

# Procter&Gamble

## Non-GAAP Financial Measures

On May 18, 2004, A. G. Lafley, Chairman of the Board, President and Chief Executive, and C. C. Daley, Chief Financial Officer, gave a presentation at the Goldman Sachs Annual Global Consumer Products Conference. 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.

	AMJ02	JAS02	OND02	JFM03	AMJ03	JAS03	OND03	JFM04
Reported Sales Growth	6%	11%	6%	8%	7%	13%	20%	22%
Acquisitions & Divestitures Impact	5%	3%	1%	-1%	-1%	3%	10%	8%
FX Impact	0%	1%	1%	3%	3%	3%	4%	5%
Sales ex: A&D, FX	1%	7%	4%	6%	5%	7%	6%	9%

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

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

	AMJ02	JAS02	OND02	JFM03	AMJ03	JAS03	OND03	JFM04
Reported Earnings Per Share	0.64	1.04	1.06	0.91	0.68	1.26	1.30	1.09
Percent Change v. Year Ago	nm	32%	14%	23%	6%	21%	23%	20%
Core Earnings Per Share	0.77	1.12	1.13	0.96	0.87	1.26	1.30	1.09
Percent Change v. Year Ago	22%	17%	10%	14%	13%	13%	15%	14%

*Note: AMJ02 earnings per share percent change versus year ago is not measurable; reported earnings per share in AMJ01 were (\$0.23).*

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 external 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](http://www.pg.com/investor). Going forward, the Company will continue to conduct projects consistent with the focus of productivity improvement and margin expansion. Beginning with the current fiscal year, charges associated with these future projects will be absorbed in normal operating costs.

**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. The Company's free cash flow productivity target is at or above 90 percent.

<u>(\$MM)</u>	<u>Operating Cash Flow</u>	<u>Capital Spending</u>	<u>Free Cash Flow</u>	<u>Net Earnings</u>	<u>Free Cash Flow Productivity</u>
Apr - Jun'02	2,311	455	1,856	910	204%
<b>FY2002</b>	<b>7,742</b>	<b>1,679</b>	<b>6,063</b>	<b>4,352</b>	<b>139%</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%
Jan - Mar'04	2,978	521	2,457	1,528	161%
<b>Jul - Mar'04</b>	<b>6,939</b>	<b>1,331</b>	<b>5,608</b>	<b>5,107</b>	<b>110%</b>

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**Return on Invested Capital.** ROIC measures the cash rate of return of the Company's invested capital, and is one of several metrics the Company uses in evaluating business performance. In addition, the Company evaluates ROIC excluding the impact of acquisitions. The Company defines ROIC as net operating profit after tax divided by invested capital (two year average) where:

Net Operating Profit After Tax = + Operating Income + Special Charges (before tax) + Amortization Expense for Goodwill - Cash Tax Expense	Invested Capital = + Current Assets less Current Liabilities - Cash & Investment Securities + Debt Due Within One Year + Net Plant, Property & Equipment + Net Goodwill & Other Intangible Assets + Accumulated Amortization of Goodwill & Intangibles + Cumulative Special Charges + Net Other Operating Assets
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Where: Special Charges = expenses associated with the Company's restructuring program  
 Cash Tax Expense = tax on operating income (at effective tax rate) adjusted for the tax benefit of amortization expense and the non-cash impact from changes in deferred tax assets and liabilities  
 Cash = Cash adjusted down by 1% of net sales to reflect non-operating cash balances required  
 Cumulative Special Charges = five year cumulative charges for the Company's restructuring program (after tax)  
 Net Other Operating Assets = Other Non-Current Assets less Other Non-Current Liabilities

	1997	1998	1999	2000	2001	2002	2003
<b>Operating Income</b>	5,488	6,055	6,253	5,954	4,736	6,678	7,853
<b>Add: Special Charges</b>	0	0	481	814	1,850	958	751
<b>Add: Amortization Exp. Goodwill</b>	101	157	180	214	224	0	0
<b>Less: Cash Tax Expense</b>	2,093	2,165	2,470	1,756	2,318	2,369	2,679
<b>Net Operating Profit After Tax</b>	<b>3,496</b>	<b>4,047</b>	<b>4,444</b>	<b>5,226</b>	<b>4,492</b>	<b>5,267</b>	<b>5,925</b>
<b>Current Assets</b>	10,786	10,577	11,358	10,069	10,889	12,166	15,220
<b>Less: Current Liabilities</b>	7,798	9,250	10,761	10,065	9,846	12,704	12,358
<b>Less: Adjusted Cash</b>	1,992	1,177	1,913	1,015	1,914	3,025	5,478
<b>Less: Investment Securities</b>	760	857	506	185	212	196	300
<b>Add: Debt Due Within One Year</b>	849	2,281	3,150	3,210	2,233	3,731	2,172
<b>Add: Net Plant, Property &amp; Equip.</b>	11,376	12,180	12,626	13,692	13,095	13,349	13,104
<b>Add: Net Goodwill &amp; Intangibles</b>	3,949	7,011	6,822	8,786	8,300	13,430	13,507
<b>Add: Accum. Amortization Goodwill &amp; Intangibles</b>	1,051	1,169	1,355	1,599	1,836	1,942	2,031
<b>Add: Cumulative Special Charges</b>	1,746	0	385	1,073	2,548	3,254	3,792
<b>Add: Other Non-Current Assets</b>	1,433	1,198	1,307	1,647	2,103	1,831	1,875
<b>Less: Other Non-Current Liabilities</b>	2,998	3,287	2,701	2,301	1,845	2,088	2,291
	<b>17,642</b>	<b>19,845</b>	<b>21,122</b>	<b>26,510</b>	<b>27,187</b>	<b>31,690</b>	<b>31,274</b>
<b>ROIC</b>	<b>19%</b>	<b>22%</b>	<b>22%</b>	<b>22%</b>	<b>17%</b>	<b>18%</b>	<b>19%</b>
<b>Acquisition Adjustments (for the Tambrands, Iams and Clairol Acquisitions in \$ billion)</b>							
<b>Net Operating Profit After Tax</b>	\$0.0	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.2
<b>Invested Capital</b>	\$0.0	\$2.0	\$2.0	\$4.3	\$4.3	\$9.3	\$9.3
<b>ROIC (excl. acquisitions)</b>	<b>19%</b>	<b>23%</b>	<b>24%</b>	<b>25%</b>	<b>20%</b>	<b>22%</b>	<b>26%</b>

**Note:** ROIC calculated as fiscal year Net Operating Profit After Tax divided by the two year average Invested Capital.