Financial Review

Results of Operations

The Company's fiscal year ended June 30, 2002 reflects the benefits of clear strategic choices, operational excellence and financial discipline. The Company kept its commitment to deliver consistent, reliable earnings and cash growth. In fact, it delivered its long-term sales and earnings growth targets ahead of the established objective and substantially increased free cash flow.

During 2002, the Company completed the acquisition and integration of Clairol – its largest acquisition ever – providing a strong presence in the high-margin hair colorants business. It also divested Comet and spun off Jif and Crisco. These transactions are part of the Company's choice to focus on building big brands that offer the greatest potential for global growth.

The Company continues to make clear choices about where to play and how to win. The framework for these is grounded in focus areas that include: building core categories and leading brands; growing with the biggest retail customers in the biggest geographic markets; and investing in faster-growing, higher-margin, more asset-efficient businesses. This requires some difficult decisions, including those reflected in the Company's restructuring program to reduce overheads and streamline manufacturing and other work processes. As the fiscal year results demonstrate, these strategic choices are paying off.

Volume and Net Sales

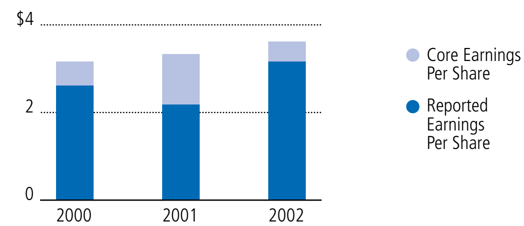
Record sales in 2002 of $40.24 billion exceeded 2001 sales by $994 million, or 3%. Excluding an unfavorable exchange rate impact of 1% in the current year, net sales grew 4%. Core net sales, which exclude restructuring impacts, were $40.17 billion, up 2% versus $39.38 billion in 2001. Excluding an unfavorable exchange rate impact of 2% in the current year, core net sales grew 4%. This is in line with the Company's long-term objective of 4% to 6% sales growth, excluding the impacts of foreign exchange. Sales growth in 2002 was driven by 7% unit volume growth – with particularly strong performances in the health care and beauty care segments.

Fiscal year 2001 sales were $39.24 billion compared to $39.95 billion in 2000. Excluding unfavorable exchange effects of 3%, sales increased 2%, reflecting improved pricing in beauty care, fabric and home care and baby, feminine and family care. Unit volume was flat in 2001, as exceptionally strong performance by new businesses in health care was offset by softness in food and beverage.

Net Earnings

In 2002, net earnings were $4.35 billion, compared to $2.92 billion in 2001 and $3.54 billion in 2000. Reported results include after-tax restructuring charges of $706 million, $1,475 million, and $688 million in 2002, 2001 and 2000, respectively. This restructuring program covers a significant reduction in enrollment, manufacturing consolidations and portfolio choices to scale back or discontinue underperforming businesses and initiatives.

Net Earnings Per Share
(on a diluted basis)



The Company's long-term earnings goal is to consistently deliver double-digit core net earnings per share growth. Core diluted net earnings per share, which excludes the impact of restructuring charges and the prior years' amortization of goodwill and indefinite-lived intangibles, increased 10% to $3.59 in 2002. This compares to core diluted net earnings per share of $3.27 in 2001 and $3.10 in 2000. The goodwill adjustment was $0.15 per share in both 2001 and 2000. In the current year, every business unit delivered net earnings growth above the corporate objective. Clear strategic focus and operational excellence are enabling improved business performance across all fronts. Core diluted net earnings per share growth in the prior year of 5% reflected cost increases and exchange impacts, which were mitigated by pricing improvements, lower taxes and divestiture gains.

Operating Costs

Costs of products sold was $20.99 billion in 2002, compared to $22.10 billion in 2001 and $21.51 billion in 2000. Restructuring costs included in cost of products sold were $508 million in 2002, $1.14 billion in 2001, and $496 million in 2000. Excluding restructuring charges, as a percent of core net sales, cost of products sold was 51.0% in 2002, compared to 53.2% in 2001 and 52.6% in 2000. The progress in the current year reflects a decline in material costs and a continued focus on savings projects, including restructuring. Gross margin progress accelerated throughout the year, as restructuring benefits and ongoing operational savings increased.