposure to business and other risks in any one country or part of the world.

The Oral, Personal and Home Care segment is operated through four reportable operating segments: North America, Latin America, Europe/South Pacific and Greater Asia/Africa, all of which sell to a variety of retail and wholesale customers and distributors. The Company, through Hill's Pet Nutrition, also competes on a worldwide basis in the pet nutrition market, selling its products principally through the veterinary profession and specialty pet retailers.

On an on-going basis, management focuses on a variety of key indicators to monitor business health and performance. These indicators include market share, sales (including volume, pricing and foreign exchange components), gross profit margin, operating profit, net income and earnings per share as well as measures used to optimize the management of working capital, capital expenditures, cash flow and return on capital. The monitoring of these indicators, as well as the Company's corporate governance practices (including the Company's Code of Conduct), are used to ensure that business health and strong internal controls are maintained.

To achieve its business and financial objectives, the Company focuses the organization on initiatives to drive and fund growth. The Company seeks to capture significant opportunities for growth by identifying and meeting consumer needs within its core categories, through its focus on innovation and the deployment of valuable consumer and shopper insights in the development of successful new products regionally, which are then rolled out on a global basis. To enhance these efforts, the Company has developed key initiatives to build strong relationships with consumers, dental and veterinary professionals and retail customers. Growth opportunities are greater in those areas of the world in which economic development and rising consumer incomes expand the size and number of markets for the Company's products.

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**COLGATE-PALMOLIVE COMPANY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL**

**CONDITION AND RESULTS OF OPERATIONS**

*(Dollars in Millions Except Share and Per Share Amounts)*

The investments needed to fund this growth are developed through continuous, Company-wide initiatives to lower costs and increase effective asset utilization through which the Company seeks to become even more effective and efficient throughout its businesses. The Company also continues to prioritize its investments toward its higher margin businesses, specifically Oral Care, Personal Care and Pet Nutrition.

Consistent with the Company's strategy to prioritize higher margin businesses, in the fourth quarter of 2006 the Company announced its agreement to sell its household bleach businesses in Latin America and Canada. The transaction closed in Canada during the fourth quarter of 2006. In the Latin American countries, the transaction closed during the first quarter of 2007 with the exception of Colombia, where the transaction did not receive regulatory approval.

The Company's previously announced four-year restructuring and business-building program (the 2004 Restructuring Program) to enhance the Company's global leadership position in its core businesses is progressing on schedule and is expected to be completed by December 31, 2008. On April 24, 2007, the Company expanded the 2004 Restructuring Program to encompass additional savings projects identified by the Company during the course of implementing the program. Including the expansion, the cost of implementing the four-year 2004 Restructuring Program is estimated to result in cumulative pretax charges, once all the projects are approved and fully implemented, totaling between \$1,050 and \$1,075 (\$760 and \$775 aftertax). Over the course of the 2004 Restructuring Program, it is estimated that approximately 50%-60% of the charges will result in cash expenditures. Once all projects are fully implemented, savings are projected to be in the range of \$460 and \$480 pretax (\$340 and \$350 aftertax) annually, substantially all of which is expected to increase future cash flows.

While the Company expects market conditions to remain challenging for the remainder of 2008 and into 2009, the Company believes it is well-positioned for future growth. Higher material and commodity costs, although partially offset through selling price increases and cost-savings initiatives, have impacted gross profit margins in 2008. Additionally, while the recent strengthening of the U.S. dollar is expected to negatively impact the Company's results, benefits from recent declines in material and commodity costs, if sustained, should begin to flow through in early 2009 and, together with our cost-savings initiatives, should fully offset the currency impact for the full year 2009.

Moreover, difficult macroeconomic conditions and uncertainties in the global credit markets could negatively impact our suppliers, customers and consumers which, in turn, could have an adverse impact on our business. While, thus far, uncertainties in global credit markets have not significantly affected the Company's access to credit due to its strong credit rating, a further deterioration in global financial markets could make future financing difficult or more expensive. Over the long-term, the Company's continued focus on its consumer products business, the strength of its global brand names, its broad international presence in both developed and developing markets and its strong capital base all position it well to take advantage of growth opportunities and to increase profitability and shareholder value.

**Results of Operations**

Worldwide Net sales were \$3,988.0 in the third quarter of 2008, up 13.0% from the third quarter of 2007 driven by volume growth of 3.0%, net selling price increases of 6.5% and a positive foreign exchange impact of 3.5%.

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**COLGATE-PALMOLIVE COMPANY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL**

**CONDITION AND RESULTS OF OPERATIONS**

*(Dollars in Millions Except Share and Per Share Amounts)*

Net sales in the Oral, Personal and Home Care segment were \$3,464.4 in the third quarter of 2008, up 13.0% from the third quarter of 2007 driven by volume growth of 4.0%, net selling price increases of 5.0% and a positive foreign exchange impact of 4.0%.

Net sales in North America increased 4.5% in the third quarter of 2008 to \$717.8 driven by volume growth of 1.0% and net selling price increases of 3.5%. Products contributing to the growth in oral care included Colgate Total Advanced Clean, Colgate Total Advanced Whitening, Colgate Max Fresh and Colgate Sensitive toothpastes, Colgate 360°, Colgate 360° Sensitive and Colgate 360° Deep Clean manual toothbrushes and Colgate 360° Sonic Power battery toothbrush. Successful new products in other categories contributing to growth include Irish Spring Moisture Blast and Irish Spring Reviving Mint body wash, Palmolive Pure & Clear dish liquid and Softsoap brand Body Butter Coconut Scrub moisturizing body wash. Operating profit in North America decreased 4% in the third quarter of 2008 to \$163.5, reflecting higher raw and packaging material costs, partially offset by increased sales and the benefits from restructuring and other efficiency programs.

Net sales in Latin America increased 21.0% in the third quarter of 2008 to \$1,081.3 as a result of 4.5% volume growth, net selling price increases of 11.0% and a positive foreign exchange impact of 5.5%. Volume growth was led by Brazil, Mexico, Venezuela, Colombia and Argentina. Products contributing to the growth in oral care included Colgate Total Professional Clean and Colgate Max White toothpastes, Colgate 360°, Colgate 360° Sensitive, Colgate 360° Deep Clean and Colgate Max Fresh manual toothbrushes, Colgate 360° MicroSonic battery toothbrush and Colgate Plax Whitening and Colgate Plax Ice mouthwashes. Products contributing to growth in other categories include Palmolive Naturals Yogurt and Fruits and Protex Oats bar soaps and shower gels, Palmolive bar soap and shower gel with ingredients from the Amazon, Lady Speed Stick Double Defense multi-form deodorants, Palmolive Caprice shampoo and Suavitel Magic Moments fabric conditioner. Operating profit in Latin America increased 25% in the third quarter of 2008 to \$312.4, reflecting increased sales and lower overhead costs, partially offset by higher raw material costs and higher advertising.

Net sales in Europe/South Pacific increased 8.5% in the third quarter of 2008 to \$948.0 as a result of 1.0% volume growth, net selling price increases of 0.5% and a positive foreign exchange impact of 7.0%. Volume growth was led by Germany, Poland, Denmark, Greece and Australia, more than offsetting volume declines in France, Italy, United Kingdom and the GABA business. Products contributing to growth in oral care include Colgate Max Fresh, Colgate Max White and Colgate Sensitive Enamel Protect toothpastes, Colgate 360°, Colgate 360° Sensitive and Colgate Max Fresh manual toothbrushes, Colgate 360° Sonic Power battery toothbrush and Colgate Plax Whitening mouth rinse. Products contributing to growth in other product categories include Palmolive Naturals Cherry Blossom shower gel, Ajax Professional bucket dilutable and Ajax Professional glass cleaners, PAIC Desincrust dish liquid, the French version of Palmolive Scrub Buster, and Soupline Magic Moments fabric conditioner. Operating profit in Europe/South Pacific increased 3% in the third quarter of 2008 to \$205.5, reflecting increased sales, benefits from ongoing savings programs and lower levels of advertising, partially offset by higher raw material costs.

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**COLGATE-PALMOLIVE COMPANY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL**

**CONDITION AND RESULTS OF OPERATIONS**

*(Dollars in Millions Except Share and Per Share Amounts)*

Net sales in Greater Asia/Africa increased 18.0% in the third quarter of 2008 to \$717.3 driven by volume growth of 10.5%, net selling price increases of 5.0% and a positive foreign exchange impact of 2.5%. Sales growth for the three months ended September 30, 2008 was reduced by 1.0% versus the comparable period of 2007 as a result of the Company's divestment of its fabric care business in Senegal. Excluding the impact of this divestment, Net sales increased 19.0% on volume growth of 11.5%. The strong volume growth was led by India, Russia, Ukraine, Malaysia, Thailand, Philippines, Vietnam, Kazakhstan, South Africa, Gulf States, Saudi Arabia, Gabon, Angola and the Greater China region. Successful new products driving the oral care growth include Colgate Total Professional Clean, Colgate Max Fresh, Colgate 360° Whole Mouth Clean and Darlie Salt White toothpastes, Colgate 360° Deep Clean and Colgate Max Fresh manual toothbrushes and Colgate Plax Overnight Herbal Sensations mouthwash. New products contributing to growth in other categories in the region include Palmolive Nutra-Oil shower gel, Palmolive Thermal Spa Nourishing Boost shower gel, bar soap and liquid hand soap, Protex Aloe shower cream and bar soap and Protex Icy Cool bar soap. Operating profit in Greater Asia/Africa increased 28% in the third quarter of 2008 to \$115.9, reflecting increased sales and gross profit margins, partially offset by higher advertising.

Net sales for the Hill's Pet Nutrition segment increased 13.0% in the third quarter of 2008 to \$523.6 driven by net selling price increases of 15.0% and a positive foreign exchange impact of 2.0%, partially offset by volume declines of 4.0%. Volume growth in Japan, Australia, Russia, Brazil, Romania, Mexico, Czech Republic, Chile, Hong Kong and Thailand during the quarter was offset by volume declines in the U.S. and Western Europe primarily due to timing differences of price increases taken in 2008 and 2007. New products contributing to sales in the U.S. specialty channel include Science Diet Canine and Feline Nature's Best, Science Diet Tender Chunks in Gravy Feline pouches and Science Diet Adult High Energy Canine. Prescription Diet Hypo Allergenic Canine and Feline treats contributed to sales in the U.S. veterinary channel. New pet food products contributing to international sales include Science Plan Canine and Feline Nature's Best, Prescription Diet Canine w/d, r/d and j/d Reduced Calorie and Prescription Diet Hypo Allergenic Canine treats. Operating profit increased 14% in the third quarter of 2008 to \$133.3, reflecting increased sales partially offset by higher costs for agricultural commodities.

Worldwide Net sales were \$11,665.8 in the first nine months of 2008, up 15.0% from the first nine months of 2007 driven by volume growth of 4.5%, net selling price increases of 4.5% and a positive foreign exchange impact of 6.0%.

Net sales in the Oral, Personal and Home Care segment were \$10,091.5 in the first nine months of 2008, up 15.0% from 2007 driven by volume growth of 4.5%, net selling price increases of 4.0% and a positive foreign exchange impact of 6.5%. Within this segment, North America sales increased 6.0% driven by volume growth of 3.0% and net selling price increases of 2.0%, Latin America sales increased 21.5% on volume growth of 6.0% and net selling price increases of 8.5%, Europe/South Pacific sales increased 12.5% on volume growth of 1.5% and Greater Asia/Africa sales increased 18.5% on volume growth of 9.0% and net selling price increases of 4.0%, with the remainder of the increase in each region due to positive foreign exchange. The 2007 divestment of the Latin American household bleach business reduced sales growth for the nine months ended September 30, 2008 by 0.5% versus the comparable period of 2007 for the Latin America region. The 2008 divestment of the Senegal fabric care business reduced sales growth for the nine months ended September 30, 2008 by 0.5% versus the comparable period of 2007 for the Greater Asia/Africa region. Excluding the impact of these divestments, sales increased 22.0% for Latin America and 19.0% for Greater Asia/Africa on volume growth of 6.5% and 9.5%, respectively.

## COLGATE-PALMOLIVE COMPANY

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

## CONDITION AND RESULTS OF OPERATIONS

*(Dollars in Millions Except Share and Per Share Amounts)*

Net sales for the Hill's Pet Nutrition segment increased 16.5% in the first nine months of 2008 to \$1,574.3 driven by volume growth of 2.0%, net selling price increases of 10.0% and a positive foreign exchange impact of 4.5%. Like most North American pet food producers, Hill's Pet Nutrition was affected by the U.S. Food and Drug Administration's pet food recall in March 2007. Hill's Pet Nutrition took the precaution of conducting a voluntary recall of a small number of its products that may have been affected. These products accounted for less than 0.5% of Hill's Pet Nutrition's annual 2007 Net sales. Hill's Pet Nutrition's Operating profit for the first nine months of 2007 does not reflect the impact of the recall as those costs have been included in the Corporate segment.

Operating profit (loss) related to Corporate increased slightly to (\$162.2) in the third quarter of 2008 from (\$160.0) in the comparable period of 2007. Operating profit (loss) related to Corporate increased to (\$442.5) in the first nine months of 2008 from (\$429.1) in the comparable period of 2007, primarily due to the gain on sale of non-core product lines included in the results for the first nine months of 2007, offset by lower restructuring and implementation-related charges in the first nine months of 2008. The changes in Corporate Operating profit (loss) are summarized in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
2004 Restructuring Program	\$ (47.2)	\$ (51.1)	\$ (124.5)	\$ (152.4)
SFAS 88 pension charges		(15.4)		(15.4)
Gain on sale of non-core product lines				48.6
Hill's limited voluntary recall				(13.6)
Other Corporate	(115.0)	(93.5)	(318.0)	(296.3)
Corporate Operating profit (loss)	\$ (162.2)	\$ (160.0)	\$ (442.5)	\$ (429.1)

Restructuring and implementation-related charges are reflected in the following income statement categories:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Cost of sales	\$ 11.1	\$ 37.4	\$ 48.0	\$ 103.8
Selling, general and administrative expenses	20.9	11.8	54.8	32.9
Other (income) expense, net	15.2	1.9	21.7	15.7
Total 2004 Restructuring Program charges, pretax	\$ 47.2	\$ 51.1	\$ 124.5	\$ 152.4
Total 2004 Restructuring Program charges, aftertax	\$ 31.2	\$ 36.3	\$ 81.9	\$ 107.9

For additional information regarding the Company's 2004 Restructuring Program, refer to Note 9, Restructuring and Related Implementation Charges, of the Notes to Condensed Consolidated Financial Statements.

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**COLGATE-PALMOLIVE COMPANY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL**

**CONDITION AND RESULTS OF OPERATIONS**

*(Dollars in Millions Except Share and Per Share Amounts)*

Worldwide gross profit margin decreased to 56.1% in the third quarter of 2008 from 56.2% in the third quarter of 2007 and increased to 56.4% in the first nine months of 2008 from 56.2% in the first nine months of 2007. Restructuring and implementation-related charges lowered the reported gross profit margin by 30 basis points (bps) and 110 bps in the third quarter of 2008 and 2007, respectively, and lowered the reported gross profit margin by 40 bps and 100 bps in the first nine months of 2008 and 2007, respectively. Excluding the impact of the 2004 Restructuring Program, gross profit margin was 56.4% and 57.3% in the third quarter of 2008 and 2007, respectively, and 56.8% and 57.2% in the first nine months of 2008 and 2007, respectively. For both periods presented the decrease in gross profit margin reflected increases in raw and packaging material costs, partially offset by higher pricing and a continued focus on cost-savings programs.

Selling, general and administrative expenses as a percentage of Net sales decreased to 35.5% in the third quarter of 2008 from 36.2% in the third quarter of 2007 and decreased to 35.9% of Net sales in the first nine months of 2008 from 36.2% in the first nine months of 2007 reflecting a continued focus on cost-savings programs and moderating levels of advertising investment. In the third quarter of 2008 advertising increased 6% to \$437.9 as compared with \$412.4 in 2007. In the first nine months of 2008 advertising increased 13% to \$1,314.1 as compared with \$1,159.8 in 2007.

Other (income) expense, net increased from \$37.1 in the third quarter of 2007 to \$52.4 in the third quarter of 2008. The third quarter of 2008 includes a \$13.3 increase in charges related to the 2004 Restructuring Program from \$1.9 in the third quarter of 2007 to \$15.2 in the third quarter of 2008. The third quarter of 2007 includes \$15.4 of SFAS 88 pension charges.

Other (income) expense, net increased from \$55.1 in the first nine months of 2007 to \$129.7 in the first nine months of 2008. The first nine months of 2008 includes a \$13.0 provision in Corporate related to legal and environmental costs, an increase in minority interest expense of \$13.5 and a \$6.0 increase in expenses related to the Company's 2004 Restructuring Program from \$15.7 in the first nine months of 2007 to \$21.7 in the first nine months of 2008. The first nine months of 2007 includes a pretax gain of (\$48.6) related to the sale of the Company's household bleach business in Latin America, \$12.6 of charges related to the limited voluntary recall of certain Hill's Pet Nutrition feline products and \$15.4 of SFAS 88 pension charges.

## COLGATE-PALMOLIVE COMPANY

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

## CONDITION AND RESULTS OF OPERATIONS

*(Dollars in Millions Except Share and Per Share Amounts)*

Operating profit increased 15% to \$768.4 in the third quarter of 2008 from \$668.8 in the 2007 comparable period, benefiting from a \$3.9 decrease in charges related to the 2004 Restructuring Program compared to the third quarter of 2007. Restructuring and implementation-related charges were \$47.2 and \$51.1 for the third quarter of 2008 and 2007, respectively. Operating profit in the third quarter of 2007 also includes \$15.4 of SFAS 88 pension charges. Operating profit increased 14% to \$2,259.1 in the first nine months of 2008 from \$1,977.5 in the 2007 comparable period, benefiting from a \$27.9 decrease in charges related to the 2004 Restructuring Program compared to the first nine months of 2007. Restructuring and implementation-related charges were \$124.5 and \$152.4 for the first nine months of 2008 and 2007, respectively. Additionally, the first nine months of 2007 includes the negative impact of \$13.6 related to the limited voluntary recall of certain Hill's Pet Nutrition feline products and \$15.4 of SFAS 88 pension charges, offset by a \$48.6 gain related to the sale of the Company's household bleach business in Latin America. Excluding the impact of the 2004 Restructuring Program and these other items, operating profit increased 11% in the third quarter of 2008 and 13% in the first nine months of 2008, determined as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2008	2007	% Change	2008	2007	% Change
Operating profit, GAAP	\$ 768.4	\$ 668.8	15%	\$ 2,259.1	\$ 1,977.5	14%
2004 Restructuring Program	47.2	51.1		124.5	152.4	
Gain on sale of non-core product lines					(48.6)	
SFAS 88 pension charges		15.4			15.4	
Hill's limited voluntary recall					13.6	
Operating profit, non-GAAP	\$ 815.6	\$ 735.3	11%	\$ 2,383.6	\$ 2,110.3	13%

Interest expense, net decreased to \$22.9 and \$82.0 for the three and nine months ended September 30, 2008, respectively, as compared with \$38.5 and \$121.6 in the comparable periods of 2007, due to lower average interest rates and higher cash balances.

The quarterly provision for income taxes is determined based on the Company's estimated full year effective tax rate, adjusted by the amount of tax attributable to infrequent and unusual items that are separately recognized on a discrete basis in the income tax provision in the quarter in which they occur.

The tax rate in 2008 was impacted by discrete period items including the Company's 2004 Restructuring Program and the reversal of tax reserves following the completion of tax audits and the expiration of statutes of limitations, resulting in a 32.9% rate in the third quarter and in the first nine months of 2008. The tax rate in the 2007 third quarter of 33.3% and the nine month period of 28.7% was also impacted by the Company's 2004 Restructuring Program with the nine month tax rate further impacted by the recognition of \$73.9 of tax benefits as a result of the reduction of a tax loss carryforward valuation allowance in Brazil of \$94.6, partially offset by tax provisions for the recapitalization of certain overseas subsidiaries, the sale of the household bleach business in Latin America, the Hill's Pet Nutrition voluntary recall and SFAS 88 pension charges.

**COLGATE-PALMOLIVE COMPANY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL**

**CONDITION AND RESULTS OF OPERATIONS**

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The impact of the 2004 Restructuring Program on an individual period will depend upon the countries and the projects involved. Over its duration, charges associated with the 2004 Restructuring Program are projected to generate tax benefits at a rate between 25% and 30%.

Net income for the third quarter of 2008 increased 19% to \$499.9 from \$420.1 in the comparable 2007 period, and earnings per common share on a diluted basis increased to \$0.94 per share compared with \$0.77 per share in the comparable 2007 period. Net income for the third quarter of 2008 and 2007 includes \$31.2 (\$0.05 per share) and \$36.3 (\$0.07 per share), respectively, of charges related to the Company's 2004 Restructuring Program. Additionally, net income for the third quarter of 2007 includes the negative impact of \$10.0 (