Financial Review

The fair value of each option grant in 1997, 1996, and 1995 was estimated using the Black-Scholes option pricing model with the following assumptions:

	1997	1996	1995
Dividend yield	3%	3%	3%
Expected volatility	22%	23%	24%
Risk-free interest rate	6.0% to 6.7%	5.3% to 6.3%	6.7% to 7.8%
Expected option life	4 to 6 years	4 years	4 years
Weighted-average fair value of options granted during the year	$16.84	$10.27	$11.50

The Company sponsors a Share Purchase and Investment Plan (SPIP) for United States operations under which eligible participating employees may choose to contribute up to 15% of their base pay. The Company matches employee contributions up to 6% of a participant's base pay as limited by United States income tax regulations. The matching contribution, which is determined each quarter based on net income per Common Share, ranges from 25% to 100% of a participant's contribution and is invested in the Company's Common Shares.

In 1989, the Company prefunded, through 1999, a portion of anticipated matching contributions to the SPIP by creating an Employee Stock Ownership Plan (ESOP) under the SPIP and selling 5 million Common Shares for $150 million to the ESOP. The shares held by the ESOP which have not yet been allocated to employee accounts are included in shareholders' equity as "Shares in Trust-ESOP" and the notes payable ESOP, which are guaranteed by the Company, are included in long-term debt. Unallocated shares in the ESOP are released at historical cost based on the ratio of the annual principal payment on the notes payable compared to the original principal amount of the notes payable and allocated to employee accounts. Cash dividends paid on shares in the ESOP are charged against retained earnings and, along with Company contributions, are used to repay the principal and interest due on the notes payable. Unallocated shares in the ESOP, which are considered outstanding for purposes of computing net income per Common Share, at the end of 1997 and 1996 (in millions) were .8 and 1.2, respectively. Compensation expense related to the SPIP match, including the effect of shares released by the ESOP at historical cost, (in millions) was $6 in 1997, $10 in 1996 and $17 in 1995.

The Company has plans which permit eligible employees and directors to defer a portion of their compensation. The Company has deposited $65 million of marketable securities and Common Shares into a trust to fund a portion of these liabilities. The marketable securities are included in other assets and the shares, with a fair value of $27 million, are included in shareholders' equity.

Preferred Share Purchase Rights

In June 1995, the Company declared a dividend of one Preferred Share Purchase Right (Right) for each outstanding Common Share. The Rights become exercisable only if a person or group acquires, or offers to acquire, 20% or more of the Company's Common Shares. The Company is authorized to reduce the 20% threshold for triggering the Rights to not less than 10%. The Rights expire on July 12, 2005, unless redeemed earlier at one cent per Right.

When the Rights become exercisable, the holder of each Right, other than the acquiring person, is entitled (1) to purchase for $250, one one-hundredth of a Series C Preferred Share (Preferred Share), (2) to purchase for $250, that number of the Company's Common Shares or common stock of the acquiring person having a market value of twice that price, or (3) at the option of the Company, to exchange each Right for one Common Share or one one-hundredth of a Preferred Share.

Income Taxes

Income before income taxes for the years ended December 31 follows (in millions):

	1997	1996	1995
United States	$457	$385	$471
Non-United States	211	100	121
	$668	$485	$592

Income taxes for the years ended December 31 follows (in millions):

	1997	1996	1995
Current			
United States			
Federal	$ 99	$ 81	$109
State and local	14	21	24
Non-United States	42	34	59
	155	136	192
Deferred			
United States			
Reduction of valuation allowance for deferred income tax assets			(11)
Other Federal	20	(5)	26
State and local	5		1
Non-United States			
Reduction of valuation allowance for deferred income tax assets	(4)		
Operating loss carryforwards	15	11	(4)
Other	13	(6)	(11)
	49	0	1
	$204	$136	$193

Reconciliations of income taxes at the United States Federal statutory rate to the effective income tax rate for the years ended December 31 follow (in millions):

	1997		1996	1995
	Amount	Rate	Rate	Rate
Income taxes at the United States statutory rate	$234	35.0%	35.0%	35.0%
Write-off of purchased in-process research and development	30	4.5		
State and local income taxes	20	2.9	2.9	3.1
Possessions credit related to Puerto Rican operations	(38)	(5.7)	(7.2)	(5.4)
Current and prior years' credit for increasing research activities	(22)	(3.3)	(.6)	
Book/tax basis difference related to sales of businesses	(13)	(1.9)		
Reduction of valuation allowance for deferred income tax assets	(4)	(.6)		(1.8)
Adjustment of worldwide tax liabilities	(1)	(.2)	.9	2.0
Foreign source income	1	.2	(2.6)	1.5
Other—net	(3)	(.4)	(.2)	(1.8)
	$204	30.5%	28.2%	32.6%