

# Procter&Gamble

On October 27, 2004, the Company announced results for the July - September quarter. The earnings webcast includes some measures that are not defined under accounting principles generally accepted in the United States of America (U.S. GAAP). The following provides definitions of the non-GAAP and other measures used in the presentation and the reconciliation to the most closely related GAAP measure.

## Non-GAAP Measures

The Company discusses the impact of the juice business divestiture on earnings per share growth. The Company completed the divestiture of the juice business in August of 2004.

July – September '03 Diluted Net Earnings per Share	\$0.63	
July – September '04 Diluted Net Earnings per Share	\$0.73	+16%
Year-Over-Year Impact of Juice Divestiture	<u>\$0.02</u>	
Diluted Net Earnings per Share excluding Juice Divestiture	\$0.71	+13%

Organic sales growth is a non-GAAP measure of reported sales growth excluding the impacts 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:

Total Sales Growth	13%
Less: Foreign Exchange Impact	3%
Less: Acquisitions/Divestitures	<u>4%</u>
Organic Sales Growth	6%

The discussion of gross margin includes a reference to prior year results excluding the impact of the restructuring program. Gross margin in the prior year July – September quarter of 2003 expanded 260 basis points versus the July – September quarter of 2002. Excluding the impact of restructuring program charges in the July – September quarter of 2002, gross margin expanded 180 basis points:

Gross Margin JAS'03	51.8%
Gross Margin JAS'02	<u>49.2%</u>
Basis point change	260bp
Gross Margin JAS'03	51.8%
Gross Margin JAS'02 excl: restructuring charges	<u>50.0%</u>
Basis point change	180bp

## Other Measures

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, and is another measure used to evaluate management's performance. 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'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%
Apr – Jun'04	2,423	693	1,730	1,374	126%
<b>Jul – Jun'04</b>	<b>9,362</b>	<b>2,024</b>	<b>7,338</b>	<b>6,481</b>	<b>113%</b>
Jul – Sep'04	1,918	413	1,505	2,001	75%