

# Procter&Gamble

## Non-GAAP Financial Measures

The accompanying presentation includes the disclosure of non-GAAP financial measures. In accordance with the SEC's Regulation G, the following provides definitions of the non-GAAP measures used in the presentation and the reconciliation to the most closely related GAAP measure.

**Organic Sales Growth:** Organic sales growth measures sales growth excluding the impacts of acquisitions, divestitures and foreign exchange from year-over-year comparisons. The Company believes this provides investors with a more complete understanding of underlying results and trends by providing sales on a consistent basis. The reconciliation of reported sales growth to organic sales growth for the total company is below:

	<u>OND 08</u>	<u>FY 09 (Estimated)</u>
Reported Sales Growth	-3%	-4% to 0%
Less: FX Impact	5%	5%
Less: Acquisitions & Divestitures Impact	0%	1% to 0%
<b>Organic Sales (Ex: A&amp;D, FX)</b>	<b>2%</b>	<b>2% to 5%</b>

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

**Core Earnings Per Share (excludes FY 2008 Tax Benefits and Folgers-related Impacts):** This is a measure of the Company's earnings per share excluding the net tax benefits from a number of significant adjustments to tax reserves during fiscal year 2008 and the net impact from the sale of the Folgers business. Management believes this measure provides an important perspective of underlying business trends and results and provides a more comparable measure of year-on-year earnings per share growth.

In 2008, there was a net tax benefit of \$0.14 per share attributed to a number of significant adjustments to tax reserves in the U.S. and other countries. For fiscal 2009, the Company expects a gain of \$0.63 per share on the sale of the Folgers business partially offset by \$0.12 per share of incremental Folgers-related restructuring charges and \$0.03 per share from the loss of Folgers earnings. We do not view these items to be part of our sustainable results. The table below provides a reconciliation of reported diluted net earnings per share to core earnings per share for fiscal 2008 and 2009:

	<u>FY 08</u>	<u>FY 09 (Estimated)</u>
<b>Diluted Net Earnings Per Share</b>	<b>\$3.64</b>	<b>\$4.20 to \$4.35</b>
Less: Folgers Results	(\$0.08)	(\$0.05)
Less: Gain on the Folgers Transaction	-	(\$0.63)
<b>Diluted Net Earnings From Continuing Operations Per Share</b>	<b>\$3.56</b>	<b>\$3.52 to \$3.67</b>
Less: Incremental Folgers-related Restructuring	-	\$0.12
Less: Net Tax Benefits of Significant Adjustments to Tax Reserves	(\$0.14)	-
<b>Core Net Earnings Per Share</b>	<b>\$3.42</b>	<b>\$3.64 - \$3.79</b>
<i>Core Earnings Per Share Growth</i>		<i>6% to 11%</i>

**Operating Margin (excluding Folgers-related Restructuring):** This is a measure of the Company's operating margin excluding the impact of incremental Folgers-related restructuring charges which are designed to offset the earnings dilution from the loss of the Folgers business and related stranded overhead costs. Management believes this measure provides an important perspective of underlying business trends and results and provides a more comparable measure of year-on-year operating margin changes. The reconciliation of operating margin excluding Folgers-related restructuring charges is provided below:

	<u>FY 08</u>	<u>FY 09 (Estimated)</u>
<b>Operating Margin (as Reported)</b>	<b>20.4%</b>	<b>20.2% to 20.6%</b>
Less: Incremental Folgers-related Restructuring Charges	-	50bps
<b>Operating Margin (excluding Folgers-related Restructuring Charges)</b>	<b>20.4%</b>	<b>20.7% to 21.1%</b>

**Free Cash Flow and Free Cash Flow Productivity:** Free cash flow is defined as operating cash flow less capital spending and is an important measure because it is one factor in determining the amount of cash available for dividends and discretionary investments. Free cash flow productivity is defined as the ratio of free cash flow to net earnings. Free cash flow and free cash flow productivity are both measures used to evaluate senior management. The Company's long-term target is to generate free cash at or above 90 percent of net earnings. The reconciliation of free cash flow and free cash flow productivity is provided below:

	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>
Operating Cash Flow	\$8,455	\$9,216	\$8,561	\$11,372	\$13,410	\$15,008
Capital Spending	-\$1,482	-\$2,024	-\$2,181	-\$2,667	-\$2,945	-\$3,046
Free Cash Flow	\$6,973	\$7,192	\$6,380	\$8,705	\$10,465	\$11,962
Net Earnings	\$4,788	\$6,156	\$6,923	\$8,684	\$10,340	\$12,075
<b>Free Cash Flow Productivity</b>	<b>146%</b>	<b>117%</b>	<b>92%</b>	<b>100%</b>	<b>101%</b>	<b>99%</b>