GILLETTE CO
Form 10-Q
July 29, 2004

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, 2004 Commission File Number 1-922

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

Incorporated in Delaware	04-1366970
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

Prudential Tower Building,	
Boston, Massachusetts	02199
(Address of principal executive offices)	(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 July 26, 2004 1,001,845,362

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PART I. FINANCIAL INFORMATION

THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF INCOME
(Millions, except per share amounts)
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Net Sales	$ 2,443	$ 2,254	$ 4,678	$ 4,2
Cost of Sales	968	915	1,846	1,7
Gross Profit	1,475	1,339	2,832	2,4
Selling, General and Administrative Expenses	865	834	1,666	1,6
Profit from Operations	610	505	1,166	8
Nonoperating Charges (Income):				
Interest income	(3)	(3)	(6)	
Interest expense	11	16	23	
Exchange	(2)	3	18	
Other charges - net	3	6	-	
	9	22	35	
Income before Income Taxes	601	483	1,131	8
Income Taxes	175	145	329	2
Net Income	$ 426	$ 338	$ 802	$ 6
Net Income per Common Share:				
Basic	$ .43	$ .33	$ .80	$.
Assuming full dilution	$ .42	$ .33	$ .79	$.
Dividends per Common Share:				
Declared	$ .1625	$ .3250	$ .3250	$ .32
Paid	$ .1625	$ .1625	$ .3250	$ .32
Weighted average number of common shares outstanding				
Basic	1,003	1,021	1,004	1,0
Assuming full dilution	1,012	1,023	1,012	1,0

See Accompanying Notes to Consolidated Financial Statements.

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

	June 30, 2004	December 31, 2003	June 3 2003

	(Unaudited)		(Unaudit
Current Assets:			
Cash and cash equivalents	$ 644	$ 681	$ 614
Trade receivables, less allowances, June 2004, $51; December 2003, $53; June 2003, $55	884	920	1,135
Other receivables	332	351	395
Inventories			
Raw materials and supplies	122	114	116
Work in process	250	196	221
Finished goods	1,035	784	822
Total Inventories	1,407	1,094	1,159
Deferred income taxes	302	322	314
Other current assets	190	282	292
Total Current Assets	3,759	3,650	3,909
Property, Plant and Equipment, at cost	7,162	7,099	6,696
Less accumulated depreciation	(3,638)	(3,455)	(3,185)
Net Property, Plant and Equipment	3,524	3,644	3,511
Goodwill	1,024	1,023	975
Intangible Assets, less accumulated amortization	570	494	390
Other Assets	1,082	1,144	1,096
	$ 9,959	$ 9,955	$ 9,881

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)

	June 30, 2004	December 31, 2003	June 30, 2003
	(Unaudited)		(Unaudited)
Current Liabilities:			
Loans payable	$ 345	$ 117	$ 364
Current portion of long-term debt	717	742	584
Accounts payable	598	574	549
Accrued liabilities	1,705	1,769	1,646
Dividends payable	163	163	166
Income taxes	271	293	232
Total Current Liabilities	3,799	3,658	3,541

Long-Term Debt	2,050	2,453	2,740
Deferred Income Taxes	652	626	625
Other Long-Term Liabilities	932	929	887
Minority Interest	69	65	42
Stockholders' Equity:			
Common stock, par value $1.00 per share: Authorized 2,320 shares Issued: June 2004, 1,378 shares; Dec. 2003, 1,374 shares; June 2003, 1,372 shares	1,378	1,374	1,372
Additional paid-in capital	1,375	1,273	1,233
Earnings reinvested in the business	7,809	7,333	6,877
Accumulated other comprehensive loss	(1,082)	(1,088)	(1,257)
Treasury stock, at cost: June 2004, 376 shares; Dec. 2003, 367 shares; and June 2003, 352 shares	(7,021)	(6,665)	(6,179)
Deferred stock-based compensation	(2)	(3)	-
Total Stockholders' Equity	2,457	2,224	2,046
	$ 9,959	$ 9,955	$ 9,881

See Accompanying Notes to Consolidated Financial Statements.

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

	Six Months Ended June 30	
	2004	2003
Operating Activities		
Net income	$ 802	$ 601
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	299	278
Deferred income taxes	32	39
Other	14	11
Changes in assets and liabilities, excluding effects of acquisitions and divestitures:		
Trade and other accounts receivable	38	59
Inventories	(330)	(188)
Accounts payable and accrued liabilities	(21)	227
Other working capital items	(3)	(68)
Other noncurrent assets and liabilities	90	45
Net cash provided by operating activities	921	1,004
Investing Activities		
Additions to property, plant and equipment	(228)	(132)
Disposals of property, plant and equipment	30	23
Acquisitions, net of cash acquired	(115)	-
Other	1	-

Net cash used in investing activities	(312)	(109)
Financing Activities		
Purchase of treasury stock	(355)	(786)
Proceeds from exercise of stock option and purchase plans	100	37
Proceeds from long-term debt	-	684
Repayment of long-term debt	(389)	(382)
Increase (Decrease) in loans payable	228	(311)
Dividends paid	(327)	(335)
Net settlements, debt-related derivative contracts	100	7
Net cash used in financing activities	(643)	(1,086)
Effect of Exchange Rate Changes on Cash	(3)	4
Decrease in Cash and Cash Equivalents	(37)	(187)
Cash and Cash Equivalents at Beginning of Period	681	801
Cash and Cash Equivalents at End of Period	$ 644	$ 614
Supplemental disclosure of cash paid for:		
Interest	$ 21	$ 29
Income taxes	$ 237	$ 212

See Accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Net Income, as reported	$ 426	$ 338	$ 802	$ 601
Other Comprehensive Income, net of tax:				
Foreign Currency Translation	(4)	171	7	262
Cash Flow Hedges	(1)	2	(1)	4
Comprehensive Income	$ 421	$ 511	$ 808	$ 867

Accumulated Other Comprehensive Loss

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

	Foreign Currency	Pension	Cash Flow	Accumulated Other Comprehensive

	Translation	Adjustment	Hedges	Loss
Balance December 31, 2002	$(1,332)	$ (186)	$ (5)	$(1,523)
Change in period	2	-	3	5
Income tax benefit (expense)	89	-	(1)	88
Balance March 31, 2003	$(1,241)	$ (186)	$ (3)	$(1,430)
Change in period	185	-	3	188
Income tax benefit (expense)	(14)	-	(1)	(15)
Balance June 30, 2003	$(1,070)	$ (186)	$ (1)	$(1,257)
Balance December 31, 2003	$ (898)	$ (193)	$ 3	$(1,088)
Change in period	2	-	-	2
Income tax benefit (expense)	9	-	-	9
Balance March 31, 2004	$ (887)	(193)	3	(1,077)
Change in period	(7)	-	(2)	(9)
Income tax benefit (expense)	3	-	1	4
Balance June 30, 2004	$ (891)	$ (193)	$ 2	$(1,082)

See Accompanying Notes to Consolidated Financial Statements.

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

Accounting Comments

Reference is made to the registrant's 2003 Annual Report to Shareholders, which contains, at pages 37 through 66, 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, 2003.

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.

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 2003 consisted of 12 weeks and 4 days, while the first quarter of 2004 consisted of 12 weeks and 3 days. The fourth quarter of 2003 consisted of 13 weeks and 4 days, while the fourth quarter of 2004 will consist of 13 weeks and 6 days.

Under generally accepted accounting principles, shipping and handling costs may be reported as a component of either cost of sales or selling, general and administrative expenses. The Company formerly reported all such costs related to outbound freight in the Consolidated Statement of Income as a component of selling, general and administrative expenses. Beginning in 2004, the Company has elected to report the costs related to outbound freight in cost of sales. This change resulted in the following reclassifications to the second quarter, 2003 and six months ended June 30, 2003, Consolidated Statement of Income: increased cost of sales and reduced gross profit and selling, general and administrative expenses by $45 million and $85 million, respectively; and reduced gross profit as a percentage of net sales from 61.4% to 59.4% and from 61.0% to 59.0%, respectively. There was no impact on profit from operations, net income or earnings per share as a result of this reclassification.

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 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.

(Millions, except per share amounts)	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Net income, as reported	$ 426	$ 338	$ 802	$ 601
Add: Compensation expense included in reported net income, net of related tax effects	1	-	1	-
Less: Compensation expense for option awards determined by the fair-value-based method, net of related tax effects	(24)	(25)	(48)	(50)
Pro forma net income	$ 403	$ 313	$ 755	$ 551
Net income per common share				
Basic				
As reported	$ .43	$ .33	$ .80	$ .58
Pro forma	.40	.31	.75	.54
Assuming full dilution				
As reported	$ .42	$ .33	$ .79	$ .58
Pro forma	.40	.31	.75	.54

Accounting Comments (Continued)

In May 2004, the Company's shareholders approved the 2004 Long-Term Incentive Plan (the "Plan"), which authorizes the Board of Directors, or a delegate thereof, to grant stock options, stock appreciation rights, restricted stock units, cash awards and other stock-based awards. Key employees and non-employee directors of the Company and its subsidiaries are eligible to participate in the Plan. The Plan became effective on May 20, 2004 and expires on May 19, 2014. The number of shares authorized for grant under the Plan is 37,380,295. At June 30, 2004, 25,949,635 shares were available for future grants.

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 2004 presentation.

Accounting Pronouncements

In May 2004, the FASB issued FASB Staff Position (FSP) No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act ("the Act") of 2003" which supersedes FSP FAS 106-1 of the same title. The Staff Position clarifies the accounting for the benefits attributable to new government subsidies for companies that provide prescription drug benefits to retirees. The new accounting requirements are not effective until the third quarter 2004. In accordance with FSP FAS 106-1, the Company elected to defer accounting for the economic effects of the new Medicare Act. Accordingly, any measures of the accumulated postretirement benefit obligation or net periodic postretirement benefit cost in the financial statements or accompanying notes do not reflect the effect of the subsidy because the Company is unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D under the Act.

Goodwill and Intangible Assets

Total goodwill by segment follows.

Net Carrying Amount (Millions)	June 30, 2004	December 31, 2003	June 30, 2003
Blades & Razors	$ 140	$ 140	$ 140
Duracell	633	632	584
Oral Care	191	191	172
Braun	60	60	79
Personal Care	-	-	-
Total	$1,024	$1,023	$ 975

The difference between the December 31, 2003 balance versus the June 30, 2003 balance is due to the acquisition of a majority interest in the Fujian Nanping Nanfu Battery Co., Ltd. in China in August 2003 and the impact of foreign currency translation. The values for the Nanfu intangibles, as well as the related goodwill, may be adjusted in future periods as the purchase price accounting for the acquisition is not yet final.

The detail of intangible assets follows.

(Millions)	Weighted Average Amortization Period (Years)	June 30, 2004 Carrying Amount	June 30, 2004 Accumulated Amortization	December 31,2003 Carrying Amount	December 31,2003 Accumulated Amortization	Ju Carryi Amoun
Amortized Intangible Assets						
Patents	7	$ 83	$ 58	$ 101	$ 69	$ 10
Trademarks	9	16	10	16	9	1
Endorsements	-	61	61	61	61	6
Other	19	23	5	23	3	1
Total		$ 183	$ 134	$ 201	$ 142	$ 18
Unamortized Intangible Assets						
Trademarks		$ 509		$ 423		$ 31
Pension		12		12		1
Total		$ 521		$ 435		$ 33
Intangible Assets, net		$ 570		$ 494		$ 39

Aggregate Amortization Expense:	
For the three months ended	
June 30, 2004	$ 5
June 30, 2003	$ 5
For the six months ended:	
June 30, 2004	$ 11
June 30, 2003	$ 11
Estimated Amortization Expense:	
For the Years ending	
December 31, 2004	$ 21
2005	$ 8
2006	$ 5
2007	$ 4
2008	$ 4
2009	$ 3

In the second quarter of 2004, the Company made two acquisitions within the Oral Care business segment. In April 2004, the Company completed the acquisition of assets associated with the Rembrandt brand of at-home and professional teeth-whitening products from the Den-Mat Corporation. The values of both indefinite-lived and definite-lived intangible assets may be adjusted in future periods as the purchase price allocation for the acquisition is not final. The preliminary purchase price allocation resulted in the capitalization of $87 million related to the Rembrandt trademark as an indefinite-lived intangible asset. In June 2004, the Company acquired shares representing all equity interests in Zooth, Inc., a leader in licensed manual and power childrens' toothbrushes. The purchase price accounting for this transaction is not yet final. Both acquisitions had, in addition to the base purchase price, a contingent cash consideration component based on certain revenue-based financial metrics. In total, contingent cash consideration payments are capped at a maximum of $72 million and are expected to be substantially paid over a period of four years.

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

Share Repurchase Program

In the three and six months ended June 30, 2004, the Company repurchased four million and nine million shares for $167 million and $355 million, respectively. As of June 30, 2004, there are 42 million shares remaining on the share repurchase program which was authorized on September 16, 2003. These shares may be purchased 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.

	Net Sales			
	Three Months Ended June 30		Six Months Ended June 30	
(Millions)	2004	2003	2004	2003
Blades & Razors	$1,099	$1,003	$2,136	$1,896
Duracell	456	432	870	816
Oral Care	358	316	673	611
Braun	294	284	553	499
Personal Care	236	219	446	403
Total	$2,443	$2,254	$4,678	$4,225

	Profit/(Loss) from Operations			
	Three Months Ended June 30		Six Months Ended June 30	
(Millions)	2004	2003	2004	2003
Blades & Razors	$ 420	$ 377	$ 837	$ 708
Duracell	89	54	163	93
Oral Care	68	53	123	102
Braun	24	28	45	21
Personal Care	24	24	37	24
Subtotal Reportable Segments	625	536	1,205	948
All Other	(15)	(31)	(39)	(63)
Total	$ 610	$ 505	$1,166	$ 885

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

(Millions)	Identifiable Assets June 30, 2004	Dec. 31, 2003	June 30, 2003
Blades & Razors	$ 3,175	$ 3,099	$ 3,343
Duracell	2,656	2,754	2,559
Oral Care	1,437	1,269	1,230
Braun	1,299	1,224	1,130
Personal Care	480	470	539
Subtotal Reportable Segments	9,047	8,816	8,801
All Other	912	1,139	1,080
Total	$ 9,959	$ 9,955	$ 9,881

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	
	2004	2003	2004	2003
Net Income	$ 426	$ 338	$ 802	$ 601
Common shares, basic	1,003	1,021	1,004	1,029
Effect of dilutive securities:				
Stock options	9	2	8	2
Common shares, assuming full dilution	1,012	1,023	1,012	1,031
Net Income per Common Share:				
Basic	$ 0.43	$ 0.33	$ 0.80	$ 0.58
Assuming full dilution	$ 0.42	$ 0.33	$ 0.79	$ 0.58

For the three-month periods ended June 30, 2004 and 2003, respectively, 29.9 million and 66.0 million shares of common stock issuable under stock options, respectively, were not included in the calculation of diluted earnings per share because the option exercise price was above the average market price for the quarter. For the six-month periods ended June 30, 2004 and 2003, 28.5 million and 60.8 million shares of common stock issuable under stock options, respectively, were not included in the calculation of diluted earnings per share because the option exercise price was above the average market price for the period.

Pensions and Other Retiree Benefits

(Millions)

	Pension Benefits		Other Retiree Benefits		Pension Ben
	Three Months Ended June 30,		Three Months Ended June 30,		Six Months June 3
	2004	2003	2004	2003	2004
Components of Net Defined Benefit Expense					
Service cost-benefits earned	$20	$17	$ 1	$ 1	$40
Interest cost on benefit obligation	40	37	7	7	80
Estimated return on assets	(46)	(40)	(1)	(1)	(91)
Net amortization and other	21	22	1	2	42
Net defined benefit expense	$35	$36	$ 8	$ 9	$71

The Company contributed $26 million and $34 million to its pension plans, respectively, for the three and six months ended June 30, 2004. The Company expects to contribute an additional $18 million to its pension plans in 2004 for a total contribution of $52 million. The Company's contribution to other retiree benefit plans was $3 million for the three and six months ended June 30, 2004. The Company does not expect to make any further contributions to other retiree benefit plans in 2004. The Company previously disclosed total 2004 estimated contributions of $35 million to pension and $0 to other postretirement benefit plans.

Functional Excellence, 2003 Manufacturing Realignment, Restructuring, and Asset Impairments

Functional Excellence

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. Specific program activities include outsourcing certain information technology functions, implementing new worldwide technology tools and processes, streamlining customer management and marketing programs, and consolidating financial functions.

Total pretax charges under the Functional Excellence initiative, including employee termination benefits and other costs, were $12 million and $42 million for the three months ended June 30, 2004 and 2003, respectively. For the six months ended June 30, 2004 and 2003, total pretax charges under the program were $19 million and $86 million, respectively. Functional excellence charges in 2004 included $0 and $4 million which were recorded to cost of goods sold, and $7 million and $15 million which were recorded to selling, general and administrative expense in the the three and six month periods ended June 30, 2004, respectively. Employee-related terminations are intended to be completed within 12 months of accrual. The employee-related termination benefits are calculated using the Company's long-standing severance formulas and vary on a country-by-country basis, depending on local statutory requirements and local practices. Other costs include items such as consulting, lease buy-outs, project team expenses, and asset write-downs related to Functional Excellence programs.

2003 Manufacturing Realignment Program

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, 2004, approximately $10 million and $16 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, 2004, at current service levels and pay rates and expenses related to the relocation of equipment between impacted locations. Severance payments will span through 2007, when the Isleworth facility will be completely closed.

Functional Excellence and 2003 Manufacturing Realignment Program

(Millions)	Accrual through March 31, 2004	Accrual Second Quarter 2004	Total Accruals	Charges and Uses through March 31, 2004	Charges and Uses Second Quarter 2004	Char and U Sin Incept
Functional Excellence:						
Employee-related expenses	$229	$ 7	$236	$(165)	$ (8)	$(17
Other	36	5	41	(32)	(5)	(3

Total Functional Excellence Program	$265	$ 12	$277	$(197)	$ (13)	$(21
2003 Manufacturing Realignment Program:						
Employee-related expenses						
Severance payments	33	2	35	-	(1)	(
Other benefits	6	-	6	-	-	
Asset-related expenses:						
Asset write-offs	5	-	5	(5)	-	(
Loss on sales of assets	4	-	4	-	-	
Contractual obligations and other	8	8	16	(5)	(8)	(1
Total 2003 Realignment Program	56	10	66	(10)	(9)	(1
Total	$321	$ 22	$343	$(207)	$ (22)	$(22

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

EXECUTIVE OVERVIEW

The Gillette Company achieved record second-quarter and first-half net sales, profit from operations, net income and net income per common share, diluted, in the second quarter of 2004 and for the six months ended June 30, 2004.

For the second quarter of 2004, net sales increased 8% as compared with 2003, driven by strong sell-in of new products, the ongoing strength of existing products, strong growth in emerging markets, and the impact of favorable foreign currency, partially moderated by a lower rate of growth in key Western European markets. Net sales growth was supported by a 39% increase in advertising. The Company's various cost-savings programs, including Functional Excellence and other manufacturing-related initiatives, contributed to improvements in profit from operations and operating profit margin in the second quarter of 2004 as compared with the prior year. Profit from operations rose 21%, and operating profit margin increased by 4 percentage points. Profit from operations grew at a faster pace than sales due to strong growth of new, premium product offerings, cost savings and overhead cost reductions, offset in part by higher advertising spending. Net interest expense and foreign exchange expenses were lower as compared with 2003, and the Company's effective income tax rate was reduced 1 percentage point to 29%. Net income climbed 26% and net income per common share, diluted, increased 27%, slightly outpacing the percentage increase in net income due to share repurchase activity.

Blades and Razors net sales for the second quarter of 2004 increased versus the comparable period in 2003, driven by new premium product launches despite weakness in several Western European markets. Blades and Razors profit from operations increased due to higher sales of new, premium products, higher prices, and lower overhead costs offset partially by an increase in advertising spending. Duracell's net sales increased as compared with the second quarter of 2003 due to the acquisition in August, 2003 of the Nanfu battery company, category growth in emerging markets and lower trade and consumer spending. In the U.S., Duracell's dollar share remained stable during the second quarter of 2004 partially due to stepped-up advertising levels and strong consumer marketing programs, despite significant promotional activity by value brands and private-label. Duracell profit from operations rose significantly reflecting cost and expense reduction activities, offset in part by higher advertising expenses. Oral Care net sales increased due to successful new product launches, the acquisition of the Rembrandt brand of whitening products, and growth in the manual toothbrush segment. In the second quarter of 2004, the Company acquired the Rembrandt brand of at-home and professional tooth-whitening products and also Zooth, Inc., a leader in licensed manual and power toothbrushes for children. Oral Care profit from operations increased due to the higher sales, and cost and expense reduction activities partially offset by higher advertising expenses. Braun net sales increased in the quarter due to favorable foreign exchange, strong performance in the Africa, Middle East and Eastern Europe (AMEE) region and Southern Europe, and male shaver growth in China, partially offset by male shaver category softness in Europe and North America. Year-to-year comparisons were also affected by the unmatched SARS-related spike in demand for Thermoscan products in 2003. Braun profit from operations was lower as reductions in overhead costs were offset by higher exchange-driven European-based manufacturing costs and increased advertising expenses. Personal Care net sales increased in all regions, driven by new product introductions. Personal Care profit from operations was higher, due to strong new product sales and cost reduction activities.

For the six month period ended June 30, 2004, net sales increased 11%, profit from operations increased 32% and operating profit margin increased by 4 percentage points. The higher operating profit margin was driven by favorable product mix and lower costs. Lower net interest expense was offset by higher foreign exchange expense. The effective income tax rate declined by 1 percentage point to 29%. Net income climbed 33% and net income per common share, diluted, increased 36%, outpacing the percentage increase in net income due to share repurchase activity. The Company delivered strong free cash flow (as defined in the Financial Condition section) of $723 million in the period.

RESULTS OF OPERATIONS

Second Quarter 2004 versus 2003

Selected statement of income data is presented below.

(millions, except per share amounts and percentages)	For Three Months Ended June 30 2004	% of Net Sales	2003	% of Net Sales	% Increase/ (Decrease)
Net sales	$2,443		$2,254		8
Gross profit	$1,475	60.4	$1,339	59.4	10
Advertising	$ 258	10.6	$ 186	8.3	39
Sales promotion	$ 93	3.8	$ 96	4.3	(3)
Other selling, general and administrative (SG&A) expense	$ 514	21.0	$ 552	24.5	(7)
Total SG&A expense	$ 865	35.4	$ 834	37.0	4
Profit from operations	$ 610	25.0	$ 505	22.4	21

Other (income) and expense					
Net interest expense	8		13		(38)
Foreign exchange	(2)		3		(>100)
Other	3		6		(50)
Total other income and expense	9	0.4	22	1.0	(59)
Income taxes	$ 175	7.2	$ 145	6.4	21
Net income	$ 426	17.4	$ 338	15.0	26
Net income per common share, diluted	$ 0.42		$ 0.33		27

Total Company

Net sales for the second quarter of 2004 were $2.44 billion, an increase of 8% versus $2.25 billion in the second quarter of 2003, of which 2% resulted from the impact of favorable foreign exchange. Volume/mix added 6%, and pricing was flat, as price increases in Blades and Razors were offset by higher promotional spending for merchandising activities in Oral Care and Personal Care. Sales increased due to strong new product introductions, including M3 Power in Blades and Razors and Brush-Ups in the Oral Care segment, strong growth in the emerging markets of Latin America and AMEE, and the ongoing strength of established products. The increase in net sales was further supported by the August, 2003 acquisition of the Nanfu battery business, as well as the Rembrandt brand in June, 2004. Together, these businesses added 1% to net sales in the quarter. A 39% increase in advertising in the quarter further supported the increase in net sales. Net sales were higher in all regions, though European sales were not as strong due to weaker consumer confidence especially in France and Italy, as well as unfavorable comparisons to the prior year launch of Mach3 Turbo.

Gross profit was $1.48 billion in the second quarter of 2004, compared with $1.34 billion in the second quarter of 2003. As a percent of net sales, gross profit was 60.4%, compared with 59.4% in 2003. The improvement in gross profit was due mainly to strong growth of new, premium product offerings and manufacturing cost savings, particularly at Duracell.

Total selling, general and administrative expenses amounted to 35.4% of second quarter 2004 net sales, compared with 37.0% in the comparable period of 2003. Within selling, general and administrative expenses, advertising expenses increased 39% to 10.6% of net sales, from 8.3% of net sales in the prior year. In each operating segment and in each region, advertising grew by a double-digit percentage. Advertising expenses increased in support of new product programs, and helped to drive stepped-up demand in developing markets. Sales promotion was lower as a percentage of sales at 3.8% in the second quarter of 2004 versus 4.3% in the prior year. Other selling, general and administrative expenses decreased 7%, and were down as a percentage of sales, to 21.0% from 24.5% in the second quarter of 2003, reflecting cost reduction efforts and lower Functional Excellence expenses due to the timing of programs.

Profit from operations was $610 million in the second quarter of 2004 (25.0% of net sales), compared with $505 million in the comparable period of 2003 (22.4% of net sales). The 21% profit increase was driven by favorable mix to higher-margin premium products, manufacturing productivity and overhead cost-saving programs, partially offset by higher advertising expenses.

Within nonoperating charges/income, net interest expense amounted to $8 million in the second quarter of 2004, as compared to $13 million in 2003, reflecting lower debt levels. Net foreign exchange in the second quarters of 2004 and 2003 were $2 million (income) and $3 million (expense), respectively.

The effective income tax rate was 29% in the second quarter of 2004, compared with 30% for the same period of 2003. The reduction in the 2004 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. The effective income tax rate is expected to remain close to the current level for the balance of 2004.

Net income was $426 million in the second quarter of 2004 (17.4% of net sales), compared with $338 million in the second quarter of 2003 (15.0% of net sales), representing growth of 26%. Net income per common share, diluted, was $.42, compared with $.33 in the second quarter of 2003, representing growth of 27%. The 2004 percentage growth in net income per common share, diluted, which outpaced the percentage growth in net income, was favorably impacted by share repurchase program activity.

Six Months Ended June 30, 2004 versus 2003

Selected statement of income data is presented below.

(millions, except per share amounts and percentages)	For Six Months Ended June 30 2004	% of Net Sales	2003	% of Net Sales	% Increase/ (Decrease)
Net sales	$4,678		$4,225		11
Gross profit	$2,832	60.5	$2,492	59.0	14
Advertising	$ 494	10.6	$ 353	8.4	40
Sales promotion	$ 166	3.5	$ 171	4.0	(3)
Other selling, general and administrative (SG&A) expense	$1,006	21.5	$1,083	25.6	(7)
Total SG&A expense	$1,666	35.6	$1,607	38.0	4
Profit from operations	$1,166	24.9	$ 885	20.9	32
Other (income) and expense					
Net interest expense	17		24		(29)
Foreign exchange	18		5		>100
Other	-		(3)		>100
Total other income and expense	35	0.7	26	0.6	35
Income taxes	$ 329	7.0	$ 258	6.1	28
Net income	$ 802	17.1	$ 601	14.2	33
Net income per common share, diluted	$ 0.79		$ 0.58		36

Total Company

Net sales for the six months ended June 30, 2004 were $4.68 billion, an increase of 11% versus $4.23 billion in the first six months of 2003. Favorable foreign exchange had a 5% impact, favorable volume/mix added 6% and pricing was flat. Sales increased due to new product introductions, ongoing trade-up to premium products, the ongoing strength of established products, favorable foreign exchange, the acquisition of the Nanfu battery company in the third quarter of 2003 and the acquisition of the Rembrandt brand in the second quarter of 2004.

Gross profit was $2.83 billion in the first six months of 2004, compared with $2.49 billion in the first six months of 2003. As a percent of net sales, gross profit was 60.5% in the first six months of 2004, compared with 59.0% in the first six months of 2003. The improvement in gross profit was due mainly to favorable product mix towards higher margin, premium products and manufacturing cost savings, particularly in Duracell.

Total selling, general and administrative expenses amounted to 35.6% of net sales for the first six months of 2004, compared with 38.0% in the comparable period of 2003. Within selling, general and administrative expenses, advertising expenses increased 40% to 10.6% of net sales, from 8.4% of net sales in 2003. Sales promotion declined slightly as compared with 2003. Other selling, general and administrative expenses decreased 7%, and were down as a percentage of sales, to 21.5% from 25.6% in the first six months of 2003, reflecting cost reduction efforts and lower Functional Excellence expenses. Functional Excellence expenses were $19 million for the first six months of 2004, and are expected to ramp up in the second half of 2004.

Profit from operations was $1.17 billion in the first six months of 2004 (24.9% of net sales), compared with $885 million in the comparable period of 2003 (20.9% of net sales). The 32% profit increase was driven by favorable mix to higher-margin premium products, manufacturing productivity and overhead cost-saving programs, partially offset by higher advertising expenses.

Within nonoperating charges/income, net interest expense amounted to $17 million in the first six months of 2004, as compared to $24 million in 2003, reflecting lower debt levels. Net foreign exchange expense in the first six months of 2004 and 2003 was $18 million and $5 million, respectively. The 2004 result was driven by the reclassification of a non-cash loss to the Consolidated Statement of Income from the accumulated other comprehensive loss section of the Consolidated Balance Sheet related to the liquidation of certain international subsidiaries.

The effective income tax rate was 29% for the six months ended June 30, 2004, compared with 30% for the same period of 2003. The reduction in the 2004 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. The effective income tax rate is expected to remain close to the current level for the remainder of 2004.

Net income was $802 million in the first half of 2004 (17.1% of net sales), compared with $601 million in the first six months of 2003 (14.2% of net sales), representing growth of 33%. Net income per common share, diluted, was $.79, compared with $.58 in the first six months of 2003, representing growth of 36%. The 2004 percentage growth in net income per common share, diluted, which outpaced the percentage growth in net income, was favorably impacted by share repurchase program activity.

AND RESULTS OF OPERATIONS

Operating Segments

Second Quarter 2004 versus 2003

The following table summarizes the key operating metrics for the second quarter of 2004 versus the second quarter of 2003 for each of the Company's five operating segments.

Three Months Ended June 30,	Blades & Razors	Duracell	Oral Care	Braun	Personal Care	C
(millions, except percentages)						
Net Sales:						
Net sales, 2004	$1,099	$456	$358	$294	$236	
Net sales, 2003	1,003	432	316	284	219	
% Incr/(Decr) vs. 2003	10	5	14	4	8	
Impact of exchange	2	2	3	5	3	
Impact of volume/mix	7	3	15	-	8	
Impact of pricing	1	-	(4)	(1)	(3)	
Profit from operations (PFO):						
PFO, 2004	$ 420	$ 89	$ 68	$ 24	$ 24	
PFO, 2003	377	54	53	28	24	
% Incr/(Decr) vs. 2003	11.3	64.6	28.1	(13.1)	3.0	
PFO as % of net sales, 2004	38.2	19.5	19.1	8.1	10.3	
PFO as % of net sales, 2003	37.6	12.5	16.9	9.7	10.8	

Blades and Razors

Net sales of $1.10 billion in the second quarter of 2004 were 10% higher than the comparable period of 2003, including a 2% favorable foreign exchange impact. Sales growth was driven by new premium offerings including M3 Power and Venus Divine. Net sales were higher in North America, and consumption and trade-up in the AMEE market were strong. Sales growth was not as strong in Europe, due to reduced consumer spending and the 2003 Mach3 Turbo launch.

The Company drove U.S. Blade/Razor market growth of 14% in June due to the launch of M3 Power. The M3 Power razor reached a 30% dollar share in its first month at retail and was the top-selling U.S. razor in June.

Profit from operations of $420 million was up 11% from the second quarter of 2003, and profit margin increased from 37.6% to 38.2%. The impacts of higher sales from new products, price increases and lower overhead costs were partially offset by a double-digit percentage increase in advertising.

Duracell

Duracell net sales of $456 million increased 5% versus the second quarter of 2003, including a 2% favorable foreign exchange impact. Net sales gains were driven by the August, 2003 acquisition of the Nanfu battery business, strong emerging market growth in the AMEE region and lower trade and consumer promotional spending. These gains were partially offset by lower net sales in North America where the business was impacted by steep price discounting and promotional activity from low-price brands and private label.

The Company held its dollar share of the market in the second quarter of 2004 through stepped-up advertising levels and the positive impact of strong consumer marketing programs, including promotional tie-ins with the "Lord of the Rings" DVD release and NASCAR. However, 2004 is expected to continue to be challenging due to the ongoing, intense competitive environment.

In the second quarter of 2004, profit from operations of $89 million increased 65%, and profit margin grew by 7.0 percentage points, compared with the second quarter of 2003. This increase was due to higher sales and significant benefits from cost-savings and overhead reduction programs, partially offset by higher brand-building advertising expenses.

Oral Care

Oral Care net sales in the second quarter of 2004 of $358 million were 14% higher than the second quarter of 2003, of which 3% represented favorable foreign exchange. Sales increased in all regions with the exception of Asia Pacific, in line with the Company's strategy to grow net sales in the core brushing category as well as in related categories. New products, including Brush-Ups and the Hummingbird power flosser, contributed significantly to net sales growth in the quarter, while the acquisition of the Rembrandt brand added 4% to net sales for the period. In core brushing, the manual toothbrush segment was a driver of growth, particularly in the North America, Latin America, and AMEE regions.

The Company extended its number one global dollar share position in the total brushing category versus the prior year to 34%, driven by trade up within manual and the global rollout of CrossAction Power.

In the second quarter of 2004, profit from operations of $68 million increased 28%, and profit margin increased by 2.2 percentage points. The increase in profits was driven by higher net sales, improved product mix and lower overhead costs, offset partially by a double-digit percentage increase in advertising.

Braun

Braun net sales of $294 million in the second quarter of 2004 increased 4% over the second quarter of 2003. Favorable foreign exchange of 5% was offset partially by a 1% negative impact of pricing. Sales growth was driven by strong performance in female epilators in AMEE and Southern Europe, household appliance gains in Russia and Turkey, and male shaver growth in China, offset partially by male shaver category softness in Europe and North America and comparisons with the unmatched 2003 SARS-related spike in demand for Thermoscan products. Braun shavers continued to gain dollar share in key markets, despite price discounting by competitors.

Profit from operations in the second quarter of 2004 of $24 million was lower than the $28 million in the second quarter of 2003. Profit was down in the quarter as lower overhead costs were offset by higher European-based manufacturing costs and increased advertising expenses.

Personal Care

In the second quarter of 2004, Personal Care net sales increased 8% versus the second quarter of 2003, with foreign exchange contributing 3% of the growth. Sales growth, achieved in all regions, was driven by the introduction of the

Gillette Complete Skincare line in the United States, Soft & Dri antiperspirants in Latin America and Right Guard Cool Spray in the United Kingdom.

Profit from operations increased slightly to $24 million in the second quarter of 2004 as compared with the second quarter of 2003. Profit improvement came from growth in new products, manufacturing and procurement cost savings, and lower overhead costs, which more than offset a double-digit percentage increase in advertising.

Six Months Ended June 30, 2004 versus 2003

The following table summarizes the key operating metrics for the six months ended June 30, 2004 versus 2003 for each of the Company's five operating segments.

Six Months Ended June 30,	Blades & Razors	Duracell	Oral Care	Braun	Personal Care
(millions, except percentages)					
Net Sales:					
Net sales, 2004	$2,136	$870	$673	$553	$446
Net sales, 2003	1,896	816	611	499	403
% Incr/(Decr) vs. 2003	13	7	10	11	10
Impact of exchange	5	4	5	7	4
Impact of volume/mix	6	3	7	5	7
Impact of pricing	2	-	(2)	(1)	(1)
Profit from operations (PFO):					
PFO, 2004	$ 837	$163	$123	$ 45	$ 37
PFO, 2003	708	93	102	21	24
% Incr/(Decr) vs. 2003	18.1	75.8	20.9	109.8	52.9
PFO as % of net sales, 2004	39.2	18.8	18.4	8.1	8.3
PFO as % of net sales, 2003	37.4	11.4	16.7	4.3	6.0

Blades and Razors

Net sales of $2.14 billion in the six months ended June 30, 2004 were 13% higher than in the comparable period of 2003, including a 5% favorable foreign exchange impact. Volume/mix and pricing were favorable by 6% and 2%, respectively. Sales growth was driven by successful new product introductions such as M3 Power, Venus Divine and Sensor Excel 3, ongoing trade-up to premium products such as Mach3 Turbo, and price increases.

Profit from operations of $837 million was up 18% from the first half of 2003, and profit margin increased 1.8 percentage points to 39.2%. The impact of higher sales, favorable product mix and lower overhead costs was partially offset by a double-digit percentage increase in advertising support.

Duracell

Duracell net sales of $870 million increased 7% versus the first six months of 2003, including a 4% favorable foreign exchange impact. Net sales gains were driven by the August, 2003 addition of the Nanfu battery business in China. These gains were partially offset by lower sales in North America due to comparisons against the first quarter 2003, when demand spiked due to homeland security concerns and incremental military sales.

The Company held its dollar share of the market in the first six months of 2004, though 2004 is expected to continue to be challenging due to the ongoing, intense competitive environment.

In the first six months of 2004, profit from operations of $163 million increased 76%, and profit margin grew by 7.4 percentage points, compared with the first six months of 2003. This increase was due to higher sales and significant benefits from cost-savings and overhead reduction programs, partially offset by higher advertising expenses.

Oral Care

Oral Care net sales in the six month period ended June 30, 2004 of $673 million were 10% higher than the comparable period of 2003, with favorable foreign exchange contributing 5%. Sales gains were driven by new products, including Brush-Ups and the Hummingbird power flosser, the acquisition of the Rembrandt brand and strength in most regions behind manual brushes.

In the first six months of 2004, profit from operations of $123 million increased 21%, and profit margin increased by 1.7 percentage points. The increase in profits was driven by higher sales from new products and improved product mix, offset partially by a double-digit percentage increase in advertising.

Braun

Braun net sales of $553 million in the six months ended June 30, 2004 climbed 11% versus the comparable period of 2003, with favorable foreign exchange representing 7% of the increase. Growth was driven by strong performance in the AMEE region, particularly in Russia and Turkey, partially offset by comparisons with the unmatched 2003 SARS-related spike in demand for Thermoscan products in both Asia and North America.

Profit from operations in the first six months of 2004 of $45 million compared with $21 million in the first six months of 2003. Profit improvement was driven by a favorable mix towards higher margin products, particularly male shavers and female epilators, tempered by currency-related increases in European-based manufacturing costs.

Personal Care

In the six months ended June 30, 2004, Personal Care net sales increased 10% versus the first six months of 2003, with foreign exchange contributing 4% of the growth. Sales growth was achieved in all regions due to strong demand and trade-up in shave preparations, particularly in Europe and North America. Net sales growth was also driven by new products, including the Gillette Complete skin care line in North America, and the new side-activated Right Guard Cool Spray in the United Kingdom.

Profit from operations increased to $37 million for the six months ended June 30, 2004 as compared with $24 million in the comparable period of 2003. Profit improvement came from growth in new products, manufacturing and procurement cost savings, and lower overhead costs, which more than offset a double-digit percentage increase in advertising.

FINANCIAL CONDITION

Cash Flow

Cash provided by operations is the Company's primary source of funds to finance operations, capital expenditures, share repurchases, and dividends. Free cash flow, defined as net cash provided by operating activities net of additions to and disposals of property, plant and equipment, is used by the Company as a measure of its liquidity, as well as its 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 the Company has certain non-discretionary obligations, such as debt service, that are not deducted from the measure. A reconciliation of free cash flow to the increase in cash and cash equivalents in accordance with Generally Accepted Accounting Principles (GAAP) follows.

	2004		2003	
Six Months Ended June 30,	Free Cash Flow	GAAP Cash Flow	Free Cash Flow	G C F
(millions)				
Net income		$ 802		$
Depreciation and amortization		299		
Deferred income taxes and other		46		
Decrease in accounts receivable		38		
Increase in inventories		(330)		(
Net change in other assets and liabilities		66		
Net cash provided by operating activities	$ 921	$ 921	$1,004	$ 1,
Additions to property, plant and equipment (A)	(228)		(132)	
Disposals of property, plant and equipment (B)	30		23	
Free cash flow	$ 723		$ 895	
Net cash used in investing activities (C)*		$ (312)		$ (
Net cash used in financing activities		$ (643)		$(1,
Effect of exchange rate changes on cash		(3)		
Decrease in cash and cash equivalents		$ (37)		$ (

*C is the sum of A, B, and $(114) million and $0 in other investing activities, including acquisitions, net of cash acquired, in the six months ended June 30, 2004 and 2003, respectively.

Free cash flow for the six months ended June 30, 2004, was $723 million, as compared with $895 million in the six months ended June 30, 2003. Free cash flow was dampened in 2004 by higher inventory balances and additions to property, plant and equipment. Inventory increased in anticipation of new product launches in Oral Care and Braun, and also due to a planned build up of safety stock related to the blade and razor manufacturing, packaging and warehouse operations realignment program throughout Europe and Russia. Capital expenditures in 2004 are primarily for new product programs. The Company expects capital expenditures to average approximately 6% of net sales for the full year of 2004.

The Company used its free cash flow to finance the repurchase of 9 million shares of Company stock for $355 million, pay dividends of $327 million, reduce debt by $200 million, and to fund two acquisitions, the Rembrandt brand of at-home and professional teeth-whitening products and Zooth, Inc., a leader in licensed manual and power children's toothbrushes, totaling $115 million. In February 2004, the Company received $103 million upon settlement of a currency swap that hedged a maturing Euro-denominated bond. Net cash used in financing activities for the first six months of 2004 were below last year mainly due to lower share repurchases. Net cash used in investing activities for the first six months of 2004 increased as compared with the prior year due to higher capital expenditures and the two acquisitions in the second quarter of 2004.

Debt

Total debt decreased by $200 million during the six months ended June 30, 2004, from $3.31 billion at December 31, 2003, to $3.11 billion at June 30, 2004. This decrease was principally due to repayments of long-term debt of $389 million, partially offset by an increase in short-term loans payable of $228 million. Cash and cash equivalents decreased by $37 million for the same period. Cash equivalents are invested in highly liquid deposits and marketable securities of institutions with high credit quality.

The Company's 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. The Company has the ability to issue up to $1.53 billion in commercial paper in the U.S. and Euro markets. The Company's commercial paper program is supported by its revolving credit facility and other sources of liquidity, primarily the Company's cash flow from operations. At June 30, 2004, there was $270 million outstanding under the Company's commercial paper program, compared with $55 million at December 31, 2003. On October 14, 2003, the Company entered into revolving bank credit facilities in an aggregate amount of $1.15 billion, of which $863 million is available on a 364-day basis, expiring October 2004, and $288 million is available for five years, expiring October 2008. Liquidity is enhanced through a provision in the 364-day facility that gives the Company the option to enter into a one-year term loan in an amount up to $863 million. The Company believes it has sufficient alternative sources of funding available to replace its commercial paper program, if necessary.

During 2002, two shelf registration statements were filed allowing the Company to issue up to $2.80 billion in debt securities in the U.S. It is currently anticipated 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 the Company's common stock. At June 30, 2004, $1.54 billion, at face value, was issued under these shelf registrations, and a total of $1.26 billion was available for future debt issuance. All proceeds from these issuances were used to reduce commercial paper borrowings.

With its strong brands, leading market shares, strong financial condition and substantial cash-generating capability, the Company expects to continue to have funds available for growth through both internally generated cash flow and significant credit resources. The Company has substantial unused lines of credit and access to worldwide financial markets, enabling the Company to raise funds at favorable interest rates.

Market Risk

The Company is subject to market risks, such as changes in foreign currency and interest rates that arise from normal business operations. The Company regularly assesses these risks and has established business strategies to provide natural offsets, supplemented by the use of derivative financial instruments, to protect against the adverse effects of these and other market risks.

The Company uses foreign-denominated debt and forward contracts to hedge the impact of foreign currency changes on its net foreign investments, normally in currencies with low interest rates. Most of the Company's transactional exchange exposure is managed through centralized cash management. The Company hedges net residual transactional exchange exposures primarily through forward contracts. The Company uses primarily floating rate debt in order to match interest costs to the impact of inflation on earnings. The Company manages its mix of fixed and floating-rate debt by entering into interest rate swaps and forward rate agreements.

More detailed information about the strategies, policies, and use of derivative financial instruments is provided in the Company's 2003 Form 10-K under the Financial Instruments and Risk Management Activities note in Notes to Consolidated Financial Statements. The Company has established policies, procedures, and internal controls governing the use of derivative financial instruments and does not use them for trading, investment, or other speculative purposes. In addition, the Company's 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.

Based on the Company's overall evaluation of its market risk exposures from all of its financial instruments at June 30, 2004, a near-term change in market rates would not materially affect the consolidated financial position, results of operations, or cash flows of the Company.

FUNCTIONAL EXCELLENCE AND 2003 MANUFACTURING REALIGNMENT PROGRAM

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, 2004 and 2003, the Company recorded the following expenses related to this initiative.

(millions)	Three Months Ended June 30 2004	2003	Six Months Ended June 30 2004	2003
Functional Excellence expense recorded in:				
Cost of goods sold	$ 4	$12	$ 4	$13
Selling, general and administrative expense	$ 8	$30	$15	$73
Total functional excellence expense	$12	$42	$19	$86

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, 2004, the Company recorded charges of $10 million and $16 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.

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.

Further, during the fiscal quarter covered by this report, there have been no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities.

Period	Total Number of Shares Purchased (3)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
04/01/04 - 04/30/04	4,840	$40.80	-	46,000,000
05/01/04 - 05/31/04	2,694,536	$41.09	2,694,100	43,305,900
06/01/04 - 06/30/04	1,305,989	$43.22	1,305,900	42,000,000
Total Second Quarter	4,005,365 (2)	$41.78	4,000,000	42,000,000

(1) The 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.

(2) Includes 5,365 shares which were repurchased by the Company under equity-based programs.

(3) All share repurchases were effected in accordance with the safe harbor provisions of Rule 10b-18 of the Securities Exchange Act.

PART II

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

At its Annual Meeting on May 20, 2004, the shareholders of The Gillette Company took the following actions:

1. Elected the following four directors for terms to expire at the 2007 Annual Meeting of Shareholders, with votes as indicated opposite each director's name:

	For	Withheld
Edward F. DeGraan	649,308,442	232,145,002
Wilbur H. Gantz	649,794,321	231,659,123
James M. Kilts	649,048,302	232,405,143
Jorge Paulo Lemann	649,649,409	231,804,036

The directors whose term of office as a director continued after the meeting are Roger K. Deromedi, Michael B. Gifford, Ray J. Groves, Dennis F. Hightower, Herbert H. Jacobi, Nancy J. Karch, Fred H. Langhammer, and Marjorie M. Yang.

2. Approved the ratification of the appointment of KPMG LLP as auditor for the year 2004. The vote was 845,717,159 for the proposal, 34,262,266 against, with 1,480,336 abstentions.

3. Approved the 2004 Long-Term Incentive Plan. The vote was 678,986,585 for the proposal and 66,922,841 against, with 7,737,562 abstentions and 127,812,773

broker nonvotes.

4. Approved a shareholder proposal recommending the declassification of the Board of Directors. The vote was 507,153,817 for the proposal and 237,783,465 against, with 8,687,594 abstentions and 127,834,885 broker nonvotes.

5. Rejected a shareholder proposal to limit the services provided by the auditor. The vote was 84,829,697 for the proposal and 659,809,461 against, with 9,004,086 abstentions and 127,816,517 broker nonvotes.

6. Rejected a shareholder proposal that the Company establish a policy of expensing stock options. The vote was 308,916,221 for the proposal and 329,534,532 against, with 113,772,029 abstentions and 129,236,979 broker nonvotes.

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PART II. OTHER INFORMATION

Cautionary Statement

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.

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:

- 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 terms;

- product introductions and innovations by us and our competitors;

- technological advances by us and our competitors;

- new patents granted to us and our competitors;

- changes in 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;

- acquisition, divestitures and similar transactions by us, our competitors, or customers; and

- the impact of general political and economic conditions or hostilities in the United States and in other parts of the world.

PART II. OTHER INFORMATION

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. Aggressive competition within our markets to preserve, gain, or regain market share can affect our results in any given period.

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 successfully achieve these goals.

With respect specifically to primary alkaline batteries, category growth could be adversely affected by the following additional factors:

- technological or design changes in portable electronic and other devices that use batteries as a power source;
- continued improvement in the service life of primary batteries;
- improvements in rechargeable battery technology; or
- the development of new battery technologies.

Intellectual Property

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

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, there can be no assurance that we will be fully protected against foreign currency fluctuations and our reported earnings will be affected by changes in exchange rates.

Retail Environment

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.

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 Potential Military Action or War

Recent military hostilities and the threat of future hostilities, as well as 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 resulting from military or political events could adversely affect operating results in any reporting period.

Item 6(a) Exhibits

The following exhibits are included herewith:

10.1 The Gillette Company Deferred Compensation Plan, filed herewith.

10.2 The Gillette Company 2004 Long-Term Incentive Plan, as corrected for typographical errors, filed 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.

Item 6(b) Reports on Form 8-K

The following reports on Form 8-K were filed or furnished to the Commission:

(a) The Company furnished, on April 29, 2004, a current report on Form 8-K containing one exhibit: a press release announcing the Company's financial results for the first quarter of 2004.

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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

July 29, 2004

EXHIBIT INDEX

Exhibit Number and Description

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