

COLGATE PALMOLIVE CO
Form 10-Q
October 24, 2013

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, 2013

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)

(212) 310-2000

(Registrant's telephone number, including area code)

10022

(Zip Code)

NO CHANGES

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

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

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

925,208,785

September 30, 2013

PART I. FINANCIAL INFORMATION

COLGATE-PALMOLIVE COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (Dollars in Millions Except Per Share Amounts)
 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net sales	\$4,398	\$4,332	\$13,059	\$12,799
Cost of sales	1,813	1,803	5,425	5,372
Gross profit	2,585	2,529	7,634	7,427
Selling, general and administrative expenses	1,549	1,501	4,611	4,443
Other (income) expense, net	20	1	359	37
Operating profit	1,016	1,027	2,664	2,947
Interest (income) expense, net	—	4	(8	) 20
Income before income taxes	1,016	1,023	2,672	2,927
Provision for income taxes	317	326	863	932
Net income including noncontrolling interests	699	697	1,809	1,995
Less: Net income attributable to noncontrolling interests	43	43	132	121
Net income attributable to Colgate-Palmolive Company	\$656	\$654	\$1,677	\$1,874
Earnings per common share, basic	\$0.71	\$0.69	\$1.80	\$1.96
Earnings per common share, diluted	\$0.70	\$0.68	\$1.78	\$1.95
Dividends declared per common share	\$0.34	\$0.31	\$1.33	\$0.91

See Notes to Condensed Consolidated Financial Statements.

COLGATE-PALMOLIVE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Millions)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2013	2012	September 30, 2013	2012
Net income including noncontrolling interests	\$699	\$697	\$1,809	\$1,995
Other comprehensive income, net of tax				
Cumulative translation adjustments	90	89	(165	) (23
Retirement Plan and other retiree benefit adjustments	18	25	56	35
Gains (losses) on available-for-sale securities	3	(5	) 7	9
Unrealized gains (losses) on cash flow hedges	(5	) (2	) —	3
Total Other comprehensive (loss) income, net of tax	106	107	(102	) 24
Total Comprehensive income including noncontrolling interests	805	804	1,707	2,019
Less: Net income attributable to noncontrolling interests	43	43	132	121
Less: Cumulative translation adjustments attributable to noncontrolling interests	(3	) 8	(7	) 4
Total Comprehensive income attributable to noncontrolling interests	40	51	125	125
Total Comprehensive income attributable to Colgate-Palmolive Company	\$765	\$753	\$1,582	\$1,894

See Notes to Condensed Consolidated Financial Statements.

COLGATE-PALMOLIVE COMPANY
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Dollars in Millions)
 (Unaudited)

	September 30, 2013	December 31, 2012
Assets		
Current Assets		
Cash and cash equivalents	\$721	\$884
Receivables (net of allowances of \$65 and \$61, respectively)	1,737	1,668
Inventories	1,441	1,365
Other current assets	701	639
Total current assets	4,600	4,556
Property, plant and equipment:		
Cost	8,051	7,821
Less: Accumulated depreciation	(4,193)	(3,979)
	3,858	3,842
Goodwill, net	2,471	2,500
Other intangible assets, net	1,487	1,499
Deferred income taxes	91	92
Other assets	932	905
Total assets	\$13,439	\$13,394
Liabilities and Shareholders' Equity		
Current Liabilities		
Notes and loans payable	\$19	\$54
Current portion of long-term debt	588	250
Accounts payable	1,234	1,290
Accrued income taxes	283	254
Other accruals	2,367	1,888
Total current liabilities	4,491	3,736
Long-term debt	4,677	4,926
Deferred income taxes	312	293
Other liabilities	1,952	2,049
Shareholders' Equity		
Common stock	1,466	1,466
Additional paid-in capital	912	818
Retained earnings	17,393	16,953
Accumulated other comprehensive income (loss)	(2,716)	(2,621)
Unearned compensation	(35)	(41)
Treasury stock, at cost	(15,236)	(14,386)
Total Colgate-Palmolive Company shareholders' equity	1,784	2,189
Noncontrolling interests	223	201
Total shareholders' equity	2,007	2,390
Total liabilities and shareholders' equity	\$13,439	\$13,394

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,	
	2013	2012
Operating Activities		
Net income including noncontrolling interests	\$1,809	\$1,995
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operations:		
Depreciation and amortization	329	317
Restructuring and termination benefits, net of cash	82	(35)
Voluntary benefit plan contributions	(101)	(101)
Stock-based compensation expense	105	98
Venezuela devaluation charge	172	—
Deferred income taxes	35	71
Cash effects of changes in:		
Receivables	(137)	(166)
Inventories	(107)	(48)
Accounts payable and other accruals	121	(27)
Other non-current assets and liabilities	57	29
Net cash provided by operations	2,365	2,133
Investing Activities		
Capital expenditures	(419)	(317)
Sale of property and non-core product lines	—	38
Purchases of marketable securities and investments	(408)	(501)
Proceeds from sale of marketable securities and investments	195	120
Payment for acquisitions, net of cash acquired	—	(29)
Other	4	65
Net cash used in investing activities	(628)	(624)
Financing Activities		
Principal payments on debt	(5,504)	(3,684)
Proceeds from issuance of debt	5,563	4,131
Dividends paid	(1,030)	(951)
Purchases of treasury shares	(1,115)	(1,344)
Proceeds from exercise of stock options and excess tax benefits	276	390
Net cash used in financing activities	(1,810)	(1,458)
Effect of exchange rate changes on Cash and cash equivalents	(90)	(20)
Net increase (decrease) in Cash and cash equivalents	(163)	31
Cash and cash equivalents at beginning of the period	884	878
Cash and cash equivalents at end of the period	\$721	\$909
Supplemental Cash Flow Information		
Income taxes paid	\$781	\$949

See Notes to Condensed Consolidated Financial Statements.

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. Certain prior year amounts have been reclassified to conform to the current year presentation.

For a complete set of financial statement notes, including the significant accounting policies of Colgate-Palmolive Company (together with its subsidiaries, the "Company" or "Colgate"), refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission.

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. Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-10 "Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes". ASU No. 2013-10 permits the Fed Funds Effective Swap Rate to be used as a benchmark interest rate for hedge accounting purposes and eliminates the restriction on using different benchmark interest rates for similar hedges. The new guidance is effective immediately and can be applied prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. This new guidance is not expected to have a material impact on the Company's financial position or results of operations.

In July 2013, the FASB issued ASU No. 2013-11 "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists". ASU No. 2013-11 requires an entity to net its liability for unrecognized tax benefits against the deferred tax assets for all same jurisdiction net operating losses or similar tax loss carryforwards, or tax credit carryforwards. A gross presentation will be required only if such carryforwards are not available as of reporting date to settle any additional income taxes resulting from disallowance of the uncertain tax position or the entity does not intend to use these carryforwards for this purpose. The new guidance is effective on a prospective basis for fiscal years beginning after December 15, 2013 and interim periods within those years. This new guidance is not expected to have a material impact on the Company's financial position or results of operations.

4. Acquisitions and Divestitures

Sale of Land in Mexico

On September 13, 2011, the Company's Mexican subsidiary entered into an agreement to sell to the United States of America the Mexico City site on which its commercial operations, technology center and soap production facility are located. The sale price is payable in three installments, with the final installment due upon the transfer of the property, which is expected to occur in 2014. During the third quarter of 2011, the Company received the first installment of \$24 upon signing the agreement. During the third quarter of 2012, the Company received the second installment of \$36. The Company is re-investing these payments to relocate its soap production to a new state-of-the-art facility to be constructed at its Mission Hills, Mexico site, to relocate its commercial and technology operations within Mexico City and to prepare the existing site for transfer. As a result, the Company expects to make capital improvements and incur costs to exit the site through 2014. These exit costs will primarily be related to staff leaving indemnities, accelerated depreciation and demolition to make the site building-ready. During the three months ended September 30, 2013 and 2012, the Company incurred \$3 and \$7 of pretax costs (\$2 and \$5 of aftertax costs), respectively, related to the sale. During the nine months ended September 30, 2013 and 2012, the Company incurred \$14 and \$20 of pretax costs (\$9 and \$15 of aftertax costs), respectively, related to the sale.

COLGATE-PALMOLIVE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Millions Except Share and Per Share Amounts)

(Unaudited)

5. Restructuring and Related Implementation Charges

In the fourth quarter of 2012, the Company commenced a four-year Global Growth and Efficiency Program (the 2012 Restructuring Program) for sustained growth. The program's initiatives are expected to help Colgate ensure continued solid worldwide growth in unit volume, organic sales and earnings per share and enhance its global leadership positions in its core businesses.

Implementation of the 2012 Restructuring Program is projected to result in cumulative pretax charges, once all phases are approved and implemented, totaling between \$1,100 and \$1,250 (\$775 and \$875 aftertax), which are currently estimated to be comprised of the following categories: Employee-Related Costs, including severance, pension and other termination benefits (50%); asset-related costs, primarily Incremental Depreciation and Asset Impairments (15%); and Other charges, which include contract termination costs, consisting primarily of implementation-related charges resulting directly from exit activities (20%) and the implementation of new strategies (15%). Due to the acceleration of the implementation of certain program initiatives, the anticipated pretax charges for 2013 increased to approximately \$365 to \$390 (\$290 to \$305 aftertax) from approximately \$260 to \$310 (\$185 to \$220 aftertax) with no change to the amount of expected total program charges. Over the course of the 2012 Restructuring Program, it is estimated that approximately 75% of the charges will result in cash expenditures.

It is expected that the cumulative pretax charges, once all projects are approved and implemented, will relate to initiatives undertaken in North America (15%), Europe/South Pacific (20%), Latin America (5%), Asia (5%), Africa/Eurasia (5%), Hill's Pet Nutrition (10%) and Corporate (40%), which includes substantially all of the costs related to the implementation of new strategies, noted above, on a global basis.

For the three and nine months ended September 30, 2013, restructuring and implementation-related charges are reflected in the income statement as follows:

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Cost of sales	\$8	\$26
Selling, general and administrative expenses	9	31
Other (income) expense, net	13	141
Total 2012 Restructuring Program charges, pretax	\$30	\$198
Total 2012 Restructuring Program charges, aftertax	\$22	\$153

Restructuring and related implementation charges in the preceding table are recorded in the Corporate segment as these initiatives are predominantly centrally directed and controlled and are not included in internal measures of segment operating performance. Total charges for the 2012 Restructuring Program for the three months ended September 30, 2013 relate to initiatives undertaken in North America (13%), Europe/South Pacific (22%), Latin America (6%), Hill's Pet Nutrition (29%) and Corporate (30%). Total charges for the 2012 Restructuring Program for the nine months ended September 30, 2013 relate to initiatives undertaken in North America (20%), Europe/South Pacific (35%), Latin America (6%), Africa/Eurasia (4%), Hill's Pet Nutrition (8%) and Corporate (27%). Total program-to-date accumulated charges for the 2012 Restructuring Program relate to initiatives undertaken in North America (14%), Europe/South Pacific (42%), Latin America (4%), Africa/Eurasia (3%), Hill's Pet Nutrition (6%) and Corporate (31%).

COLGATE-PALMOLIVE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Millions Except Share and Per Share Amounts)

(Unaudited)

Since the inception of the 2012 Restructuring Program in the fourth quarter of 2012, the Company has incurred pretax cumulative charges of \$287 (\$223 aftertax) in connection with the implementation of various projects as follows:

	Cumulative Charges as of September 30, 2013
Employee-Related Costs	\$169
Incremental Depreciation	20
Asset Impairments	1
Other	97
Total	\$287

The majority of costs incurred since inception relate to the following projects: the closing of the Morristown, New Jersey personal care facility; the simplification and streamlining of the Company's research and development capabilities and oral care supply chain, both in Europe; other exit costs related to office consolidation; and the restructuring of certain commercial operations in advance of implementing an overall hubbing strategy.

The following tables summarize the activity for the restructuring and implementation-related charges discussed above and the related accrual:

	Three Months Ended September 30, 2013					
	Employee-Related Costs	Incremental Depreciation	Asset Impairments	Other	Total	
Balance at June 30, 2013	\$141	\$—	\$—	\$31	\$172	
Charges	5	5	—	20	30	
Cash payments	(40) —	—	(11) (51)
Charges against assets	—	(5) —	—	(5)
Foreign exchange	—	—	—	—	—	
Balance at September 30, 2013	\$106	\$—	\$—	\$40	\$146	

	Nine Months Ended September 30, 2013					
	Employee-Related Costs	Incremental Depreciation	Asset Impairments	Other	Total	
Balance at December 31, 2012	\$84	\$—	\$—	\$5	\$89	
Charges	91	20	1	86	198	
Cash payments	(52) —	—	(51) (103)
Charges against assets	(17) (20) (1) —	(38)
Foreign exchange	—	—	—	—	—	
Balance at September 30, 2013	\$106	\$—	\$—	\$40	\$146	

Employee-related costs primarily include severance and other termination benefits and are calculated based on long-standing benefit practices, local statutory requirements and, in certain cases, voluntary termination arrangements. Employee-related costs also include pension and other retiree benefit enhancements amounting to \$17 for the nine months ended September 30, 2013, which are reflected as Charges against assets within Employee-related costs in the preceding tables as the corresponding balance sheet amounts are reflected as a reduction of pension assets or an increase in pension and other retiree benefit liabilities.

Incremental depreciation is 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 are recorded to write

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COLGATE-PALMOLIVE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Millions Except Share and Per Share Amounts)

(Unaudited)

down assets held for sale or disposal to their fair value based on amounts expected to be realized. Asset impairments are net of cash proceeds pertaining to the sale of certain assets.

Other charges consist primarily of implementation-related charges resulting directly from exit activities and the implementation of new strategies as a result of the 2012 Restructuring Program. These charges for the three and nine months ended September 30, 2013 included third-party incremental costs related to the development and implementation of new business and strategic initiatives of \$11 and \$35, respectively, and contract termination costs of \$8 and \$27, respectively, directly related to the 2012 Restructuring Program. These charges were expensed as incurred. These charges, for the nine months ended September 30, 2013, also included a charge for other exit costs related to office space consolidation of \$24.

6. Inventories

Inventories by major class are as follows:

	September 30, 2013	December 31, 2012
Raw materials and supplies	\$340	\$362
Work-in-process	58	81
Finished goods	1,043	922
Total Inventories	\$1,441	\$1,365

7. Shareholders' Equity

Changes in the components of Shareholders' Equity for the nine months ended September 30, 2013 are as follows:

	Colgate-Palmolive Company Shareholders' Equity						Noncontrolling Interests
	Common Stock	Additional Paid-in Capital	Unearned Compensation	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	
Balance, December 31, 2012	\$1,466	\$818	\$(41)	\$(14,386)	\$16,953	\$(2,621)	\$201
Net income					1,677		132
Other comprehensive income, net of tax						(95)	(7)
Dividends					(1,237)		(108)
Stock-based compensation expense		105					
Shares issued for stock options		64		195			
Shares issued for restricted stock		(72)		72			

awards

Treasury stock acquired				(1,115)			
Other	(3)	6		(2)			5
Balance, September 30, 2013	\$1,466	\$912	\$(35)	\$(15,236)	\$17,393	\$(2,716)	\$223

Accumulated other comprehensive income (loss) includes cumulative foreign currency translation losses of \$1,767 and \$1,609 at September 30, 2013 and December 31, 2012, respectively, and unrecognized pension and other retiree benefit costs of \$997 and \$1,053 at September 30, 2013 and December 31, 2012, respectively.

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COLGATE-PALMOLIVE COMPANY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Dollars in Millions Except Share and Per Share Amounts)
 (Unaudited)

8. Earnings Per Share

	Three Months Ended September 30, 2013			September 30, 2012		
	Net income attributable to Colgate-Palmolive Company	Shares (millions)	Per Share	Net income attributable to Colgate-Palmolive Company	Shares (millions)	Per Share
Basic EPS	\$656	928.1	\$0.71	\$654	949.8	\$0.69
Stock options and restricted stock		8.8			8.6	
Diluted EPS	\$656	936.9	\$0.70	\$654	958.4	\$0.68

For the three months ended September 30, 2013 and 2012, the average number of stock options and restricted stock awards that were anti-dilutive and not included in diluted earnings per share calculations were 1,956,750 and 1,214,526, respectively.

	Nine Months Ended September 30, 2013			September 30, 2012		
	Net income attributable to Colgate-Palmolive Company	Shares (millions)	Per Share	Net income attributable to Colgate-Palmolive Company	Shares (millions)	Per Share
Basic EPS	\$1,677	932.5	\$1.80	\$1,874	954.8	\$1.96
Stock options and restricted stock		8.9			8.1	
Diluted EPS	\$1,677	941.4	\$1.78	\$1,874	962.9	\$1.95

For the nine months ended September 30, 2013 and 2012, the average number of stock options and restricted stock awards that were anti-dilutive and not included in diluted earnings per share calculations were 703,219 and 1,259,888, respectively.

As a result of the two-for-one stock split effective May 15, 2013, see Note 9, Common Stock Split, all historical per share data and number of shares were retroactively adjusted. Basic and diluted earnings per share were computed independently for each quarter and the year-to-date period presented. As a result of the stock split, changes in shares outstanding during the year and rounding, the sum of the quarters' earnings per share may not necessarily equal the earnings per share for the year-to-date period.

9. Common Stock Split

On March 7, 2013, the Company's Board of Directors approved a two-for-one stock split of the Company's common stock to be effected through a 100% stock dividend. The record date for the two-for-one split was the close of business on April 23, 2013, and the share distribution occurred on May 15, 2013. As a result of the split, shareholders received

one additional share of Colgate common stock, par value \$1.00, for each share they held as of the record date. All per share amounts and number of shares outstanding in these Condensed Consolidated Financial Statements and Notes to the Condensed Consolidated Financial Statements are presented on a post-split basis. In addition, the impact on the Balance Sheet as a result of the stock split was an increase of \$733 to Common Stock and an offsetting reduction in Additional paid-in capital, which has been retroactively restated.

COLGATE-PALMOLIVE COMPANY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Dollars in Millions Except Share and Per Share Amounts)
 (Unaudited)

10. Other Comprehensive Income (Loss)

Additions to and reclassifications out of Accumulated other comprehensive income (loss) attributable to the Company for the three months ended September 30, 2013 and 2012 were as follows:

	2013		2012	
	Pre-tax	Net of Tax	Pre-tax	Net of Tax
Cumulative translation adjustments	\$82	\$93	\$79	\$81
Pension and other benefits:				
Net actuarial gains (losses) and prior service costs arising during the period	1	1	13	8
Amortization of net actuarial losses, transition and prior service costs ⁽¹⁾	27	17	27	17
Retirement Plan and other retiree benefit adjustments	28	18	40	25
Available-for-sale securities:				
Unrealized gains (losses) on available-for-sale securities	4	3	(8	)(5)
Reclassification of (gains) losses into net earnings on available-for-sale securities	—	—	—	—
Gains (losses) on available-for-sale securities	4	3	(8	)(5)
Cash flow hedges:				
Unrealized gains (losses) on cash flow hedges	2	—	(1)—
Reclassification of (gains) losses into net earnings on cash flow hedges ⁽²⁾	(8	)(5)	(3	)(2)
Gains (losses) on cash flow hedges	(6	)(5)	(4	)(2)
Total Other comprehensive income (loss)	\$108	\$109	\$107	\$99

⁽¹⁾These components of Other comprehensive income (loss) are included in the computation of net periodic benefit cost. See Note 11, Retirement Plans and Other Retiree Benefits for additional details.

⁽²⁾These (gains) losses are reclassified into Cost of sales. See Note 14, Fair Value Measurements and Financial Instruments for additional details.

COLGATE-PALMOLIVE COMPANY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Dollars in Millions Except Share and Per Share Amounts)
 (Unaudited)

Additions to and reclassifications out of Accumulated other comprehensive income (loss) attributable to the Company for the nine months ended September 30, 2013 and 2012 were as follows:

	2013		2012	
	Pre-tax	Net of Tax	Pre-tax	Net of Tax
Cumulative translation adjustments	\$(170)	\$(158)	\$(26)	\$(27)
Pension and other benefits:				
Net actuarial gains (losses) and prior service costs arising during the period	4	3	(19)	(14)
Amortization of net actuarial losses, transition and prior service costs ⁽¹⁾	82	53	76	49
Retirement Plan and other retiree benefit adjustments	86	56	57	35
Available-for-sale securities:				
Unrealized gains (losses) on available-for-sale securities	(124)	(79)	14	9
Reclassification of (gains) losses into net earnings on available-for-sale securities ⁽²⁾	133	86	—	—
Gains (losses) on available-for-sale securities	9	7	14	9
Cash flow hedges:				
Unrealized gains (losses) on cash flow hedges	13	8	7	5
Reclassification of (gains) losses into net earnings on cash flow hedges ⁽³⁾	(13)	(8)	(4)	(2)
Gains (losses) on cash flow hedges	—	—	3	3
Total Other comprehensive income (loss)	\$(75)	\$(95)	\$48	\$20

⁽¹⁾These components of Other comprehensive income (loss) are included in the computation of net periodic benefit cost. See Note 11, Retirement Plans and Other Retiree Benefits for additional details.

⁽²⁾Represents the one-time loss related to the remeasurement of the fixed interest rate bonds in Venezuela which was recorded in Other (income) expense, net. See Note 14, Fair Value Measurements and Financial Instruments for additional details.

⁽³⁾These (gains) losses are reclassified into Cost of sales. See Note 14, Fair Value Measurements and Financial Instruments for additional details.

11. Retirement Plans and Other Retiree Benefits

Components of Net periodic benefit cost for the three-month and nine-month periods ended September 30, 2013 and 2012 were as follows:

	Pension Benefits				Other Retiree Benefits	
	United States		International		2013	2012
	Three Months Ended September 30,					
	2013	2012	2013	2012		
Service cost	\$6	\$4	\$6	\$6	\$3	\$2
Interest cost	22	24	8	9	8	9

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ESOP offset	—	—	—	—	—	—
Expected return on plan assets	(29) (28) (7) (7) (1) (1
Amortization of transition and prior service costs (credits)	1	2	1	1	—	—
Amortization of actuarial loss	17	17	3	2	5	5
Net periodic benefit cost	\$17	\$19	\$11	\$11	\$15	\$15

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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		2013	2012	
	2013	2012	2013	2012			
	Nine Months Ended September 30,						
Service cost	\$20	\$18	\$16	\$17	\$10	\$8	
Interest cost	68	73	22	26	28	30	
ESOP offset	—	—	—	—	(1) (1)
Expected return on plan assets	(88) (84) (19) (19) (2) (2)
Amortization of transition and prior service costs (credits)	6	7	1	1	—	2	
Amortization of actuarial loss	49	46	10	7	16	13	
Net periodic benefit cost	\$55	\$60	\$30	\$32	\$51	\$50	

For each of the nine months ended September 30, 2013 and 2012, the Company made voluntary contributions of \$101 to its U.S. postretirement plans.

12. Contingencies

As a global company serving consumers in more than 200 countries and territories, the Company is routinely subject to a wide variety of legal proceedings. These include disputes relating to intellectual property, contracts, product liability, marketing, advertising, foreign exchange controls, antitrust and trade regulation, as well as labor and employment, environmental and tax matters. Management proactively reviews and monitors the Company's exposure to, and the impact of, environmental matters. The Company is 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.

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, all U.S. federal income tax returns through December 31, 2007 have been audited by the IRS and there are limited matters in administrative appeals for years 2002 through 2007, the settlement of which is not expected to have a material adverse effect on the Company's results of operations, cash flows or financial condition. With a few exceptions, the Company is no longer subject to U.S., state and local income tax examinations for the years prior to 2007. In addition, the Company has subsidiaries in various foreign jurisdictions that have statutes of limitations for tax audits generally ranging from three to six years. Estimated incremental tax payments related to potential disallowances for subsequent periods are not expected to be material.

The Company establishes accruals for loss contingencies when it has determined that a loss is probable and that the amount of loss, or range of loss, can be reasonably estimated. Any such accruals are adjusted thereafter as appropriate to reflect changes in circumstances.

The Company also determines estimates of reasonably possible losses or ranges of reasonably possible losses in excess of related accrued liabilities, if any, when it has determined that a loss is reasonably possible and it is able to determine such estimates. For those matters disclosed below, the Company currently estimates that the aggregate range of reasonably possible losses in excess of any accrued liabilities is \$0 to approximately \$250 (based on current exchange rates). The estimates included in this amount are based on the Company's analysis of currently available

information and, as new information is obtained, these estimates may change. Due to the inherent subjectivity of the assessments and the unpredictability of outcomes of legal proceedings, any amounts accrued or included in this aggregate amount may not represent the ultimate loss to the Company from the matters in question. Thus, the Company's exposure and ultimate losses may be higher or lower, and possibly significantly so, than the amounts accrued or the range disclosed above.

Based on current knowledge, management does not believe that the ultimate resolution of loss contingencies arising from the matters discussed herein will have a material effect on the Company's consolidated financial position or its ongoing

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results of operations or cash flows. However, in light of the inherent uncertainties noted above, an adverse outcome in one or more of these matters could be material to the Company's results of operations or cash flows for any particular quarter or year.

Brazilian Matters

In 2001, the Central Bank of Brazil sought to impose a substantial fine on the Company's Brazilian subsidiary based on alleged foreign exchange violations in connection with the financing of the Company's 1995 acquisition of 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. 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. However, certain tax and civil proceedings related to the same acquisition of the Kolynos oral care business are still outstanding as described below.

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, are approximately \$120. 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. 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. The tax authorities appealed these decisions to the next administrative level.

In August 2009, the First Taxpayers' Council (the next and final administrative level of appeal) overruled the decisions of the First Board of Taxpayers, upholding the majority of the assessments, disallowing a portion of the assessments and remanding a portion of the assessments for further consideration by the First Board of Taxpayers.

The Company has filed a motion for clarification with a special appeals chamber of the Taxpayers' Council and further appeals are available within the Brazilian federal courts. The Company intends to challenge these assessments vigorously. 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 ultimately prevail on appeal, if necessary, in the Brazilian federal courts.

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.

In December 2005, the Brazilian internal revenue authority issued to the Company's Brazilian subsidiary a tax assessment with interest and penalties of approximately \$75, 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, which has jurisdiction over these matters, ruled in favor of the internal revenue authority. In January 2008, the Company appealed this decision, and in January 2012, a special appeals chamber of the Taxpayers' Council denied the Company's appeal. The Company has filed a motion for clarification with a special appeals chamber of the Taxpayers' Council and further appeals are available within the Brazilian federal courts. 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 on appeal, if not at the administrative level, in the Brazilian federal courts. The Company intends to challenge this assessment vigorously.

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European Competition Matters

Since February 2006, the Company has learned that investigations relating to potential competition law violations involving the Company's subsidiaries had been commenced by governmental authorities in a number of European countries and by the European Commission. The Company understands that substantially all of these investigations also involve other consumer goods companies and/or retail customers. The status of the various pending matters is discussed below.

Fines have been imposed on the Company in the following matters, although, as noted below, the Company has appealed each of these fines:

In December 2009, the Swiss competition law authority imposed a fine of \$6 on the Company's GABA subsidiary for alleged violations of restrictions on parallel imports into Switzerland. The Company is appealing the fine in the Swiss courts.

In January 2010, Colgate's Spanish subsidiary was fined \$3 by the Spanish competition law authority on the basis that it had entered an agreement with other shower gel manufacturers regarding product downsizing, which the Company contested. The fine was annulled by the Court of Appeal in July 2013. The Spanish competition law authority is appealing this judgment before the Supreme Court.

In December 2010, the Italian competition law authority found that 16 consumer goods companies, including the Company's Italian subsidiary, exchanged competitively sensitive information in the cosmetics sector, for which the Company's Italian subsidiary was fined \$3. The Company is appealing the fine in the Italian courts.

In December 2011, the French competition law authority found that four consumer goods companies had entered into agreements on pricing and promotion of heavy duty detergents for which Colgate's French subsidiary was fined \$46 in connection with a divested business. The Company is appealing the fine in the French courts.

In March 2012, the French competition law authority found that three pet food producers, including the Company's Hill's France subsidiary, had violated the competition law, for which it imposed a fine of \$7 on the Company's Hill's France subsidiary for alleged restrictions on exports from France, which the Company contested. In October 2013, the Company's appeal was denied. The Company is evaluating whether to pursue further appeals.

Currently, formal claims of violations, or statements of objections, are pending against the Company as follows:

The Belgian competition law authority has alleged that 11 branded goods companies, including the Company's Belgian subsidiary, assisted retailers to coordinate their retail prices on the Belgian market. The Company is in the process of responding to this statement of objections.

In the second quarter of 2013, the French competition law authority issued a statement of objections alleging that the Company's French subsidiary and a number of its competitors exchanged sensitive information related to the French home care and personal care sectors. The Company has responded to this statement of objections.

An investigation is ongoing in Greece, but no formal claim of violations has been filed.

Since December 31, 2012, the following matter has been resolved:

In March 2013, the German competition authority completed its investigation and no penalties were imposed against the Company or its German subsidiary.

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 has undertaken remedial action. Competition and antitrust law investigations often continue for several years and can result in substantial fines for violations that are found. While the Company cannot predict the final financial impact of these competition law issues as these matters may change, the Company evaluates developments in these matters quarterly and accrues liabilities as and when appropriate.

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ERISA Matters

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, were transferred to the Southern District of New York and consolidated with Proesel into one action, In re Colgate-Palmolive ERISA Litigation. The complaint in the consolidated action alleges improper calculation of lump sum distributions and failure to satisfy minimum accrual requirements, but does not include a claim for age discrimination. The relief sought includes recalculation of benefits in unspecified amounts, pre- and post-judgment interest, injunctive relief and attorneys' fees. In October 2013, the parties executed a settlement agreement under which the Plan would pay approximately \$40 after application of certain offsets to resolve the litigation. The settlement agreement is subject to court approval. On October 9, 2013, a motion for preliminary approval of a class action settlement, class certification and appointment of class counsel was filed. The Company and the Plan intend to contest this action vigorously should the settlement not be approved and finalized.

13. Segment Information

The Company has made certain changes in its segment reporting affecting several of the geographic operating segments within its Oral, Personal and Home Care product segment. These changes have no impact on the Company's historical consolidated financial position, results of operations or cash flows.

Effective January 1, 2013, the Company realigned the geographic structure of its North America and Latin America reportable operating segments. In order to better leverage Latin America management's knowledge of emerging market consumers to accelerate growth in the region, management responsibility for the Puerto Rico and CARICOM operations was transferred from North America to Latin America management. Accordingly, commencing with the Company's financial reporting for the quarter ended March 31, 2013, the results of the Puerto Rico and CARICOM operations, which represent less than 1% of the Company's global business, were reported in the Latin America reportable operating segment. Previously, Puerto Rico and CARICOM represented approximately 4% of Net sales of North America and now represent approximately 3% of Net sales of Latin America.

In addition, given the growing importance of the Company's operations in emerging markets, effective with the quarter ended September 30, 2013, the Company is separately reporting financial information for its Asia and Africa/Eurasia operating segments. Previously, the financial information for these operating segments was aggregated into the Greater Asia/Africa reportable operating segment.

The Company has recast its historical geographic segment information to conform to the new reporting structure which results in modification to the geographic components of the Oral, Personal and Home Care segment, with no impact on historical Company results overall.

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 costs related to stock options and restricted stock awards, research and development costs, Corporate overhead costs, restructuring and related implementation costs and gains and losses on sales of non-core product lines and assets. The Company reports these items within Corporate operations as they relate to Corporate-based responsibilities and decisions and are not included in the

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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,	
	2013	2012	2013	2012
Net sales				
Oral, Personal and Home Care				
North America	\$774	\$766	\$2,300	\$2,217
Latin America	1,251	1,276	3,747	3,777
Europe/South Pacific	880	865	2,552	2,569
Asia	627	583	1,900	1,717
Africa/Eurasia	321	314	932	918
Total Oral, Personal and Home Care	3,853	3,804	11,431	11,198
Pet Nutrition	545	528	1,628	1,601
Total Net sales	\$4,398	\$4,332	\$13,059	\$12,799
Operating profit				
Oral, Personal and Home Care				
North America	\$244	\$213	\$686	\$580
Latin America	358	377	1,022	1,100
Europe/South Pacific	216	198	605	560
Asia	174	164	533	474
Africa/Eurasia	65	67	192	197
Total Oral, Personal and Home Care	1,057	1,019	3,038	2,911
Pet Nutrition	138	147	410	440
Corporate	(179)	(139)	(784)	(404)
Total Operating profit	\$1,016	\$1,027	\$2,664	\$2,947

Approximately 80% of the Company's Net sales are generated from markets outside the U.S., with over 50% of the Company's Net sales coming from emerging markets (which consist of Latin America, Asia (excluding Japan), Africa/Eurasia and Central Europe).

For the three months ended September 30, 2013, Corporate Operating profit (loss) includes costs of \$30 associated with the 2012 Restructuring Program and costs of \$3 related to the sale of land in Mexico. For the nine months ended September 30, 2013, Corporate Operating profit (loss) includes costs of \$198 associated with 2012 Restructuring Program, a one-time \$172 charge for the impact of the devaluation in Venezuela, a charge of \$18 for a competition law matter in France related to the home care and personal care sectors and costs of \$14 related to the sale of land in Mexico. For further information regarding the 2012 Restructuring Program, refer to Note 5, Restructuring and Related Implementation Charges. For further information regarding the Venezuela devaluation, refer to Note 15, Venezuela. For further information regarding the competition law matter in France, refer to Note 12, Contingencies. For further information regarding the sale of land in Mexico, refer to Note 4, Acquisitions and Divestitures. For the three months ended September 30, 2012, Corporate Operating profit (loss) included costs of \$7 related to the sale of land in Mexico and costs of \$3 associated with various business realignment and other cost-saving initiatives. For the nine months

ended September 30, 2012, Corporate Operating profit (loss) included costs of \$20 related to the sale of land in Mexico and costs of \$21 associated with various business realignment and other cost-saving initiatives.

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14. Fair Value Measurements and Financial Instruments

The Company uses available market information and other valuation methodologies in assessing the fair value of financial instruments. Judgment is required in interpreting market data to develop the estimates of fair value and, accordingly, changes in assumptions or the estimation methodologies may affect the fair value estimates. The Company is exposed to credit losses in the event of nonperformance by counterparties to financial instrument contracts; however, nonperformance is considered unlikely as it is the Company's policy to contract only with diverse, credit-worthy counterparties based upon both strong credit ratings and other credit considerations.

The Company is exposed to market risk from foreign currency exchange rates, interest rates and commodity price fluctuations. Volatility relating to these exposures is managed on a global basis by utilizing a number of techniques, including working capital management, supplier agreements, selling price increases, selective borrowings in local currencies and entering into selective derivative instrument transactions, issued with standard features, in accordance with the Company's treasury and risk management policies, which prohibit the use of derivatives for speculative purposes and leveraged derivatives for any purpose. It is the Company's policy to enter into derivative instrument contracts with terms that match the underlying exposure being hedged. Hedge ineffectiveness, if any, is not material for any period presented.

The Company's derivative instruments include interest rate swap contracts, foreign currency contracts 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 (Level 2 valuation). Foreign currency contracts consist of forward, option and swap contracts utilized to hedge a portion of the Company's foreign currency purchases, assets and liabilities arising in the normal course of business as well as the net investment in certain foreign subsidiaries. These contracts are valued using observable market rates (Level 2 valuation). Commodity futures contracts are utilized to hedge the purchases of raw materials used in the Company's operations. These contracts are measured using quoted commodity exchange prices (Level 1 valuation). The duration of foreign currency and commodity contracts generally does not exceed twelve months.

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The following summarizes the fair value of the Company's derivative instruments and other financial instruments at September 30, 2013 and December 31, 2012:

	Assets		Liabilities			
	Account	9/30/13	12/31/12	Account	9/30/13	12/31/12
Designated derivative instruments						
Interest rate swap contracts	Other current assets	\$ 1	\$ 3	Other accruals	\$—	\$—
Interest rate swap contracts	Other assets	22	41	Other liabilities	—	—
Foreign currency contracts	Other current assets	9	7	Other accruals	10	10
Foreign currency contracts	Other assets	3	13	Other liabilities	1	—
Commodity contracts	Other current assets	—	1	Other accruals	—	—
Total designated		\$35	\$65		\$11	\$10
Derivatives not designated						
Foreign currency contracts	Other current assets	\$—	\$—	Other accruals	\$1	\$1
Total not designated		\$—	\$—		\$1	\$1
Total derivative instruments		\$35	\$65		\$12	\$11
Other financial instruments						
Marketable securities	Other current assets	\$146	\$116			
Available-for-sale securities	Other assets	676	618			
Total other financial instruments		\$822	\$734			

The carrying amount of cash, cash equivalents, accounts receivable and short-term debt approximated fair value as of September 30, 2013 and December 31, 2012. The estimated fair value of the Company's long-term debt, including the current portion, as of September 30, 2013 and December 31, 2012, was \$5,465 and \$5,484, respectively, and the related carrying value was \$5,265 and \$5,176, respectively. The estimated fair value of long-term debt was derived principally from quoted prices on the Company's outstanding fixed-term notes (Level 2 valuation).

Fair value hedges

The Company has designated all interest rate swap contracts and certain foreign currency forward and option contracts as fair value hedges, for which the gain or loss on the derivative and the offsetting loss or gain on the hedged item are recognized in current earnings. The impact of foreign currency contracts is recognized in Selling, general and administrative expenses and the impact of interest rate swap contracts is recognized in Interest expense, net.

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Activity related to fair value hedges recorded during the three-month and nine-month periods ended September 30, 2013 and 2012 was as follows:

	2013			2012			
	Foreign Currency Contracts	Interest Rate Swaps	Total	Foreign Currency Contracts	Interest Rate Swaps	Total	
Notional Value at September 30,	\$1,568	\$1,088	\$2,656	\$944	\$1,338	\$2,282	
Three months ended September 30:							
Gain (loss) on derivative	(9) 2	(7) (8) 5	(3)
Gain (loss) on hedged items	9	(2) 7	8	(5) 3	
Nine months ended September 30:							
Gain (loss) on derivative	3	(18) (15) 2	12	14	
Gain (loss) on hedged items	(3) 18	15	(2) (12) (14)

Cash flow hedges

All of the Company's commodity contracts and certain foreign currency forward contracts have been designated as cash flow hedges, for which the effective portion of the gain or loss is reported as a component of Other comprehensive income (OCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

Activity related to cash flow hedges recorded during the three-month and nine-month periods ended September 30, 2013 and 2012 was as follows:

	2013			2012			
	Foreign Currency Contracts	Commodity Contracts	Total	Foreign Currency Contracts	Commodity Contracts	Total	
Notional Value at September 30,	\$441	\$15	\$456	\$347	\$26	\$373	
Three months ended September 30:							
Gain (loss) recognized in OCI	2	—	2	(7) 6	(1)
Gain (loss) reclassified into Cost of sales	8	—	8	(1) 4	3	
Nine months ended September 30:							
Gain (loss) recognized in OCI	13	—	13	(4) 11	7	
Gain (loss) reclassified into Cost of sales	12	1	13	—	4	4	

The net gain (loss) recognized in OCI for both foreign currency contracts and commodity contracts is expected to be recognized in Cost of sales within the next twelve months.

Net investment hedges

The Company has designated certain foreign currency forward contracts, option contracts and foreign currency-denominated debt as net investment hedges, for which the gain or loss on the instrument is reported as a

component of Currency translation adjustments within OCI, along with the offsetting gain or loss on the hedged items.

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Activity related to net investment hedges recorded during the three-month and nine-month periods ended September 30, 2013 and 2012 was as follows:

	2013			2012		
	Foreign Currency Contracts	Foreign Currency Debt	Total	Foreign Currency Contracts	Foreign Currency Debt	Total
Notional Value at September 30,	\$557	\$238	\$795	\$527	\$296	\$823
Three months ended September 30:						
Gain (loss) on instruments	(18	) (9	) (27	) (6	) (2	) (8
Gain (loss) on hedged items	18	9	27	8	2	10
Nine months ended September 30:						
Gain (loss) on instruments	(8	) —	(8	) 2	2	4
Gain (loss) on hedged items	9	—	9	(5	) (2	) (7

Derivatives Not Designated as Hedging Instruments

Derivatives not designated as hedging instruments for each period consist of a cross-currency swap that serves as an economic hedge of a foreign currency deposit, for which the gain or loss on the instrument and the offsetting gain or loss on the hedged item are recognized in Other (income) expense, net for each period.

Activity related to these contracts during the three-month and nine-month periods ended September 30, 2013 and 2012 was as follows:

	2013	2012
	Cross-currency Swap	Cross-currency Swap
Notional Value at September 30,	\$96	\$96
Three months ended September 30:		
Gain (loss) on instrument	(6	) (3
Gain (loss) on hedged item	6	3
Nine months ended September 30:		
Gain (loss) on instrument	—	(4
Gain (loss) on hedged item	—	4

Other Financial Instruments

Other financial instruments are classified as Other current assets or Other assets.

Other financial instruments classified as Other current assets include marketable securities, which consist of bank deposits of \$122 with original maturities greater than 90 days (Level 1 valuation) and the current portion of bonds issued by the Venezuelan government (Level 2 valuation) in the amount of \$24. The long-term portion of these bonds in the amount of \$676 is included in Other assets.

Through its subsidiary in Venezuela, the Company is invested in U.S. dollar-linked, devaluation-protected bonds and fixed interest rate bonds, both of which are issued by the Venezuelan government. These bonds are actively traded and, therefore, are considered Level 2 investments as their values are determined based upon observable market-based

inputs or unobservable inputs that are corroborated by market data. As of September 30, 2013, the U.S. dollar-linked, devaluation protected bonds and the fixed interest rate bonds had fair market values of \$257 and \$443, respectively. These investments are considered available-for-sale securities and, as noted above, \$24 is included in Other current assets and \$676 is included in Other assets.

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The following table presents a reconciliation of the fair value of the Venezuelan bonds for the nine months ended September 30, 2013 and 2012:

	2013	2012
Beginning balance as of January 1,	\$642	\$236
Unrealized gain (loss) on investment	(124	) 14
Purchases and sales during the period	182	373
Ending balance as of September 30,	\$700	\$623

The Unrealized loss on investment consisted primarily of a one-time loss of \$133 in the first quarter of 2013 related to the remeasurement of the fixed interest rate bonds at February 9, 2013, the date of the devaluation. For further information regarding Venezuela and the devaluation, refer to Note 15, Venezuela below.

15. Venezuela

Venezuela has been designated hyper-inflationary and, therefore, the functional currency for the Company's Venezuelan subsidiary ("CP Venezuela") is the U.S. dollar and Venezuelan currency fluctuations are reported in income.

The Venezuelan government devalued its currency effective February 9, 2013. As a result of the devaluation the official exchange rate changed from 4.30 to 6.30 Venezuela bolivares fuerte per dollar. The Company incurred a one-time, pretax loss of \$172 (\$111 aftertax loss) in the first quarter of 2013 related to the remeasurement of the net monetary assets included in the local balance sheet at the date of the devaluation. The impact of this one-time aftertax loss of \$111 on diluted earnings per common share was \$0.12 for the nine months ended September 30, 2013. The Company remeasured the financial statements of CP Venezuela at the rate at which it currently expects to remit future dividends, which is 6.30. As the local currency operations in Venezuela translated into fewer U.S. dollars, this had and will continue to have an ongoing adverse effect on the Company's reported results.

For the nine months ended September 30, 2013, CP Venezuela represented approximately 4% of the Company's consolidated Net sales. At September 30, 2013, CP Venezuela's bolivar fuerte-denominated net monetary asset position, which would be subject to remeasurement in the event of a further devaluation, was approximately \$530. This amount does not include \$257 of devaluation-protected bonds issued by the Venezuelan government, as these bonds provide protection against devaluations by adjusting the amount of bolivares fuerte received at maturity for any devaluation subsequent to issuance.

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 and Outlook

Colgate-Palmolive Company seeks to deliver strong, consistent business results and superior shareholder returns by providing consumers globally 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 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. Approximately 80% of the Company's Net sales are generated from markets outside the U.S., with over 50% of the Company's Net sales coming from emerging markets (which consist of Latin America, Asia (excluding Japan), Africa/Eurasia and Central Europe). This geographic diversity and balance help 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 five reportable operating segments: North America, Latin America, Europe/South Pacific, Asia and Africa/Eurasia, 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 specialty pet retailers and the veterinary profession.

On an ongoing basis, management focuses on a variety of key indicators to monitor business health and performance. These indicators include market share, net sales (including volume, pricing and foreign exchange components), organic sales growth (Net sales growth excluding the impact of foreign exchange, acquisitions and divestments), 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 and the Company's Code of Conduct and corporate governance practices help to maintain business health and strong internal controls.

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.

The investments needed to support growth are developed through continuous, Company-wide initiatives to lower costs and increase effective asset utilization. Through these initiatives, which are referred to as the Company's funding-the-growth initiatives, the Company seeks to become even more effective and efficient throughout its businesses. These initiatives are designed to reduce costs associated with direct materials, indirect expenses and

distribution and logistics and encompass a wide range of projects, examples of which include raw material substitution, reduction of packaging materials, consolidating suppliers to leverage volumes and increasing manufacturing efficiency through SKU reductions and formulation simplification. The Company also continues to prioritize its investments toward its higher margin businesses, specifically Oral Care, Personal Care and Pet Nutrition.

With approximately 80% of its Net sales generated outside the United States, the Company is exposed to changes in economic conditions and foreign currency exchange rates, as well as political uncertainty in some countries, all of which could impact future operating results. For example, as discussed in detail below, the operating environment in Venezuela is challenging, with economic uncertainty fueled by currency devaluations and high inflation and governmental restrictions in the form of import authorization controls, currency exchange controls, price controls and the possibility of expropriation of property or other resources.

In particular, the Company has been and will continue to be impacted as a result of the significant devaluations of the Venezuelan bolivar fuerte that occurred in 2010 and in February 2013, described in Note 15, Venezuela to the Condensed

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Consolidated Financial Statements. Effective February 9, 2013, the Venezuelan government devalued its currency and the official exchange rate changed from 4.30 to 6.30 Venezuela bolivares fuerte per dollar. The Company incurred a one-time, pretax loss of \$172 (\$111 aftertax loss), in the first quarter of 2013 related to the remeasurement of the net monetary assets in the local balance sheet at the date of the devaluation. The Company remeasured the financial statements of its Venezuelan subsidiary ("CP Venezuela") at the rate at which it currently expects to remit future dividends, which is 6.30. As the local currency operations in Venezuela translated into fewer U.S. dollars, this had and will continue to have an ongoing adverse effect on the Company's reported results.

In addition, the Venezuelan government continues to impose import authorization controls, currency exchange and payment controls and price controls. CP Venezuela continues to have limited access to U.S. dollars from the government (CADIVI), currently only for imported goods. The timing of receipt of these funds is at CADIVI's discretion. CP Venezuela funds its requirements for imported goods primarily through a combination of U.S. dollars obtained from CADIVI, intercompany borrowings and the use of financial and other intermediaries and, to a lesser extent, with existing U.S. dollar cash balances, which were obtained previously through parallel market transactions and through the prior liquidation of its U.S. dollar-denominated bond portfolio. In the second quarter of 2013, the Venezuelan government introduced a new currency market known as SICAD (Supplementary System for the Administration of Foreign Currency), which replaces the former SITME market and is expected to be accessible to the Company. Price controls, which became effective on April 1, 2012, affect most products in CP Venezuela's portfolio and thereby further restrict the Company's ability to implement price increases, which had been one of the key mechanisms to offset the effects of continuing high inflation and the impact of currency devaluation. At times, production at CP Venezuela has also been negatively impacted by labor issues within the country.

The Company's business in Venezuela, and the Company's ability to repatriate its earnings, continue to be negatively affected by these difficult conditions and would be further negatively affected by additional devaluations or the imposition of additional or more stringent controls on foreign currency exchange, pricing or imports or other governmental actions or continued or increased labor unrest. At September 30, 2013, CP Venezuela's local currency-denominated net monetary asset position, which would be subject to remeasurement in the event of a further devaluation, was approximately \$530 as compared to approximately \$520 at December 31, 2012. For the nine months ended September 30, 2013, CP Venezuela represented approximately 4% of the Company's consolidated Net sales and approximately 3% of the Company's consolidated Operating profit excluding the impact of the one-time Venezuela devaluation charge and charges related to 2012 Restructuring Program, the competition law matter in France related to the home care and personal care sectors and the sale of land in Mexico (discussed below). The Company continues to actively manage its investment in and exposure to Venezuela.

In the fourth quarter of 2012, the Company commenced a four-year Global Growth and Efficiency Program (the 2012 Restructuring Program) for sustained growth. The program's initiatives are expected to help Colgate ensure continued solid worldwide growth in unit volume, organic sales and earnings per share and enhance its global leadership positions in its core businesses. Implementation of the 2012 Restructuring Program, which is expected to be substantially completed by December 31, 2016, is projected to result in cumulative pretax charges, once all phases are approved and implemented, totaling between \$1,100 and \$1,250 (\$775 and \$875 aftertax). Savings, substantially all of which are expected to increase future cash flows, are projected to be in the range of \$365 to \$435 pretax (\$275 to \$325 aftertax) annually by the fourth year of the program. For more information regarding the 2012 Restructuring Program, see "Restructuring and Related Implementation Charges" below.

For the three and nine months ended September 30, 2013, the Company incurred aftertax costs of \$22 and \$153, respectively, associated with the 2012 Restructuring Program and aftertax costs of \$2 and \$9, respectively, related to the sale of land in Mexico.

On September 13, 2011, the Company's Mexican subsidiary entered into an agreement to sell to the United States of America the Mexico City site on which its commercial operations, technology center and soap production facility are

located. The sale price is payable in three installments, with the final installment due upon the transfer of the property, which is expected to occur in 2014. The Company is re-investing these payments to relocate its soap production to a new state-of-the-art facility to be constructed at its Mission Hills, Mexico site, to relocate its commercial and technology operations within Mexico City and to prepare the existing site for transfer. As a result, the Company expects to make capital improvements and incur costs to exit the site through 2014. These exit costs will primarily be related to staff leaving indemnities, accelerated depreciation and demolition to make the site building-ready.

On July 29, 2011, in connection with the acquisition of the Sanex personal care business from Unilever, N.V. and Unilever PLC (together "Unilever"), Colgate sold its non-core laundry detergent business in Colombia to Unilever for \$215 resulting in a pretax gain of \$207 (\$135 aftertax gain). In 2011, this gain was more than offset by pretax costs of \$224 (\$177 aftertax costs)

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associated with the implementation of business realignment and other cost-saving initiatives, the sale of land in Mexico and a competition law matter in France related to a divested detergent business as discussed in Note 12, Contingencies to the Condensed Consolidated Financial Statements. The business realignment and other cost-saving initiatives include the integration of Sanex, the right-sizing of the Colombia business and the closing of an oral care facility in Mississauga, Canada and a Hill's facility in Los Angeles, California.

Looking forward, the Company expects global macroeconomic and market conditions to remain highly challenging. While the global marketplace in which the Company operates has always been highly competitive, the Company continues to experience heightened competitive activity in certain markets from other large multinational companies, some of which have greater resources than the Company does. Such activities have included more aggressive product claims and marketing challenges, as well as increased promotional spending and geographic expansion. Additionally, the Company continues to experience volatile foreign currency fluctuations and high commodity costs. While the Company has taken, and will continue to take, measures to mitigate the effect of these conditions, should they persist, they could adversely affect the Company's future results.

The Company believes it is well prepared to meet the challenges ahead due to its strong financial condition, experience operating in challenging environments and continued focus on the Company's strategic initiatives: engaging to build our brands; innovation for growth; effectiveness and efficiency; and leading to win. This focus, together with the strength of the Company's global brand names, its broad international presence in both mature and emerging markets and initiatives such as the 2012 Restructuring Program, should position the Company well to increase shareholder value over the long-term.

Results of Operations

Three Months

Worldwide Net sales were \$4,398 in the third quarter of 2013, up 1.5% from the third quarter of 2012, as volume growth of 5.0% and net selling price increases of 1.0% were partially offset by negative foreign exchange of 4.5%. Organic sales (Net sales excluding foreign exchange and acquisitions and divestments), a non-GAAP financial measure as discussed below, increased 6.0% in the third quarter of 2013.

Net sales in the Oral, Personal and Home Care segment were \$3,853 in the third quarter of 2013, up 1.5% from the third quarter of 2012, as volume growth of 5.0% and net selling price increases of 1.0% were partially offset by negative foreign exchange of 4.5%. Organic sales in the Oral, Personal and Home Care segment increased 6.0% in the third quarter of 2013.

The Company's share of the global toothpaste market was 45.0% on a year-to-date basis and its share of the global manual toothbrush market was 33.4% on a year-to-date basis. Year-to-date market shares in toothpaste were up in Europe/South Pacific and Asia, flat in Africa/Eurasia and down in North America and Latin America versus the year ago period. In the manual toothbrush category, year-to-date market shares were up in Latin America, North America, Europe/South Pacific and Africa/Eurasia and down in Asia versus the year ago period. For additional information regarding market shares, see "Market Share Information" below.

Net sales for Hill's Pet Nutrition increased 3.0% in the third quarter of 2013 to \$545, as volume growth of 3.0% and net selling price increases of 3.0% were partially offset by negative foreign exchange of 3.0%. Organic sales in Hill's Pet Nutrition increased 6.0% in the third quarter of 2013.

Gross Profit/Margin

Worldwide Gross profit increased 2% to \$2,585 in the third quarter of 2013 from \$2,529 in the third quarter of 2012.

Gross profit in the third quarter of 2013 included costs related to the 2012 Restructuring Program. Gross profit in both periods included costs related to the sale of land in Mexico, while Gross profit in the third quarter of 2012 also included costs associated with various business realignment and other cost-saving initiatives. Excluding the items described above in both periods, Gross profit increased to \$2,596 in the third quarter of 2013 from \$2,537 in the third quarter of 2012, primarily due to sales growth (\$40) and gross profit margin expansion (\$19).

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Worldwide Gross profit margin increased to 58.8% in the third quarter of 2013 from 58.4% in the third quarter of 2012. Excluding the items described above, Gross profit margin increased by 40 bps to 59.0% in the third quarter of 2013 from 58.6% in the third quarter of 2012 as higher pricing (40 bps) and cost savings from the Company's funding-the-growth initiatives (240 bps) more than offset higher raw and packaging material costs (220 bps), which included foreign exchange transaction costs.

	Three Months Ended September 30,		
	2013	2012	
Gross profit, GAAP	\$2,585	\$2,529	
2012 Restructuring Program	8	—	
Costs related to the sale of land in Mexico	3	7	
Business realignment and other cost-saving initiatives	—	1	
Gross profit, non-GAAP	\$2,596	\$2,537	

	Three Months Ended September 30,		Basis Point Change
	2013	2012	
Gross profit margin, GAAP	58.8	% 58.4	% 40
2012 Restructuring Program	0.2	% —	
Costs related to the sale of land in Mexico	—	0.2	%
Business realignment and other cost-saving initiatives	—	—	
Gross profit margin, non-GAAP	59.0	% 58.6	% 40

Selling, General and Administrative expenses

Selling, general and administrative expenses increased 3% to \$1,549 in the third quarter of 2013 from \$1,501 in the third quarter of 2012.

Selling, general and administrative expenses in the third quarter of 2013 included costs of \$9 associated with the 2012 Restructuring Program. Selling, general and administrative expenses in the third quarter of 2012 included costs of \$2 associated with various business realignment and other cost-saving initiatives. Excluding the impact of costs associated with the 2012 Restructuring Program in the third quarter of 2013 and various business realignment and other cost-saving initiatives in the third quarter of 2012, Selling, general and administrative expenses increased to \$1,540 in the third quarter of 2013 from \$1,499 in the third quarter of 2012, reflecting higher overhead expenses of \$16 and increased advertising investment of \$25.

Selling, general and administrative expenses as a percentage of Net sales increased to 35.2% in the third quarter of 2013 from 34.6% in the third quarter of 2012. Excluding the impact of costs associated with the 2012 Restructuring Program in the third quarter of 2013, Selling, general and administrative expenses as a percentage of Net sales were 35.0%, an increase of 40 bps as compared to the third quarter of 2012. This increase was a result of increased advertising investment (40 bps) as a percentage of Net sales. In the third quarter of 2013, advertising investment increased 5.5% to \$478, as compared with \$453 in the third quarter of 2012, and increased as a percentage of Net sales to 10.9% in the third quarter of 2013 from 10.5% in the third quarter of 2012.

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	Three Months Ended September	
	30,	
	2013	2012
Selling, general and administrative expenses, GAAP	\$ 1,549	\$ 1,501
2012 Restructuring Program		