

Procter&Gamble

Non-GAAP Financial Measures

On October 12, 2004, A.G. Lafley, Chairman, President and Chief Executive Officer, gave a presentation at the 2004 Annual Meeting of Shareholders. The presentation includes the disclosure of non-GAAP financial measures. In accordance with the SEC's Regulation G, the following provides definitions of the non-GAAP measures used in the presentation and the reconciliation to the most closely related GAAP measure.

Organic Sales Growth. Organic sales growth measures sales growth excluding the impacts of acquisitions, divestitures and foreign exchange from year-over-year comparisons. The Company believes this provides investors with a more complete understanding of underlying results and trends by providing sales on a consistent basis.

	<u>FY04</u>
Reported Sales Growth	19%
Acquisitions & Divestitures Impact	7%
FX Impact	<u>4%</u>
Organic Sales (Ex: A&D, FX)	8%

Note: Sales percentages are approximations based on quantitative formulas consistently applied.

Core Net Earnings Growth. Core net earnings per share referenced in this presentation exclude restructuring program charges from net earnings. The table below provides a reconciliation of net earnings to core net earnings.

<i>(amounts in millions)</i>	<u>FY03</u>	<u>FY04</u>
Net Earnings	\$5,186	\$6,481
Percent Change v. Year Ago		25%
Core Net Earnings	\$5,724	\$6,481
Percent Change v. Year Ago		13%

Core Diluted Net Earnings Per Share Growth. Core diluted net earnings per share referenced in this presentation exclude restructuring program charges from diluted net earnings per share. The table below provides a reconciliation of diluted net earnings per share to core diluted net earnings per share:

	<u>FY03</u>	<u>FY04</u>
Diluted Net Earnings Per Share	\$1.85	\$2.32
Percent Change v. Year Ago		25%
Core Diluted Net Earnings Per Share	\$2.04	\$2.32
Percent Change v. Year Ago		14%

The restructuring program began in 1999 as part of the Company's Organization 2005 initiative and was substantially completed at the end of fiscal year 2003. Restructuring program charges include separation related costs, asset write-downs, accelerated depreciation and other costs directly associated with the Company's reorganization. Restructuring program charges are not included in business segment results, but instead are reported in corporate. The Company believes investors gain additional perspective of underlying business trends and results by providing a measure of earnings excluding restructuring program charges. This is consistent with the Company's business segment reporting and internal management goal-setting, and is a factor used in determining at-risk compensation levels. A historical reconciliation of reported-to-core financials during the Organization 2005 initiative is available on the Company's website at www.pg.com/investor.

Free Cash Flow. Free cash flow is defined as operating cash flow less capital spending. The Company views free cash flow as an important measure because it is one factor in determining the amount of cash available for dividends and discretionary investment. Free cash flow is one measure used to evaluate management and is a factor in determining at-risk compensation. Free cash flow productivity is defined as the ratio of free cash flow to net earnings, and is also a measure used to evaluate management's performance. The Company's target for free cash flow productivity is 90 percent.

(\$MM)	Operating Cash Flow	Capital Spending	Free Cash Flow	Net Earnings	Free Cash Flow Productivity
FY2002	7,742	1,679	6,063	4,352	139%
FY2003	8,700	1,482	7,218	5,186	139%
FY2004	9,362	2,024	7,338	6,481	113%