

Edgar Filing: GILLETTE CO - Form 10-Q

GILLETTE CO  
Form 10-Q  
August 04, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended June 30, 2005

Commission File Number 1-922

THE GILLETTE COMPANY  
(Exact name of registrant as specified in its charter)

Incorporated in Delaware  
(State or other jurisdiction of  
incorporation or organization)

04-1366970  
(IRS Employer Identification No.)

Prudential Tower Building,  
Boston, Massachusetts  
(Address of principal executive offices)

02199  
(Zip Code)

Registrant's telephone number, including area code

(617) 421-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes    X                      No \_\_\_\_\_

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes    X                      No \_\_\_\_\_

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of each class

Common Stock, \$1.00 par value

Shares Outstanding August 1, 2005. . . . . 999,082,975

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PART I. FINANCIAL INFORMATION  
THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES  
CONSOLIDATED STATEMENT OF INCOME  
(Millions, except per share amounts)  
(Unaudited)

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	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Net Sales .....	\$ 2,770	\$ 2,443	\$ 5,380	\$ 4,67
Cost of Sales .....	1,127	968	2,219	1,84
Gross Profit .....	1,643	1,475	3,161	2,83
Selling, General and Administrative Expenses .....	922	865	1,800	1,66
Profit from Operations .....	721	610	1,361	1,16
Nonoperating Charges (Income):				
Interest income .....	(11)	(3)	(19)	(
Interest expense .....	18	11	35	2
Exchange .....	-	(2)	(1)	1
Other charges - net .....	21	3	28	
	28	9	43	3
Income before Income Taxes .....	693	601	1,318	1,13
Income Taxes .....	195	175	372	32
Net Income .....	\$ 498	\$ 426	\$ 946	\$ 80
Net Income per Common Share:				
Basic .....	\$ .50	\$ .43	\$ .95	\$ .8
Assuming full dilution .....	\$ .49	\$ .42	\$ .94	\$ .7
Dividends per Common Share:				
Declared .....	\$ .1625	\$ .1625	\$ .3250	\$ .325
Paid .....	\$ .1625	\$ .1625	\$ .3250	\$ .325
Weighted average number of common shares outstanding				
Basic .....	997	1,003	995	1,00
Assuming full dilution .....	1,012	1,012	1,009	1,01

See Accompanying Notes to Consolidated Financial Statements.

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THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES  
CONSOLIDATED BALANCE SHEET  
ASSETS  
(Millions)  
(Unaudited)

June 30, 2005	December 31, 2004	June 30, 2004
-----	-----	-----

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## Current Assets:

Cash and cash equivalents .....	\$ 471	\$ 219	\$ 208
Short-term investments .....	325	847	436
Trade receivables, less allowances, \$32; \$37; and \$51, respectively .....	939	835	884
Other receivables .....	576	376	332
Inventories			
Raw materials and supplies .....	186	127	122
Work in process .....	246	244	250
Finished goods .....	1,052	920	1,035
	-----	-----	-----
Total Inventories .....	1,484	1,291	1,407
	-----	-----	-----
Deferred income taxes .....	300	303	328
Other current assets .....	376	197	190
	-----	-----	-----
Total Current Assets .....	4,471	4,068	3,785
	-----	-----	-----
Property, Plant and Equipment, at cost .....	7,626	7,835	7,162
Less accumulated depreciation .....	(4,048)	(4,088)	(3,638)
	-----	-----	-----
Net Property, Plant and Equipment .....	3,578	3,747	3,524
	-----	-----	-----
Goodwill .....	1,024	1,052	1,024
Intangible Assets, less accumulated amortization .....	551	557	570
Deferred Income Taxes .....	32	36	41
Other Assets .....	1,121	1,271	1,108
	-----	-----	-----
	\$ 10,777	\$ 10,731	\$ 10,052
	=====	=====	=====

See Accompanying Notes to Consolidated Financial Statements.

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## THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES CONSOLIDATED BALANCE SHEET LIABILITIES AND STOCKHOLDERS' EQUITY (Millions, except per share amount) (Unaudited)

	June 30, 2005	December 31, 2004	June 30, 2004
	-----	-----	-----
Current Liabilities:			
Loans payable .....	\$ 273	\$ 533	\$ 345
Current portion of long-term debt .....	356	711	717
Accounts payable .....	637	698	598
Accrued liabilities .....	1,629	1,786	1,731
Dividends payable .....	162	161	163
Income taxes .....	480	289	271
Deferred Income taxes .....	22	25	26
	-----	-----	-----

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Total Current Liabilities .....	3,559	\$ 4,203	\$ 3,851
	-----	-----	-----
Long-Term Debt .....	2,129	2,142	2,050
Deferred Income Taxes .....	688	723	693
Other Long-Term Liabilities .....	742	754	932
Minority Interest .....	67	73	69
Stockholders' Equity:			
Common stock, par value \$1.00 per share:			
Authorized 2,320 shares			
Issued: 1,390 shares; 1,382 shares; and			
1,378 shares, respectively.....	1,390	1,382	1,378
Additional paid-in capital .....	1,810	1,521	1,375
Earnings reinvested in the business .....	8,998	8,376	7,809
Accumulated other comprehensive loss .....	(923)	(760)	(1,082)
Treasury stock, at cost: 392 shares; 392 shares;			
and 376 shares, respectively .....	(7,683)	(7,683)	(7,021)
Deferred stock-based compensation .....	-	-	(2)
	-----	-----	-----
Total Stockholders' Equity .....	3,592	2,836	2,457
	-----	-----	-----
	\$ 10,777	\$ 10,731	\$ 10,052
	=====	=====	=====

See Accompanying Notes to Consolidated Financial Statements.

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## THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES CONSOLIDATED STATEMENT OF CASH FLOWS (Millions) (Unaudited)

	Six Months Ended June 30	
	2005	2004
	-----	-----
Operating Activities		
Net income .....	\$ 946	\$ 802
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization .....	315	299
Pension Expenses .....	84	72
Deferred income taxes .....	37	32
Other .....	4	14
Changes in assets and liabilities, excluding effects of acquisitions and divestitures:		
Trade receivables .....	(144)	26
Inventories .....	(273)	(330)
Accounts payable and accrued liabilities .....	(99)	(21)
Other working capital items .....	(81)	9
Funding of Company benefit plans .....	(15)	(37)
Other noncurrent assets and liabilities .....	(127)	55
	-----	-----
Net cash provided by operating activities	647	921

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Investing Activities	-----	-----
Purchases of short-term investments .....	(654)	(576)
Proceeds from sales of short-term investments ....	1,175	578
Additions to property, plant and equipment .....	(309)	(228)
Disposals of property, plant and equipment .....	37	30
Acquisitions, net of cash acquired .....	-	(115)
Other .....	1	1
	-----	-----
Net cash provided by (used in) investing activities	250	(310)
	-----	-----
Financing Activities		
Purchase of treasury stock .....	-	(355)
Proceeds from exercise of stock option and purchase plans .....	296	100
Repayment of long-term debt .....	(353)	(389)
Increase (Decrease) in loans payable .....	(258)	228
Dividends paid .....	(323)	(327)
Net settlements, debt-related derivative contracts	(6)	100
	-----	-----
Net cash used in financing activities .....	(644)	(643)
	-----	-----
Effect of Exchange Rate Changes on Cash .....	(1)	(3)
	-----	-----
Increase (Decrease) in Cash and Cash Equivalents .....	252	(35)
Cash and Cash Equivalents at Beginning of Period .....	219	243
	-----	-----
Cash and Cash Equivalents at End of Period .....	\$ 471	\$ 208
	=====	=====
Supplemental disclosure of cash paid for:		
Interest .....	\$ 38	\$ 21
Income taxes .....	\$ 304	\$ 237

See Accompanying Notes to Consolidated Financial Statements.

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## THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Millions) (Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Net Income, as reported	\$ 498	\$ 426	\$ 946	\$ 802
Other Comprehensive Income, net of tax:				
Foreign Currency Translation	(60)	(4)	(161)	7
Cash Flow Hedges	(2)	(1)	(2)	(1)
	-----	-----	-----	-----

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Comprehensive Income	\$ 436	\$ 421	\$ 783	\$ 808
	=====	=====	=====	=====

## Accumulated Other Comprehensive Loss

The balances for the components of Accumulated Other Comprehensive Loss are:

	Foreign Currency Translation	Pension Adjustment	Cash Flow Hedges	Accumulated Other Comprehensive Loss
	-----	-----	-----	-----
Balance December 31, 2003	\$ (898)	\$ (193)	\$ 3	\$ (1,088)
Change in period	(14)	-	1	(13)
Reclassification to Earnings (pre-tax)	16	-	-	16
Income tax benefit (expense)	9	-	(1)	8
	-----	-----	-----	-----
Balance March 31, 2004	\$ (887)	\$ (193)	\$ 3	\$ (1,077)
Change in period	(7)	-	(1)	(8)
Reclassification to Earnings (pre-tax)	-	-	(1)	(1)
Income tax benefit (expense)	3	-	1	4
	-----	-----	-----	-----
Balance June 30, 2004	\$ (891)	\$ (193)	\$ 2	\$ (1,082)
	=====	=====	=====	=====
Balance December 31, 2004	\$ (568)	\$ (195)	\$ 3	\$ (760)
Change in period	(113)	-	2	(111)
Reclassification to Earnings (pre-tax)	-	-	(2)	(2)
Income tax benefit (expense)	12	-	-	12
	-----	-----	-----	-----
Balance March 31, 2005	\$ (669)	\$ (195)	\$ 3	\$ (861)
Change in period	(26)	-	(2)	(28)
Reclassification to Earnings (pre-tax)	-	-	(1)	(1)
Income tax benefit (expense)	(34)	-	1	(33)
	-----	-----	-----	-----
Balance June 30, 2005	\$ (729)	\$ (195)	\$ 1	\$ (923)
	=====	=====	=====	=====

Net exchange gains or losses resulting from the translation of assets and liabilities of foreign subsidiaries, except those in highly inflationary economies, are accumulated in a separate section of stockholders' equity. Also included are the effects of foreign exchange rate changes on intercompany balances of a long-term investment nature and transactions designated as hedges of net foreign investments.

The Company recorded net pre-tax losses of \$26 million and \$139 million in accumulated foreign currency translation for the three months and six months ended June 30, 2005, respectively, due primarily to the weakening of the Euro and the U.K. Pound Sterling, partially offset by gains in the Brazilian Real and Mexican Peso. Included in these amounts are gains of \$142 million and \$150 million related to net investment hedges, primarily of the Company's Euro functional currency subsidiaries, for the three and six months ended June 30, 2005, respectively.

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In the six months ended June 30, 2004, the Company reclassified \$16 million in exchange losses from accumulated other comprehensive loss upon liquidation of foreign subsidiaries to the income statement.

See Accompanying Notes to Consolidated Financial Statements.

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### THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

#### Accounting Comments

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Reference is made to the registrant's 2004 Annual Report to Shareholders, which contains, at pages 42 through 74, the audited consolidated financial statements and the notes thereto, which are incorporated by reference into the registrant's Annual Report on Form 10-K for the year ended December 31, 2004.

On January 27, 2005, the Company entered into an Agreement and Plan of Merger with The Procter & Gamble Company ("P&G"), an Ohio corporation, and Aquarium Acquisition Corp., a wholly-owned subsidiary of P&G. The accompanying Consolidated Financial Statements have been prepared assuming the Company continues on a stand-alone basis and do not reflect any adjustments or disclosures that may be required upon consummation of the merger. Refer to the registration statement on Form S-4, as amended and filed by P&G on May 25, 2005 with the Securities and Exchange commission ("SEC"), and our Annual Report on Form 10-K for the year ended December 31, 2004, for a more complete description of the Merger and related agreements.

With respect to the financial information for the interim periods included in this report, which is unaudited, the management of the Company believes that all adjustments necessary for a fair presentation of the results for such interim periods have been included and are of a normal recurring nature.

The Company's annual financial statements are prepared on a calendar year basis. For interim reporting, the Company divides the calendar year into thirteen-week quarterly reporting periods. The first and fourth quarter may be more or less than 13 weeks, by zero to six days, which can affect comparability between periods. The first quarter of 2004 consisted of 12 weeks and 3 days, while the first quarter of 2005 consisted of 13 weeks and 1 day. The fourth quarter of 2004 consisted of 13 weeks and 6 days, while the fourth quarter of 2005 will consist of exactly 13 weeks.

Advertising costs are expensed as incurred. Advertising expenses, for interim periods, are charged to operations as a percentage of sales, based on estimated sales and related advertising expense for the full year.

The Company accounts for its stock option plans under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No compensation cost is recorded on the date of grant, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock. The Company recognizes stock-based compensation expense related to stock appreciation rights. The following table illustrates the effect on net income and net income per common share as if the Company had applied the fair-value-based method under Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," to record expense for stock options.

THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

(Millions, except per share amounts)	Three Months		Six Months	
	Ended June 30, 2005	2004	Ended June 30, 2005	2004
Net income, as reported	\$ 498	\$ 426	\$ 946	\$ 802
Add: Compensation expense included in reported net income, net of related tax effects	-	1	2	1
Less: Compensation expense for option awards determined by the fair-value-based method, net of related tax effects	(24)	(24)	(48)	(48)
Pro forma net income	\$ 474	\$ 403	\$ 900	\$ 755
Net income per common share				
Basic				
As reported	\$ .50	\$ .43	\$ .95	\$ .80
Pro forma	.48	.40	.90	.75
Assuming full dilution				
As reported	\$ .49	\$ .42	\$ .94	\$ .79
Pro forma	.47	.40	.89	.75

The fair value of each option grant for the Company's plans is estimated on the date of the grant using the Black-Scholes option pricing model.

Certain amounts in the prior year financial statements have been reclassified to conform to the 2005 presentation.

Repatriation of Foreign Earnings Under the American Jobs Creation Act of 2004

In the second quarter, as a result of the issuance by the Internal Revenue Service of Notice 2005-38, providing guidance on the temporary incentive for US corporations to repatriate foreign earnings under the American Jobs Creation Act of 2004 (the "Act"), the Company adjusted its previously determined (in 2004) level of planned repatriation from \$325 million to \$600 million. This guidance provided clarity regarding the treatment of foreign tax credits related to certain dividends under the Act. The interaction of the guidance and the increased repatriation amount resulted in the \$25 million tax liability accrued at the end of 2004 remaining unchanged. The \$600 million amount was repatriated at the close of the quarter after the Company and P&G formally agreed to an interim plan for the repatriation of foreign earnings under the Act, as called for under the terms of the Agreement and Plan of Merger. The Company is still evaluating its plans for potential further repatriation and may agree to further plans with P&G prior to the closing of the merger, or if no further agreement is reached, P&G may request that the Company implement a P&G developed plan, and if P&G so requests, the Company is required to use its best efforts to implement such a plan prior to closing. Based on the Company's analysis to date, it is reasonably possible that it may repatriate an additional amount up to \$2.0 billion, with a related tax liability ranging up to \$84 million.



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### Accounting Pronouncements

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On December 16, 2004, the FASB issued SFAS 123 (R), "Share-Based Payment," which is a revision of SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

On April 14, 2005, the SEC issued revised dates for companies to implement SFAS 123(R). The Company is now required and expects to adopt SFAS 123(R) on January 1, 2006, utilizing the modified retrospective method. The modified retrospective method requires compensation costs to be recognized beginning with the effective date based on the requirements of SFAS 123(R) for all (a) share-based payments granted after the effective date and (b) awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date. Amounts for prior years will be restated based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures.

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#### THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using APB Opinion 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS 123(R)'s fair value method will have a significant impact on the Company's results of operations, although it will have no impact on the Company's overall financial position. The impact of the adoption of SFAS 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, when adopted, the impact of SFAS 123(R) on prior periods will approximate the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share in the Accounting Comments note above.

In November 2004, the FASB issued SFAS 151, "Inventory Costs - an amendment of ARB No.43, Chapter 4," which requires companies to expense abnormal freight, handling costs, or spoilage in the period incurred and to allocate fixed overhead based on normal capacity, with adjustment if production is abnormally high. The Company adopted the provisions of the pronouncement in the first quarter 2005, on a prospective basis, as they relate to capitalization of fixed overhead expenses. Implementation of this standard did not have a material impact on the total Company or segment results for the three and six months ended June 30, 2005. The Company also expects that the implementation of this standard will have no material impact on the total Company for the remainder of the year. There may be a material impact on the results at the segment level in certain future quarters.

In March 2005, the FASB issued FASB Interpretation No. 47 (FIN 47) Accounting for Conditional Asset Retirement Obligations, which clarifies that a liability must be recognized (at fair value) for an asset retirement obligation when it has been incurred if the amount can be reasonably estimated, even if settlement of the liability is conditional on a future event. FIN 47 is effective as of December 31, 2005. The Company continues to review its asset retirement obligations to determine the need to record a liability to cover any conditional obligation. The Company does not anticipate that any identified liabilities will have a material impact on operations either at the segment or total Company level.

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In June 2005, the FASB issued FASB Staff Position (FSP) SFAS 143-1 Accounting for Electronic Equipment Waste Obligations, which addresses the accounting for obligations associated with the European Union Directive 2002/96/EC on Waste of Electrical and Electronic Equipment (WEEE). This FSP addresses only waste from products in the market prior to August 13, 2005 (referred to as historical waste). The Directive distinguishes between commercial user waste and private household waste for purposes of designating who is liable for the costs associated with proper disposal of the waste. Under the Directive, the waste obligation associated with commercial users remains with the commercial users until they either transfer the obligation to the producer of replacement equipment or dispose of the equipment. SFAS 143-1 requires commercial users to apply the provisions of SFAS 143, Accounting for Asset Retirement Obligations, and the related FIN 47, Accounting for Conditional Asset Retirement Obligations, when establishing the commercial user liability.

Also, the Directive provides that the cost of disposal of waste held by private households is to be borne collectively by producers based on future market share. The liability and offsetting expense to be recorded by producers of goods is to be based on each producer's respective market share as defined by each European Union member country.

The Company continues to review current local European Union member country legislation to determine its historical waste obligation as a commercial user. Based on current legislation, it is unclear to the Company whether its manufacturing equipment is subject to the WEEE directive. As such, the Company has not established a liability on its books as it relates to commercial user historical waste.

In addition, the Company will be reviewing its historical waste obligation as a manufacturer of household products based on its market share data after August 2005, as required by the Directive. The Directive primarily impacts products sold by the Company's Braun and Oral Care segments. The Company anticipates that the waste obligation will be immaterial at both a segment and total company level.

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### THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

#### Share Repurchase Program

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In the three and six months ended June 30, 2005, the Company repurchased no shares. We may repurchase shares in 2005; however, such share repurchases are limited due to the proposed merger. As of June 30, 2005, there are 26.2 million shares remaining on the share repurchase program which was authorized on September 16, 2003. Shares may be repurchased in the open market or in privately-negotiated transactions, depending on market conditions and other factors.

#### Financial Information by Business Segment

-----

Net sales, profit (loss) from operations and identifiable assets for each of the Company's business segments are set forth below. There are no material intersegment revenues.

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(Millions)	Net Sales			
	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2005	2004	2005	2004
Blades & Razors	\$1,214	\$1,099	\$2,387	\$2,136
Duracell	539	456	1,001	870
Oral Care	420	358	833	673
Braun	341	294	647	553
Personal Care	256	236	512	446
Total	\$2,770	\$2,443	\$5,380	\$4,678
	=====	=====	=====	=====

(Millions)	Profit/(Loss) from Operations			
	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2005	2004	2005	2004
Blades & Razors	\$ 488	\$ 420	\$ 957	\$ 837
Duracell	119	89	210	163
Oral Care	87	68	170	123
Braun	26	24	31	45
Personal Care	30	24	58	37
Subtotal Reportable Segments	750	625	1,426	1,205
All Other	(29)	(15)	(65)	(39)
Total	\$ 721	\$ 610	\$1,361	\$1,166
	=====	=====	=====	=====

(Millions)	Identifiable Assets		
	June 30	Dec. 31	June 30
	2005	2004	2004
	-----	-----	-----
Blades & Razors	\$ 3,309	\$ 3,253	\$ 3,206
Duracell	2,632	2,664	2,664
Oral Care	1,605	1,527	1,456
Braun	1,624	1,453	1,329
Personal Care	493	450	485
Subtotal Reportable Segments	9,663	9,347	9,140
All Other	1,114	1,384	912
Total	\$10,777	\$10,731	\$10,052
	=====	=====	=====

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## THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Computation of net income per common share  
(Millions, except per share amounts)

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Net Income .....	\$ 498	\$ 426	\$ 946	\$ 802
Common shares, basic .....	997	1,003	995	1,004
Effect of dilutive securities:				
Stock options .....	15	9	14	8
Common shares, assuming full dilution	1,012	1,012	1,009	1,012
Net Income per Common Share:				
Basic .....	\$ 0.50	\$ 0.43	\$ 0.95	\$ 0.80
Assuming full dilution .....	\$ 0.49	\$ 0.42	\$ 0.94	\$ 0.79

For the three-month periods ended June 2005 and 2004, respectively, 6.9 million and 29.9 million shares attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than the average market price for the quarter and therefore their inclusion would have been anti-dilutive. For the six-month periods ended June 30, 2005 and 2004, 7.0 million and 28.5 million shares attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than the average market price for the quarter and therefore their inclusion would have been anti-dilutive.

### Pensions and Other Retiree Benefits

(Millions)	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Retiree Bene
	Three Months Ended June 30		Three Months Ended June 30		Three Months June 30
	2005	2004	2005	2004	2005

Components of Net Defined Benefit Expense

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Service cost-benefits earned	\$ 8	\$ 7	\$ 16	\$ 13	\$ 1
Interest cost on benefit obligation	21	20	22	20	7
Estimated return on assets	(24)	(22)	(26)	(23)	(4)
Net amortization and other	9	7	15	14	-
	----	----	----	----	----
Net defined benefit expense	\$ 14	\$ 12	\$ 27	\$ 24	\$ 4
	=====	=====	=====	=====	=====

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Retiree Benefits	
	Six Months Ended June 30		Six Months Ended June 30		Six Months Ended June 30	
	-----		-----		-----	
	2005	2004	2005	2004	2005	2004
	----	----	----	----	----	----
Components of Net Defined Benefit Expense						
Service cost-benefits earned	\$ 17	\$ 14	\$ 32	\$26	\$ 2	\$ 2
Interest cost on benefit obligation	42	40	45	40	14	14
Estimated return on assets	(49)	(44)	(52)	(46)	(8)	(2)
Net amortization and other	18	14	31	28	-	2
	----	----	----	----	----	----
Net defined benefit expense	\$ 28	\$ 24	\$ 56	\$48	\$ 8	\$ 16
	=====	=====	=====	=====	=====	=====

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## THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The Company contributed \$10 million and \$15 million to its non-US pension plans, respectively, for the three and six months ended June 30, 2005. There were no contributions to US pension plans or other retiree benefit plans for these periods. The Company expects to contribute an additional \$26 million to its non-US pension plans, \$28 million to its US pension plan and \$7 million to its other postretirement benefit plans in 2005.

The Company continues to monitor financial markets and other factors that impact plan asset and liability balances. Such factors may influence the Company's decisions regarding additional contributions to its pension and other retiree benefit plans in 2005. The Company previously disclosed total 2005 estimated contributions of \$40 million to US pension, \$41 million to non-US pension and \$10 million to other retiree benefit plans.

### REALIGNMENT PROGRAMS

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### Functional Excellence

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In the second quarter of 2002, the Company began actions associated with its Functional Excellence initiative. This initiative impacts all business segments and is focused on upgrading capabilities, while reducing overhead costs by improving processes and eliminating duplication across all functions. This program was substantially complete at December 31, 2004.

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Total pretax charges under the Functional Excellence initiative, including employee termination benefits and other costs, were \$5 million and \$12 million for the three months ended June 30, 2005 and 2004, respectively. For the six months ended June 30, 2005 and 2004, total pretax charges under the program were \$12 million and \$19 million, respectively. Functional excellence charges in 2005 included \$4 million and \$17 million which were recorded to cost of goods sold and \$1 million and a credit of \$5 million which were recorded to selling, general and administrative expense in the three months and six months ended June 30, 2005, respectively.

### 2003 Manufacturing Realignment Program

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During December 2003, the Company announced a blade and razor manufacturing, packaging and warehouse operations realignment program throughout Europe and Russia. The program will significantly reduce costs, improve operating efficiency, and streamline manufacturing, packaging, and warehouse operations. The program began in December 2003 and is expected to be completed by 2007.

The Company recorded, in the three and six months ended June 30, 2005, approximately \$7 million and \$15 million, respectively, to cost of sales related to project expenses and accelerated depreciation on the Isleworth, U.K. facility which will cease to be used as a manufacturing facility after 2006. This facility will eventually be sold but does not yet meet the requirements of "held for sale" accounting treatment. Other project expenses consisted primarily of severance, based on the amounts that have been earned as of June 30, 2005, at current service levels and pay rates and expenses related to the relocation of equipment between impacted locations. Severance payments will span through 2006, when the Isleworth facility will be completely closed.

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### THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### Other Realignment Programs

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On March 31, 2005, the Board of Directors of the Company committed to a plan to close its Duracell manufacturing facility located in Lexington, North Carolina. This decision was announced to affected employees on April 7, 2005.

As part of its ongoing business practice, the Company continuously evaluates its operations in accordance with business needs. The Lexington plant is primarily dedicated to the production of high-power lithium batteries. Over the past several years, the demand for these batteries has decreased significantly, as film camera sales have declined and digital cameras utilizing rechargeable batteries have gained acceptance. The Company plans to move some Lexington manufacturing operations to the other Duracell facilities and will also source some of the products manufactured in Lexington from third-party providers. The closure of this facility will occur over the next several quarters with a 2006 target completion date and will result in the reduction of approximately 280 manufacturing positions and support staff.

In conjunction with the plan to close this facility, the Company currently expects to incur approximately \$29 million in cash expenses, consisting of severance and other employee-related costs of approximately \$20 million and equipment relocation and other facility transition costs of approximately \$9 million. The Company will also incur non-cash asset impairment related costs of approximately \$46 million through accelerated depreciation. For the three and

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six months ended June 30, 2005, the Company incurred approximately \$17 million and \$37 million, respectively, to cost of sales related to project expenses and accelerated depreciation related to the Lexington facility.

### Realignment Programs

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(Millions)	Provisions Accrual through Mar. 31 2005	Provisions Accrual/ (Recoveries) Second Quarter 2005	Provisions Total Accruals	Charges and Uses through Mar. 31 2005	Charges and Uses Second Quarter 2005
	-----	-----	-----	-----	-----
Functional Excellence:					
Employee-related expenses	\$283	\$ 1	\$284	\$ (222)	\$ (19)
Other	57	4	61	(54)	(5)
	----	----	----	----	----
Total Functional Excellence Program	\$340	\$ 5	\$345	\$ (276)	\$ (24)
	----	----	----	----	----
2003 Manufacturing Realignment Program:					
Employee-related expenses					
Severance payments	43	-	43	(4)	-
Other benefits	8	(1)	7	-	-
Asset-related expenses:					
Asset write-offs	22	4	26	(22)	(4)
Loss on sales of assets	6	-	6	(6)	-
Contractual obligations and other	18	4	22	(17)	(4)
	----	----	----	----	----
Total 2003 Realignment Program	97	7	104	(49)	(8)
	----	----	----	----	----
Other Realignment Programs:					
Employee-related expenses					
Severance payments	12	-	12	-	-
Other benefits	2	-	2	-	-
Asset-related expenses					
Accelerated depreciation	6	16	22	(6)	(16)
Contracted Obligations and other	-	1	1	-	(1)
	----	----	----	----	----
Total Other Realignment Programs	20	17	37	(6)	(17)
	----	----	----	----	----
Total	\$457	\$ 29	\$486	\$ (331)	\$ (49)
	=====	=====	=====	=====	=====

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of  
Operations The Gillette Company and Subsidiary Companies

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### EFFECTS OF MERGER

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The proposed merger between The Gillette Company and The Procter & Gamble Company (P&G), described in the registration statement on Form S-4, as amended and filed by P&G on May 25, 2005 with the Securities and Exchange Commission ("SEC"), if completed, will have material effects on the forward-looking statements contained in this report. Investors are advised that such forward-looking statements with respect to revenues, earnings, performance, strategies, prospects, and other aspects of the Company's business are discussed as a combined business in the aforementioned registration statement. INVESTORS ARE URGED TO READ THE REGISTRATION STATEMENT AND ANY OTHER RELEVANT DOCUMENTS FILED WITH THE SEC, INCLUDING THE JOINT PROXY STATEMENT/PROSPECTUS THAT IS PART OF THE REGISTRATION STATEMENT, BECAUSE THEY CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION.

### Executive Overview

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We achieved record results in the second quarter and six months ended June 30, 2005, with double-digit percentage increases in net sales, profit from operations, net income, and diluted net income per common share.

For the second quarter of 2005 net sales increased 13% to \$2.8 billion as compared with \$2.4 billion in 2004, driven by strong sell-in of new product offerings from our Blades and Razors, Oral Care, Braun and Personal Care businesses, the continuing strength of established products, and the trade-up activity across core categories in all regions, with notable growth in the developing markets of Latin America and Eastern Europe. Category growth for batteries in most regions of the world and consumer trade-up from inferior performing zinc to alkaline batteries resulted in further sales growth. Sales of batteries in the U.S. grew as trade and consumers prepared for the hurricane season. The impact of foreign currency movement on net sales contributed 3 points to the gain, primarily related to Europe. The impact of pricing was slightly negative, as price increases in Blades and Razors were more than offset by the lower average pricing associated with sales of larger pack sizes at Duracell. Gross profit increased 11% to \$1.6 billion in the second quarter of 2005, as gross profit margin declined by 1.1 percentage points to 59.3%, compared with 60.4% in 2004. The positive impact of manufacturing efficiencies was more than offset by incremental costs related to the manufacturing realignment at Duracell, an increase in the proportion of razors versus blades sales due to the sell in of Venus Vibrance, and higher currency-based European manufacturing costs, primarily for Braun and to a lesser extent for Oral Care. Profit from operations rose 18% year-over-year, to \$721 million in the second quarter of 2005, compared with \$610 million in 2004, driven by strong net sales growth, sustained manufacturing efficiencies, and continued overhead reductions, offset in part by manufacturing realignment costs at Duracell, higher currency-based European manufacturing costs, and merger-related transaction costs. Net income for the quarter rose 17% to \$498 million from \$426 million last year, driven by the strong operating results and a lower effective tax rate of 28%, down one percentage point from a year ago and consistent with the first quarter of 2005. The reduction in the 2005 effective income tax rate versus 2004 was primarily due to a favorable change in the mix of earnings to countries taxed at rates lower than the U.S. statutory rate. Net income per common share, diluted, increased 17%, in line with the net income growth.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Blades and Razors net sales for the second quarter of 2005 increased 11% versus the comparable period in 2004, driven by strong consumer demand for new



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products, which included the launch of Venus Vibrance in North America in the second quarter of 2005. Trade-up to premium systems and higher performing disposables in developed markets, and to entry-level systems in developing markets also contributed to year-on-year growth. Blades and Razors profit from operations increased 16% compared to the second quarter of 2004 due to higher sales of new products, price increases, and trade-up to premium products in all regions, partially offset by an unfavorable razor versus blade mix. Duracell net sales increased 18% as compared to the second quarter of 2004 driven by accelerating battery category growth in most regions of the world, consumer trade-up to alkaline from inferior performing zinc batteries, particularly in Asia, and the favorable effects of foreign currency. In addition, the early start to the U.S. hurricane season and a Florida state-sponsored hurricane preparedness program for consumers contributed to net sales growth in this period. Duracell maintained its leading value share in the U.S., as it increased its advertising and marketing spending to counter the competitive promotional activity and the deflationary pricing activity of price-value alkaline brands. Duracell profit from operations increased 34% due to higher volumes, improved product mix and manufacturing efficiencies, offset in part by lower average pricing resulting from a shift in mix towards larger pack sizes and costs associated with a manufacturing facility closure. Oral Care net sales increased 17%, driven by the introduction of new products, trade-up to premium products, and the unmatched impact of two acquisitions completed in April and June of 2004. Oral Care profit from operations was up 28% year-over-year, due to the growth in net sales and improved product mix, partially offset by increases in advertising spending and currency-related European-based manufacturing costs. Braun net sales increased 16% as compared to the second quarter of 2004 driven by new product introductions, including the Activator premium shaver, the cruZer(3) youth shaver and Tassimo Coffee on Demand. Braun profit from operations of \$26 million was up 8% as compared to the second quarter of 2004 as sales growth was tempered by currency-related increases in European-based manufacturing costs, an unfavorable product mix related to the double-digit growth in lower margin household appliances, and increased marketing support. Personal Care net sales increased 9% as compared to the second quarter of 2004, driven by the ongoing trade-up to premium products, and the success of recently introduced TAG body sprays and MACH3 shave gels. Personal Care profit from operations increased 25% as compared to the second quarter of 2004 due to improved product mix from new product introductions and trade-up in shaving preparations from foams to gels.

For the six month period ended June 30, 2005, total Company net sales increased 15%, profit from operations increased 17% and operating profit margin increased to 25.3% from 24.9% for the same period last year. The effective income tax rate declined by one percentage point to 28%. Net income climbed 18% and net income per common share, diluted, increased 19%, outpacing the percentage increase in net income as we benefited from the impact of share repurchase activity during 2004. The Company did not repurchase any shares during the six months ended June 30, 2005 due to restrictions associated with the pending merger with P&G.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### RESULTS OF OPERATIONS

Second Quarter 2005 vs. 2004

Selected statement of income data is presented below.

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(millions, except per share amounts and percentages)	Second Quarter				
	2005	% of Net Sales	2004	% of Net Sales	% Increase/ (Decrease)
Net sales	\$2,770		\$2,443		13
Gross profit	1,643	59.3	1,475	60.4	11
Advertising	306	11.0	258	10.6	19
Sales promotion	101	3.6	93	3.8	9
Other selling, general and administrative (SG&A) expense	515	18.6	514	21.0	-
Total SG&A expense	922	33.3	865	35.4	7
Profit from operations	\$ 721	26.0	\$ 610	25.0	18
Nonoperating charges (income):					
Net interest expense	7		8		
Foreign exchange	-		(2)		
Other	21		3		
Total nonoperating charges	28	1.0	9	0.4	+100
Income taxes	\$ 195	7.0	\$ 175	7.2	11
Net income	\$ 498	18.0	\$ 426	17.4	17
Net income per common share, diluted	\$ 0.49		\$ 0.42		17

Total Company

Net sales for the second quarter of 2005 were \$2.8 billion, an increase of 13% versus \$2.4 billion for the same period in 2004. Favorable volume/mix contributed 11% to net sales. Net sales increased due to new product offerings, the ongoing strength of established products, trade-up activity across our core categories in all regions, and advance purchases of batteries in the U.S. in anticipation of the hurricane season. Favorable foreign exchange, notably in Europe, contributed 3 percentage points to the net sales gain. The impact of pricing was slightly negative, as price increases in Blades and Razors were offset by average pricing decreases in Duracell due to a shift towards larger pack sizes.

Gross profit was \$1.6 billion for the second quarter of 2005 versus \$1.5 billion for the same period in 2004. As a percent of net sales, gross profit was 59.3% in 2005 and 60.4% in 2004. The positive impact of manufacturing efficiencies was more than offset by an unfavorable razor versus blade mix, incremental costs related to manufacturing realignment costs at Duracell and higher currency-based European manufacturing costs, particularly for Braun and to a lesser extent for Oral Care.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

Total selling, general and administrative expenses amounted to 33.3% of net sales for the second quarter of 2005, compared with 35.4% in 2004. Within selling, general and administrative expenses, advertising expenses increased 19%

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to \$306 million or 11.0% of net sales for the second quarter of 2005, in support of the new product launches and established product programs. Other selling, general and administrative expenses were down as a percentage of net sales to 18.6% from 21.0% in the second quarter of 2004, reflecting the effects of continued overhead reductions, partially offset by \$11 million in merger-related transaction costs.

Profit from operations was \$721 million in the second quarter of 2005, representing 26.0% of net sales, compared with \$610 million for the same period in 2004, or 25.0% of net sales. The 18% increase in year-on-year profit from operations was the result of strong sales growth from new products, a shift in mix to premium priced products, incremental manufacturing efficiencies, and continued overhead reductions, offset in part by incremental costs related to the closure of a Duracell plant and merger-related transaction costs.

Within non-operating charges/income, net interest expense amounted to \$7 million in second quarter of 2005 and \$8 million in 2004. The net foreign transactional exchange impact for the second quarter of 2005 was zero, versus \$2 million of net foreign exchange income for the same period in 2004. The \$18 million increase in other non-operating charges for the second quarter of 2005 compared to the same period in 2004 resulted from a write-down of certain non-operating assets.

The effective income tax rate was 28% for the second quarter of 2005, compared with rate of 29% for the same period in 2004. The reduction in the 2005 effective income tax rate was primarily due to a favorable change in the mix of earnings to countries taxed at rates lower than the U.S. statutory rate.

Net income increased 17% to \$498 million for the second quarter of 2005, representing 18.0% of net sales, compared with \$426 million for the same period in 2004, which represented 17.4% of net sales. Diluted net income per common share was \$0.49 for the second quarter of 2005, compared with \$0.42 for the second quarter in 2004, representing growth of 17%.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Six Months Ended June 30, 2005 vs. 2004

Selected statement of income data is presented below.

(millions, except per share amounts and percentages)	For Six Months Ended June 30				
	2005	% of Net Sales	2004	% of Net Sales	% Increase/ (Decrease)
Net sales	\$5,380		\$4,678		15
Gross profit	3,161	58.8	2,832	60.5	12
Advertising	576	10.7	494	10.6	17
Sales promotion	192	3.6	166	3.5	16
Other selling, general and administrative (SG&A) expense	1,032	19.2	1,006	21.5	3
Total SG&A expense	1,800	33.5	1,666	35.6	8

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Profit from operations	\$1,361	25.3	\$1,166	24.9	17
Nonoperating charges (income):					
Net interest expense	16		17		
Foreign exchange	(1)		18		
Other	28		-		
	-----		-----		
Total nonoperating charges	43	0.8	35	0.8	23
	-----		-----		
Income taxes	\$ 372	6.9	\$ 329	7.0	13
Net income	\$ 946	17.6	\$ 802	17.1	18
Net income per common share, diluted	\$ 0.94		\$ 0.79		19

Total Company

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Net sales for the six months ended June 30, 2005 were \$5.4 billion, an increase of 15% versus \$4.7 billion for the same period in 2004. Favorable volume/mix contributed 12% to net sales. Net sales increased due in part to new product offerings, the ongoing strength of established products, accelerating consumption in the battery category, and trade-up activity across our core categories in all regions. Favorable foreign exchange, notably in Europe, contributed 3 percentage points to the net sales gain. Pricing was flat, as price increases in Blades and Razors were offset by unfavorable pricing impacts in Duracell due to a shift towards larger pack sizes.

Gross profit was \$3.2 billion for the six months ended June 30, 2005 versus \$2.8 billion for the same period in 2004. As a percent of net sales, gross profit was 58.8% in 2005 and 60.5% in 2004. The positive impact of manufacturing efficiencies was more than offset by incremental costs related to the manufacturing realignment at Duracell, an unfavorable razor versus blade mix, and higher currency-based European manufacturing costs, primarily for Braun and to a lesser extent for Oral Care.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Total selling, general and administrative expenses amounted to 33.5% of net sales for the six months ended June 30, 2005, compared with 35.6% in 2004. Within selling, general and administrative expenses, advertising expenses increased 17% to \$576 million or 10.7% of net sales for the six months ended June 30, 2005. We expect advertising expense to remain at the current level, as a percentage of sales, for the remainder of the year. Sales promotion as a percentage of net sales increased slightly, compared with the six months ended June 30, 2004, in support of the new product launches. Other selling, general and administrative expenses were down as a percentage of net sales to 19.2% from 21.5% for the six months ended June 30, 2004, reflecting the effects of continued overhead reductions, offset in part by approximately \$22 million in merger-related transaction costs.

Profit from operations was \$1.4 billion for the six months ended June 30, 2005, representing 25.3% of net sales, compared with \$1.2 billion for the same period in 2004, or 24.9% of net sales. The 17% increase in year-on-year profit from operations was the result of strong sales growth from new products, a shift in mix to premium priced products, sustained manufacturing efficiencies, and continued overhead reductions, offset in part by incremental costs related to the closure of a Duracell plant and merger-related transaction costs.

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Within non-operating charges/income, net interest expense amounted to \$16 million and \$17 million for the six months ended June 30, 2005 and 2004, respectively. The net foreign transactional exchange impact for the six months ended June 30, 2005 was \$1 million of net foreign exchange income, versus \$18 million of net foreign exchange expense for the same period in 2004. The 2004 result was driven by a non-cash loss related to the write-off of translation adjustment balances associated with the liquidation of certain international subsidiaries. The \$28 million increase in other non-operating charges for the six months ended June 30, 2005 versus the same period last year is due to a write-down in 2005 of certain non-operating assets and an unmatched insurance settlement credit recorded in 2004.

The effective income tax rate was 28% for the six months ended June 30, 2005, compared with 29% for the same period of 2004. The reduction in the 2005 effective income tax rate was primarily due to a favorable change in the mix of earnings taxed at rates lower than the U.S. statutory rate. Unless we repatriate significant additional foreign earnings, we expect our tax rate for the remainder of 2005 to be approximately 28%.

Net income increased 18% to \$946 million for the six months ended June 30, 2005, representing 17.6% of net sales, compared with \$802 million for the same period in 2004, which represented 17.1% of net sales. Diluted net income per common share was \$0.94 for the six months ended June 30, 2005, compared with \$0.79 for the same period in 2004, representing growth of 19%. The percentage growth in net income per common share, diluted, outpaced the percentage growth in net income, due to share repurchase program activity in 2004. The Company did not repurchase any shares during the six months ended June 30, 2005 due to restrictions associated with the pending merger with P&G.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Operating Segments

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#### Second Quarter 2005 vs. 2004

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The following tables summarize key operating metrics for the second quarter of 2005 versus 2004, for each of our five operating segments. Cost savings and realignment charges are recorded in the relevant segments.

Second Quarter	Blades & Razors	Duracell	Oral Care	Braun	Personal Care	U
-----	-----	-----	-----	-----	-----	-----
(millions, except percentages)						
Net Sales:						
Net sales, 2005	\$1,214	\$ 539	\$ 420	\$ 341	\$ 256	
Net sales, 2004	1,099	456	358	294	236	
% Incr/(Decr) vs. 2004	11	18	17	16	9	
Impact of exchange	3	3	3	3	3	
Impact of volume/mix	7	20	14	13	6	
Impact of pricing	1	(5)	-	-	-	
Profit from operations (PFO):						
PFO, 2005	\$ 488	\$ 119	\$ 87	\$ 26	\$ 30	

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PFO, 2004	420	89	68	24	24
% Incr/(Decr) vs. 2004	16	34	28	8	25
PFO as % of net sales, 2005	40.2	22.1	20.7	7.6	11.7
PFO as % of net sales, 2004	38.2	19.5	19.1	8.1	10.3

### Blades and Razors

Net sales of \$1.2 billion for the second quarter of 2005 were 11% higher than for the same period in 2004, including a 3% favorable foreign exchange impact. Net sales growth was driven by successful new product introductions which included the launch of Venus Vibrance in North America in the second quarter of 2005. Favorable volume/mix related to trade-up to premium products, including a shift to higher performing disposables in Latin America and to entry level systems in developing markets such as China, Turkey, India and Korea, contributed 7% to net sales growth. Pricing contributed 1% to sales growth.

Profit from operations of \$488 million was up 16% from the second quarter of 2004. The profit margin increased by 2.0 percentage points to 40.2% as higher sales from new products, price increases, and a continued shift to premium products in all regions was partially offset by an unfavorable razor versus blade mix and ongoing costs associated with our program to realign European manufacturing and distribution.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Duracell

Net sales of \$539 million for the second quarter of 2005 were 18% higher than the same period in 2004, including a 3% favorable foreign exchange impact. Net sales gains were driven by accelerating category growth in most regions of the world, including advance purchases of batteries in the U.S. in anticipation of the hurricane season, as well as demand associated with consumer electronics such as MP3 players and trade-up from zinc to alkaline. Duracell maintained its leading value share in the U.S., as it increased its advertising and marketing spending to counter the competitive promotional activity and the deflationary pricing activity of price-value alkaline brands.

In March of 2005, we committed to a plan to close a Duracell manufacturing facility located in Lexington, North Carolina. Of the approximately \$75 million in total expected costs to be incurred in conjunction with the closure of this facility, we recognized \$17 million of expense in the second quarter of 2005. This program is discussed further under Realignment Programs and in the accompanying Notes to Consolidated Financial Statements.

For the second quarter of 2005, profit from operations of \$119 million increased 34%, and profit margin grew by 2.6 percentage points, compared with the same period in 2004. The increases were due to higher net sales and significant benefits from manufacturing efficiencies, offset in part by an unfavorable shift in mix towards larger pack sizes and costs associated with the plant closure.

With the early arrival of hurricanes in the U.S. in 2005 pushing forward the purchase of batteries, Duracell will face a difficult comparison in the third quarter against the same period last year, when hurricane related sales peaked.

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### Oral Care

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Oral Care net sales for the second quarter of 2005 of \$420 million were 17% higher than the same period in 2004, with favorable foreign exchange contributing 3%. Volume/mix was favorable by 14% in the second quarter of 2005. Net sales gains were driven by the introduction of new products, ongoing trade-up to premium products such as CrossAction Vitalizer and Advantage Artica manual toothbrushes and to the ProfessionalCare 8000 and Sonic Complete premium rechargeable brushes, and the Rembrandt and Zooth acquisitions which added 3%.

For the second quarter of 2005, profit from operations of \$87 million increased 28%. The increase was driven by higher net sales from new products and improved product mix, partially offset by a double-digit percentage increase in advertising and higher currency-related European-based manufacturing costs.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Braun

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In the second quarter of 2005, Braun net sales of \$341 million were 16% higher than the same period in 2004, with favorable foreign exchange contributing 3%. Net sales growth was driven by solid growth in all major regions due to very active new product programs, including the roll-out of the Activator premium shaver, the cruZer(3) youth shaver and Tassimo Coffee on Demand. Braun also experienced gains in female hair removal led by the ongoing growth in epilators, particularly in AMEE (Africa, Middle East, and Eastern Europe). During the quarter, Braun increased its value share of the male electric shaver market in key North America, Europe, and Asia markets.

Profit from operations in the second quarter of 2005 of \$26 million compared with \$24 million in 2004. Profit from operations was up 8% as compared to the second quarter of 2004 as sales growth was tempered by currency-related increases in European-based manufacturing costs, a change in product mix to lower yielding household appliances, and higher marketing support.

### Personal Care

-----

In the second quarter of 2005, net sales increased 9% versus 2004 to \$256 million, with favorable foreign exchange contributing 3% of the gain. Volume/mix was favorable by 6% in the second quarter of 2005. Net sales growth was due to strong demand for new products, including the recently launched TAG body sprays and MACH3 Shave Gel. In addition, the ongoing trade-up to premium products, in particular foam to gel shave preparations, has been aided by an increase in marketing investment behind our foam-to-gel trade-up initiative in Europe and AMEE.

Profit from operations increased 25% to \$30 million for 2005, compared with \$24 million in 2004. Profit improvement was driven by net sales growth associated with improved mix from new products and trade-up from foams to gels partially offset by a double-digit percentage increase in advertising investment behind new product launches and the foam-to-gel trade-up initiative.

### Unallocated/Other

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In the second quarter of 2005, unallocated expenses increased over prior year, due in part to \$11 million in merger-related transaction costs.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Six Months Ended June 30, 2005 vs. 2004  
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The following tables summarize key operating metrics for the six months ended June 30, 2005 versus 2004, for each of our five operating segments. Cost savings and realignment charges are recorded in the relevant segments.

June Year-to-Date ----- (millions, except percentages)	Blades & Razors -----	Duracell -----	Oral Care ----	Braun -----	Personal Care -----
Net Sales:					
Net sales, 2005	\$2,387	\$1,001	\$ 833	\$647	\$ 512
Net sales, 2004	2,136	870	673	553	446
% Incr/(Decr) vs. 2004	12	15	24	17	15
Impact of exchange	3	3	3	3	3
Impact of volume/mix	8	16	22	14	12
Impact of pricing	1	(4)	(1)	-	-
Profit from operations (PFO):					
PFO, 2005	\$ 957	\$ 210	\$ 170	\$ 31	\$ 58
PFO, 2004	837	163	123	45	37
% Incr/(Decr) vs. 2004	14	29	38	(31)	57
PFO as % of net sales, 2005	40.1	21.0	20.4	4.8	11.3
PFO as % of net sales, 2004	39.2	18.8	18.4	8.1	8.3

#### Blades and Razors -----

Net sales of \$2.4 billion for the six months ended June 30, 2005 were 12% higher than for the same period in 2004, including a 3% favorable foreign exchange impact. Net sales growth was driven by successful new product introductions including the roll-out of M3Power to the remainder of Europe and in Australia, the launch of M3Power Nitro and Venus Vibrance in North America and the launch of Venus Disposables in North America and Europe. Trade-up to premium products, particularly in Latin America, China, Turkey, India and Korea contributed to favorable volume/mix of 8% and pricing contributed 1% to sales growth.

Profit from operations of \$957 million was up 14% from the six months ended June 30, 2004, as the profit margin increased by 0.9 percentage points to 40.1%. Profit from operations reflected higher sales from new products, price increases, and a continued shift to premium products in all regions, partially offset by an unfavorable razor versus blade mix and ongoing costs associated with our program to realign European manufacturing and distribution.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Duracell

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Net sales of \$1.0 billion for the six months ended June 30, 2005 were 15% higher than the same period in 2004, including a 3% favorable foreign exchange impact. Net sales gains were driven by accelerating category growth in most regions of the world.

For the six months ended June 30, 2005, profit from operations of \$210 million increased 29%, and profit margin grew by 2.2 percentage points, compared with the same period in 2004. The increases were due to higher net sales and significant benefits from manufacturing efficiencies, offset in part by an unfavorable shift in mix towards larger pack sizes and costs associated with the Lexington plant closure.

#### Oral Care

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Oral Care net sales for the six months ended June 30, 2005 of \$833 million were 24% higher than the same period in 2004, with favorable foreign exchange contributing 3%. Volume/mix was favorable by 22% for the six months ended June 30, 2005 and pricing was relatively flat. Net sales gains were driven by the introduction of new products, ongoing trade-up to premium products such as CrossAction Vitalizer and Advantage Artica manual toothbrushes and to the ProfessionalCare 8000 and Sonic Complete premium rechargeable brushes, and the Rembrandt and Zooth acquisitions which added 5% to net sales.

For the six months ended June 30, 2005, profit from operations of \$170 million increased 38%. The increase was driven by higher net sales from new products and improved product mix, partially offset by a double-digit percentage increase in advertising and higher currency-related European-based manufacturing costs.

#### Braun

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For the six months ended June 30, 2005, Braun net sales of \$647 million were 17% higher than the same period in 2004, with favorable foreign exchange contributing 3%. Net sales growth was driven by new product introductions, especially in male hair removal and Household product categories, as well as gains in female hair removal led by the ongoing growth in epilators.

Profit from operations for the six months ended June 30, 2005 of \$31 million compared with \$45 million in 2004. Profit from operations for 2005 was tempered by higher costs related to manufacturing realignment, currency-related increases in European-based manufacturing costs, unfavorable product mix, and higher marketing support.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Personal Care

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For the six months ended June 30, 2005, net sales increased 15% versus 2004 to \$512 million, with favorable foreign exchange contributing 3% of the gain.

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Volume/mix was favorable by 12% for the six months ended June 30, 2005. Net sales growth was due to strong demand for new products, including the launch of TAG body sprays and MACH3 Shave Gel in the first quarter, ongoing trade-up to premium products, including foam to gel, and expansion in developing markets, including Russia, Turkey and Poland.

Profit from operations increased 57% to \$58 million for the six months ended June 30, 2005, compared with \$37 million for the same period in 2004. Profit improvement came from net sales growth associated with new products and improved product mix due to the trade-up from foams to gels, partially offset by a double-digit percentage increase in advertising investment behind new product launches and the foam-to-gel trade-up initiative.

Unallocated/Other

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For the first half of 2005, unallocated expenses increased over prior year, due in part to \$22 million in merger-related transaction costs.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### FINANCIAL CONDITION

-----

#### Cash Flow

-----

Cash provided by operations is our primary source of funds to finance operations, capital expenditures, share repurchases, and dividend payments. We use our free cash flow, defined as net cash provided by operating activities net of additions to and disposals of property, plant and equipment, to measure our liquidity, as well as our ability to fund future growth and to provide a return to shareholders. Free cash flow is not a measure of the residual cash flow that is available for discretionary expenditures, since we have certain non-discretionary obligations, such as debt service, that are not deducted from the measure. A reconciliation of free cash flow to the change in cash and cash equivalents in accordance with Generally Accepted Accounting Principles (GAAP) follows.

	2005		2004
	Free	GAAP	Free
	Cash	Cash	Cash
	Flow	Flow	Flow
	----	----	----
Six Months Ended June 30,			
-----			
(millions)			
Net Income		\$946	
Depreciation and amortization		315	
Pension expenses		84	
Deferred income taxes and other		41	
(Increase) Decrease in trade receivable		(144)	
Increase in inventories		(273)	
Net change in other assets and liabilities		(322)	
	----	----	----

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Net cash provided by operating activities*	\$647	\$647	\$921
Additions to property, plant and equipment	(309)		(228)
Disposals of property, plant and equipment	37		30
	----		----
Free cash flow	\$375		\$723
	----		----
Net cash provided by (used in) investing activities*		250	
Net cash used in financing activities*		(644)	
Effect of foreign exchange rate changes on cash		(1)	
		----	
Increase (Decrease) in cash and cash equivalents		\$252	
		----	

\* See Consolidated Statement of Cash Flows on page 5.

Free cash flow for the six months ended June 30, 2005, was \$375 million driven by the strong net income partially offset by increases in working capital versus year-end 2004 where we achieved a record low level.

Free Cash Flow, net cash provided by investing activities and proceeds from the exercise of stock options were used to pay dividends of \$323 million and to reduce loans and long-term debt payable by \$611 million. Net cash used in investing activities for the first six months of 2005 was primarily the result of a net decrease in short term investments of \$521 million, offset by capital spending of \$309 million in support of new product programs and the realignment of our European blade and razor manufacturing and distribution. Net cash used in financing activities for the first six months of 2005 resulted from repayments of loans and long-term debt as well as dividend payments of \$323 million, partially offset by an increase in proceeds received from the exercise of stock options. There were no shares repurchased in the first six months of 2005 due to restrictions associated with the pending merger with P&G.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Debt

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Total debt decreased by \$628 million during the six months ended June 30, 2005, from \$3.4 billion at December 31, 2004, to \$2.8 billion at June 30, 2005. This decrease was principally due to the reduction of loans payable and long-term debt of approximately \$260 million and \$368 million respectively.

Our investment grade long-term credit ratings of AA- from Standard & Poor's and Aa3 from Moody's and commercial paper ratings of A1+ from Standard & Poor's and P1 from Moody's provide a high degree of flexibility in obtaining funds. We have the ability to issue up to \$1.6 billion in commercial paper in the U.S. and Euro markets. Our commercial paper program is supported by our revolving credit facility and other sources of liquidity, primarily our cash flow from operations. At June 30, 2005, there was \$184 million outstanding under our commercial paper program, compared with \$443 million at December 31, 2004. On October 12, 2004, we entered into a 364-day revolving bank credit facility in the amount of \$930 million, expiring October 2005. Liquidity is enhanced through a provision in the 364-day facility that gives us the option to enter into a one-year term loan in an amount up to \$930 million. On October 14, 2003, we entered into a revolving bank credit facility under which up to \$288 million is available for five years, expiring October 2008. We believe we have sufficient alternative sources of funding available to replace our commercial paper

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program, if necessary.

During 2002, two shelf registration statements were filed allowing us to issue up to \$2.8 billion in debt securities in the U.S. We currently anticipate that the proceeds from the sale of any debt securities issued under these shelf registrations will be used to repay commercial paper borrowings and replace other maturing debt, although the proceeds may also be used for other corporate purposes, including repurchase of our common stock. At June 30, 2005, \$1.9 billion, at face value, was issued under these shelf registrations, and a total of \$918 million was available for future debt issuance. All proceeds from these issuances were used to reduce commercial paper borrowings.

With our strong brands, leading market shares, strong financial condition and substantial cash-generating capability, we expect to continue to have funds available for growth through both internally generated cash flow and significant credit resources. We have substantial unused lines of credit and access to worldwide financial markets which enable us to raise funds at favorable interest rates.

Although our credit rating agencies have confirmed that our long-term financing ratings are no longer under the review that was described in more detail in our Annual Report on Form 10-K for the year ended December 31, 2004, our credit ratings and borrowing rates may still be impacted by the proposed merger with P&G.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Market Risk

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We are subject to market risks, such as changes in currency and interest rates, which arise from normal business operations. We regularly assess these risks and have established business strategies designed to provide natural offsets, supplemented by the use of derivative financial instruments, designed to protect against the adverse effects of these and other market risks. We use foreign-denominated debt and forward contracts to hedge the impact of foreign currency changes on our net foreign investments, normally in currencies with low interest rates. Most of our transactional foreign exchange exposure is managed through centralized cash management. We hedge net residual transactional foreign exchange exposures primarily through forward contracts.

We manage our mix of fixed and floating rate debt by entering into interest rate swaps and forward rate agreements. We use primarily floating rate debt, principally achieved through interest rate swaps, in order to balance interest costs to the impact of inflation on earnings.

More detailed information about the strategies, policies, and use of derivative financial instruments is provided in our 2004 Form 10-K under the Financial Instruments and Risk Management Activities note in Notes to Consolidated Financial Statements. We have established policies, procedures, and internal controls governing the use of derivative financial instruments and do not use them for trading, investment, or other speculative purposes. In addition, our use of derivative instruments is reviewed by the Finance Committee of the Board of Directors annually. Financial instrument positions are monitored using a value-at-risk model. Value at risk is estimated for each instrument based on historical volatility of market rates and a 95% confidence level.

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Based on our overall evaluation of our market risk exposures from all of our financial instruments at June 30, 2005, a near-term change in market rates would not materially affect our consolidated financial position, results of our operations, or cash flows.

### REALIGNMENT PROGRAMS

#### Functional Excellence

In the second quarter of 2002, the Company began actions associated with its Functional Excellence initiative, which is described in Notes to Consolidated Financial Statements. During the three and six month periods ended June 30, 2005 and 2004, the Company recorded the following expenses related to this initiative:

	Three Months Ended June 30		Six Months Ended June 30	
(millions)	2005	2004	2005	2004
Functional Excellence expense recorded in:				
Cost of goods sold	\$ 4	\$ 4	\$17	\$ 4
Selling, general and administrative expense	1	8	(5)	15
Total functional excellence expense	\$ 5	\$12	\$12	\$19

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### 2003 Manufacturing Realignment Program

During 2003, the Company announced a blade and razor manufacturing, packaging and warehouse operations realignment program throughout Europe and Russia. The program will significantly reduce costs, improve operating efficiency, and streamline operations. The program began in December 2003 and will be completed during 2007. This program is further described in Notes to Consolidated Financial Statements.

During the three and six months ended June 30, 2005, the Company recorded charges of \$7 million and \$15 million, respectively, to cost of goods sold for this program, related mainly to accelerated depreciation of certain assets, severance accruals and costs related to the relocation of equipment between impacted locations.

#### Other Realignment Expenses

On March 31, 2005, we committed to a plan to close a Duracell manufacturing facility located in Lexington, North Carolina. As part of its ongoing business practice, the Company continuously evaluates its operations in accordance with

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business needs. The Lexington plant is primarily dedicated to the production of high-power lithium batteries. Over the past several years, the demand for these batteries has decreased significantly, as film camera sales have declined and digital cameras, utilizing rechargeable batteries, have gained acceptance. We plan to move some Lexington manufacturing operations to other Duracell facilities and will also source some of the products manufactured in Lexington from third-party providers. The closure of this facility will occur over the next several quarters with a 2006 target completion date.

In conjunction with the plan to close this facility, we expect to incur approximately \$29 million in cash expenses, consisting of severance and other employee-related costs of approximately \$20 million and equipment relocation and other facility transition costs of approximately \$9 million. We will also incur non-cash asset impairment related costs of approximately \$46 million through accelerated depreciation. For the three and six months ended June 30, 2005, expense was approximately \$17 million and \$37 million on a pre-tax basis. We expect to incur further expenses throughout the rest of this year of approximately \$19 million on a pre-tax basis.

### PROPOSED MERGER

-----

On January 27, 2005, we entered into an Agreement and Plan of Merger with The Procter & Gamble Company ("P&G"), an Ohio corporation, and Aquarium Acquisition Corp., a wholly-owned subsidiary of P&G. Upon consummation of the proposed merger, each share of our common stock will be converted into the right to receive 0.975 of a share of P&G common stock. The consummation of the proposed merger is subject to customary conditions, such as regulatory approvals and approval by our shareholders. Our shareholders approved the merger at a special meeting that was held on July 12, 2005. We also received approval of the merger from the European Commission on July 15, 2005. Until the proposed merger closes, we are generally obligated to carry on our business in the ordinary course.

For a more complete description of the proposed merger and the Agreement and Plan of Merger, refer to the registration statement on Form S-4, as amended and filed by P&G on May 25, 2005 with the Securities and Exchange Commission, and our Annual Report on Form 10-K for the year ended December 31, 2004.

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## DISCLOSURE CONTROLS AND PROCEDURES

### Item 4. Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), has evaluated the effectiveness of our disclosure controls and procedures as defined in Securities and Exchange Commission ("SEC") Rule 13a-15(e) as of the end of the period covered by this report. Based upon that evaluation, management has concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

During the Company's second quarter, there were no significant changes in internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

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### PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

We are subject, from time to time, to legal proceedings and claims arising out of our business, which cover a wide range of matters, including antitrust and trade regulation, advertising, product liability, contracts, environmental issues, patent and trademark matters and taxes. Management, after review and consultation with legal counsel, considers that any liability from all of these legal proceedings and claims would not materially affect our consolidated financial position, results of operations or liquidity.

We have been subject to litigation in connection with the proposed merger with The Procter & Gamble Company ("P&G"). On February 10, 2005, a putative class action was filed in Delaware state court on behalf of our shareholders, alleging breaches of fiduciary duties by our board of directors and senior management in connection with the proposed merger. The complaint alleges, among other things, that the proposed merger is "unduly favorable" to P&G and that, if consummated, our senior managers will receive excessive compensation. The plaintiff seeks injunctive relief barring consummation of the proposed merger or, in the alternative, rescission following consummation. The plaintiff also seeks compensatory damages. A second action was filed on February 11, 2005, and a third action was filed on February 28, 2005, both in Delaware state court. These actions are virtually identical to the action filed on February 10, 2005. A motion to consolidate the three actions was granted, lead counsel was appointed, and a consolidated amended complaint was filed on May 9, 2005. We filed an answer to the consolidated amended complaint on June 23, 2005. It is possible that other similar actions will be filed. We and the other named defendants believe the allegations are without merit and intend to vigorously defend the actions.

Since the announcement of the merger agreement, we have received various inquiries from the Securities Division of the Secretary of The Commonwealth of Massachusetts (the "Secretary"). Resolving a dispute over the proper scope of subpoenas issued by the Secretary to us and our financial advisors, the Massachusetts Superior Court (the "Court") concluded on April 28, 2005 that the Secretary lacks jurisdiction over the proposed merger generally and limited the scope of the Secretary's investigation to the fairness opinions provided to us by our financial advisors in connection with the proposed merger. The Court reiterated its conclusion in a subsequent order dated May 19, 2005. Consistent with the Court's orders, we have produced responsive documents, and certain Gillette officers and directors have provided testimony to the Secretary.

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### PART II. OTHER INFORMATION

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

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The following represents information required under Item 703 of Regulation S-K for any purchases made in the quarter covered by this report.

Period -----	Total Number of Shares Purchased (1) -----	Average Price Paid per Share -----	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2) -----	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs -----
04/01/05 - 04/30/05	1,599	\$51.15	-	26,200,000
05/01/05 - 05/31/05	1,871	\$53.42	-	26,200,000
06/01/05 - 06/30/05	-	-	-	26,200,000
Total Second Quarter	3,470	\$52.37	-	26,200,000

(1) Shares were repurchased by the Company under equity-based programs.

(2) The Company's active share repurchase program was announced on 9/16/03 and authorizes the purchase of up to 50 million shares of the Company's common stock. There is no expiration date specified for this program. There were no share repurchases made under the program in the first half of 2005.

### Item 4. Submission of Matters to a Vote of Security Holders

At its Annual Meeting on May 12, 2005, the shareholders of The Gillette Company took the following actions:

1. Elected the following four directors for terms to expire at the 2008 Annual Meeting of Shareholders, with votes as indicated opposite each director's name:

	In Favor -----	Withheld -----
Michael B. Gifford	831,266,967	41,640,753
Ray J. Groves	823,523,427	49,384,293
Fred H. Langhammer	734,535,032	138,372,688
Marjorie M. Yang	728,242,082	144,665,638

The directors whose term of office as a director continued after the meeting are Roger K. Deromedi, Dennis F. Hightower, Herbert H. Jacobi, Nancy J. Karch, Edward F. DeGraan, Wilbur H. Gantz, and James M. Kilts.

2. Approved the ratification of the appointment of KPMG LLP as independent registered public accounting firm for the year 2005. The vote was 843,678,465 for the proposal, 22,876,520 against, with 6,352,735 abstentions.

At a Special Meeting on July 12, 2005, the shareholders of The Gillette Company took the following actions:

1. Approved a proposal to adopt the Agreement and Plan of Merger, dated as of January 27, 2005, among Procter & Gamble, Aquarium Acquisition Corp., a wholly owned subsidiary of Procter & Gamble, and Gillette and approved the merger contemplated by the Merger Agreement. The vote was 726,059,411 for the proposal, 22,510,736 against, and 6,454,772 abstentions.



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2. Approved the proposal to adjourn the special meeting to a later date or dates, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to adopt the merger agreement and approve the merger. The vote was 547,607,927 for the proposal, 140,981,130 against, with 66,281,934 abstentions and 153,928 broker non-votes.

### Cautionary Statement

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Certain statements that we may make from time to time, including statements contained in this report, constitute "forward-looking statements" under the federal securities laws. Forward-looking statements may be identified by words such as "plans," "expects," "believes," "anticipates," "estimates," "projects," "will" and other words of similar meaning used in conjunction with, among other things, discussions of future operations, acquisitions and divestitures, financial performance, our strategy for growth, product development and new product launches, market position, and expenditures.

Forward-looking statements are based on current expectations of future events, but actual results could vary materially from our expectations and projections. Investors are cautioned not to place undue reliance on any forward-looking statements. We assume no obligation to update any forward-looking statements. We caution that historical results should not be relied upon as indications of future performance.

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## PART II. OTHER INFORMATION

Other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include the following, some of which are described in greater detail below:

- merger, acquisition, divestitures and collaborative activities by us, our competitors, or customers;
- failure to complete the proposed merger with The Procter & Gamble Company;
- the pattern of our sales, including variations in sales volume within periods;
- consumer demands and preferences, including the acceptance by our customers and consumers of new products and line extensions;
- the mix of products sold;
- our ability to control and reduce our internal costs and the cost of raw materials;
- competitive factors, including prices, promotional incentives, and trade terms for our products, and our response, as well as those of our customers and competitors, to changes in these factors;
- product introductions and innovations by us and our competitors;
- technological advances by us and our competitors;
- new patents granted to us and our competitors;

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- changes in foreign exchange rates in one or more of our geographic markets;
- changes in laws and regulations, including trade regulations, accounting standards and tax laws, governmental actions affecting the manufacturing and sale of our products, unstable governments and legal systems, and nationalization of industries;
- changes in accounting policies;
- failure to maintain effective internal controls; and
- the impact of general political and economic conditions or hostilities in the United States and in other parts of the world.

### Competitive Environment

-----

We experience intense competition for sales of our products in most markets. Our products compete with widely advertised, well-known, branded products, as well as private label products, which typically are sold at lower prices. In most of our markets, we have major competitors, some of which are larger and more diversified than we are. In March 2003, Energizer Holdings, Inc. acquired the Schick blade and razor business, and in certain countries, the Wilkinson Sword blade and razor business. We have experienced increased competition in our Blades and Razors segment as a result of this change in business ownership. Aggressive competition within our markets to preserve, gain, or regain market share can affect our results in any given period.

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## PART II. OTHER INFORMATION

### Failure to Complete the Proposed Merger

-----

On January 27, 2005, we entered into an Agreement and Plan of Merger with The Procter & Gamble Company ("P&G"). The proposed merger with P&G will, if completed, affect the revenues, earnings, performance, strategies, prospects, and other aspects of our business. There is no assurance, however, that the proposed merger will be consummated. If the proposed merger with P&G is not completed, (i) the value of our common stock may decline and (ii) our ability to accelerate growth opportunities and innovate on significantly broader platforms and other prospects and aspects of our business may be adversely affected.

### Changes in Technology and New Product Introductions

-----

In most product categories in which we compete, there are continuous technological changes and frequent introductions of new products and line extensions. Our ability to introduce new products and/or extend lines of established products successfully will depend on, among other things, our ability to identify changing consumer tastes and needs, develop new technologies, differentiate our products, and gain market acceptance of new products. We cannot be certain that we will achieve these goals.

### Intellectual Property

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We rely upon patent, copyright, trademark, and trade secret laws in the United States and in other countries to establish and maintain our proprietary rights in technology, products, and our brands. Our intellectual property rights, however, could be challenged, invalidated, or circumvented. We do not believe that our products infringe the intellectual property rights of others, but any such claims, if they were successful, could result in material liabilities or loss of business.

### Cost-Savings Strategy

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We have implemented and approved a number of programs designed to reduce costs. Such programs will require, among other things, the consolidation and integration of facilities, functions, systems, and procedures, all of which present significant management challenges. There can be no assurance that such actions will be accomplished as rapidly as anticipated or that the full extent of expected cost reductions will be achieved.

### Sales and Operations Outside of the United States

-----

Sales outside of the United States represent a substantial portion of our business. In addition, we have a number of manufacturing facilities and suppliers located outside of the United States. Accordingly, the following factors could adversely affect operating results in any reporting period:

- changes in political or economic conditions;
- trade protection measures;
- import or export licensing requirements;
- changes in the mix of earnings taxed at varying rates;
- changes in regulatory requirements or tax laws; and
- longer payment cycles in certain countries.

We are also exposed to foreign currency exchange rate risk with respect to our sales, profits, and assets and liabilities denominated in currencies other than the U.S. dollar. Although we use instruments to hedge certain foreign currency risks (through foreign currency forward, swap, and option contracts and non-U.S. dollar denominated financings) and we are partially hedged through our foreign manufacturing operations, we are not fully protected against foreign currency fluctuations, and our reported earnings will be affected by changes in foreign exchange rates.

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## PART II. OTHER INFORMATION

### Retail Environment

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With the growing trend toward retail trade consolidation, especially in developed markets such as the United States and Europe, we are increasingly dependent upon key retailers whose bargaining strength is growing. Accordingly, we face greater pressure from significant retail trade customers to provide more favorable trade terms.

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We can be negatively affected by changes in the policies of our retail trade customers, such as trade inventory levels, access to shelf space, and other conditions. Many of our customers, particularly our high-volume retail trade customers, have engaged in accelerated efforts to reduce inventory levels and shrinkage and to change inventory delivery systems. While we expect the level of trade inventory of our products to decline over time, the speed and magnitude of such reductions and/or our inability to develop satisfactory inventory delivery systems could adversely affect operating results in any reporting period.

### Effect of Terrorism, Military Action and War

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Terrorism, military hostilities and attendant political activity have created an atmosphere of economic uncertainty throughout the world. A disruption in our supply chain, an increase in import or export costs, and/or other macroeconomic events, could adversely affect operating results in any reporting period.

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## PART II. OTHER INFORMATION

### Item 6 Exhibits.

The following exhibits are included herewith:

- 12 Statement Regarding Computation of Ratio of Earnings to Fixed Charges.
- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.

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## SIGNATURE

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE GILLETTE COMPANY  
(Registrant)

/s/ Joseph J. Schena

-----  
Joseph J. Schena  
Vice President, Controller  
and Principal Accounting Officer

August 4, 2005

EXHIBIT INDEX

Exhibit Number and Description

Exhibit 12	Statement Regarding Computation of Ratio of Earnings to Fixed Charges.
Exhibit 31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).
Exhibit 31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).
Exhibit 32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.