and timely action can be taken to reduce risk, if necessary. Monitoring of exposures and the evaluation of risks includes approval of derivative activities on a discrete basis by senior management. Monthly, senior management performs an oversight and review of exposures and derivative activities. The Company diversifies the counterparties used in these transactions in order to minimize the impact of any potential credit loss in the event of nonperformance by the counterparties. Although derivatives are an integral part of the Company's risk management programs, their incremental effect on financial condition and results of operations is not material. Derivative activities are described in greater detail under 'Debt and Other Financial Instruments' in the Financial Review.

Operations of the Company involve the use and disposal of certain substances regulated under environmental protection laws. The Company continues to modify, on an ongoing, regular basis, certain processes in order to reduce the impact on the environment, including the reduction or elimination of certain chemicals used in and wastes generated from operations. The Company's liabilities related to environmental matters are further discussed under 'Protection of the Environment' in the Financial Review.

Cash dividends paid in 1997 were a record $133 million and represented 32% of net income. Per share dividends in 1997 rose 8% from the previous year, following a 7% increase from the year before. The Company has paid dividends on Common Shares annually since 1923.

In 1995, to avoid the dilution of earnings per share resulting from the exercise of stock options, the Board of Directors authorized the purchase of up to five million outstanding Common Shares over a five year period with a maximum of 1.5 million shares to be purchased in one year. Additionally, in September 1997, to avoid further dilution resulting from the sales of AIL Systems Inc. and the Appliance Controls and Axle and Brake businesses, the Board of Directors authorized the Company to spend up to an additional $500 million over a period of up to five years to purchase Common Shares. In January 1998, the Company completed the $500 million program by repurchasing 2.8 million shares for $256 million. This reduced the number of shares outstanding to approximately 72 million at the end of January 1998. During 1997, the Company returned $334 million to shareholders through share repurchases as 3.7 million shares were repurchased for an average price of $90 per share. Since the initiation of the programs, 8.4 million shares have been repurchased at an average price of $83 per share.

The Company continues to generate substantial cash from operations, which continues to be the primary source of funds to finance operating needs including record investments in research and development. The Company's emphasis on asset management generated record operating cash flow of $763 million in 1997, compared with the previous record in 1996. Cash flow from operations, supplemented by commercial paper borrowings, was used to fund business acquisitions, capital expenditures, repayment of debt, the record level of cash dividends and the repurchases of Common Shares.

*Market Risk Disclosure*

The Company is subject to interest rate risk as it relates to long-term debt. The following table presents principal cash flows and related weighted-average interest rates by expected maturity dates of the Company's long term-debt excluding foreign currency principal swaps.

| December 31, 1997 ($ in millions) | Expected Maturity Date 1998 | 1999 | 2000 | 2001 | 2002 | Thereafter | Total | Fair Value |
|---|---|---|---|---|---|---|---|---|
| Long-term debt, including current portion | | | | | | | | |
| Fixed rate (US$) | $ 19 | $ 107 | $ 2 | $ 102 | $ 2 | $ 587 | $ 819 | $ 899 |
| Average interest rate | 7.9% | 6.5% | 7.8% | 9.1% | 12.5% | 7.8% | | |
| Fixed rate (Won) | $ 2 | | | | | | 2 | 2 |
| Average interest rate | 18.2% | | | | | | | |
| Fixed rate (Zloty) | $ 2 | | | | | | 2 | 2 |
| Average interest rate | 26.3% | | | | | | | |
| Commercial Paper (US$) | | | $ 500 | | | | 500 | 500 |
| Average interest rate | | | 5.8% | | | | | |

See 'Changes in Financial Condition' in the Management's Discussion and Analysis of Financial Condition and Results of Operations for details on the Company's primary market risks, and the objectives and strategies used to manage these risks. Also, see 'Financial Instruments' under Accounting Policies in the notes to the consolidated financial statements for additional information on market risks.

*Year 2000*

Computer software that uses two digits rather than four to identify the applicable year may be unable to interpret appropriately the calendar Year 2000, and thus could cause disruption of normal business activities. The Company uses software in various aspects of its business, including manufacturing, product development and many administrative functions, and much of this software will be unable to interpret the calendar Year 2000 appropriately unless it is modified or replaced.

The Company is addressing this Year 2000 issue with a corporate-wide initiative led by the Company's Vice President-Information Technologies and involving coordinators for each Company location. The initiative includes the identification of affected software, the development of a plan for correcting that software in the most effective manner, the implementation of that plan and the monitoring of that implementation. The program also includes communications with the Company's significant suppliers and customers to determine the extent to which the Company's systems are vulnerable to any failures by them to address the Year 2000 issue. In most instances, the Company will replace older software with new programs and systems, which will significantly upgrade the existing software as well as appropriately interpret the calendar Year 2000 and beyond. Although the timing of these replacements is influenced by the Year 2000 issue, in most instances they will involve capital expenditures that would have occurred in the normal course of business in any event. The Company expects that most of the modifications and replacements will be in place before the end of 1998.

Given the information available at this time, management currently anticipates that the amount that the Company will spend to modify or replace software in order to remediate the Year 2000 issue should not have a material adverse effect on the Company's liquidity or results of operations, and that those costs should not cause reported financial information not to be indicative of future operating results or future financial condition. Specific factors which might cause a material difference include the availability and cost of trained personnel and the ability to locate all computer codes requiring correction.