GILLETTE CO
Form 10-Q
October 28, 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 September 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 October 25, 2004 992,811,387

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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 September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Net Sales	$ 2,691	$ 2,405	$ 7,369	$ 6,6
Cost of Sales	1,082	982	2,928	2,7
Gross Profit	1,609	1,423	4,441	3,9
Selling, General and Administrative Expenses	920	819	2,586	2,4
Profit from Operations	689	604	1,855	1,4
Nonoperating Charges (Income):				
Interest income	(4)	(2)	(10)	
Interest expense	14	13	37	
Exchange	2	(7)	20	
Other charges - net	7	7	7	
	19	11	54	
Income before Income Taxes	670	593	1,801	1,4
Income Taxes	195	177	524	4
Net Income	$ 475	$ 416	$ 1,277	$ 1,0
Net Income per Common Share:				
Basic	$ .48	$ .41	$ 1.27	$.
Assuming full dilution	$ .47	$ .41	$ 1.26	$.
Dividends per Common Share:				
Declared	$ -	$ -	$ .3250	$ .32
Paid	$ .1625	$ .1625	$ .4875	$ .48
Weighted average number of common shares outstanding				
Basic	997	1,017	1,002	1,0
Assuming full dilution	1,006	1,019	1,009	1,0

See Accompanying Notes to Consolidated Financial Statements.

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

	September 30	December 31	Septembe

	2004	2003	2003
Current Assets:			
Cash and cash equivalents	$ 891	$ 681	$845
Trade receivables, less allowances, Sept. 2004, $43; December 2003, $53; Sept. 2003, $61	970	920	1,249
Other receivables	388	351	350
Inventories			
Raw materials and supplies	123	114	115
Work in process	241	196	206
Finished goods	1,089	784	856
Total Inventories	1,453	1,094	1,177
Deferred income taxes	294	322	333
Other current assets	195	282	271
Total Current Assets	4,191	3,650	4,225
Property, Plant and Equipment, at cost	7,284	7,099	6,775
Less accumulated depreciation	(3,747)	(3,455)	(3,265)
Net Property, Plant and Equipment	3,537	3,644	3,510
Goodwill	1,024	1,023	996
Intangible Assets, less accumulated amortization	564	494	512
Other Assets	1,145	1,170	1,067
	$10,461	$ 9,981	$10,310

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)

	September 30 2004	December 31 2003	September 30 2003
Current Liabilities:			
Loans payable	$ 211	$ 117	$ 732
Current portion of long-term debt	760	742	432
Accounts payable	588	574	515
Accrued liabilities	1,895	1,795	1,816
Dividends payable	-	163	-
Income taxes	401	293	223
Total Current Liabilities	3,855	$ 3,684	$ 3,718

Long-Term Debt	2,361	2,453	2,715
Deferred Income Taxes	659	626	709
Other Long-Term Liabilities	936	929	898
Minority Interest	71	65	71
Stockholders' Equity:			
Common stock, par value $1.00 per share:			
Authorized 2,320 shares			
Issued: Sept. 2004, 1,379 shares; Dec. 2003, 1,374 shares; Sept. 2003, 1,373 shares	1,379	1,374	1,373
Additional paid-in capital	1,413	1,273	1,243
Earnings reinvested in the business	8,283	7,333	7,292
Accumulated other comprehensive loss	(1,055)	(1,088)	(1,248)
Treasury stock, at cost: Sept. 2004, 386 shares; Dec. 2003, 367 shares; and Sept. 2003, 361 shares	(7,441)	(6,665)	(6,461)
Deferred stock-based compensation	-	(3)	-
Total Stockholders' Equity	2,579	2,224	2,199
	$ 10,461	$ 9,981	$ 10,310

See Accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30	
	2004	2003
Operating Activities		
Net income	$1,277	$1,017
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	448	430
Deferred income taxes	52	70
Other	11	3
Changes in assets and liabilities, excluding effects of acquisitions and divestitures:		
Trade and other accounts receivable	(97)	5
Inventories	(369)	(179)
Accounts payable and accrued liabilities	123	263
Other working capital items	108	(17)
Other noncurrent assets and liabilities	78	110
Net cash provided by operating activities	1,631	1,702
Investing Activities		
Additions to property, plant and equipment	(379)	(218)
Disposals of property, plant and equipment	44	28
Acquisitions, net of cash acquired	(117)	(161)
Other	2	3

Net cash used in investing activities	(450)	(348)
Financing Activities		
Purchase of treasury stock	(775)	(1,069)
Proceeds from exercise of stock option and purchase plans	145	48
Proceeds from long-term debt	346	684
Repayment of long-term debt	(389)	(534)
Increase in loans payable	93	51
Dividends paid	(490)	(501)
Net settlements, debt-related derivative contracts	101	6
Net cash used in financing activities	(969)	(1,315)
Effect of Exchange Rate Changes on Cash	(2)	5
Increase in Cash and Cash Equivalents	210	44
Cash and Cash Equivalents at Beginning of Period	681	801
Cash and Cash Equivalents at End of Period	$ 891	$ 845
Supplemental disclosure of cash paid for:		
Interest	$ 34	$ 45
Income taxes	$ 307	$ 359

See Accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Net Income, as reported	$ 475	$ 416	$1,277	$1,017
Other Comprehensive Income, net of tax:				
Foreign Currency Translation	28	8	35	270
Cash Flow Hedges	(1)	1	(2)	5
Comprehensive Income	$ 502	$ 425	$1,310	$1,292

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)
Change in period	9	-	2	11
Income tax benefit (expense)	(1)	-	(1)	(2)
Balance September 30, 2003	$(1,062)	$ (186)	$ -	$(1,248)
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)
Change in period	34	-	(1)	33
Income tax benefit (expense)	(6)	-	-	(6)
Balance September 30, 2004	$ (863)	$ (193)	$ 1	$(1,055)

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 third quarter, 2003 and nine months ended September 30, 2003, Consolidated Statement of Income: increased cost of sales and reduced gross profit and selling, general and administrative expenses by $47 million and $133 million, respectively; and reduced gross profit as a percentage of net sales from 61.1% to 59.2% and from 61.0% to 59.1%, 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 Sept. 30, 2004	2003	Nine Months Ended Sept. 30, 2004	2003
Net income, as reported	$ 475	$ 416	$1,277	$1,017
Add: Compensation expense included in reported net income, net of related tax effects	1	-	2	-
Less: Compensation expense for option awards determined by the fair-value-based method, net of related tax effects	(24)	(25)	(73)	(76)
Pro forma net income	$ 452	$ 391	$1,206	$ 941
Net income per common share				
Basic				
As reported	$ .48	$ .41	$ 1.27	$ .99
Pro forma	.45	.38	1.20	.92
Assuming full dilution				
As reported	$ .47	$ .41	$ 1.26	$ .99
Pro forma	.45	.38	1.20	.92

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 September 30, 2004, 27,747,603 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 December, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was enacted. The Act introduced a plan sponsor subsidy based on a percentage of a beneficiary's annual prescription drug benefits, within defined limits, and the opportunity for a retiree to obtain prescription drug benefits under Medicare.

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 Company had elected to defer any accounting for the effects of the Act pursuant to FAS 106-1 and made that election in the quarter ended December 31, 2003. The Company adopted FAS 106-2 prospectively as of July 1, 2004, the beginning of its third quarter. The Company and its actuarial advisors determined that benefits provided by the plan were at least actuarially equivalent to Medicare Part D. The Company remeasured the effects of the act on the Accumulated Plan Benefit Obligation as of July 1, 2004. The effect of the federal subsidy to which the Company is entitled has been estimated as an actuarial gain of $72.8 million. The subsidy will have the effect of reducing postretirement expense for the period from adoption, July 1, 2004, through December 31, 2004 by $5.3 million. The components of the decrease in expense were a decrease in the amortization of the actuarial loss of $2.7 million, a reduction in service cost of $0.4 million and a reduction in the interest cost on the benefit obligation of $2.2 million. Approximately $2.65 million was recorded in the third quarter of 2004 as a reduction in net postretirement benefit expense. Net postretirement benefit expense for the three months ended December 31, 2004 will include the same reduction in expense due to the effects of the Act.

The assumptions used for 2004 expense are a discount rate and health care cost trend rate of 6.00% and 12.00%, respectively. These assumptions were determined to be appropriate as of July 1, 2004.

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

Goodwill and Intangible Assets

Total goodwill by segment follows.

Net Carrying Amount (Millions)	September 30 2004	December 31 2003	September 30 2003
Blades & Razors	$ 140	$ 140	$ 140
Duracell	633	632	605
Oral Care	191	191	173
Braun	60	60	78
Personal Care	-	-	-
Total	$1,024	$1,023	$ 996

The detail of intangible assets follows.

(Millions)	Weighted Average Amortization Period (Years)	September 30, 2004 Carrying Amount	September 30, 2004 Accumulated Amortization	December 31, 2003 Carrying Amount	December 31, 2003 Accumulated Amortization	Sept Carryi Amoun
Amortized Intangible Assets						
Patents	7	$ 83	$ 62	$ 101	$ 69	$ 10
Trademarks	9	16	11	16	9	1
Endorsements	-	61	61	61	61	6
Other	18	24	6	23	3	2
Total		$ 184	$ 140	$ 201	$ 142	$ 19
Unamortized Intangible Assets						
Trademarks		$ 508		$ 423		$ 43
Pension		12		12		1
Total		$ 520		$ 435		$ 45
Intangible Assets, net		$ 564		$ 494		$ 51

Aggregate Amortization Expense:	
For the three months ended	
Sept. 30, 2004	$ 5
Sept. 30, 2003	$ 4
For the nine months ended:	
Sept. 30, 2004	$16
Sept. 30, 2003	$15
Estimated Amortization Expense:	
For the Years ending	
December 31, 2004	$21
2005	$ 8
2006	$ 5
2007	$ 5
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 children's 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.

Share Repurchase Program

In the three and nine months ended September 30, 2004, the Company repurchased ten million and nineteen million shares for $420 million and $775 million, respectively. As of September 30, 2004, there are 32 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 September 30		Nine Months Ended September 30	
(Millions)	2004	2003	2004	2003
Blades & Razors	$1,108	$1,034	$3,243	$2,930
Duracell	592	514	1,462	1,330
Oral Care	418	328	1,091	939
Braun	320	293	874	792
Personal Care	253	236	699	639
Total	$2,691	$2,405	$7,369	$6,630

	Profit/(Loss) from Operations			
	Three Months Ended September 30		Nine Months Ended September 30	
(Millions)	2004	2003	2004	2003
Blades & Razors	$ 434	$ 413	$1,271	$1,121

Duracell	161	106	324	199
Oral Care	62	64	185	166
Braun	22	22	66	43
Personal Care	34	26	71	50
Subtotal Reportable Segments	713	631	1,917	1,579
All Other	(24)	(27)	(62)	(90)
Total	$ 689	$ 604	$1,855	$1,489

	Identifiable Assets		
(Millions)	Sept. 30 2004	Dec. 31 2003	Sept. 30 2003
Blades & Razors	$ 3,241	$ 3,106	$ 3,331
Duracell	2,761	2,754	2,841
Oral Care	1,475	1,275	1,227
Braun	1,346	1,237	1,141
Personal Care	462	470	530
Subtotal Reportable Segments	9,285	8,842	9,070
All Other	1,176	1,139	1,240
Total	$10,461	$ 9,981	$10,310

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 September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Net Income	$ 475	$ 416	$1,277	$1,017
Common shares, basic	997	1,017	1,002	1,025
Effect of dilutive securities:				
Stock options	9	2	7	2
Common shares, assuming full dilution	1,006	1,019	1,009	1,027
Net Income per Common Share:				
Basic	$ 0.48	$ 0.41	$ 1.27	$ 0.99
Assuming full dilution	$ 0.47	$ 0.41	$ 1.26	$ 0.99

For the three-month periods ended September 30, 2004 and 2003, respectively, 37.2 million and 65.5 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. For the nine-month periods ended September 30, 2004 and 2003, 31.4 million and 62.4 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 of the common shares for the period.

Pensions and Other Retiree Benefits

(Millions)

	Pension Benefits Three Months Ended September 30		Other Retiree Benefits Three Months Ended September 30		Pension Ben[efits] Nine Months [Ended] September [30]
	2004	2003	2004	2003	2004
Components of Net Defined Benefit Expense					
Service cost-benefits earned	$20	$17	$ 1	$ 1	$ 60
Interest cost on benefit obligation	40	36	5	7	120
Estimated return on assets	(45)	(40)	(1)	(1)	(136)
Net amortization and other	21	22	0	1	63
Net defined benefit expense	$36	$35	$ 5	$ 8	$107

The Company contributed $50 million and $84 million to its pension plans, respectively, for the three and nine months ended September 30, 2004. The Company expects to contribute at least an additional $16 million for a total contribution of at least $100 million to its pension plans in 2004. The Company's contributions to other retiree benefit plans were zero and $3 million, respectively, for the three and nine months ended September 30, 2004. 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 2004, however, no determination has been made at this time as to what, if any, additional amounts will be contributed. The Company previously disclosed total 2004 estimated contributions of $52 million to pension and $3 million to other retiree 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 $21 million and $17 million for the three months ended September 30, 2004 and 2003, respectively. For the nine months ended September 30, 2004 and 2003, total pretax charges under the program were $40 million and $103 million, respectively. Functional excellence charges in 2004 included $10 and $14 million which were recorded to cost of goods sold, and $11 million and $26 million which were recorded to selling, general and administrative expense in the three and nine month periods ended September 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 nine months ended September 30, 2004, approximately $8 million and $24 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 September 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 June 30 2004	Accrual Third Quarter 2004	Total Accruals	Charges and Uses through June 30 2004	Charges and Uses Third Quarter 2004	Char and U Sin Incept

Functional Excellence:						
Employee-related expenses	$236	$ 14	$250	$(173)	$ (16)	$(18
Other	41	7	48	(37)	(6)	(4
Total Functional Excellence Program	$277	$ 21	$298	$(210)	$ (22)	$(23
2003 Manufacturing Realignment Program:						
Employee-related expenses						
Severance payments	35	1	36	(1)	(2)	(
Other benefits	6	-	6	-	-	
Asset-related expenses:						
Asset write-offs	5	-	5	(5)	-	(
Loss on sales of assets	4	-	4	-	-	
Contractual obligations and other	16	7	23	(13)	(7)	(2
Total 2003 Realignment Program	66	8	74	(19)	(9)	(2
Total	$343	$ 29	$372	$(229)	$ (31)	$(26

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

EXECUTIVE OVERVIEW

The Gillette Company achieved record third-quarter and nine-months net sales, profit from operations, net income, and net income per common share, diluted, for the periods ended September 30, 2004.

For the third quarter of 2004, net sales increased 12% as compared with 2003, driven by the ongoing strength of existing products, strong sell-in of new offerings from its Blades and Razors, Oral Care, and Personal Care businesses, and heightened hurricane-related sales of batteries in the United States. The impact of currency movement on sales was a 4% gain, primarily related to Europe. Profit from operations rose 14%, growing at a faster pace than sales due to strong growth of new product offerings, trade-up to premium product offerings, the impact of various cost-savings programs, including Functional Excellence, and other manufacturing-related initiatives and overhead cost reductions, offset in part by higher advertising spending. Within nonoperating charges, net interest expense was slightly below last year though foreign transactional exchange impact moved from income in 2003 to expense in 2004 for the quarter. The Company's effective income tax rate was reduced one percentage point to 29% versus 2003, consistent with the nine month-to-date tax rate. Net income climbed 14% and net income per common share, diluted, increased 15%, slightly outpacing the percentage increase in net income due to share repurchase activity.

Blades and Razors net sales for the third quarter of 2004 increased versus the comparable period in 2003, driven by the launch of M3Power in the UK, Germany and Japan, trade-up to premium products in developing and emerging markets and favorable foreign currency, primarily in Europe, offset partially by a decrease in North American sales due to year-to-year comparisons being affected by the timing of product launches (MACH3Turbo Champion introduced in the third quarter of 2003 and M3Power and Venus Divine, in the first half of 2004). Blades and

Razors profit from operations increased due to higher sales of new product offerings, trade-up to premium products, and higher prices, offset partially by an increase in advertising spending and costs associated with the European manufacturing realignment. Duracell's net sales increased as compared with the third quarter of 2003 due to hurricane activity in North America, category growth in Europe and emerging markets, and the acquisition of the Nanfu battery company in August 2003. Duracell profit from operations rose significantly, reflecting continued cost and expense reduction activities and lower promotional activity, offset in part by higher advertising expenses. Oral Care net sales increased due to a significant number of new product launches, the acquisition of Rembrandt and Zooth, Inc., strong trade-up activity in both developed and emerging markets, 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 was slightly below last year as the impact of higher sales was more than offset by higher advertising and other expenses. Braun net sales increased in the quarter due to a strong performance in the Africa, Middle East and Eastern Europe (AMEE) region, particularly in female epilators and household appliances, favorable foreign exchange and male shaver growth in China, partially offset by male shaver category softness in North America and Europe. Braun profit from operations was unchanged versus 2003, as increased sales and reductions in overhead costs were offset by higher exchange-driven European-based manufacturing costs, incremental advertising expenses, and increased Functional Excellence costs. Personal Care net sales increased, driven by double-digit percentage growth in Europe and the AMEE region reflecting trade-up to premium products and new product introductions. Personal Care profit from operations was higher due to strong new product sales, favorable product mix, and cost reduction activities.

For the nine month period ended September 30, 2004, total Company net sales increased 11%, profit from operations increased 25% and operating profit margin increased by 3 percentage points to 25.2%. The lower net interest expense was more than offset by an unfavorable impact of foreign transactional exchange. The effective income tax rate declined by one percentage point to 29%. Net income climbed 26% and net income per common share, diluted, increased 27%, 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 $1.30 billion in the period.

RESULTS OF OPERATIONS

Third Quarter 2004 versus 2003

Selected statement of income data is presented below.

(millions, except per share amounts and percentages)	For Three Months Ended September 30				
	2004	% of Net Sales	2003	% of Net Sales	% Increase/ (Decrease)
Net sales	$2,691		$2,405		12
Gross profit	1,609	59.8	1,423	59.2	13
Advertising	318	11.8	219	9.1	45

Sales promotion	92	3.4	82	3.4	12
Other selling, general and administrative (SG&A) expense	510	19.0	518	21.5	(2)
Total SG&A expense	$ 920	34.2	819	34.1	12
Profit from operations	$ 689	25.6	$ 604	25.1	14
Nonoperating charges (income):					
Net interest expense	10		11		(9)
Foreign exchange	2		(7)		>(100)
Other	7		7		-
Total nonoperating charges (income)	19	0.7	11	0.4	73
Income taxes	$ 195	7.2	$ 177	7.4	10
Net income	$ 475	17.7	$ 416	17.3	14
Net income per common share, diluted	$0.47		$0.41		15

Total Company

Net sales for the third quarter of 2004 were $2.69 billion, an increase of 12% versus $2.41 billion in the third quarter of 2003, of which 4% resulted from the impact of favorable foreign exchange. Volume/mix added 8%, and pricing was flat. Sales increased due to strong new product introductions and ongoing strength of established products across all regions, especially in the emerging markets of Latin America and AMEE. New product introductions included M3Power in Blades and Razors in the UK, Germany and Japan and an unprecedented level of new product activity in the Oral Care segment. Battery sales increased due to hurricane activity in North America. Acquisitions added 1% to net sales in the quarter. The Company acquired the Nanfu battery business in August 2003, as well as Rembrandt and Zooth, Inc. in the second quarter of 2004.

Gross profit was $1.61 billion in the third quarter of 2004, compared with $1.42 billion in the third quarter of 2003. As a percent of net sales, gross profit was 59.8%, compared with 59.2% 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 and Personal Care, partially tempered by a change in business mix, as the Oral Care and Duracell businesses grew faster than Blades and Razors.

Total selling, general and administrative expenses amounted to 34.2% of third quarter 2004 net sales, versus 34.1% in the comparable period of 2003. Within selling, general and administrative expenses, advertising expenses increased 45% to 11.8% of net sales, from 9.1% 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 at 3.4% of sales was flat in the third quarter of 2004 vs. the prior year. Other selling, general and administrative expenses decreased 2%, and were down as a percentage of sales, to 19.0% from 21.5% in the third quarter of 2003, reflecting cost reduction efforts.

Profit from operations was $689 million in the third quarter of 2004 representing 25.6% of net sales, compared with $604 million in the same period of 2003, which represented 25.1% of net sales. The 14% 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 $10 million in the third quarter of 2004, as compared to $11 million in 2003, reflecting lower average long-term debt levels. Net foreign transactional exchange in the third quarters of 2004 and 2003 were $2 million (expense) and $7 million (income), respectively.

The effective income tax rate was 29% in the third 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 in line with the current level for the balance of 2004.

Net income was $475 million in the third quarter of 2004 representing 17.7% of net sales, compared with $416 million in the third quarter of 2003 which represented 17.3% of net sales, or an increase of 14%. Net income per common share, diluted, was $.47, compared with $.41 in the third quarter of 2003, representing growth of 15%. 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.

Nine Months Ended September 30, 2004 versus 2003

Selected statement of income data is presented below.

(millions, except per share amounts and percentages)	For Nine Months Ended September 30 2004	% of Net Sales	2003	% of Net Sales	% Increase/ (Decrease)
Net sales	$7,369		$6,630		11
Gross profit	4,441	60.3	3,914	59.1	13
Advertising	812	11.0	572	8.6	42
Sales promotion	258	3.5	253	3.8	2
Other selling, general and administrative (SG&A) expense	1,516	20.6	1,600	24.1	(5)
Total SG&A expense	$2,586	35.1	$2,425	36.6	7
Profit from operations	$1,855	25.2	$1,489	22.5	25
Nonoperating charges (income):					
Net interest expense	27		35		(23)
Foreign exchange	20		(2)		>(100)
Other	7		4		75
Total nonoperating charges (income)	$ 54	0.8	$ 37	0.6	46
Income taxes	$ 524	7.1	$ 435	6.6	20
Net income	$1,277	17.3	$1,017	15.3	26
Net income per common share, diluted	$ 1.26		$ 0.99		27

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

Total Company

Net sales for the nine months ended September 30, 2004 were $7.37 billion, an increase of 11% versus $6.63 billion in the first nine months of 2003. Favorable volume/mix contributed 6% to net sales 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. Foreign exchange had a favorable 5% impact on net sales. Sales increased due to new product introductions, ongoing trade-up to premium priced products and the impact of acquisitions.

Gross profit was $4.44 billion in the first nine months of 2004, compared with $3.91 billion in the first nine months of 2003. As a percent of net sales, gross profit was 60.3% in the first nine months of 2004, compared with 59.1% in the first nine months of 2003. The improvement in gross profit was due mainly to strong growth of new product offerings, trade-up to premium product offerings and manufacturing cost savings, particularly at Duracell and Personal Care.

Total selling, general and administrative expenses amounted to 35.1% of net sales for the first nine months of 2004, compared with 36.6% in the comparable period of 2003. Within selling, general and administrative expenses, advertising expenses increased 42% to 11.0% of net sales, from 8.6% of net sales in 2003. Sales promotion as a percentage of net sales declined slightly as compared with 2003. Other selling, general and administrative expenses decreased 5%, and were down as a percentage of sales, to 20.6% from 24.1% in the first nine months of 2003, reflecting cost reduction efforts and lower Functional Excellence expenses. Functional Excellence expenses were $40 million for the first nine months of 2004 versus $103 million for the same period in 2003.

Profit from operations was $1.86 billion in the first nine months of 2004 representing 25.2% of net sales, compared with $1.49 billion in the comparable period of 2003, or 22.5% of net sales. The 25% 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 $27 million in the first nine months of 2004, as compared to $35 million in 2003, reflecting lower average long-term debt levels. Net foreign transactional exchange impact in the first nine months of 2004 and 2003 was $20 million (expense) and $2 million (income), respectively. The 2004 result was mainly 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 nine months ended September 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 in line with the current level for the remainder of 2004.

Net income was $1.28 billion in the first nine months of 2004 representing 17.3% of net sales, compared with $1.02 billion in the first nine months of 2003 which represented 15.3% of net sales, or an increase of 26%. Net income per common share, diluted, was $1.26, compared with $0.99 in the first nine months 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.

Operating Segments

Third Quarter 2004 versus 2003

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

Three Months Ended September 30,	Blades & Razors	Duracell	Oral Care	Braun	Personal Care	C
(millions, except percentages)						
Net Sales:						
Net sales, 2004	$1,108	$592	$418	$320	$253	
Net sales, 2003	1,034	514	328	293	236	
% Incr/(Decr) vs. 2003	7	15	27	9	7	
Impact of exchange	4	3	5	6	5	
Impact of volume/mix	1	11	24	6	4	
Impact of pricing	2	1	(2)	(3)	(2)	
Profit from operations (PFO)						
PFO, 2004	$ 434	$161	$ 62	$ 22	$ 34	
PFO, 2003	413	106	64	22	26	
% Incr/(Decr) vs. 2003	5	52	(3)	-	31	
PFO as % of net sales, 2004	39.2	27.1	14.7	6.8	13.3	
PFO as % of net sales, 2003	40.0	20.6	19.3	7.3	11.1	

Blades and Razors

Net sales of $1.11 billion in the third quarter of 2004 were 7% higher than the comparable period of 2003, including a 4% favorable foreign exchange impact. Net sales growth was driven by new premium offerings including M3Power in the UK, Germany and Japan during the quarter and trade-up to premium products in the AMEE and Latin America markets. Sales in North America were lower than last year due primarily to the timing of product launches in 2004 and the unmatched introduction of MACH3Turbo Champion in the third quarter, 2003.

Profit from operations of $434 million was up 5% from the third quarter of 2003, and profit margin decreased from 40.0% to 39.2%. Profit from operations is impacted by higher sales from new products, price increases and lower overhead costs, which were partially offset by a double-digit percentage increase in advertising and costs associated with the manufacturing, packaging and warehouse operations realignment program throughout Europe and Russia.

Duracell

Duracell net sales of $592 million increased 15% versus the third quarter of 2003, including a 3% favorable foreign exchange impact. Net sales gains were driven by increased sales due to hurricane activity in North America, the acquisition of the Nanfu battery business in August 2003, and strong market growth in the AMEE region.

The Company's dollar market share in North America was slightly lower in the third quarter of 2004 as compared to the prior quarter due to heightened promotional activity by the competition in the alkaline segment and aggressive promotional activity and increased distribution behind the low price, low performance zinc carbon segment.

In the third quarter of 2004, profit from operations of $161 million increased 52%, and profit margin grew by 6.5 percentage points, compared with the third 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 third quarter of 2004 of $418 million were 27% higher than the third quarter of 2003, of which 5% represented favorable foreign exchange. Sales increased in line with the Company's strategy to grow net sales in the core brushing category as well as in related categories. Unprecedented new product activity included two new premium power toothbrushes and a new entry into the manual toothbrush category all contributing significantly to net sales growth in the quarter. Acquisitions added 4% to net sales for the period.

In the third quarter of 2004, profit from operations of $62 million was slightly below 2003. The decrease in profit from operations was driven primarily by a double-digit percentage increase in advertising, and expenses primarily related to the redesign and rework of two entry-level power toothbrushes.

Braun

Braun net sales of $320 million in the third quarter of 2004 increased 9% over the third quarter of 2003. Favorable foreign exchange accounted for 6% of the growth. Sales growth was driven by strong performance in female epilators in AMEE, household appliance gains in Russia and Turkey, male shaver growth in China, the first shipments of the top-of-the-line Activator in the U.S. and the new youth CruZer shaver in the UK, offset partially by male shaver category softness in North America and Europe.

Profit from operations in the third quarter of 2004 was flat versus the third quarter of 2003 as the higher sales and lower overhead costs offset the currency related increases in European-based manufacturing costs and increased advertising expenses.

Personal Care

In the third quarter of 2004, Personal Care net sales increased 7% versus the third quarter of 2003, with foreign exchange contributing 5% of the growth. Sales growth was paced by double-digit percentage gains in Europe and AMEE, driven by strong trade-up from foam shave preparations to premium gel-based shave preparations.

Profit from operations increased to $34 million in the third quarter of 2004 as compared to $26 million in the third 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.

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

Nine Months Ended September 30, 2004 versus 2003

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

Nine Months Ended September 30,	Blades & Razors	Duracell	Oral Care	Braun	Personal Care
(millions, except percentages)					
Net Sales:					
Net sales, 2004	$3,243	$1,462	$1,091	$874	$699
Net sales, 2003	2,930	1,330	939	792	639
% Incr/(Decr) vs. 2003	11	10	16	10	9
Impact of exchange	5	4	5	6	4
Impact of volume/mix	4	6	13	6	7
Impact of pricing	2	-	(2)	(2)	(2)
Profit from operations (PFO)					
PFO, 2004	$1,271	$ 324	$185	$ 66	$71
PFO, 2003	1,121	199	166	43	50
% Incr/(Decr) vs. 2003	13	63	11	53	42
PFO as % of net sales, 2004	39.2	22.2	17.0	7.6	10.1
PFO as % of net sales, 2003	38.3	15.0	17.6	5.4	7.9

Blades and Razors

Net sales of $3.24 billion in the nine months ended September 30, 2004 were 11% higher than in the comparable period of 2003, including a 5% favorable foreign exchange impact. Volume/mix and pricing were favorable by 4% and 2%, respectively. Sales growth was driven by successful new product introductions such as M3Power, Venus Divine and Sensor3 System, and ongoing trade-up to premium products such as Mach3Turbo, and price increases.

Profit from operations of $1.27 billion was up 13% from the first nine months of 2003, and profit margin increased 0.9 percentage points to 39.2%. The impact of higher sales, favorable product mix and higher prices was offset partially by an increase in advertising spending and costs associated with the European manufacturing realignment.

Duracell

Duracell net sales of $1.46 billion increased 10% versus the first nine months of 2003, including a 4% favorable foreign exchange impact. Net sales gains were driven by increased hurricane activity in North America and the addition of the Nanfu battery business in China.

In the first nine months of 2004, profit from operations of $324 million increased 63%, and profit margin grew by 7.2 percentage points, compared with the first nine 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 nine month period ended September 30, 2004 of $1.09 billion were 16% higher than the comparable period of 2003, with favorable foreign exchange contributing 5%. Net sales gains were driven by new products, the acquisition of Rembrandt and Zooth, Inc. and strength in most regions behind manual toothbrushes.

In the first nine months of 2004, profit from operations of $185 million increased 11%. The increase in profits was driven by higher sales from new products and improved product mix and partially offset by a double-digit percentage increase in advertising and other launch related expenses.

Braun

Braun net sales of $874 million in the nine months ended September 30, 2004 increased 10% versus the comparable period of 2003, with favorable foreign exchange representing 6% 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 nine months of 2004 of $66 million compared with $43 million in the first nine months of 2003. Profit improvement was driven by the higher sales, 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 nine months ended September 30, 2004, Personal Care net sales increased 9% versus the first nine months of 2003, with foreign exchange contributing 4% of the growth. Net sales grew due to strong demand for new products and trade-up in shave preparations, particularly in Europe and North America. Net sales growth was also driven by new products, including Gillette Complete Skincare in North America, and the new side-activated Right Guard Cool Spray in the United Kingdom.

Profit from operations increased to $71 million for the nine months ended September 30, 2004 as compared with $50 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	
Nine Months Ended September 30	Free Cash Flow	GAAP Cash Flow	Free Cash Flow	GAAP Cash Flow
(millions)				
Net income		$1,277		$1,01
Depreciation and amortization		448		43
Deferred income taxes and other		63		7
(Increase) / Decrease in accounts receivable		(97)		
Increase in inventories		(369)		(17
Net change in other sssets and liabilities		309		35
Net cash provided by operating activities	$1,631	$1,631	$1,702	$1,70
Additions to property, plant and equipment (A)	(379)		(218)	
Disposals of property, plant and equipment (B)	44		28	
Free cash flow	$1,296		$1,512	
Net cash used in investing activities (C*)		$(450)		$ (34
Net cash used in financing activities		(969)		(1,31
Effect of exchange rate changes on cash		(2)		
Increase in cash and cash equivalents		$ 210		$ 4

*C is the sum of A, B and $(115) million and $(158) million in other investing activities, including acquisitions net of cash acquired, in the nine months ended September 30, 2004 and 2003, respectively.

Free cash flow for the nine months ended September 30, 2004, was $1.30 billion, representing 18% of net sales, as compared with $1.51 billion in the nine months ended September 30, 2003. The impacts of higher net income were offset by higher accounts receivables, higher inventories and additions to property, plant and equipment. Inventory levels reflect the support of new product activity for Braun and Oral Care and the 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 future new product programs and the realignment of our Blades and Razors manufacturing and distribution in Europe and Russia.

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

Net cash used in investing activities for the first nine months of 2004 increased as compared with the prior year, primarily due to the funding of 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 $117 million and higher capital expenditures. In addition to funding the acquisitions, the Company used its free cash flow to finance the repurchase of 19.3 million shares of Company stock for $775 million and to pay dividends of $490 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 nine months of 2004 was below last year mainly due to lower share repurchases.

Debt

Total debt increased by $20 million during the nine months ended September 30, 2004, to $3.33 billion at September 30, 2004 from $3.31 billion at December 31, 2003. This increase was principally due to an increase in short-term loans payable of $94 million, partially offset by a net decrease in long-term debt of $74 million. Cash and cash equivalents increased by $210 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 $1.62 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 September 30, 2004, there was $121 million outstanding under the Company's commercial paper program, compared with $55 million at December 31, 2003. On October 12, 2004, the Company entered into a 364-day basis 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 the Company the option to enter into a one-year term loan in an amount up to $930 million. On October 14, 2003, the Company entered into a revolving bank credit facility in which $288 million is available for five years, expiring October 2008. 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.

During the nine-months ended September 30, 2004, $346 million was issued in public offerings under these shelf registration statements, consisting of $300 million 3.80% notes, due September 2009, and $46 million in floating rate notes, due April 2043. The $46 million floating rate notes are redeemable at the option of the holder at various prices on a yearly basis from April 2005 to April 2014 and each third anniversary thereafter to maturity. The floating rate notes are also redeemable at the Company's option at various prices from April 2033 to maturity.

At September 30, 2004, $1.88 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 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 September 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 nine month periods ended September 30, 2004 and 2003, the Company recorded the following expenses related to this initiative:

	Three Months Ended September 30		Nine Months Ended September 30	
(millions)	2004	2003	2004	2003
Functional Excellence expense recorded in:				

Cost of goods sold	$10	$ 2	$14	$ 15
Selling, general and administrative expense	11	15	26	88
Total functional excellence expense	$21	$17	$40	$103

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 nine months ended September 30, 2004, the Company recorded charges of $8 million and $24 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.

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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.

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.

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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.

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

Total Number

Period	Total Number of Shares Purchased (3)	Average Price Paid per Share	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
07/01/04 - 07/31/04	675,000	$39.01	675,000	41,325,000
08/01/04 - 08/31/04	8,305,918	$40.60	8,298,600	33,026,400
09/01/04 - 09/30/04	1,328,424	$42.65	1,326,400	31,700,000
Total Third Quarter	10,309,342 (2)	$40.76	10,300,000	31,700,000

(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 9,342 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. 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.

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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.

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PART II. OTHER INFORMATION

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.

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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

October 28, 2004

EXHIBIT INDEX

Exhibit Number and Description

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