

# Procter&Gamble

On December 9, 2004, the Company hosted its 2004 Analyst Conference in Boston, Massachusetts. The presentation 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. **Note:** Sales growth percentages presented are approximations based on quantitative formulas consistently applied.

## *Non-GAAP Measures*

**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. The Wella acquisition accounts for primarily all of the 7% sales growth due to acquisitions and divestitures in FY04.

	<b>FY02</b>	<b>FY03</b>	<b>FY04</b>	<b>JAS04</b>
Reported Sales Growth	3%	8%	19%	13%
Acquisitions & Divestitures Impact	3%	0%	7%	4%
FX Impact	-1%	2%	4%	3%
<b>Organic Sales (Ex: A&amp;D, FX)</b>	<b>1%</b>	<b>6%</b>	<b>8%</b>	<b>6%</b>

**Sales Growth Excluding Foreign Exchange.** The presentation includes a discussion of segment and geographic sales growth excluding the impact of foreign exchange from year-over-year comparisons. The Company believes this provides investors with a more complete understanding of the underlying trends of sales growth. The “Foundation Businesses” include the combined results of the Fabric & Home Care, Baby & Family Care, and Snacks & Coffee businesses. “Developed Markets” include the combined results for the North America, Western Europe and Northeast Asia market development organizations. “Developing Markets” include the combined results for the Central & Eastern Europe, Middle East and Africa (CEEMEA), Greater China, ASEAN/Australasia/India and Latin America market development organizations. The presentation includes a specific reference to the past three year average sales growth for CEEMEA of greater than 10%, excluding foreign exchange. The average foreign exchange impact for CEEMEA over the past three years was 1%.

	<b>FY02</b>	<b>FY03</b>	<b>FY04</b>
Health & Beauty Care Businesses – Reported Growth	9%	15%	34%
FX Impact	-2%	3%	4%
Foundation Businesses – Reported Growth	-1%	7%	9%
FX Impact	-2%	2%	3%
Developed Markets – Total	3%	9%	19%
FX Impact	-1%	5%	4%
Developing Markets – Total	3%	5%	17%
FX Impact	-3%	-7%	0%

**Core Diluted Net Earnings Per Share Growth.** Core diluted 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 diluted net earnings per share:

	<b>FY02</b>	<b>FY03</b>	<b>FY04</b>	<b>JAS04</b>
Diluted Net Earnings Per Share	\$1.54	\$1.85	\$2.32	\$0.73
Percent Change v. Year Ago	50%	20%	25%	16%
Core Diluted Net Earnings Per Share	\$1.80	\$2.04	\$2.32	\$0.73
Percent Change v. Year Ago	10%	13%	14%	16%

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 – particularly now that the program is completed. 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](http://www.pg.com/investor). The Company continues to conduct projects consistent with the focus of productivity improvement and margin expansion. Beginning with fiscal year 2004, charges associated with these projects are absorbed in normal operating costs.

**FY04 Operating Margin.** The discussion of FY04 operating margin includes a reference to results excluding the impact of unusual items compared to FY03 core operating margin. Core operating margin in FY03 excludes restructuring program charges (discussed above). The unusual items in FY04 are the impact of the Wella acquisition (which has a lower operating margin than the balance of the Company) and carryover savings from the recently completed restructuring program. Additionally, the Company continues to conduct projects consistent with productivity improvement and margin expansion. In FY03, charges of this nature were part of the restructuring program and excluded from core results, and therefore not part of base period reported results. Beginning in FY04 these charges are included in normal operating costs and are no longer reported separately.

Operating Margin FY03	18.1%
Operating Margin FY03 excl: restructuring program	19.8%
Operating Margin FY04	<u>19.1%</u>
Basis Point Change	-70bp
Unusual Items	<u>-140bp</u>
Operating Margin less unusual items	70bp

The Company believes this provides investors with a more complete understanding of the underlying business results and trends.

### *Other Measures*

**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.

<i>(\$MM)</i>	<b>Operating Cash Flow</b>	<b>Capital Spending</b>	<b>Free Cash Flow</b>	<b>Net Earnings</b>	<b>Free Cash Flow Productivity</b>
<b>FY02</b>	7,742	1,679	6,063	4,352	139%
<b>FY03</b>	8,700	1,482	7,218	5,186	139%
<b>FY04</b>	9,362	2,024	7,338	6,481	113%