

# Procter&Gamble

## Non-GAAP Financial Measures

On February 19, R. Kerry Clark, Vice Chairman of the Board and President – Global Market Development and Business Operations, and Clayton C. Daley, Chief Financial Officer, gave a presentation at the Consumer Analysts Group of New York Annual Conference. The presentation included 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.

### **Core Financial Measures**

*All references to “core” financial measures exclude restructuring program charges from base period results. 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. 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 external reporting and internal management goal-setting and is a factor used in determining at-risk compensation. The attached exhibit provides the reconciliation of reported to core financial measures.*

### **Organic Sales Growth**

*Organic sales growth measures sales growth excluding the impact of foreign exchange and acquisitions and divestitures in 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.*

	JAS02	OND02	JFM03	AMJ03	JAS03	OND03
Reported Sales Growth	11%	6%	8%	7%	13%	20%
FX Impact	1%	1%	3%	3%	3%	4%
Sales ex: FX	10%	5%	5%	4%	10%	16%
Less: Acquisitions/Divestitures	3%	1%	-1%	-1%	3%	10%
<b>Organic Sales Growth</b>	<b>7%</b>	<b>4%</b>	<b>6%</b>	<b>5%</b>	<b>7%</b>	<b>6%</b>

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

### **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 of the measures 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. The Company’s free cash flow productivity target is at or above 90 percent.*

<u>(\$MM)</u>	<b>Operating Cash Flow</b>	<b>Capital Spending</b>	<b>Free Cash Flow</b>	<b>Net Earnings</b>	<b>Free Cash Flow Productivity</b>
Jul - Sep’02	2,010	281	1,729	1,464	118%
Oct - Dec’02	2,316	335	1,981	1,494	133%
Jan - Mar’03	2,413	351	2,062	1,273	162%
Apr - Jun’03	1,961	515	1,446	955	151%
<b>FY2003</b>	<b>8,700</b>	<b>1,482</b>	<b>7,218</b>	<b>5,186</b>	<b>139%</b>
Jul - Sep’03	1,606	364	1,242	1,761	71%
Oct - Dec’03	2,355	446	1,909	1,818	105%
<b>Jul - Dec’03</b>	<b>3,961</b>	<b>810</b>	<b>3,151</b>	<b>3,579</b>	<b>88%</b>

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### Reconciliation of Reported to Core Financials - By Fiscal Year

#### Consolidated Statement of Earnings

*Amounts in millions except per share amounts*

	1998	1999	2000	2001	2002	2003
Net Sales	37,154	38,125	39,951	39,244	40,238	43,377
Cost of Products Sold	20,896	21,027	21,514	22,102	20,989	22,141
Gross Margin	16,258	17,098	18,437	17,142	19,249	21,236
MRA&O	10,203	10,845	12,483	12,406	12,571	13,383
Operating Income	6,055	6,253	5,954	4,736	6,678	7,853
Interest Expense	548	650	722	794	603	561
Other Income & Expense	201	235	304	674	308	238
Net Earnings Before Income Taxes	5,708	5,838	5,536	4,616	6,383	7,530
Income Taxes	1,928	2,075	1,994	1,694	2,031	2,344
<b>Net Earnings</b>	<b>3,780</b>	<b>3,763</b>	<b>3,542</b>	<b>2,922</b>	<b>4,352</b>	<b>5,186</b>

#### Per Common Share

Basic Net Earnings	2.74	2.75	2.61	2.15	3.26	3.90
Diluted Net Earnings	2.56	2.59	2.47	2.07	3.09	3.69

Restructuring Program Charges	1998	1999	2000	2001	2002	2003	Total
Net Sales	0	0	0	131	(69)	(4)	58
Cost of Products Sold	0	443	496	1,136	508	381	2,964
MRA&O	0	38	318	583	519	374	1,832
<b>Total (Before Tax)</b>	<b>0</b>	<b>481</b>	<b>814</b>	<b>1,850</b>	<b>958</b>	<b>751</b>	<b>4,854</b>
<b>Total (After Tax)</b>	<b>0</b>	<b>385</b>	<b>688</b>	<b>1,475</b>	<b>706</b>	<b>538</b>	<b>3,792</b>

*Memo: Amortization of Goodwill (Before Tax)*

1998	167	191	223	235
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#### Consolidated Statement of Earnings excluding Restructuring Program and Goodwill Amortization

*Amounts in millions except per share amounts*

	1998	1999	2000	2001	2002	2003
Core Net Sales	37,154	38,125	39,951	39,375	40,169	43,373
Core Cost of Products Sold	20,896	20,584	21,018	20,966	20,481	21,760
Core Gross Margin	16,258	17,541	18,933	18,409	19,688	21,613
Core MRA&O	10,036	10,616	11,942	11,588	12,052	13,009
Core Operating Income	6,222	6,925	6,991	6,821	7,636	8,604
Interest Expense	548	650	722	794	603	561
Other Income & Expense	201	235	304	674	308	238
Core Net Earnings Before Income Taxes	5,875	6,510	6,573	6,701	7,341	8,281
Core Income Taxes	1,928	2,172	2,131	2,086	2,283	2,557
<b>Core Net Earnings</b>	<b>3,947</b>	<b>4,338</b>	<b>4,442</b>	<b>4,615</b>	<b>5,058</b>	<b>5,724</b>

#### Per Common Share

Core Basic Net Earnings	2.86	3.18	3.30	3.46	3.80	4.32
Core Diluted Net Earnings	2.68	2.98	3.10	3.27	3.59	4.08

*The Company's Restructuring Program began in fiscal year 1999 as part of the Company's reorganization into product-based business units. The program was designed to accelerate growth and deliver cost reductions by streamlining management decision making, manufacturing and other work processes and discontinue under performing businesses.*

*Core earnings per share exclude restructuring charges and amortization of goodwill and indefinite-lived intangibles. Before-tax restructuring charges during the program included separation related costs (\$1.3 billion), asset write-downs (\$1.4 billion), accelerated depreciation (\$1.1 billion) and other costs (\$1.1 billion) directly related to the Company's Restructuring Program.*

*The Company discontinued reporting core earnings in fiscal year 2004 concurrent with the substantial completion of the program. While the Company will continue to conduct projects consistent with the focus of continued productivity improvement and margin expansion, any charges associated with these projects will be absorbed in normal operating costs.*

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### Reconciliation of Reported to Core Financials - By Quarter JFM'01 to OND'03

#### Consolidated Statement of Earnings

Amounts in millions except per share amounts

	JFM01	AMJ01	JAS01	OND01	JFM02	AMJ02	JAS02	OND02	JFM03	AMJ03	JAS03	OND03
Net Sales	9,511	9,582	9,766	10,403	9,900	10,169	10,796	11,005	10,656	10,920	12,195	13,221
Cost of Products Sold	5,175	6,203	5,111	5,339	5,070	5,469	5,489	5,490	5,394	5,768	5,879	6,324
Gross Margin	4,336	3,379	4,655	5,064	4,830	4,700	5,307	5,515	5,262	5,152	6,316	6,897
MRA&O	3,034	3,435	2,893	3,200	3,176	3,302	3,128	3,267	3,305	3,683	3,673	4,155
Operating Income	1,302	(56)	1,762	1,864	1,654	1,398	2,179	2,248	1,957	1,469	2,643	2,742
Interest Expense	204	187	157	150	146	150	144	143	138	136	141	149
Other Income & Expense	227	50	22	200	40	46	103	74	37	24	40	29
Net Earnings Before Income Taxes	1,325	(193)	1,627	1,914	1,548	1,294	2,138	2,179	1,856	1,357	2,542	2,622
Income Taxes	432	127	523	615	509	384	674	685	583	402	781	804
Net Earnings	893	(320)	1,104	1,299	1,039	910	1,464	1,494	1,273	955	1,761	1,818
<b>Per Common Share</b>												
Basic Net Earnings	0.66	(0.27)	0.83	0.98	0.78	0.68	1.10	1.13	0.96	0.71	1.33	1.38
Diluted Net Earnings	0.63	(0.23)	0.79	0.93	0.74	0.64	1.04	1.06	0.91	0.68	1.26	1.30

#### Restructuring Program Charges

	JFM01	AMJ01	JAS01	OND01	JFM02	AMJ02	JAS02	OND02	JFM03	AMJ03	JAS03	OND03
Net Sales	0	131	(24)	(14)	(15)	(16)	5	(9)	0	0	0	0
Cost of Products Sold	102	890	120	82	107	199	83	84	46	168	0	0
MRA&O	50	418	214	121	99	85	63	57	41	213	0	0
Total (Before Tax)	152	1,439	310	189	191	268	151	132	87	381	0	0
Total (After Tax)	113	1,160	238	146	147	175	113	98	66	261	0	0

Memo: Amortization of Goodwill (Before Tax)

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#### Consolidated Statement of Earnings excluding Restructuring Program and Goodwill Amortization

Amounts in millions except per share amounts

	JFM01	AMJ01	JAS01	OND01	JFM02	AMJ02	JAS02	OND02	JFM03	AMJ03	JAS03	OND03
Core Net Sales	9,511	9,713	9,742	10,389	9,885	10,153	10,801	10,996	10,656	10,920	12,195	13,221
Core Cost of Products Sold	5,073	5,313	4,991	5,257	4,963	5,270	5,406	5,406	5,348	5,600	5,879	6,324
Core Gross Margin	4,438	4,400	4,751	5,132	4,922	4,883	5,395	5,590	5,308	5,320	6,316	6,897
Core MRA&O	2,925	2,958	2,679	3,079	3,077	3,217	3,065	3,210	3,264	3,470	3,673	4,155
Core Operating Income	1,513	1,442	2,072	2,053	1,845	1,666	2,330	2,380	2,044	1,850	2,643	2,742
Interest Expense	204	187	157	150	146	150	144	143	138	136	141	149
Other Income & Expense	227	50	22	200	40	46	103	74	37	24	40	29
Core Net Earnings Before Income Taxes	1,536	1,305	1,937	2,103	1,739	1,562	2,289	2,311	1,943	1,738	2,542	2,622
Core Income Taxes	474	414	595	658	553	477	712	719	604	522	781	804
Core Net Earnings	1,062	891	1,342	1,445	1,186	1,085	1,577	1,592	1,339	1,216	1,761	1,818
<b>Per Common Share</b>												
Core Basic Net Earnings	0.79	0.65	1.01	1.09	0.89	0.81	1.19	1.20	1.01	0.92	1.33	1.38
Core Diluted Net Earnings	0.75	0.63	0.96	1.03	0.84	0.77	1.12	1.13	0.96	0.87	1.26	1.30