



## **News Release**

**The Procter & Gamble Company**  
One P&G Plaza  
Cincinnati, OH 45202

**FOR IMMEDIATE RELEASE**

### **P&G DELIVERS DOUBLE-DIGIT EARNINGS GROWTH ON STRONG TOP LINE RESULTS**

#### **Third Quarter Sales up 22 percent, Organic Volume up 12 percent**

CINCINNATI, Apr. 30, 2004 – The Procter & Gamble Company (NYSE:PG) announced sales and earnings growth above long-term targets. Double-digit top line results were driven by strong organic volume growth across all business segments. The company delivered earnings per share of \$1.09 – a 14 percent increase compared to prior year core earnings per share.

#### **Executive Summary**

- Unit volume grew 20 percent. Organic volume, excluding acquisitions and divestitures, increased 12 percent. All global businesses, every region and 19 of the company's top 20 brands, grew volume.
- Net sales increased 22 percent including five percent from favorable foreign exchange. Organic sales, which exclude acquisitions, divestitures and foreign exchange impacts from year-over-year comparisons, increased nine percent.
- Net earnings increased 20 percent to \$1.53 billion due to strong volume and continued gross margin improvement, which funded increased marketing investments.
- Diluted net earnings per share increased 20 percent to \$1.09. Compared to core diluted net earnings per share in the base period, which exclude restructuring program charges, EPS increased 14 percent.

“We’re continuing to deliver sales and earnings growth above our long-term targets,” said Chairman of the Board, President and Chief Executive A. G. Lafley. “These strong results demonstrate the sustainability of our strategies and reflect the power of our brands, innovation program and go-to-market capability.”

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## **Quarterly Discussion**

Unit volume increased 20 percent behind double-digit growth in beauty care, health care and developing markets. Organic volume increased 12 percent, which excludes the impact of acquisitions and divestitures from year-over-year comparisons.

Net sales increased 22 percent to \$13.03 billion. Net sales growth includes a positive foreign exchange impact of five percent driven primarily by continued strength of the Euro, British pound and Canadian dollar. Sales were reduced by three percent by the combination of mix and pricing. Mix was primarily the result of strong developing market growth. Organic sales increased nine percent, well above the company's long-term target. Sales growth reflects progress on key brands and countries, with 19 of the company's top 20 brands and every one of the top 16 countries delivering year-to-year growth.

Net earnings increased 20 percent to \$1.53 billion. Earnings growth was primarily driven by volume, restructuring program charges of \$66 million after tax in the base period and gross margin expansion. This was partially offset by marketing investments to support base business growth and new initiatives, as well as current period charges for ongoing restructuring type activities to maintain a competitive cost structure. Net earnings increased 14 percent when compared to core net earnings (excluding restructuring program charges) in the base period.

Diluted net earnings per share increased 20 percent to \$1.09. When compared to prior year core results, diluted net earnings per share increased 14 percent. As expected, the acquisition of Wella AG was slightly dilutive on the quarter.

## **Key Financial Highlights**

- Gross margin expanded 150 basis points, with 40 basis points of the improvement (\$46MM before tax) related to restructuring program charges in the prior period. The remaining 110 basis points of gross margin expansion were predominately driven by the scale benefit of volume. Cost reduction programs and the addition of Wella also contributed to margin expansion. These items were partially offset by the impacts of pricing, higher commodity costs and charges for ongoing activities to maintain a competitive cost structure in the current year.

- Marketing, research, administrative and other costs (MRA&O) as a percentage of net sales increased 220 basis points. The prior year period includes \$41 million before tax of restructuring program expenses. Excluding the impact of these charges, MRA&O as a percentage of net sales increased 260 basis points. The majority of the basis point increase was due to the Wella acquisition, reflecting the higher ratio of MRA&O expenses to sales than the base business. The remaining increase reflects marketing investments to sustain growth on the base business and a robust stream of initiatives.
- The company's operating cash flow for the quarter was \$2.98 billion, an increase of 23 percent versus the comparable base period. The improvement in operating cash flow was driven by higher earnings and an improvement in working capital. Capital spending in the quarter was four percent of sales, slightly above base period spending but in-line with the company's long term target. Free cash flow for the first nine months of the fiscal year was \$5.61 billion. Free cash flow productivity was 110 percent, well above the company's long term target of 90 percent. Free cash flow is defined as operating cash flow less capital spending.

### **Business Segment Discussion**

The following provides perspective on the company's January - March results by business segment.

- The fabric and home care business delivered another quarter of excellent results. Unit volume was up 12 percent behind strong growth on established brands such as Tide®, Ariel® and Gain® and the continued success of initiatives including Mr. Clean Magic Eraser®, Mr. Clean AutoDry®, Swiffer Duster®, Gain Fabric Enhancer®, and the expansion of Leno®r in Japan. Net sales increased 17 percent to \$3.58 billion. Sales growth includes a positive five percent foreign exchange impact. Net earnings increased 10 percent to \$548 million. Earnings margin was impacted by the mix effect of strong developing market growth, marketing investments to support the base business and initiative activity, and startup costs behind manufacturing optimization.
- Beauty care delivered strong double-digit volume, sales and earnings growth for the quarter. Unit volume increased 41 percent. Excluding the impact of Wella, unit volume increased 13 percent. Hair care volume was strong, with growth in all regions and particular progress in the Head & Shoulders®, Pantene®, and Herbal Essences® brands. In feminine care,

volume growth was driven by continued strength and expanded offerings on the Always®/Alldays® brands and Naturella® in Latin America. Olay® continued to deliver double-digit growth behind broad-based strength in existing markets and expansion in China. Net sales increased 48 percent to \$4.47 billion, including a positive foreign exchange impact of six percent. Net earnings increased 28 percent to \$593 million due to volume, partially offset by continued marketing investments to support the base businesses and initiatives. Earnings margin was impacted by higher marketing expenses as a percentage of sales for the Wella business. Key initiatives include the geographic expansion of Herbal Essences® and Head & Shoulders®, as well as the continued leverage of the Lacoste Red® and Olay Regenerist® initiatives.

- Baby and family care delivered strong results for the quarter. Unit volume increased seven percent. Volume was driven by double-digit growth in the Pampers® and Bounty® brands. Net sales increased nine percent to \$2.71 billion, including a positive foreign exchange impact of five percent. Sales were reduced by two percent from mix driven primarily by growth of diapers in developing markets and baby wipes. Promotional activity, primarily in North America Family Care to match higher levels of competitive spending, reduced sales by one percent. Net earnings grew 10 percent to \$219 million. Earnings improved behind volume strength and cost savings, partly offset by pricing investments and higher commodity prices.
- Health care delivered another quarter of excellent volume, sales and earnings growth. Unit volume increased 19 percent driven by continued strength of pharmaceuticals, Prilosec OTC®, oral care and developing markets. Net sales increased 20 percent to \$1.72 billion including a positive four percent foreign exchange impact. Developing market growth in oral care and pipeline shipments for generic Macrobid® resulted in a negative three percent mix impact. Net earnings were \$215 million, an increase of 46 percent. Volume, margin expansion due to product mix, manufacturing cost savings and lower overhead spending as a percentage of sales were the key drivers behind earnings growth versus the base period.
- Snacks and beverages delivered solid earnings growth. Unit volume increased two percent, with progress on Pringles® and Folgers®. Net sales increased six percent to \$800 million, including a positive foreign exchange impact of five percent. Pricing, primarily coffee promotional spending, impacted sales by three percent but was offset by positive mix. Net earnings were \$55 million, an increase of 10 percent.

## **Fourth Quarter Guidance**

For the June quarter, organic volume growth is expected to be about 10% with broad-based volume strength across all business units and geographies. Foreign exchange is expected to increase sales by 3% to 4%, while the impact of acquisitions and divestitures is expected to increase sales by 7% to 8%. Mix and pricing are expected to reduce sales growth by -2% to -3%. Total sales are expected to grow in the high teens versus the base period. Organic sales, which exclude foreign exchange and the impact of acquisitions and divestitures, should again be above the company's long-term target.

Operating margin is expected to decline -75 to -125 basis points versus prior year core operating margin, largely driven by the inclusion of Wella. On earnings per share, the company is comfortable with the current consensus estimate.

## **Forward-Looking Statements**

All statements, other than statements of historical fact included in this release, are forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. In addition to the risks and uncertainties noted in this release, there are certain factors that could cause actual results to differ materially from those anticipated by some of the statements made. These include: (1) the ability to achieve business plans, including growing existing sales and volume profitably despite high levels of competitive activity, especially with respect to the product categories and geographical markets (including developing markets) in which the company has chosen to focus; (2) successfully executing, managing and integrating key acquisitions (including the Domination and Profit Transfer Agreement with Wella) and completing planned divestitures (including the divestiture of the company's juice business), (3) the ability to manage and maintain key customer relationships; (4) the ability to maintain key manufacturing and supply sources (including sole supplier and plant manufacturing sources); (5) the ability to successfully manage regulatory, tax and legal matters (including product liability matters), and to resolve pending matters within current estimates; (6) the ability to successfully implement, achieve and sustain cost improvement plans in manufacturing and overhead areas, including the success of the company's outsourcing projects; (7) the ability to successfully manage currency (including currency issues in volatile countries), interest rate and certain commodity cost exposures; (8) the ability to manage the continued global political and/or economic uncertainty, especially in the company's significant geographical markets, as well as

any political and/or economic uncertainty due to terrorist activities; and (9) the ability to successfully manage increases in the prices of raw materials used to make the company's products. If the company's assumptions and estimates are incorrect or do not come to fruition, or if the company does not achieve all of these key factors, then the company's actual results might differ materially from the forward-looking statements made herein. For additional information concerning factors that could cause actual results to materially differ from those projected herein, please refer to our most recent 10-K, 10-Q and 8-K reports.

### **About Procter & Gamble**

Two billion times a day, P&G brands touch the lives of people around the world. The company has one of the largest and strongest portfolios of trusted, quality brands, including Pampers®, Tide®, Ariel®, Always®, Whisper®, Pantene®, Bounty®, Pringles®, Folgers®, Charmin®, Downy®, Lenor®, Iams®, Crest®, Actonel®, Olay® and Clairol Nice 'n Easy®. The P&G community consists of nearly 98,000 employees working in almost 80 countries worldwide. Please visit <http://www.pg.com> for the latest news and in-depth information about P&G and its brands.

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## The Procter & Gamble Company

### **Exhibit 1: Non-GAAP Measures**

In accordance with the SEC's Regulation G, the following provides definitions of the non-GAAP measures used in the earnings release and the reconciliation to the most closely related GAAP measure.

All references to base period "core" financial measures (core net earnings, core net earnings per share, core gross margin, core MRA&O, core operating margin) in this news release are non-GAAP measures which exclude restructuring program charges from base period results. The attached income statement provides a reconciliation of the restructuring program charges in the base period to the most comparable GAAP measure.

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 <http://www.pg.com/investors>.

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.

Organic sales growth is a non-GAAP measure of reported sales growth excluding the impact of acquisitions and 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 of the base businesses by providing sales on a consistent basis. The reconciliation of reported sales growth to organic sales growth:

January - March Total Sales Growth	22%
Less: Foreign Exchange Impact	5%
Less: Sales due to Acquisitions/Divestitures	<u>8%</u>
Organic Sales Growth	9%

The company also reports free cash flow. Free cash flow is defined as operating cash flow less capital spending. The company views free cash flow as an important indicator of the cash available for dividends and discretionary investment. Free cash flow is also one of the measures used to evaluate management and is a factor in determining at-risk compensation levels. Free cash flow productivity is defined as the ratio of free cash flow to net earnings. The company's target for free cash flow productivity is 90 percent. The reconciliation of free cash flow and free cash flow productivity is provided below:

(\$MM)	Operating Cash Flow	Capital Spending	Free Cash Flow	Net Earnings	Free Cash Flow Productivity
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%
Jul - Mar'03	6,739	967	5,772	4,231	136%
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%
Jul - Mar'04	6,939	1,331	5,608	5,107	110%

**THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES**  
(Amounts in Millions Except Per Share Amounts)  
Consolidated Earnings Information

	JFM QUARTER					FYTD				
			W/O Restructuring Charges					W/O Restructuring Charges		
	JFM 04	JFM 03	% CHG	JFM 03	% CHG	3/31/2004	3/31/2003	% CHG	3/31/2003	% CHG
NET SALES	\$ 13,029	\$ 10,656	22 %	\$ 10,656	22 %	\$ 38,445	\$ 32,457	18 %	\$ 32,453	18 %
COST OF PRODUCTS SOLD	6,394	5,394	19 %	5,348	20 %	18,597	16,373	14 %	16,160	15 %
<b>GROSS MARGIN</b>	<b>6,635</b>	<b>5,262</b>	<b>26 %</b>	<b>5,308</b>	<b>25 %</b>	<b>19,848</b>	<b>16,084</b>	<b>23 %</b>	<b>16,293</b>	<b>22 %</b>
MARKETING, RESEARCH, ADMINISTRATIVE	4,332	3,305	31 %	3,264	33 %	12,160	9,700	25 %	9,539	27 %
<b>OPERATING INCOME</b>	<b>2,303</b>	<b>1,957</b>	<b>18 %</b>	<b>2,044</b>	<b>13 %</b>	<b>7,688</b>	<b>6,384</b>	<b>20 %</b>	<b>6,754</b>	<b>14 %</b>
TOTAL INTEREST EXPENSE	164	138		138		454	425		425	
OTHER NON-OPERATING INCOME, NET	67	37		37		136	214		214	
<b>EARNINGS BEFORE INCOME TAXES</b>	<b>2,206</b>	<b>1,856</b>	<b>19 %</b>	<b>1,943</b>	<b>14 %</b>	<b>7,370</b>	<b>6,173</b>	<b>19 %</b>	<b>6,543</b>	<b>13 %</b>
INCOME TAXES	678	583		604		2,263	1,942		2,035	
<b>NET EARNINGS</b>	<b>1,528</b>	<b>1,273</b>	<b>20 %</b>	<b>1,339</b>	<b>14 %</b>	<b>5,107</b>	<b>4,231</b>	<b>21 %</b>	<b>4,508</b>	<b>13 %</b>
EFFECTIVE TAX RATE	30.7 %	31.4 %		31.1 %		30.7 %	31.5 %		31.1 %	
<b>PER COMMON SHARE:</b>										
BASIC NET EARNINGS	\$ 1.16	\$ 0.96	21 %	\$ 1.01	15 %	\$ 3.87	\$ 3.19	21 %	\$ 3.40	14 %
DILUTED NET EARNINGS	\$ 1.09	\$ 0.91	20 %	\$ 0.96	14 %	\$ 3.65	\$ 3.01	21 %	\$ 3.21	14 %
DIVIDENDS	\$ 0.46	\$ 0.41		\$ 0.41		\$ 1.37	\$ 1.23		\$ 1.23	
AVERAGE DILUTED SHARES OUTSTANDING	1,395.0	1,395.8		1,395.8		1,398.1	1,401.9		1,401.9	
<b>COMPARISONS AS A % OF NET SALES</b>			<b>Basis Pt Chg</b>		<b>Basis Pt Chg</b>			<b>Basis Pt Chg</b>		<b>Basis Pt Chg</b>
COST OF PRODUCTS SOLD	49.1 %	50.6 %		50.2 %		48.4 %	50.4 %		49.8 %	
GROSS MARGIN	50.9 %	49.4 %	150	49.8 %	110	51.6 %	49.6 %	200	50.2 %	140
MARKETING, RESEARCH, ADMINISTRATIVE	33.2 %	31.0 %	220	30.6 %	260	31.6 %	29.9 %	170	29.4 %	220
OPERATING MARGIN	17.7 %	18.4 %	(70)	19.2 %	(150)	20.0 %	19.7 %	30	20.8 %	(80)
EARNINGS BEFORE INCOME TAXES	16.9 %	17.4 %	(50)	18.2 %	(130)	19.2 %	19.0 %	20	20.2 %	(100)
NET EARNINGS	11.7 %	11.9 %	(20)	12.6 %	(90)	13.3 %	13.0 %	30	13.9 %	(60)

\* The company's multi-year restructuring program was substantially complete at the end of FY 2003. Concurrent with the end of the program, the company will no longer separately report core results.

**THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES**  
**(Amounts in Millions)**  
**Consolidated Cash Flows Information**

	Nine Months Ended March 31	
	2004	2003
BEGINNING CASH	\$ 5,912	\$ 3,427
OPERATING ACTIVITIES		
NET EARNINGS	\$ 5,107	\$ 4,231
DEPRECIATION AND AMORTIZATION	1,279	1,231
DEFERRED INCOME TAXES	358	277
CHANGES IN:		
ACCOUNTS RECEIVABLE	(150)	183
INVENTORIES	(119)	(221)
ACCOUNTS PAYABLE, ACCRUED AND OTHER LIABILITIES	213	423
OTHER OPERATING ASSETS & LIABILITIES	23	73
OTHER	228	542
TOTAL OPERATING ACTIVITIES	<u>6,939</u>	<u>6,739</u>
INVESTING ACTIVITIES		
CAPITAL EXPENDITURES	(1,331)	(967)
PROCEEDS FROM ASSET SALES	156	122
ACQUISITIONS, NET OF CASH ACQUIRED	(5,398)	(51)
CHANGE IN INVESTMENT SECURITIES	(94)	(93)
TOTAL INVESTMENT ACTIVITIES	<u>(6,667)</u>	<u>(989)</u>
FINANCING ACTIVITIES		
DIVIDENDS TO SHAREHOLDERS	(1,865)	(1,690)
CHANGE IN SHORT-TERM DEBT	2,068	(1,386)
ADDITIONS TO LONG TERM DEBT	1,963	1,227
REDUCTION OF LONG TERM DEBT	(1,104)	(749)
PROCEEDS FROM THE EXERCISE OF STOCK OPTIONS	437	170
TREASURY PURCHASES	(2,327)	(1,235)
TOTAL FINANCING ACTIVITIES	<u>(828)</u>	<u>(3,663)</u>
EXCHANGE EFFECT ON CASH	<u>9</u>	<u>(1)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	<u>(547)</u>	<u>2,086</u>
ENDING CASH	<u>\$ 5,365</u>	<u>\$ 5,513</u>

**THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES**  
**(Amounts in Millions)**  
**Consolidated Balance Sheet Information**

	<u>March 31, 2004</u>	<u>June 30, 2003</u>
CASH AND CASH EQUIVALENTS	\$ 5,365	\$ 5,912
INVESTMENTS SECURITIES	385	300
ACCOUNTS RECEIVABLE	4,093	3,038
TOTAL INVENTORIES	4,621	3,640
OTHER	2,740	2,330
TOTAL CURRENT ASSETS	<u>17,204</u>	<u>15,220</u>
NET PROPERTY, PLANT AND EQUIPMENT	14,070	13,104
NET GOODWILL AND OTHER INTANGIBLE ASSETS	20,502	13,507
OTHER NON-CURRENT ASSETS	2,092	1,875
TOTAL ASSETS	<u>\$ 53,868</u>	<u>\$ 43,706</u>
ACCOUNTS PAYABLE	\$ 3,048	\$ 2,795
ACCRUED AND OTHER LIABILITIES	6,512	5,512
TAXES PAYABLE	2,398	1,879
DEBT DUE WITHIN ONE YEAR	5,065	2,172
TOTAL CURRENT LIABILITIES	<u>17,023</u>	<u>12,358</u>
LONG-TERM DEBT	13,349	11,475
OTHER	5,204	3,687
TOTAL LIABILITIES	<u>35,576</u>	<u>27,520</u>
TOTAL SHAREHOLDERS' EQUITY	<u>18,292</u>	<u>16,186</u>
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	<u>\$ 53,868</u>	<u>\$ 43,706</u>

**THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES**  
**(Amounts in Millions Except Per Share Amounts)**  
**Consolidated Earnings Information**

	<b>Three Months Ended March 31, 2004</b>					
	Net Sales	% Change	Earnings	% Change	Net	% Change
		Versus	Before	Versus		Versus
	Year Ago	Income Taxes	Year Ago	Earnings	Year Ago	
FABRIC AND HOME CARE	\$ 3,581	17%	\$ 830	10%	\$ 548	10%
BEAUTY CARE	4,465	48%	910	33%	593	28%
BABY AND FAMILY CARE	2,707	9%	357	7%	219	10%
HEALTH CARE	1,719	20%	320	41%	215	46%
SNACKS AND BEVERAGES	800	6%	92	6%	55	10%
TOTAL BUSINESS SEGMENT	13,272	24%	2,509	20%	1,630	20%
CORPORATE	(243)	n/a	(303)	n/a	(102)	n/a
TOTAL COMPANY	13,029	22%	2,206	19%	1,528	20%

	<b>Nine Months Ended March 31, 2004</b>					
	Net Sales	% Change	Earnings	% Change	Net	% Change
		Versus	Before	Versus		Versus
	Year Ago	Income Taxes	Year Ago	Earnings	Year Ago	
FABRIC AND HOME CARE	\$ 10,381	12%	\$ 2,505	8%	\$ 1,680	8%
BEAUTY CARE	12,710	39%	2,870	29%	1,890	25%
BABY AND FAMILY CARE	7,987	8%	1,273	8%	795	11%
HEALTH CARE	5,355	22%	1,226	40%	824	38%
SNACKS AND BEVERAGES	2,627	7%	442	17%	286	14%
TOTAL BUSINESS SEGMENT	39,060	19%	8,316	19%	5,475	18%
CORPORATE	(615)	n/a	(946)	n/a	(368)	n/a
TOTAL COMPANY	38,445	18%	7,370	19%	5,107	21%

**THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES**  
**JANUARY - MARCH NET SALES INFORMATION**  
**(Percent Change vs. Year Ago) \*\***

	Volume			FX	Price	Mix/Other	Total Impact	Total Impact Ex-FX
	With Acquisitions/ Divestitures	Without Acquisitions/ Divestitures						
FABRIC AND HOME CARE	12%	12%	5%	-1%	1%	17%	12%	
BEAUTY CARE	41%	13%	6%	-1%	2%	48%	42%	
BABY AND FAMILY CARE	7%	7%	5%	-1%	-2%	9%	4%	
HEALTH CARE	19%	18%	4%	0%	-3%	20%	16%	
SNACKS AND BEVERAGES	2%	2%	5%	-3%	2%	6%	1%	
TOTAL COMPANY	20%	12%	5%	-1%	-2%	22%	17%	

\*\* These sales percentage changes are approximations based on quantitative formulas that are consistently applied.

# Procter&Gamble

On April 30, 2004, the Company announced results for the January - March quarter. The earnings webcast includes some 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 base period "core" financial measures (core net earnings, core net earnings per share, core gross margin, core MRA&O, core operating margin) exclude the impact of restructuring charges and the amortization of goodwill and indefinite-lived intangibles no longer required under accounting rules beginning in 2002. Please see the [Reconciliation of Reported to Core Financials](#) on our website for a complete review of the reconciliation of core financial measures.

## Organic Sales Growth

Organic sales growth measures sales growth excluding the impact of acquisitions and divestitures and the impact of foreign exchange 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. A specific reference also was made to organic sales growth in the Beauty Care segment to provide perspective on results excluding the impact of the Wella acquisition. The reconciliation of reported to organic sales growth:

	Total Company	Beauty Care
January – March Total Sales Growth	22%	48%
Less: Foreign Exchange Impact	5%	6%
Less: Sales due to Acquisitions/Divestitures	8%	30%
<b>Organic Sales Growth</b>	<b>9%</b>	<b>12%</b>

## Free Cash Flow

Free cash flow is defined as operating cash flow less capital spending. The Company views free cash flow as an important indicator of the cash available for dividends and discretionary investment. Free cash flow is also one of the measures used to evaluate management and is a factor in determining at-risk compensation levels. Free cash flow productivity is defined as the ratio of free cash flow to net earnings. The reconciliation of free cash flow and free cash flow productivity is provided below:

(\$MM)	Operating Cash Flow	Capital Spending	Free Cash Flow	Net Earnings	Free Cash Flow Productivity
Jul - Sep'03	1,606	364	1,242	1,761	71%
Oct - Dec'03	2,355	446	1,909	1,818	105%
Jan – Mar'03	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>

## Procter & Gamble

### 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

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

#### 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) 167 191 223 235

#### 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

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

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 discontinuing 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.

## Procter & Gamble

### Reconciliation of Reported to Core Financials - By Quarter JFM'01 to JFM'04

#### Consolidated Statement of Earnings

Amounts in millions except per share amounts

	JFM01	AMJ01	JAS01	OND01	JFM02	AMJ02	JAS02	OND02	JFM03	AMJ03	JAS03	OND03	JFM04
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	13,029
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	6,394
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	6,635
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	4,332
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	2,303
Interest Expense	204	187	157	150	146	150	144	143	138	136	141	149	164
Other Income & Expense	227	50	22	200	40	46	103	74	37	24	40	29	67
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	2,206
Income Taxes	432	127	523	615	509	384	674	685	583	402	781	804	678
<b>Net Earnings</b>	<b>893</b>	<b>(320)</b>	<b>1,104</b>	<b>1,299</b>	<b>1,039</b>	<b>910</b>	<b>1,464</b>	<b>1,494</b>	<b>1,273</b>	<b>955</b>	<b>1,761</b>	<b>1,818</b>	<b>1,528</b>
<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	1.16
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	1.09

#### Restructuring Program Charges

	JFM01	AMJ01	JAS01	OND01	JFM02	AMJ02	JAS02	OND02	JFM03	AMJ03	JAS03	OND03	JFM04
Net Sales	0	131	(24)	(14)	(15)	(16)	5	(9)	0	0	0	0	0
Cost of Products Sold	102	890	120	82	107	199	83	84	46	168	0	0	0
MRA&O	50	418	214	121	99	85	63	57	41	213	0	0	0
<b>Total (Before Tax)</b>	<b>152</b>	<b>1,439</b>	<b>310</b>	<b>189</b>	<b>191</b>	<b>268</b>	<b>151</b>	<b>132</b>	<b>87</b>	<b>381</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total (After Tax)</b>	<b>113</b>	<b>1,160</b>	<b>238</b>	<b>146</b>	<b>147</b>	<b>175</b>	<b>113</b>	<b>98</b>	<b>66</b>	<b>261</b>	<b>0</b>	<b>0</b>	<b>0</b>

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	JFM04
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	13,029
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	6,394
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	6,635
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	4,332
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	2,303
Interest Expense	204	187	157	150	146	150	144	143	138	136	141	149	164
Other Income & Expense	227	50	22	200	40	46	103	74	37	24	40	29	67
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	2,206
Core Income Taxes	474	414	595	658	553	477	712	719	604	522	781	804	678
<b>Core Net Earnings</b>	<b>1,062</b>	<b>891</b>	<b>1,342</b>	<b>1,445</b>	<b>1,186</b>	<b>1,085</b>	<b>1,577</b>	<b>1,592</b>	<b>1,339</b>	<b>1,216</b>	<b>1,761</b>	<b>1,818</b>	<b>1,528</b>
<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	1.16
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	1.09