ACCOUNTING POLICIES

Consolidation The consolidated financial statements include accounts of the Company and all majority-owned subsidiaries. The equity method of accounting is used for investments where the Company has a 20% to 50% ownership interest.

Foreign Currency Translation The functional currency for principally all subsidiaries outside the United States is the local currency. Financial statements for these subsidiaries are translated into United States dollars at year-end exchange rates as to assets and liabilities and weighted average exchange rates as to revenues and expenses. The resulting translation adjustments are recorded in shareholders' equity.

Short-Term Investments Short-term investments are not considered to be cash equivalents for purposes of classification in the statements of consolidated cash flows.

Inventories Inventories are carried at lower of cost or market. Inventories in the United States are generally accounted for using the last-in, first-out (LIFO) method. The remaining United States and all other inventories are accounted for using the first-in, first-out (FIFO) method.

Depreciation and Amortization Depreciation and amortization are computed by the straight-line method for financial statement purposes. The cost of buildings is depreciated over forty years and machinery and equipment principally over three to ten years. Identified intangible assets primarily consist of patents, trademarks and tradenames, which are amortized over an average life of sixteen years. Excess of cost over net assets of businesses acquired is amortized principally over forty years (accumulated amortization in millions was $129 and $102 at the end of 1995 and 1994, respectively).

Excess of cost over net assets of businesses acquired and certain other long-lived assets are assessed for impairment when operating profit from the related business indicates the carrying amount may not be recoverable. In March 1995, Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", was issued. SFAS No. 121 requires long-lived assets to be reviewed for impairment losses whenever events or changes in circumstances indicate the carrying amount may not be recovered through future net cash flows generated by the assets. The Company must adopt SFAS No. 121 in 1996 and believes the effect of adoption will not be material.

Financial Instruments The Company uses straightforward, non-leveraged financial instruments, including foreign currency forward exchange contracts and options and interest rate swaps and caps, as part of foreign exchange and interest rate risk management programs. The Company does not buy and sell financial instruments solely for the purpose of earning a profit due to changes in the market price of the instruments, except for nominal amounts authorized under limited, controlled circumstances. Counterparties to various financial instruments are major international financial institutions. While the Company may be exposed to credit losses in the event of nonperformance by these counterparties, no losses are anticipated due to control over the limit of positions entered into with any one party and the strong credit ratings of these institutions. The effect of financial instruments on the Company's financial condition and results of operations is not material.

The Company and its subsidiaries, operating in Canada, Europe, Latin America and the Pacific Region, are exposed to fluctuations in foreign currencies in the normal course of business. The Company seeks to reduce exposure to foreign currency fluctuations, primarily the European and Canadian currencies, through the use of foreign currency forward exchange contracts and options. Gains or losses on those financial instruments which hedge net investments in subsidiaries outside the United States are recorded in shareholders' equity. Gains or losses on those financial instruments which hedge specific transactions are recognized in net income, offsetting the underlying foreign currency transaction gains or losses. Premiums and discounts related to these financial instruments are amortized to other income — net over the lives of the agreements.

In the normal course of business, the Company's operations are also exposed to fluctuations in interest rates. The Company seeks to reduce the cost of and exposure to interest rate fluctuations through the use of interest rate swaps and caps. Gains or losses on interest rate swaps are included in interest expense since they hedge interest on debt. Premiums related to interest rate caps are amortized to interest expense over the lives of the agreements.

Options for Common Shares The Company applies the intrinsic value based method to account for options granted to employees and directors to purchase Common Shares. No compensation expense is recognized on the grant date since at that date the option price equals the market price of the underlying Common Shares.

Net Income Per Common Share Net income per Common Share is computed by dividing net income by the average month-end number of shares outstanding during each period. The dilutive effect of common stock equivalents, comprised solely of options for Common Shares, is not material.

Estimates Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and notes. Actual results could differ from these estimates.

Financial Presentation Changes Certain amounts for prior years have been reclassified to conform to the current year presentation.