Gillette
2002 Annual Report
2003 Proxy Statement

Founded in 1901, The Gillette Company is the world leader in male grooming, a category that includes blades, razors and shaving preparations, and in selected female grooming products, such as wet shaving products and hair epilation devices. In addition, the Company holds the number one position worldwide in alkaline batteries and in manual and power toothbrushes. Gillette manufacturing operations are conducted at 32 facilities in 15 countries, and products are distributed through wholesalers, retailers and agents in over 200 countries and territories.

On the Cover: The Gillette Mach3Turbo triple blade shaving system.

James M. Kilts
Chairman and
Chief Executive Officer

Dear Shareholders:
In my letter last year, I said that Gillette had great strengths and serious problems. I also said that we had a clear plan to build on our strengths, deal with our problems, and return our performance to the top tier of our industry.

I am very pleased to report that in 2002, strength and strategy came together. In this year's report, I will shift from the plans and potential of the Gillette turnaround to a report on our progress.

Our turnaround in 2002 had three essential parts.
– Making the most of our resources to improve our financial performance.
– Building our great brands with great marketing.
– And bringing everything together through a global drive for Functional Excellence — world-class capabilities at the lowest costs possible.

Our financial performance was guided by the belief that to be the best in our industry, we have to pass several major tests of leadership: a competitive cost structure, industry-leading operating margins, a tight ratio of working capital to net sales, strong free cash flow as a percentage of sales and strong return on assets, all culminating in a track record of consistent earnings growth.

Our cost structure is where we've made some of our most significant progress, yet still have the most work to do. In 2002, we reduced our overhead by one percentage point of sales, excluding the costs of our Functional Excellence initiatives. We achieved this despite increased pension costs. While we are not where we want to be, this improvement … and our momentum … put us on track to hit our overall reduction target of $300 - $350 million by 2006.

Reversing the decline and then improving our operating margins — once a Gillette strength — has been a priority target. We are closing the gap by lowering overheads, using our global scale to reduce sourcing costs, and driving manufacturing efficiencies. We are seeing steady improvement,

but there is more to come. Operating margins advanced to 21.4 percent in 2002 from 18.5 percent, after restructuring expense, in 2001.

In working capital, we are ahead of our targets. We achieved a dramatic increase in efficiency — dropping from 21.5 percent of net sales in 2000 ... to 16.2 percent in 2001 ... and then to 8.4 percent in 2002. The progress comes from excellent performance by excellent people with a shared sense of mission and direction.

Our free cash flow*, a critical source for investment in the business, topped $1.5 billion in 2001 — up 79 percent over 2000. In 2002, we moved it to $1.7 billion, after $529 million of pension funding. So, our free cash flow last year nearly equaled the cumulative amount generated from 1998 to 2000.

Return on assets is one of our most important measures. In recent years it fell victim to a combination of lower operating profit and higher capital spending. In 2002, we reversed the trend. Our return on assets climbed to 29.5 percent from a low of 22.9 percent in 2001.

The final measure of leadership is consistent earnings growth that leads to top-tier performance. It's a major challenge, and the past year marked an important first step. We are now confident that we can deliver consistent growth. We will do it through ... 3 to 5 percent sales growth, efficiency-driven profit growth across the board, and continuing gains in operational and financial strength.

The second element of our turnaround is great brands and great marketing. We have the tremendous advantage of possessing one of the

*See page 25 of the accompanying 2002 Form 10-K for the definition of free cash flow and its reconciliation to a GAAP measurement of cash flow.

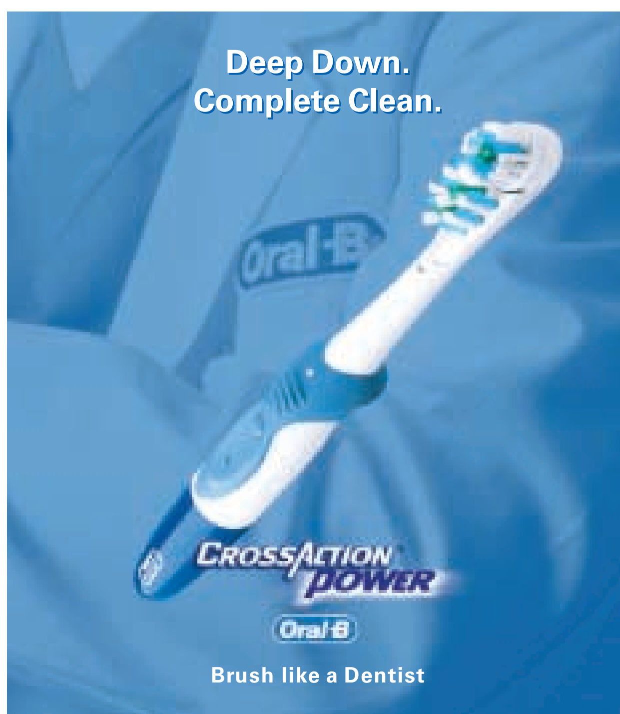
strongest brand portfolios anywhere. And we compete in categories with growth rates that are among the highest in consumer products. We are a true global power, with 84 percent of our sales coming from brands that lead their markets. But in the recent past, we were one of the sector's notable under-achievers. The opportunity of our great brands was short-circuited by the lack of superior, consistent marketing. We are well on the way to fixing that.

One of the best ways to measure the impact of our improved marketing is to look at market shares. In 2000, in the key market of North America, we were losing share in 76 percent of our businesses. By 2001, we were gaining share in 75 percent of our businesses. And last year, that figure rose to 80 percent. Here is a brief look at what great marketing means and what it is achieving in our business units.

Blades & Razors

The growth story in Blades and Razors centers on Mach3 and Venus. In market share and dollar growth, in consumer preference and consumer loyalty, these products not only lead by wide margins, but in most instances have set records. For example, 33 percent of male wet shavers in North America use Mach3, 75 percent higher than the second most popular brand, our Gillette Sensor. Venus has 32 percent of the worldwide female shaving market. Women prefer Venus three-to-one and six-to-one over the two top competitive systems.

But even the most powerful brands are not annuities. They must be refreshed and supported. With Mach3 still going strong four years after its launch, we introduced Mach3Turbo last year in North America. Mach3Turbo is now the number one razor in the segment and will roll out



in Europe this year. We also continue to add new features and colors to Venus. New for 2003 will be Passion Venus, a vibrant pink razor, and the Spa Collection featuring three colors.

Advertising support is key to both products. The original Mach3 campaign was the highest scoring advertising in the Company's history. The new Mach3Turbo commercials — with a positioning of "shaving against the grain" — have produced similar high-impact results. And last year's Venus ads brought the compelling "Goddess Within You" theme to an all-new level.

Duracell

For the past 20 years, Duracell was one the best performing growth brands in consumer products. However, a flawed strategy intended to move consumers up to a premium product had a disastrous impact. The good news is that our complete re-staging of the brand reversed the decline. The bad news is the battery category. Its pricing structure imploded. By the end of last year, more than 50 percent of battery volume was sold at discount, and the average discount was 35 percent off list.

So early this year, we took aggressive steps to reduce the frequency and depth of promotions and to establish a lower everyday price for our Duracell line. These actions will enhance Duracell's competitiveness versus private label and value brands. As part of our overall marketing program, we believe this move will strengthen our brand and grow the category. Another key marketing component is our new approach to battery advertising. We have moved away from battery life claims that consumers largely ignored.

Our new "Trusted Everywhere" campaign uses dramatic life situations to elevate the importance of decisions in battery choice.

Oral Care

Our focus in Oral Care is to take fuller advantage of our position in one of consumer products' strongest categories. A double-digit increase in our advertising has helped drive strong growth in both manual and power toothbrushes. Our top-selling CrossAction manual brand and Stages toothbrushes for children achieved record market shares. Growth in the power segment reflected strong gains by our new Braun Oral-B premium battery brush and our premium Braun Oral-B 3DExcel rechargeable toothbrush.

In the fourth quarter, we introduced powerful new advertising that leverages Oral-B's preference among dentists. With the theme of "Brush Like A Dentist," the campaign is the highest scoring ever for the Oral Care business.

Braun

A first step in the Braun marketing story was to free up resources by strengthening operations and reducing costs. We have improved our use of capital, cut marginal products, pulled back from unprofitable markets and cleaned out slow-moving products. Braun shavers achieved record market shares in the U.S., aided by the launch of the upgraded Syncro Logic premium electric shaver. New Braun low- and mid-priced shavers, including the Flex XP men's washable shaver, grew at a double-digit rate.

With the business stronger, we invested in supporting the new products and building the considerable power of the brand. New print and television ads for electric shavers cut through the clutter of claims with powerful demonstrations of superior performance and design.

Personal Care

2002 was an investment year in our Personal Care business, highlighted by the successful launch of our innovative PowerStripe odor protection technology. It helped drive share gains for the Right Guard Xtreme, Soft & Dri and Gillette Series brands. In shave preparations, marketing programs linking Satin Care with Venus razors and Gillette Series with the Mach3Turbo also resulted in market share growth.

PowerStripe antiperspirant/deodorant was introduced with strong ad support for Right Guard and Soft & Dri. The advertising for Right Guard Xtreme used irreverent humor and celebrities that appealed to the young male target. Soft & Dri advertising built on the successful theme of "strong and beautiful, just like you." It featured young, athletic women in a kickboxing demonstration and scored the highest of all Soft & Dri commercials over a 33-year history.

These are some examples from our business that indicate the quality of our marketing efforts. They also set the tone and pace for more to come.

Functional Excellence

The third essential part of our turnaround is our global Functional Excellence effort. Freeing up capital and achieving the right organizational structure are two key benefits of Functional Excellence. But this is not just a cost-cutting effort. Its impact runs much deeper. Functional Excellence is a tool to evolve our culture, and achieve best-in-class capabilities and performance.

At a minimum, we want to be at parity with industry peers. And where leadership means competitive advantage, we want to be the best. Functional Excellence is driving continual change and improvement throughout our business. Here are just three examples.

Through Functional Excellence studies, it became clear that our IT systems were not only failing to meet the needs of the business, but they also relied much too heavily on external consulting services. So our action plan called for us to consolidate to just a few strategic suppliers. They also linked spending and operational decisions to business impact. We eliminated isolated and redundant systems, and we found vendors who could give us high-quality results with lower cost.

Functional Excellence in Human Resources has brought a collection of stove-piped, expensive services under one roof. By concentrating skill sets and experience in a single location, we get more from our talent, yet costs are being reduced by 16 percent and headcount by 12 percent.

Our Global Value Chain also had serious performance and cost issues. Inventories were high and service was poor — a bad combination. We aligned our supply chain globally to simplify accountabilities. We reduced inventories substantially, improved case-fill rates and are moving toward more strategic partnering with key retailers.

Again, just a few examples of our worldwide efforts to focus all our people, all our businesses, and all our resources on our objective of being a top-tier company.

Thank you and welcome

Before closing this letter, I want to recognize the contributions of four outstanding Board members — two who left last year and two who will be leaving this year.

Carol Goldberg, who served on our Board for 12 years, provided us with great insights about our retail customers. Henry Kravis, co-founder of Kohlberg Kravis Roberts & Co., strengthened our deliberations with his broad financial knowledge.

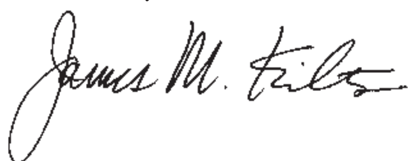
I also want to thank in advance two directors who will leave this year: Richard Pivirotto and Warren Buffett. Dick has served on our Board since 1980 and is our longest-serving director. He has made tremendous contributions. As for Warren, we are losing a business legend. He is a one-of-a-kind investor, and a one-of-a-kind individual who has provided enormous insight and wisdom in helping to guide our Company. I will continue to value Warren as a trusted advisor in the years ahead.

I also would like to welcome two directors who joined us last year: Ray Groves, who previously headed Ernst & Young and is now President and CEO of Marsh Inc.; and Nancy Karch, who formerly was a senior partner of the international consulting firm McKinsey & Company.

In closing, I would characterize 2002 as the year when promise and projection became fact and accomplishment. From the beginning, we have operated on a simple rule. Make the commitments you can keep and keep the commitments you make. We have come out of a difficult and unfortunate time in American business with our credibility intact. We told our customers, our employees, and our investors what was wrong at Gillette, how we planned to fix it, and what they could expect. And I believe we are delivering.

Our turnaround, however, is far from finished. We continue to be a work in progress. And I can report that, thanks to the dedication and skill of our employees around the world and the continuing support of our shareholders, our progress is on track and on schedule.

Sincerely,



James M. Kilts
Chairman and
Chief Executive Officer

March 3, 2003

The Gillette Company Notice of 2003 Annual Meeting of Shareholders and Proxy Statement

Notice of 2003 Annual Meeting of Shareholders

Time:	10:00 a.m.
Date:	Thursday, May 15, 2003
Place:	Hotel du Pont 11th and Market Streets Wilmington, Delaware
Webcast:	Our Annual Meeting also will be webcast on our web site at *www.gillette.com* at 10:00 a.m. on May 15, 2003. Information included on our web site, other than our Proxy Statement, is not a part of the proxy soliciting material.
Items of Business:	1. To elect four members of the Board of Directors for three-year terms. 2. To vote on two shareholder proposals, if the proposals are presented at the Meeting.
Record Date:	You can vote if you were a shareholder of record on March 17, 2003.
Annual Report:	Our 2002 Annual Report, which is not a part of the proxy soliciting material, is included with this Proxy Statement.
Proxy Voting:	It is important that your shares be represented and voted at the Meeting. You can vote your shares by completing and returning the proxy card sent to you. Most shareholders also can vote their shares on the Internet or by telephone. If Internet or telephone voting is available to you, voting instructions are printed on your proxy card. You can revoke a proxy at any time prior to its exercise at the Meeting by following the instructions in the accompanying Proxy Statement.

By order of the Board of Directors
William J. Mostyn III
Deputy General Counsel and Secretary

Boston, Massachusetts
April 4, 2003

2003 Proxy Statement

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Proxy Statement

We are providing these proxy materials in connection with the solicitation by the Board of Directors of The Gillette Company, a Delaware corporation, of proxies to be voted at our 2003 Annual Meeting of Shareholders and at any adjournment or postponement.

You are invited to attend our Annual Meeting of Shareholders on May 15, 2003, beginning at 10:00 a.m. The Meeting will be held at the Hotel du Pont, 11th and Market Streets, Wilmington, Delaware. See page 27 of this Proxy Statement for directions.

This Proxy Statement, form of proxy and voting instructions are being mailed starting April 4, 2003.

ANNUAL MEETING ADMISSION

Shareholders will be admitted to the Annual Meeting beginning at 9:30 a.m. Only shareholders are invited to attend the Annual Meeting. Proof of ownership of Gillette common stock, as well as a form of personal identification, may be requested in order to be admitted to the Meeting.

If you are a shareholder of record, your name can be verified against our shareholder list. If your shares are held in the name of a bank, broker or other holder of record, and you plan to attend the Meeting, you must present proof of your ownership of Gillette stock, such as a bank or brokerage account statement, to be admitted to the Meeting.

No cameras, recording equipment or electronic devices will be permitted in the Meeting and large bags, briefcases or packages may be subject to inspection.

WEBCAST OF THE ANNUAL MEETING

Our Annual Meeting also will be webcast on May 15, 2003. You are invited to visit *www.gillette.com* at 10:00 a.m. on May 15, 2003, to hear the webcast of the Meeting.

SHAREHOLDERS ENTITLED TO VOTE

Record holders of Gillette common stock at the close of business on March 17, 2003, are entitled to receive this notice and to vote their shares at the Annual Meeting. As of that date, there were 1,022,875,105 shares of common stock outstanding. Each share of common stock is entitled to one vote on each matter properly brought before the Meeting.

VOTE BY TELEPHONE

You can vote by calling 1-800-690-6903. Easy-to-follow voice prompts allow you to vote your shares and confirm that your instructions have been properly recorded.

VOTE ON THE INTERNET

You also can vote on the Internet. The web site for Internet voting is *www.proxyvote.com*. As with telephone voting, you can confirm that your instructions have been properly recorded.

VOTE BY MAIL

If you choose to vote by mail, simply indicate your response on your proxy card, date and sign it, and return it in the postage-paid envelope provided. If the envelope is missing, please mail your completed proxy card to The Gillette Company, c/o ADP, 51 Mercedes Way, Edgewood, NY 11717.

REVOCATION OF PROXIES

You can revoke your proxy at any time before it is exercised by:

- written notice to the Secretary of the Company;
- timely delivery of a valid, later-dated proxy or a later-dated vote by telephone or on the Internet; or
- voting by ballot at the Annual Meeting.

VOTING AT THE ANNUAL MEETING

The method by which you vote will not limit your right to vote at the Annual Meeting if you decide to attend in person. However, if you have already voted your shares by mail, telephone or Internet, there is no need to vote again at the Meeting unless you wish to change your vote. If your shares are held in the name of a bank, broker or other holder of record, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote at the Meeting.

All shares that have been properly voted and not revoked will be voted at the Annual Meeting. If you sign and return your proxy card but do not give voting instructions, the shares represented by that proxy will be voted for the election of directors and against shareholder proposals 2 and 3.

CONSOLIDATION OF YOUR VOTE

You will receive only one proxy card for all the shares you hold in your name, in the Employees' Savings Plan and in the Employee Stock Ownership Plan.

If you are a Gillette employee who currently has shares in the Employees' Savings Plan, Gillette Canada Inc. Retirement Income Savings Plan, Employee Stock Ownership Plan or Global Employee Stock Ownership Plan, you are entitled to give voting instructions for the shares held in your account. Your proxy card will serve as a voting instruction card for the plans' trustees.

If you do not vote your shares or specify your voting instructions on your proxy card, the plans' trustees will vote your shares in the same proportion as the shares for which voting instructions have been received from other participants of each plan. **To allow sufficient time for voting by the plans' trustees, your voting instructions must be received by May 8, 2003.**

HOUSEHOLDING INFORMATION

We have adopted a procedure approved by the Securities and Exchange Commission (SEC) called "householding." Under this procedure, shareholders of record who have the same address and last name and do not participate in electronic delivery of proxy materials will receive only one copy of our Annual Report and Proxy Statement, unless one or more of these shareholders notifies us that they wish to continue receiving individual copies. We believe this procedure provides greater convenience for our shareholders and saves money by reducing the number of duplicate documents.

Shareholders who participate in householding will continue to receive separate proxy cards. Householding will not affect dividend check mailings.

If you and other shareholders of record with whom you share an address currently receive multiple copies of our Annual Report and Proxy Statement, or if you hold stock in more than one account and wish to receive only a single copy of the Annual Report and Proxy Statement, please contact ADP, Householding Department, 51 Mercedes Way, Edgewood, NY 11717, or call toll-free (800) 542-1061.

If you participate in householding and wish to revoke your consent and receive separate copies of future Annual Reports and Proxy Statements, please contact ADP as described above.

LIST OF SHAREHOLDERS

The names of shareholders of record entitled to vote at the Annual Meeting will be available at the Annual Meeting and, for 10 days prior to the Meeting, at the office of the Secretary of the Company, Prudential Tower Building, Boston, Massachusetts.

VOTING REQUIREMENTS

The presence of the holders of a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting, in person or represented by proxy, is necessary to constitute a quorum. Abstentions and broker "non-votes" are counted as present and entitled to vote for purposes of determining a quorum. A broker "non-vote" occurs when a broker holding shares for a beneficial owner does not vote on a particular proposal because the broker does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

Election of directors. A plurality of the votes cast is required for the election of directors. This means that the nominees with the most votes are elected.

Under New York Stock Exchange rules, if you are a beneficial owner and your broker holds your shares in its name, the broker is permitted to vote your shares on the election of directors even if the broker does not receive voting instructions from you.

Shareholder Proposals. An affirmative majority of the votes represented at the Meeting must be cast in favor of proposals 2 and 3 for approval. Brokers are not permitted to vote your shares on these proposals without receiving voting instructions from you. Broker non-votes and abstentions will not be counted as votes cast and will have no effect on the outcome of proposals 2 and 3.

Voting on Other Matters. If other matters are properly presented at the Annual Meeting for consideration, the persons named in the proxy will have the discretion to vote on those matters for you. At the date this Proxy Statement went to press, we did not know of any other matters to be presented at the Annual Meeting.

COST OF PROXY SOLICITATION

We pay the cost of soliciting proxies. Proxies may be solicited on our behalf by directors, officers or employees in person or by telephone, electronic transmission and facsimile transmission. We have hired Georgeson Shareholder Communications Inc., a proxy solicitation firm, to distribute and solicit proxies. We will pay Georgeson a fee of $18,000, plus reasonable expenses, for these services.

SHAREHOLDER ACCOUNT MAINTENANCE

Our Transfer Agent is The Bank of New York. All communications concerning accounts of shareholders of record, including address changes, name changes, inquiries as to requirements to transfer shares of common stock and similar issues, can be handled by calling the Bank's toll-free number, 1-888-218-2841, or by e-mail at *shareowner-svcs@bankofny.com*.

In addition, you can access your account through The Bank of New York's web site. To access your account on the Internet, visit *www.stockbny.com*.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers to file reports of holdings and transactions in Gillette shares with the Securities and Exchange Commission and the New York Stock Exchange. Based on our records and other information, we believe that in 2002 our directors and executive officers met all applicable Securities and Exchange Commission filing requirements, except as described below.

On one occasion, Carol R. Goldberg, a director who retired in May 2002, filed a late report covering the exercise of a stock option.

Governance of the Company

GILLETTE'S COMMITMENT TO CORPORATE GOVERNANCE BEST PRACTICES

Our Board of Directors strongly believes that good corporate governance practices lead to successful business performance. Over the past two years, we have adopted many noteworthy changes to our corporate governance practices. Most of these changes were put into place before the New York Stock Exchange and the Securities and Exchange Commission published their proposed standards and rules. We continually seek out best practices as a means to ensure a high level of performance from the Board and the senior management team. Our commitment is to be a leader in good, effective corporate governance.

ROLE OF THE BOARD OF DIRECTORS

The business, property and affairs of the Company are managed by or under the direction of our Board of Directors. Specific responsibilities of the Board include:

– reviewing the annual budget and operational plan;
– reviewing the long-term Strategic Growth Plan and monitoring the progress of the Company against the plan;
– developing succession plans for the Chief Executive Officer and other key executive officers;
– establishing performance standards for the Chief Executive Officer and other key executive officers;
– evaluating the performance and approving the compensation of the Chief Executive Officer and other key officers in accordance with the Board's "pay for performance" policy; and
– setting a high ethical standard for the entire Company.

BOARD INDEPENDENCE

Ten of the 12 members of our Board of Directors are independent. Our Audit, Compensation, Finance and Nominating and Corporate Governance Committees are composed entirely of independent directors. By independent, we mean that a director has not for at least the past five years:

– been employed by the Company or any of its affiliates;
– been affiliated with our independent auditor;
– been part of an interlocking directorate;
– provided legal, consulting, investment banking, accounting or other professional services to the Company and is not a director, general partner, executive officer or significant equity holder of any such firm;
– been a director, executive officer, general partner or significant equity holder of a customer or supplier of the Company for which annual payments exceed 1% of such company's annual revenues;
– been an employee, officer or director of a nonprofit organization that has received grants or endowments from the Company in annual amounts exceeding $60,000, exclusive of contributions made under the Company's Matching Gifts Program; or
– had an immediate family member who fails to meet one of the above criteria.

It is our intention that the Board will at all times be composed of a substantial majority of independent directors.

BOARD DIVERSITY

Our Board is composed of 12 directors, of whom two are women, three are from minority groups and three reside outside of the United States.

BOARD EXPERTISE AND VALUES

Our Board members are selected from candidates who meet the following minimum criteria:

– are well regarded in the community, with a long-term reputation for the highest ethical and moral standards;
– have good common sense and judgment;
– have a positive record of accomplishment in present and prior positions;
– if on other boards, have an excellent reputation for preparation, attendance, participation, interest and initiative;
– have business and/or professional knowledge and experience relevant to Company and shareholder goals and perspectives; and
– have the time, energy and willingness to become involved in the Company and its future.

NONEMPLOYEE DIRECTOR COMPENSATION AND STOCK OWNERSHIP

Annual Board Retainer Fees. Nonemployee directors receive an annual retainer fee of $75,000 per year. In addition, the chair of a Committee receives an additional $5,000 per year. The chair of the Audit Committee receives the chair fee of $5,000, plus an additional $10,000. To foster a long-term commitment to the Company, the directors are required to defer half of their annual retainer fee into stock units (phantom stock) and may choose to defer any portion of their remaining retainer(s) into cash and/or stock units. Each stock unit is equal in value to a share of Gillette's common stock. The value of the deferred units increases or decreases with the market value of the stock.

Stock units receive dividend equivalents in the form of additional stock units. Fees deferred in cash are credited semi-annually with interest at a rate equivalent to the average yield on U.S. Treasury Bills on the first trading day of each calendar year. The rate is adjusted annually. All deferred fees are payable in cash at retirement, resignation or a change in control. They cannot be withdrawn in advance. At the time of deferral, a director may elect to take the deferred payment either in a lump sum or in annual installments over a period of up to 10 years.

Stock Options. Each nonemployee director annually receives a nonincentive stock option to purchase 5,000 shares of common stock on the second business day after the Annual Meeting. These option awards are nondiscretionary. In 2002, awards were granted on May 20 at an exercise price of $36.41 per share (the average of the high and low trading prices of the common stock on that date). The options become exercisable in one-third increments over the first three anniversaries of the award. The option becomes immediately exercisable upon death, retirement or a change in control. The options remain exercisable for 10 years while the director serves on the Board. If a nonemployee director leaves the Board after reaching age 65 or serving five or more years, the option can be exercised for the remaining life of the option. In the event of death, the exercise period will be the lesser of three years or the remaining life of the option.

Other Compensation. No other cash or equity compensation is paid to our directors. The Pension Plan for directors was terminated in 1996. Directors are eligible to participate in the Company's Matching Gifts Program.

During 2002, Mr. Jacobi received director fees totaling $4,768 for his services as a director of Braun GmbH, a Gillette subsidiary.

Stock Ownership. Each director must own the equivalent of at least 1,000 shares of the Company's common stock. That requirement may be met with common stock and/or the stock units described above, but not with stock options. More specific information regarding the directors' stock ownership can be found in the Stock Ownership Table on page 10.

BOARD EVALUATION AND EDUCATION

Each year, our Board of Directors evaluates its effectiveness and the effectiveness of its Committees. Many of the changes that we make to our governance practices result directly from these evaluations. Our Board views its self-evaluation as a continual process designed to achieve high levels of Board performance in a number of critical areas. Among the areas evaluated are the Board's responsiveness to shareholders and the effectiveness of the Board in setting high ethical standards.

Our continuing education program for directors is designed to supplement our Board's expertise and to improve the Board's effectiveness.

BOARD MEETINGS

The Board of Directors met six times during 2002. The Chairman of the Board sets the agenda for each meeting, but any director may ask for items to be included. Each meeting includes an executive session of the independent directors.

Annually, the Board elects the lead director who chairs the executive sessions of independent directors. The lead director currently is Warren E. Buffett.

Members of our Board are kept informed of the business outside of Board meetings through informal discussions with the Chief Executive Officer and other officers, by reviewing materials sent to them in advance of meetings and by visiting our offices and plants. Advance materials sent to the Board include prior minutes, agendas, financial reports, presentation materials, media and analyst reports, as well as other information intended to enable the directors to prepare in advance and use meeting time as productively as possible.

CHAIRMAN AND CEO POSITIONS

The Company's bylaws permit the positions of Chairman of the Board and Chief Executive Officer to be held by separate persons or by one person. The Board does not have a position on whether the roles should be performed by different individuals and makes the determination on a case-by-case basis. Currently, the Board has determined that it is better for Mr. Kilts to serve in both positions.

COMMITTEES AND MEETINGS

During 2002, the Board of Directors had five standing committees: Audit, Compensation, Executive, Finance, and Nominating and Corporate Governance.

The table below provides membership information for each of the Board's committees.

Name	Audit	Compensation	Executive*	Finance	Nominating and Corporate Governance
Warren E. Buffett			X**		X
Wilbur H. Gantz		X			X**
Michael B. Gifford	X**			X	
Ray J. Groves	X			X	
Dennis F. Hightower		X	X		
Herbert H. Jacobi		X		X**	
Nancy J. Karch	X				X
James M. Kilts			X		
Jorge Paulo Lemann	X				X
Richard R. Pivirotto		X**	X		
Marjorie M. Yang		X		X	
2002 Meetings	7	5	3	6	3

*The Executive Committee was eliminated effective April 2003.
**Chair

While each Committee has its own Charter and designated responsibilities, the Committees act on behalf of the entire Board. The Committees regularly report on their activities to the entire Board, and all Board members receive copies of each Committee's minutes and agendas. The entire Board deliberates on any matter of material significance.

During 2002, all of our directors, with the exception of Marjorie Yang, attended at least 75 percent or more of the regularly scheduled meetings of the Board and Board Committees on which they served. The average attendance of directors at all meetings during the year was 94 percent.

The Audit Committee: Under the terms of its Charter, the Audit Committee meets at least four times a year and is responsible for the annual appointment of the independent auditor and oversight of the financial reporting process. Specifically, the Committee is responsible for:

– monitoring the Company's internal controls over the financial reporting process;
– monitoring the audit of the Company's consolidated financial statements and report thereon by the independent auditor;
– appointing or terminating the engagement of the independent auditor, determining the compensation of the independent auditor, and evaluating the quality and independence of the independent auditor;
– overseeing the assessment of the Company's risks and risk controls;
– overseeing the Company's internal audit function;
– pre-approving all services by the independent auditor; and
– discussing earnings releases, as well as financial information provided to ratings agencies.

A copy of the revised Audit Committee Charter is attached as Exhibit A to this Proxy Statement.

The Compensation Committee: Under the terms of its Charter, the Compensation Committee meets at least four times annually and is responsible for overseeing the areas of compensation and benefits. Specifically, the Committee is responsible for:

– approving the compensation of the Company's Executive Officers, including awards of stock options, bonuses and other incentives;
– recommending the compensation for Board members;
– reviewing the competitive position of, and approving changes to, the plans, systems and practices of the Company relating to compensation and benefits;
– reviewing the financial performance and operations of the major benefit plans, based on the recommendations of management;
– administering the Company's stock option plan, stock equivalent unit plan and other executive incentive plans;

- making nonmaterial changes to the stock option plan; and
- developing succession plans for the CEO and executive officers.

The Executive Committee: Under the terms of its Charter, the Executive Committee was required to meet at least twice annually and was responsible for:

- developing the succession plan for the position of Chief Executive Officer;
- annually reviewing a report on compliance with the Company's policies;
- recommending Committee assignments;
- developing the Company's positions on significant, public policy issues; and
- exercising the power and authority of the Board of Directors between Board meetings.

In March 2003, the Board voted to eliminate the Executive Committee, effective April 2003. Executive Committee responsibilities were transferred as follows: recommending Committee assignments was transferred to the Nominating and Corporate Governance Committee; developing CEO succession planning was transferred to the Compensation Committee; and overseeing compliance with the Company's policies was transferred to the Audit Committee.

The Finance Committee: Under the terms of its Charter, the Finance Committee meets at least twice annually and is responsible for the oversight of the Company's financing operations. Specifically, the Committee is responsible for:

- approving the Company's financial policies;
- approving the Company's risk management policies;
- reviewing stock repurchase programs;
- reviewing the Company's dividend policy;
- approving any borrowing of funds by the Company;
- approving certain capital investments and divestitures and reviewing larger capital projects;
- conducting post-audits of major capital expenditures;
- reviewing the Company's financial condition; and
- reviewing the Company's tax strategy.

The Nominating and Corporate Governance Committee: Under the terms of its Charter, the Nominating and Corporate Governance Committee meets at least twice annually and is responsible for the nomination of directors and the Company's corporate governance practices. Specifically, the Committee is responsible for:

- establishing the qualifications for membership on the Board;
- recommending director nominees to the Board;
- evaluating the performance of the Chief Executive Officer against predetermined standards;
- evaluating the effectiveness of the Board and recommending to the Board ways to improve the corporate governance of the Company;
- recommending to the Board ways to enhance services to, and improve communications and relations with, the Company's shareholders; and
- reviewing and recommending to the Board proposed changes to the Company's Certificate of Incorporation or bylaws.

The Nominating and Corporate Governance Committee considers director nominations from shareholders. They should be submitted in writing to the Chairman of the Committee in care of the Secretary of the Company, no later than 90 days prior to the anniversary date of the prior year's Annual Meeting (before February 14, 2004, for the 2004 Annual Meeting).

ACCESS TO MANAGEMENT

Our directors have direct access to members of management. Key members of management attend each Board meeting, and there is frequent interaction between management and the Board.

INDEPENDENT ADVISORS

The Board of Directors and its Committees have the authority to hire consultants and advisors at their discretion at the expense of the Company. This authority is particularly important in those cases where the Board or a Committee believes an actual or perceived conflict of interest may exist.

TERM LIMITS AND LIMITS ON BOARD MEMBERSHIPS

Our Board of Directors does not believe that one formula fits all and, as a consequence, is opposed to a rigid approach to Board terms and memberships on other boards. Because it often takes two or more years for directors to become thoroughly familiar with a particular business, setting arbitrary limits on Board terms may cause the loss of a highly knowledgeable and effective director. Also, since time constraints vary among individuals, our Board has a similar concern about establishing limits on board memberships. Retired executives, for instance, may have more time to spend on director duties than active CEOs. As an alternative to a fixed rule, we require directors who change their principal occupation or wish to join another board to subject their continuing membership on our Board to review by the Nominating and Corporate Governance Committee.

A long-standing provision in our Bylaws prohibits directors who have reached the age of 70 from standing for reelection. The one exception is when a third party has a contractual right to nominate a director.

CORPORATE GOVERNANCE PRINCIPLES, COMMITTEE CHARTERS AND CODES OF CONDUCT

The Board of Directors has adopted Corporate Governance Principles and Committee Charters and sponsors the Company's Financial Code of Ethics for the Chief Executive Officer and financial managers. These documents and other items relating to the governance of the Company can be found on the Company's web site at: *http://www.gillette.com/investors/governance.asp*.

The following report is submitted by the Audit Committee.

AUDIT COMMITTEE REPORT

The Audit Committee is composed of four "independent" directors as defined by the listing standards of the New York Stock Exchange and the rules and regulations of the Securities and Exchange Commission. The Board of Directors has determined that Ray J. Groves is an Audit Committee Financial Expert. The Audit Committee's responsibilities are set forth in its written Charter approved by the Board of Directors. The Charter is reviewed annually by the Committee. A copy of the Audit Committee Charter is attached to this Proxy Statement as Exhibit A.

Management is responsible for the Company's internal controls over the financial reporting process. The independent auditor is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and for issuing a report on its audit. The Committee's responsibility is to oversee and monitor these activities on behalf of the Board of Directors. In 2002, the Company's independent auditor was KPMG LLP.

The Committee held meetings in person or by telephone with management and the independent auditor seven times during the course of the year. Each in-person meeting included an executive session with the independent auditor. Management has represented to us that the Company's consolidated financial statements for the year ended December 31, 2002, were prepared in accordance with generally accepted accounting principles. Management has also advised us that there were no significant deficiencies in the design and operation of the Company's internal controls that could adversely affect the Company's ability to record, process, summarize and report financial data. Management was required to advise the Committee of any instances of fraud relating to employees who have a significant role in the Company's internal controls.

In order to ensure the completeness of our discussions with the independent auditor, we developed and utilized a formal checklist of questions around management and accounting practices and policies to aid in our oversight activities.

We reviewed the audited consolidated financial statements with both management and the independent auditor and discussed with them the quality, not just the acceptability, of the accounting principles that were followed and the clarity of disclosures in, and the presentation of, the financial statements. We also discussed with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61. These

matters include any significant adjustments recorded or proposed by the independent auditor, management judgments and accounting estimates, significant new accounting policies and disagreements with management, if any. We have also reviewed with the independent auditor the Company's critical accounting policies and practices, and alternative treatments of financial information.

We also received the written disclosures and the letter from the independent auditor required by Independence Standards Board Standard No. 1 and discussed with the independent auditor the firm's independence and objectivity.

We received the following information concerning the fees of the independent auditor for the years ended December 31, 2002 and 2001, and have determined that the provision of these services is compatible with maintaining the independence of the independent auditor:

	2002	2001
(millions)		
Audit Services[1]	$ 4.64	$4.51
Audit-Related Fees[2]	.51	1.58
Tax Services[3]	5.44	3.46
All Other Fees	.24	.24
Total	$10.83	$9.79

(1) Includes statutory audits, comfort letters, consents and review of filings with the SEC.

(2) Includes employee benefit plan audits, due diligence related to mergers, acquisitions and divestitures, audits related to acquisitions, and consultation on financial accounting and reporting standards.

(3) Includes tax compliance and tax consultation and planning.

In addition to meetings with management and the independent auditor, we met several times with the Company's internal auditor to review staffing, the internal audit plan, reports on key audits and reports on the effectiveness of internal financial controls. In 2002, the Company outsourced its internal audit function to Deloitte & Touche LLP.

Based on the foregoing, we have recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002, which was filed with the Securities and Exchange Commission.

By the Audit Committee:
Michael B. Gifford (Chairman)
Ray J. Groves
Nancy J. Karch
Jorge Paulo Lemann

INDEPENDENT AUDITOR

The Audit Committee has appointed KPMG LLP to be the Company's independent auditor for 2003. A representative of KPMG LLP will attend the 2003 Annual Meeting, where he will have the opportunity to make a statement and will answer questions from shareholders.

COMMUNICATIONS TO THE AUDIT COMMITTEE

The Audit Committee has established a system to enable employees to communicate directly with the members of the Committee about deficiencies in the Company's internal controls and financial reporting practices. We have established an Integrity Hotline accessible by telephone for this purpose.

TRANSACTIONS WITH DIRECTORS AND MANAGEMENT

Berkshire Hathaway Inc.

Gillette entered into an agreement with Berkshire Hathaway Inc. on July 20, 1989. Under the agreement, Berkshire Hathaway purchased $600 million of Gillette's convertible preferred stock, which was converted to common stock in 1991. At the time of the agreement, management consulted with independent advisors concerning the terms of the agreement and determined that the terms were fair to Gillette. In light of Warren Buffett's decision

to step down from the Board after the Annual Meeting of Shareholders in May 2003, Gillette and Berkshire Hathaway amended the agreement as follows:

- The time period for Gillette to exercise its right of first offer in the event Berkshire Hathaway wishes to sell its Gillette stock in a market transaction, other than in response to a tender or exchange offer, has been reduced from 10 business days to three business days.
- If Gillette does not exercise its right of first offer, Berkshire Hathaway can sell the offered stock at any price during the ensuing 90 days, provided that Berkshire Hathaway is not aware that the ultimate beneficial owner of the stock being sold is a person or group which, as a result of the sale (other than in a tender or exchange offer), will own more than 3% of Gillette stock.
- There is an overall limit on sales by Berkshire Hathaway of no more than 3% of Gillette's outstanding stock in any 90-day period, except in a tender or exchange offer.
- Berkshire Hathaway does not have a right to appoint a director.

During the past fiscal year, Gillette paid $1,411,106 to Executive Jet, Inc., a subsidiary of Berkshire Hathaway, for the cost of Gillette's use of an aircraft.

During the past fiscal year, the Company and its subsidiaries had no transactions in which any director or any executive officer, or any member of the immediate family of any such director or executive officer, had a material direct or indirect interest reportable under applicable rules of the Securities and Exchange Commission. In the normal course of business, the Company had transactions with other corporations where certain directors are or were executive officers. None of the aforementioned matters was material in amount as to the Company or those corporations.

SECURITIES OWNERSHIP OF DIRECTORS AND OFFICERS

The table below shows the number of shares of our common stock beneficially owned as of March 17, 2003, by each of our current directors, each nominee for director and each Named Executive Officer listed in the Summary Compensation Table, as well as the number of shares beneficially owned by all of our directors, nominees for director and executive officers as a group. All individuals have sole voting and investment power over the shares, unless otherwise noted. The table also includes information about stock options and deferred stock and Supplemental Savings Plan units. Deferred stock units represent units credited under the Deferred Compensation Plan for directors, and Supplemental Savings Plan units represent a similar kind of stock equivalent unit held under the Supplemental Savings Plan for employees. Neither type of unit may vote; however, both are included in the table because they represent an additional financial interest that is subject to the same market risk as Gillette's common stock.

Name	Shares Beneficially Owned[1]	Options Exercisable Within 60 Days	Supplemental Savings Plan and Deferred Stock Units
W. E. Buffett[2]	96,002,021	23,667	17,584
C. W. Cramb	42,761	513,544	8,992
E. F. DeGraan	92,000	1,028,331	32,617
R. K. Deromedi	–	–	–
W. H. Gantz	15,284	32,332	8,912
M. B. Gifford	5,288	32,332	12,369
R. J. Groves	5,079	1,666	2,844
E. A. Häberli	607	50,000	750
D. F. Hightower	1,000	7,000	3,499
P. K. Hoffman[3]	57,882	296,832	6,014
H. H. Jacobi	38,975	28,332	16,932
N. J. Karch	1,500	–	2,678
J. M. Kilts	46,979	1,716,666	3,131
F. H. Langhammer	–	–	–
J. P. Lemann	1,000,000	16,332	9,905
R. R. Pivirotto	8,420	41,000	20,996
M. M. Yang	54,000	12,332	9,759
Directors & Current Executive Officers as a Group[4]	97,538,225	5,645,615	171,746

[1] Except as indicated in (2) and (4) below, the total number of shares beneficially owned constitutes less than 1% of the outstanding shares. For the executive officers, the figure includes common stock held under Gillette's broad-based employee benefit plans. Participants may direct the voting of the shares held under the plans and share voting and investment power with the plans' trustees.

[2] 96,000,000 of the shares are owned by insurance subsidiaries of Berkshire Hathaway Inc., a company which Mr. Buffett may be deemed to control. Mr. Buffett shares voting and investment power over the shares, which represent 9.4% of the outstanding common stock.

[3] Mr. Hoffman disclaims beneficial ownership of 4,145 shares.

[4] One executive officer shares voting and investment power over 1,000 shares and disclaims beneficial ownership with regard to 858 of those shares, and three executive officers disclaim beneficial ownership with regard to 2,017 shares. The number of shares beneficially owned by all as a group represents 10.1% of the outstanding common stock.

FIVE-PERCENT BENEFICIAL OWNERSHIP

A beneficial owner of stock is a person who has voting power, meaning the power to control voting decisions, or investment power, meaning the power to cause the sale of the stock. This power may be direct, by contract or through other arrangements.

The following table provides information regarding beneficial owners of more than five percent of the outstanding shares of Gillette common stock.

Name and Address	Number of Shares	Percent of Class
Berkshire Hathaway Inc.[1] 1440 Kiewit Plaza Omaha, Nebraska 68131	96,000,000	9.4%
FMR Corp.[2] 82 Devonshire Street Boston, MA 02109	100,466,751	9.8%

[1] The shares are owned through six subsidiaries of Berkshire Hathaway Inc. One of its subsidiaries, National Indemnity Company of 3024 Harney Street, Omaha, Nebraska 68131, owns 60,000,000 shares, or 5.9% of the outstanding common stock. Warren E. Buffett, a director of Gillette during 2002, and trusts of which he is trustee, but in which he has no financial interest, beneficially own 31.5% of the capital stock of Berkshire Hathaway Inc. His wife, Susan T. Buffett, owns 2.4% of the capital stock of Berkshire Hathaway Inc.

[2] Information with respect to the number of shares held by FMR Corp. is based on a Schedule 13G filed on February 13, 2003, reporting share ownership as of December 31, 2002.

Item 1 – Election of Directors

The Board of Directors is divided into three classes, with each class consisting of four directors whose terms expire at successive Annual Meetings. Four directors will be elected at the 2003 Annual Meeting to serve for a three-year term expiring at our Annual Meeting in 2006.

The persons named in the enclosed proxy intend to vote the proxy for the election of each of the four nominees, unless you indicate on the proxy card that your vote should be withheld from any or all of the nominees.

Mr. Buffett and Mr. Pivirotto are retiring from the Board at the Annual Meeting. The Board of Directors has proposed the following nominees for election as directors, with terms expiring in 2006 at the Annual Meeting:

Roger K. Deromedi
Dennis F. Hightower
Herbert H. Jacobi
Nancy J. Karch

Each nominee elected as a director will continue in office until his or her successor has been elected and qualified, or until his or her earlier death, resignation or retirement.

The Board of Directors unanimously recommends a vote FOR the election of these nominees as directors.

We expect each nominee for election as a director to be able to serve if elected. If any nominee is not able to serve, proxies will be voted in favor of the remainder of those nominated and may be voted for substitute nominees, unless the Board chooses to reduce the number of directors serving on the Board.

The principal occupation of, and certain other information about, the nominees and other directors whose terms of office continue after the Annual Meeting are set forth on the following pages.

Roger K. Deromedi, Age 49
Co-Chief Executive Officer of Kraft Foods Inc. since 2001 and President and Chief Executive Officer of Kraft Foods International, Inc. since April 1999. He has been employed continuously by Kraft Foods Inc. and its subsidiaries and predecessor, General Foods Corporation, in various capacities since 1977, including service as Executive Vice President and General Manager of Kraft's Cheese Division and Executive Vice President and General Manager of its Specialty Products Division. Before assuming his current position, Mr. Deromedi served as Group Vice President, Kraft Foods International, Inc., and President, Asia Pacific, from 1998 until 1999, and President, Western Europe, Kraft Foods International, Inc., from December 1995 until 1998. He is a director of Kraft Foods Inc.

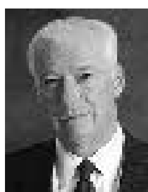
Dennis F. Hightower, Age 61 — Director since 1999
Retired Chief Executive Officer of Europe Online Networks, S.A. He served in that position from June 2000 to February 2001. He was a Professor of Management at the Harvard University Graduate School of Business Administration from July 1996 through June 2000 and a senior executive with The Walt Disney Company from 1987 to 1996. He was President of Walt Disney Television and Telecommunications and earlier served as President of Disney Consumer Products—Europe, Middle East and Africa. He also served in executive positions with General Electric Company and McKinsey & Company, among others. Mr. Hightower is a director of Domino's, Inc.; Northwest Airlines, Inc.; PanAmSat Corporation; Phillips-Van Heusen Corporation; and The TJX Companies, Inc. He also serves as a trustee of Howard University, Washington, D.C. and Casey Family Programs, Seattle, Washington.

Herbert H. Jacobi, Age 68 — Director since 1981
Chairman of the Supervisory Board of HSBC Trinkaus & Burkhardt KGaA, a German bank, since 1998. He was Chairman of the Managing Partners of Trinkaus & Burkhardt KGaA from 1981 to 1998. He was a managing partner of Berliner Handels- und Frankfurter Bank from 1977 until 1981 and an Executive Vice President of Chase Manhattan Bank from 1975 to 1977. Mr. Jacobi is a director of Braun GmbH, a Gillette subsidiary; DIC Deutsche Investors' Capital AG; MADAUS AG; and MPCT Solutions Corporation. He is President of German-American Federation Steuben-Schurz e.V. and a member of the Supervisory Board of WILO AG.

Nancy J. Karch, Age 55 — Director since 2002
Retired Senior Partner of McKinsey & Company, an independent consulting firm. She served in that position from 1988 until her retirement in 2000. She served in various executive capacities at McKinsey since 1974. Ms. Karch is a member of the McKinsey Advisory Council and serves as a director of Liz Claiborne, Inc.; Toys "R" Us, Inc.; and The Corporate Executive Board. She is also on the Board and the Executive Committee of the Westchester Land Trust, a not-for-profit organization.

Edward F. DeGraan, Age 59 — Director since 2000
President and Chief Operating Officer of The Gillette Company. He joined Gillette in 1968 and has served in a variety of manufacturing, technical, marketing and general management positions in nearly all of Gillette's core businesses. He served as Executive Vice President, Duracell North Atlantic Group, from 1996 until his election as Executive Vice President, Global Business Management, Gillette Grooming Products and Duracell, in January 1999. He was Executive Vice President, Global Business Management, from January 2000 – July 2000, when he became President and Chief Operating Officer. Mr. DeGraan served as Acting Chief Executive Officer from October 2000 – February 2001. He serves as a trustee of the National Urban League.

Wilbur H. Gantz, Age 65 — Director since 1992
Chairman and Chief Executive Officer of Ovation Pharmaceuticals, Inc., a private pharmaceutical company, since September 2002. He formerly served as Chairman of the Board and Chief Executive Officer of PathoGenesis Corporation, a biopharmaceutical company, from 1992 to 2000. He served as President of Baxter International, Inc., a manufacturer and marketer of health care products, from 1987 to 1992. He joined Baxter International, Inc. in 1966 and held various management positions prior to becoming its Chief Operating Officer in 1983. Mr. Gantz is a director of The Gambro Company, W.W. Grainger and Company, Harris Bankcorp and Harris Trust and Savings Bank.



James M. Kilts, Age 55 — Director since 2001
Chairman of the Board and Chief Executive Officer of The Gillette Company since January 2001 and February 2001, respectively. He formerly was President and Chief Executive Officer of Nabisco Group Holdings Corp. from December 1999 until it was acquired in December 2000 by Philip Morris Companies. He was President and Chief Executive Officer of Nabisco Holdings Corp. from January 1998 to December 1999. He was an Executive Vice President, Worldwide Food, Philip Morris, from 1994 to 1997 and served as President of Kraft USA from 1989 to 1994. Before that, he served as President of Kraft Limited in Canada and as Senior Vice President of Kraft International. Mr. Kilts began his career with General Foods Corporation in 1970. He is a director of Delta Air Lines, the May Department Stores Company and the Whirlpool Corporation, and is Vice Chairman of the Board of Directors of The Grocery Manufacturers of America. He also serves on the Board of Trustees of Knox College, is Chairman of the Advisory Council of the University of Chicago Graduate School of Business and is a director of International Executive Service Corps.

Jorge Paulo Lemann, Age 63 — Director since 1998
General Partner of GP Investimentos, a buyout and restructuring firm. He founded and was a Senior Partner of Banco de Investimentos Garantia S.A., a Brazilian investment bank, from 1976 to 1998. He is a director and controlling stockholder of AmBev American Beverage Co., Brazil's largest brewery. He is a director of Lojas Americanas S.A., a Brazilian discount department store chain, and Utor Investimentos e Participacoes Ltda. Mr. Lemann is also a director of Fundacao Estudar, a provider of scholarships to needy students, and Swiss Re. Mr. Lemann is Chairman of the Latin American Advisory Committee of the New York Stock Exchange and an International Advisory Board Member of both Daimler-Chrysler and Credit Suisse Group.

Michael B. Gifford, Age 67 — Director since 1993
Retired Managing Director and Chief Executive Officer of The Rank Organisation Plc., London, England, a leisure and entertainment company. He served as Chairman of the Board of Danka Business Systems Plc from March 2001 to January 2002 and as Danka's interim Chief Executive Officer from October 2000 to February 2001. From 1983 to 1996, he was Managing Director and Chief Executive of The Rank Organisation Plc. He was Finance Director of Cadbury Schweppes Plc from 1978 to 1983 and Chief Executive of Cadbury Schweppes Australia from 1975 to 1978. He is a director of Danka Business Systems Plc.

Ray J. Groves, Age 67 — Director since 2002
President and Chief Executive Officer of Marsh Inc. since January 2003, and a director of its parent company, Marsh & McLennan Companies, Inc. since 1994. He served as President and Chief Operating Officer of Marsh Inc. from October 2001 to January 2003. He served as Chairman of Legg Mason Merchant Banking, Inc. from 1995 to 2001. He retired in 1994 from Ernst & Young, where he had held numerous positions for 37 years, including the last 17 years as Chairman and Chief Executive Officer. He is a director of Boston Scientific Corporation and Electronic Data Systems Corporation. He is a member of the Council on Foreign Relations. He is also a managing director, treasurer and secretary of the Metropolitan Opera Association and a director of The Ohio State University Foundation.

Fred H. Langhammer, Age 59
Chief Executive Officer of The Estée Lauder Companies Inc. since 2000 and President since 1995. He was Chief Operating Officer from 1985 through 1999. Mr. Langhammer joined The Estée Lauder Companies in 1975 as President of its operations in Japan and, in 1982, he was appointed Managing Director of the Company's operations in Germany. He is a member of the Board of Directors of Inditex S.A., an apparel manufacturer and retailer; The Cosmetic, Toiletry and Fragrance Association; the German American Chamber of Commerce, Inc.; and Chairman of the American Institute for Contemporary German Studies at Johns Hopkins University. He is also a Senior Fellow of the Foreign Policy Association and a Director of the Japan Society.

Marjorie M. Yang, Age 50 — Director since 1998
Chairman and Chief Executive Officer of Esquel Group, a leading textile and garment manufacturer headquartered in Hong Kong. She has held various management positions within the Esquel Group since joining the company in 1978. She is a director of BlueDot Capital Pte. Ltd., Pacific Century Regional Development, Swire Pacific Limited Hong Kong and Wuxi International Service Pte. Ltd. She is also business advisor to the Chairman of SembCorp Industries Ltd. of Singapore, Director of Associates of Harvard Business School and a member of the Advisory Board of the MIT/China International Management Education Project.

Item 2 – Shareholder Proposal

This proposal was submitted by Walden Asset Management, 40 Court Street, Boston, MA 02108, the owner of 54,547 shares of Gillette's common stock. Co-filing the resolution are Christian Brothers Investment Services, Inc., 90 Park Avenue, 29th floor, New York, NY 10016, and Calvert Asset Management Company, Inc., 4550 Montgomery Avenue, Bethesda, MD 20814, the owners of 61,900 and 64,735 shares of Gillette's common stock, respectively.

Resolved, that the stockholders request that the Board of Directors take the steps necessary to declassify the election of directors by insuring that in the future Board elections directors are elected annually and not by classes as is now provided. The declassification shall be phased in so that it does not affect the unexpired terms of directors previously elected.

SUPPORTING STATEMENT

This resolution requests that the Board end the present staggered board system and instead insure that all directors are elected annually. Presently our company has 3 classes of directors, ⅓ elected each year and each director serves a 3-year term.

However, we believe shareholders should have the opportunity to vote on the performance of the entire Board each year.

Increasingly, institutional investors are calling for the end of this system, believing it makes a Board less accountable to shareholders when directors do not stand for annual election.

Significant institutional investors such as California's Public Employees Retirement System, New York City pension funds, New York State pension funds and many others support this position. As a result shareholder resolutions to end this staggered system of voting have received increasingly large votes, averaging over 60% in 2002. Numerous companies have demonstrated leadership by changing this practice.

We do not believe this reform would destabilize our Company or affect the continuity of director service, in any way. Our directors, like the directors of the overwhelming majority of other public companies, are routinely elected with strong overall shareholder approval.

We strongly believe that our company's financial performance is linked to its corporate governance policies and procedures and the level of management accountability they impose.

Therefore, as shareholders concerned about the level of our investment, we're concerned about our Company's current system of electing only one-third of the board of directors each year. We believe this staggering of director terms prevents shareholders from annually registering their views on the performance of the board collectively and each director individually.

A recent study found that firms with the strongest shareholder rights significantly outperform companies with weaker shareholder rights. A 2001 study of 1,500 firms conducted by researchers at Harvard University and the University of Pennsylvania's Wharton School found a significant positive relationship between greater shareholder rights, including annual election of directors as measured by a governance index, and both firm valuation and performance from 1990 to 1999.

In addition, we believe the Board should be accountable for our company's record on social and environmental issues at each shareowner's meeting which also necessitates an annual election of directors.

Most alarming, a staggered board can help insulate directors and senior management from the consequences of poor financial performance by denying shareholders the opportunity to challenge an entire Board which is pursuing failed policies, or not allowing for members of an Audit Committee to be held annually accountable for their performance.

Please vote for this important governance reform.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE *AGAINST* THIS PROPOSAL FOR THE REASONS SET FORTH BELOW.

The Board of Directors, with the assistance of its professional advisors, has given this proposal extensive consideration, particularly in light of the vote on a similar proposal at last year's Annual Meeting. We have determined that it is not the appropriate time to declassify the Gillette Board.

We believe that a classified board can be an important part of Gillette's arsenal in resisting a takeover on terms that are not advantageous to all shareholders. Absent a classified board, a potential acquirer could gain control of Gillette by replacing a majority of the Board with its own slate of nominees at a single annual meeting by a simple plurality of the votes cast, and without paying any premium to Gillette's shareholders. We are particularly sensitive to this in light of Gillette's experience with a hostile proxy contest to take control of the Company. A classified board structure enhances the Board's ability to negotiate the best results for shareholders in a takeover situation.

Our classified Board ensures that a majority of directors at any time will have the prior experience and in-depth knowledge of Gillette to oversee its complex, multinational business. We believe a director's contributions are best measured over several years versus the shorter-run evaluation of annual elections.

We believe that the benefits of the current classified board structure do not come at the cost of directors' accountability to shareholders. We believe that directors elected to three-year terms are as accountable to shareholders as directors elected annually, and that our directors will uphold their fiduciary duties to Gillette and its shareholders, regardless of the length of their term of office.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST THIS PROPOSAL, WHICH IS SET FORTH AS ITEM 2 ON THE ENCLOSED PROXY.

Item 3 – Shareholder Proposal

This proposal was submitted by the Carpenters Pension and Annuity Funds, 350 Fordham Road, Wilmington, MA 01887, the owner of 9,650 shares of Gillette's common stock.

Resolved, that the shareholders of Gillette Company ("Company") hereby request that the Company's Board of Directors establish a policy of expensing in the Company's annual income statement the costs of all future stock options issued by the Company.

Statement of Support: Current accounting rules give companies the choice of reporting stock option expenses annually in the company income statement or as a footnote in the annual report (See: Financial Accounting Standards Board Statement 123). Most companies, including ours, report the cost of stock options as a footnote in the annual report, rather than include the option costs in determining operating income. We believe that expensing stock options would more accurately reflect a company's operational earnings.

Stock options are an important component of our Company's executive compensation program. Options have replaced salary and bonuses as the most significant element of executive pay packages at numerous companies. The lack of option expensing can promote excessive use of options in a company's compensation plans, obscure and understate the cost of executive compensation and promote the pursuit of corporate strategies designed to promote short-term stock price rather than long-term corporate value.

A recent report by Standard & Poor's indicated that the expensing of stock option grant costs would have lowered operational earnings at companies by as much as 10%. "The failure to expense stock option grants has introduced a significant distortion in reported earnings," stated Federal Reserve Board Chairman Alan Greenspan. "Reporting stock options as expenses is a sensible and positive step toward a clearer and more precise accounting of a company's worth." *Globe and Mail*, "Expensing Options Is a Bandwagon Worth Joining," Aug. 16, 2002.

Warren Buffett wrote in a *New York Times* Op-Ed piece on July 24, 2002:

> There is a crisis of confidence today about corporate earnings reports and the credibility of chief executives. And it's justified.
>
> For many years, I've had little confidence in the earnings numbers reported by most corporations. I'm not talking about Enron and WorldCom — examples of outright crookedness. Rather I am referring to the legal, but improper accounting methods used by chief executives to inflate reported earnings . . .
>
> Options are a huge cost for many corporations and a huge benefit to executives. No wonder, then, that they have fought ferociously to avoid making a charge against their earnings. Without blushing, almost all C.E.O.'s have told their shareholders that options are cost-free . . .
>
> When a company gives something of value to its employees in return for their services, it is clearly a compensation expense. And if expenses don't belong in the earnings statement, where in the world do they belong?

Many companies have responded to investors' concerns about their failure to expense stock options. In recent months, more than 100 companies, including such prominent ones as Coca Cola, Washington Post, and General Electric, have decided to expense stock options in order to provide their shareholders more accurate financial statements. We urge your support.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE *AGAINST* THIS PROPOSAL FOR THE REASONS SET FORTH BELOW.

The Board of Directors believes that this proposal is premature. We have publicly announced our support for treating stock options as an expense, but only after the Financial Accounting Standards Board (FASB) issues revised rules requiring option expensing and providing for uniform accounting treatment for the practice.

Although the issue of expensing stock options has attracted significant interest from the accounting, legal, and investment communities, there are currently multiple standards for valuing options, and no consensus has emerged on the appropriate method for measuring the cost of stock options. We currently report the cost of stock options on a pro forma basis in our financial statement footnotes in accordance with SFAS 123.

At this time, we believe that we would be placed at a relative disadvantage if we were to expense the cost of stock options when this accounting treatment has not been standardized or widely adopted and is not being generally employed by our competitors. We think that selecting the proper method for option accounting is best left to the SEC and FASB, and that those organizations should adopt standards applicable to all companies. We do not believe our shareholders are best served by adopting an accounting practice that will depress our earnings relative to those of our peer group companies utilizing a methodology that may or may not become the industry standard.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST THIS PROPOSAL, WHICH IS SET FORTH AS ITEM 3 ON THE ENCLOSED PROXY.

Executive Compensation

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation Salary	Bonus	Other Annual Compensation[1]	Long-Term Compensation # of Stock Options Awarded	All Other Compensation[2]
James M. Kilts	2002	$1,047,500	$1,700,000	$276,333	700,000	$204,600
Chairman and CEO	2001	947,917	1,250,000	337,916	2,650,000	252,146
Edward F. DeGraan	2002	849,000	1,272,000[3]	–	200,000	119,948
President and COO	2001	789,375	350,000	–	475,000	96,697
	2000	642,083	715,000	–	180,000	54,922
Charles W. Cramb	2002	586,000	420,000	–	120,000	50,020
Senior Vice President	2001	550,000	200,000	–	185,000	49,955
	2000	512,500	350,000	–	110,000	36,431
Peter K. Hoffman	2002	516,000	435,000	–	95,000	64,207
Vice President	2001	480,000	135,000	–	125,000	39,128
Ernst A. Häberli	2002	508,250	400,000	10,100	100,000	66,103
Vice President	2001	88,542[4]	169,000[4]	–	150,000	3,750

[1] Other Annual Compensation paid to Mr. Kilts includes $130,759 for housing, $116,189 for tax gross-up, $21,287 for personal use of the corporate jet, $4,858 for home security systems and $3,240 for parking. For Mr. Häberli, $10,055 represents taxes reimbursed by the Company relating to nondeductible relocation expenses incurred and $45 represents tax gross-up for insurance premiums.

[2] All Other Compensation includes the following payments or accruals:

	Savings Match Equivalents on Deferred Bonus	Company Match to Savings Plan	Executive Life Insurance Premiums[i]	Contribution Under Estate Preservation Plan[ii]	Estate Planning Service[iii]
James M. Kilts	$102,000	$ 62,850	$24,750	$ –	$15,000
Edward F. DeGraan	–	101,940	5,474	7,534	5,000
Charles W. Cramb	–	47,160	2,860	–	–
Peter K. Hoffman	26,100	30,960	2,147	–	5,000
Ernst A. Häberli	24,000	33,135	2,114	54	6,800

[i] Value of premiums paid by Gillette during 2002 under the Executive Life Insurance Program. The program provides Company-paid coverage during employment equal to four times annual salary. During retirement, a death benefit equal to the executive's final annual salary continues in effect. Mr. Kilts has waived participation in Gillette's Executive Life Insurance Program. Instead, Gillette pays premiums for Mr. Kilts and his wife on existing term life insurance policies.

[ii] The named executives are eligible to participate in a Gillette-sponsored Estate Preservation Plan. Gillette and the executive officers share equally the cost of a $1,000,000 life insurance policy payable on the death of the survivor of each executive and his or her spouse. Gillette contributes its share of the premiums during the first five years of the policy and recovers its contribution at the end of a 15-year period, or if earlier, when the survivor of the executive and the executive's spouse dies. The contribution made on behalf of Mr. DeGraan preceded the effective date of the Sarbanes-Oxley Act of 2002. In response to the uncertainty created by Section 402 of that Act, the Company intends to limit contributions made on behalf of its executive officers to policy maintenance costs and will make such contributions on a nonrecoverable basis. The amount reported for Mr. Häberli represents such contributions.

[iii] The named executives are eligible to receive an annual reimbursement for estate tax planning services, not to exceed $5,000. In the case of Mr. Kilts, the amount is $15,000 annually, and in the case of Mr. Häberli, the amount is $7,500 annually.

[3] Includes a $500,000 bonus awarded by the Board on January 19, 2001, and vesting on January 19, 2002, as an incentive for him to remain as President and COO through January 19, 2002.

[4] Amounts include three months' salary and a signing bonus in connection with his employment in October 2001.

TOTAL OPTIONS EXERCISED IN 2002 AND YEAR-END VALUES

This table gives information for options exercised by each of the Named Executive Officers in 2002 and the value (stock price less exercise price) of the remaining options held by those executive officers at year-end, using the average ($30.21) of the high and low trading prices of our common stock on December 31, 2002.

Name	# of Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options Held at 12/31/02		Value of Unexercised In-The-Money Options at 12/31/02	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Mr. Kilts	–	$ –	1,216,666	2,133,334	$ 422,499	$845,001
Mr. DeGraan	32,000	810,800	878,330	526,670	1,591,172	236,668
Mr. Cramb	8,000	191,454	500,114	280,002	523,013	156,000
Mr. Hoffman	–	–	285,166	198,334	601,030	117,000
Mr. Häberli	–	–	50,000	200,000	–	–

OPTION GRANTS IN 2002

This table shows all options to purchase our common stock granted to each of our Named Executive Officers in 2002 and the award date present value for each option using a Black-Scholes option pricing model.

	Individual Awards				Award Date Value
Name	Number of Options Awarded[1]	% of Total Options Awarded to Employees in 2002	Per Share Exercise Price	Expiration Date	Award Date Present Value[2]
Mr. Kilts	700,000	4.9%	$35.58	6/20/12	$7,847,000
Mr. DeGraan	200,000	1.4%	35.58	6/20/12	2,242,000
Mr. Cramb	120,000	.8%	35.58	6/20/12	1,345,200
Mr. Hoffman	95,000	.6%	35.58	6/20/12	1,064,950
Mr. Häberli	100,000	.7%	35.58	6/20/12	1,121,000

(1) Option awards in 2002 were made under the 1971 Stock Option Plan. The material terms of these grants are:
- Awards consist of a combination of incentive (subject to limitations imposed by U.S. tax law) and nonincentive stock options.
- Exercise price is the average of the high and low trading prices of the common stock on the date of award.
- Options become exercisable in one-third increments at the first three anniversaries of the award. Options become immediately exercisable upon retirement, death or disability.
- Options remain exercisable for 10 years from the date of award during employment. The postretirement exercise period for employees is the remaining life of the option in the case of retirement and the lesser of three years or the remaining term of the option in the event of death or disability. In the event of a change in control, options not otherwise exercisable at termination of employment become immediately exercisable, and if the participant's employment is terminated (other than for cause) within two years thereafter, the exercise period is the lesser of two years or the remaining term of the option.

(2) The award date present value for each option was determined using a Black-Scholes option pricing model. The principal assumptions used in the model were:

Expiration Date	6/20/12
Stock Price Volatility	33.1%
Dividend Yield	1.8%
Risk Free Rate of Return	4.2%
Expected Life in Years	5.5

The model generates a theoretical value based on the assumptions and is not intended to predict future prices of the stock. There is no assurance that these values or any other value will be achieved. The actual value will be dependent upon:

- The performance of Gillette as reflected in the future price of the stock.
- Continued employment with Gillette.

RETIREMENT PLAN TABLE

Average Annual Compensation Used as Basis for Computing Pension	Annual Pension*		
	15 Years of Service	20 Years of Service	25 Years or More of Service
$ 800,000	$240,000	$ 320,000	$ 400,000
1,200,000	360,000	480,000	600,000
1,600,000	480,000	640,000	800,000
2,000,000	600,000	800,000	1,000,000
2,400,000	720,000	960,000	1,200,000
3,000,000	900,000	1,200,000	1,500,000

* Before Social Security offset.

The table above shows an estimate of the total annual pension benefits payable in the form of a straight-life annuity for employees who retire at or after age 65 under the Retirement Plan and Supplemental Retirement Plan.

After the Retirement Plan was adopted, changes in the law limited the amount of benefits that could be paid under tax-qualified plans. As permitted by law, we adopted the Supplemental Retirement Plan for the payment of amounts to employees who may be affected by those limitations, so that, in general, total benefits will continue to be calculated on the original basis.

In general, the benefit upon retirement at or after age 65 with 25 years or more of service is equal to 50% of the employee's average annual compensation, minus 75% of primary Social Security benefits. Average annual compensation is an employee's salary and bonus, as defined in the Plan, for the highest-paid five calendar years during the last 10 full calendar years of employment. A benefit becomes payable at retirement for employees with at least 5 years of service.

As of December 31, 2002, the Named Executive Officers had the following years of service under the Retirement Plans: Mr. Kilts, 2 years; Mr. DeGraan, 33 years; Mr. Cramb, 33 years; Mr. Hoffman, 31 years; and Mr. Häberli, 1 year.

In addition to his participation in the Company's Retirement Plans, Mr. Kilts, under the terms of his employment contract, is entitled to receive a pension from the Company, the principal terms of which are described on page 21. Mr. Kilts' annual pension benefits, estimated below, would be offset by any amounts payable to him under the Company's Retirement Plans.

36-Month Average Annual Compensation	3 Years	5 Years	10 Years (Maximum)
$1,500,000	$225,000	$375,000	$ 750,000
2,000,000	300,000	500,000	1,000,000
2,500,000	375,000	625,000	1,250,000
3,000,000	450,000	750,000	1,500,000

EMPLOYMENT CONTRACTS, TERMINATION OF EMPLOYMENT AND CHANGE-IN-CONTROL ARRANGEMENTS

In connection with Mr. Kilts' appointment as Chairman of the Board of Directors and Chief Executive Officer, he and Gillette signed a renewable three-year employment agreement, effective January 19, 2001. The terms of the agreement provided for Mr. Kilts to receive an annual base salary of no less than $1 million and a bonus during the year 2001 of at least 100% of base salary, prorated for the portion of the year he was employed. He was paid a signing bonus of $250,000. For future years, he is eligible for an annual target bonus opportunity of not less than 100%, nor more than 200%, of base pay, if the performance goals for the relevant year are met.

At the time he was hired, the Board awarded Mr. Kilts options to purchase two million shares of Gillette common stock at an exercise price of $34.16 per share (the average of the high and low trading prices on the award date) on substantially similar terms to those granted under the 1971 Stock Option Plan, except that one-quarter of these options vested immediately, and the remainder vest in one-third increments annually over a three-year period. Under the terms of Mr. Kilts' employment agreement, Gillette awarded Mr. Kilts an option on 650,000 shares under the 1971 Stock Option Plan in June 2001 and is obligated to make option awards of not less than 650,000 shares in 2002 and 2003. In June 2002, he was awarded an option on 700,000 shares.

Pursuant to the agreement, at the time of his employment, Mr. Kilts purchased 29,274 shares of Gillette's common stock at a price of $34.16 per share, or $1 million in total. He agreed to hold these shares for a period of not less than three years, or his earlier termination of employment.

In addition, Mr. Kilts participates in employee welfare and benefit plans and is provided housing, certain executive perquisites, transportation and home security systems.

Mr. Kilts will be entitled to receive a pension, starting when his employment ends (for reasons other than cause), of five percent of his final average compensation (determined on the basis of a consecutive 36-month period) for each year or partial year of employment, up to a maximum of 50 percent of his final average compensation. This pension would be offset by any pension he may otherwise become entitled to under the Company's Retirement Plans.

The employment agreement provides that if Mr. Kilts' employment is terminated without cause, or if Mr. Kilts terminates his employment for good reason, he will be entitled to receive a prorated annual incentive bonus for the year of termination and a lump sum equal to the sum of two years' base salary and two times the target bonus for the year of termination. Under these circumstances, he will receive two years' credit for purposes of his pension calculation and be entitled to vesting of any unvested options with an exercise period equal to the lesser of five years or the original term of the options. Options granted beginning in 2002 will remain exercisable for their original term. He will also be subject to a two-year noncompetition agreement.

In the event of a change in control, change-in-control provisions substantially similiar to those described below will apply to Mr. Kilts except that, in the event his employment is terminated by Gillette without cause within two years following a change in control, his options will remain exercisable through the end of their 10-year terms.

Mr. DeGraan has a two-year renewable employment agreement providing that in the event his employment is involuntarily terminated for reasons other than cause, disability or death or if he leaves for good reason or elects to leave at the end of the term, in return for certain postemployment protections for the Company, such as noncompetition and nonsolicitation, he will receive severance payments equal to two years' salary and target bonus and, during the covered period, will continue coverage under welfare and benefit plans. This agreement terminates automatically in the event of a change in control.

The other executive officers named in the Summary Compensation Table also have renewable two-year employment agreements. These agreements provide that in the event the executive's employment is terminated by Gillette for reasons other than cause, disability or death or if the executive leaves for good reason in return for certain protections such as postemployment noncompetition and nonsolicitation, Gillette will pay the executive severance equal to two years' base salary and target bonus and, during the covered period, will continue coverage under welfare and benefit plans. These agreements terminate automatically in the event of a change in control.

The executive officers named in the Summary Compensation Table have change-in-control agreements. These agreements become operative only upon a change in control of Gillette (as defined in the agreements). After a change in control, each agreement becomes, in effect, a two-year employment agreement providing salary, bonus and other employee benefits at levels not less than those existing prior to the change in control. If the executive terminates employment for "good reason," as defined in the agreement, within the two-year period or voluntarily terminates employment during the 30-day period following the first anniversary of the change in control, the executive is entitled to receive a lump sum severance payment equal to three times the executive's base salary and specified bonus. The executive also is entitled to receive other payments and benefits, including increased pension benefits, continuation of employee welfare benefits, reimbursement of any "parachute" excise tax imposed on payments under the agreements and reimbursement of reasonable legal expenses related to the agreement.

The following report is submitted by the Compensation Committee.

Compensation Committee Report

COMPENSATION PHILOSOPHY

The Board of Directors endorses and promotes a "pay for performance" philosophy.

We believe that the achievement of the objectives contained in the Company's Strategic Growth Plan will significantly increase the fundamental value of the Company over time. For this reason, we have directly linked the compensation of the Company's executives (a larger group than the Company's Executive Officers) to the achievement of those strategic objectives. Further, we have requested management to refrain from providing quarterly earnings guidance to the financial analysts and others who follow the Company's stock so that the efforts of management will be focused on improving business fundamentals, rather than attaining short-term financial expectations. We believe that the improvements in the Company's financial health and franchise strength reflected by the Strategic Growth Plan will lead to enhanced shareholder returns over time.

Our compensation program is based on the following principles:

- Individual contributions to growth in the Company's fundamental value must be recognized.
- Highly qualified executives must be attracted and retained.
- Executive compensation must be linked to the achievement of the Company's Strategic Growth Plan.
- A significant portion of an executive's compensation must be subject to market risk.

PERFORMANCE AGAINST OBJECTIVES

A substantial percentage of an executive's compensation depends on the level of the executive's achievement of individual objectives. These objectives are assigned at the beginning of each year and are designed to enable the Company to achieve the objectives of the Company's Strategic Growth Plan. They include financial objectives and qualitative factors such as leadership, management development and the quality of execution of business strategies that drive the Company's growth. Each executive is also accountable for compliance with the Company's policies and codes of conduct.

SALARIES, INCENTIVE BONUSES AND STOCK OPTION AWARDS

The principal elements of our executive compensation program are salaries, bonuses and stock options. In addition, each executive may participate in Gillette benefit plans such as the Executive Life Insurance Program and Estate Preservation Plan, as well as broad-based plans that include the Employees' Savings and Retirement Plans. Information about these plans and programs during 2002 is found in the Summary Compensation Table on page 18 and the Retirement Plan Table on page 20.

We approve the salary of each Executive Officer, and all bonus and stock option awards.

Base Salary

When determining the appropriate salary of an Executive Officer, we assign a salary range under a system of job evaluation based on the level of responsibility and the executive's qualifications and experience. Annual salary increases are approved within merit and promotional guidelines established in order to maintain the Company's competitive position in the marketplace.

Annual Bonuses

At the beginning of each year, we establish, under the Company's Incentive Bonus Plan, a range of growth goals for the Company focusing on growth in earnings per share, return on assets and net sales. The amount we allocate to the Company's annual bonus pool relates directly to the degree to which the annual growth goals are met by the Company.

We also assign individual bonus targets to each executive based on grade level expressed as a percent of year-end salary. The executive's achievement against each individual objective is converted into a numerical formula for determining the appropriate bonus award. The amount of each executive's annual bonus (which can be higher or lower than his/her target bonus) is a function of the level of achievement of the Company and the executive's business unit and individual objectives.

Under special provisions of the Plan approved by the shareholders at the 2001 Annual Meeting, bonus awards to the Executive Officers named in the Summary Compensation Table are conditioned upon Gillette's

achievement of a minimum net income target that we establish each year. Since this target was exceeded in 2002, bonuses may be paid to those executives up to a prescribed maximum. These bonuses are tax deductible by the Company.

The Plan also provides that, in the event the Company's growth goals are not met, the Committee may create a reserve bonus pool that can be used for awarding bonuses to employees, other than the executives named in the Summary Compensation Table, who have achieved their individually assigned objectives. If such a pool is created, it will be substantially smaller than the bonus pool established when the Company achieves its growth goals.

Stock Options

Stock options are awarded to employees who have demonstrated their ability to contribute to the long-term success of the Company. Stock options encourage these individuals to act as owners of the Company, directly aligning their interests with the interests of the shareholders. We make stock option awards under the 1971 Stock Option Plan on an annual basis, as employment inducements, and at other times, with exercise prices equal to the average of the high and low trading prices of Gillette stock on the date of the award. The number of shares awarded to each executive is based on our assessment of the future potential of the executive to contribute to the growth of the Company and the relative value of stock options, as calculated by the Black-Scholes method, awarded by companies with whom we compete for executive talent.

The Financial Accounting Standards Board (the "FASB") is currently deliberating whether it should undertake a comprehensive reconsideration of accounting for stock options in light of the recently proposed guidance issued by the International Accounting Standards Board. The Company generally agrees with the concept of recognizing compensation cost based on a fair value approach, but does not intend to adopt such an approach unless there is agreement on standardized rules that are applicable to all companies. The Company believes a uniform rule is necessary to allow investors to make informed comparisons between companies and urges the FASB to complete its rulemaking process this year. The Company will continue to consider other equity-based forms of executive compensation, including performance-based equity linked to indices or other comparable performance criteria.

REPORT OF COMPENSATION CONSULTANT

Each year, we review a report prepared by an independent compensation consultant retained by the Committee. That report assesses the appropriateness and competitiveness of the Company's executive compensation program, as well as the compensation paid to each of its executives. While our consultant's report, including comparisons to the compensation practices of other companies or industry segments, is not the determining factor in our review, our consultant's views represent an important element in our evaluation of the Company's executive compensation program. In 2002, we retained Hewitt Associates as our consultant.

THE COMPANY ACHIEVED ITS OBJECTIVES IN 2002

The Company achieved and exceeded many of its objectives set for 2002. Notable among those achievements were:

- Sales increased 5% versus 2001.
- Profit from operations increased 21% versus 2001.
- Earnings per share, assuming full dilution, increased 31% versus 2001.
- Accounts receivable were reduced by 18% versus 2001.
- Inventory was reduced by 8% versus 2001.
- Accounts payable increased by 45% versus 2001.
- Return on assets increased by 7 percentage points versus 2001.
- Free cash flow, defined as cash remaining from operations after capital investments, increased significantly versus 2001.
- Eighty-four percent of sales came from brands that led their markets.

In addition, many other critical objectives were met. Franchise market and share targets were reached. The financial management and planning functions were improved. Implementation was begun on the Functional Excellence program, a multiyear initiative, funded through operations, that is designed to improve capabilities and reduce costs. The effectiveness of the Information Technology function was improved. The Selling, General and Administrative Expenses target was met. Substantial savings and functional improvements in manufacturing and the supply

chain function were obtained. Finally, and most importantly, many of the programs designed to transform the Company's culture to a performance-based culture were successfully completed.

In our view, the executive compensation program contributed significantly to the Company's achievement of its objectives in 2002.

COMPENSATION OF THE CHIEF EXECUTIVE OFFICER

Mr. Kilts' compensation in 2002, including base salary, target bonus and number of stock options, was negotiated as part of his employment agreement at the time he was hired. Prior to entering into this agreement, we engaged consultants to develop a competitive employment offer for Mr. Kilts. They advised us that the compensation and perquisites included in the employment offer were consistent with industry practice. The details of his employment agreement are described on page 20 of this Proxy Statement under the caption, "Employment Contracts, Termination of Employment and Change-In-Control Arrangements," and in the Summary Compensation Table on page 18. Mr. Kilts' compensation is determined in accordance with his employment agreement and the policies described in this report.

In 2001, the Board created the Nominating and Corporate Governance Committee, composed of four independent directors. The charter for the Committee includes the responsibility for annually evaluating the performance of the Chief Executive Officer.

When reviewing the CEO's performance, the Nominating and Corporate Governance Committee considers, among other things: personal qualities such as leadership, statesmanship and responsiveness; general management skills such as a global perspective on the business, operating plans and results, strategic thinking and planning, knowledge of the business and preparedness; financial expertise such as value creation, capital planning and communications with the financial and investment communities; and skills involving the effective use of human resources such as developing management talent and creating an effective organization.

When determining the appropriate compensation for the CEO, we consider the Nominating and Corporate Governance Committee's performance evaluation, the level of achievement of the Company's growth targets and the report of the independent consultant, including its review of the compensation paid to CEOs at companies with whom we compete for executive talent.

SECTION 162(m) OF THE INTERNAL REVENUE CODE

This provision of Federal tax law limits the deductibility of compensation paid to the Chief Executive Officer and the next four most highly paid executive officers at the end of each year in which, for any of these covered executives, compensation exceeds $1 million subject to certain exceptions. One of the exceptions is performance-based compensation paid under a plan or arrangement approved by shareholders. Gillette's shareholders have approved both our Incentive Bonus and Stock Option Plans.

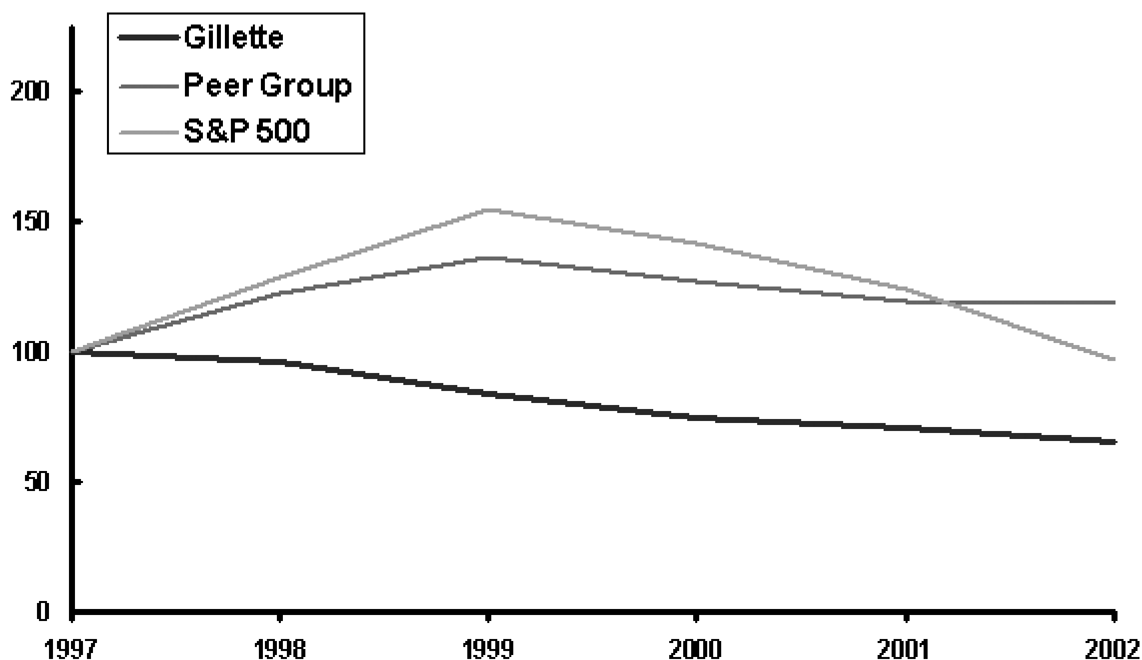
It is our policy generally to design executive compensation to be deductible under Section 162(m). However, we exercise our discretion, consistent with the interests of the shareholders, to award compensation that is not tax deductible for the recruitment and retention of executives.

By the Compensation Committee:

Richard R. Pivirotto (Chairman)
Wilbur H. Gantz
Dennis F. Hightower
Herbert H. Jacobi
Marjorie M. Yang

Gillette Comparative Five-Year Investment Performance

The following graph compares the total return on $100 invested in Gillette common stock for the five-year period from December 31, 1997, through December 31, 2002, with a similar investment in the Standard & Poor's 500 Stock Index and with the market value weighted returns of a Peer Group Index consisting of eight consumer products companies of similar size that sell products worldwide. The cumulative return includes reinvestment of dividends.



	1997	1998	1999	2000	2001	2002
Gillette	$100	$ 96	$ 84	$ 75	$ 71	$ 66
Peer Group	$100	$123	$136	$127	$119	$119
S&P 500	$100	$128	$155	$141	$124	$ 97

Peer Group Companies:
Avon Products, Inc.
The Clorox Company
Colgate-Palmolive Company
Energizer Holdings
Kimberly-Clark Corporation
Philips Electronics, N.V
Procter & Gamble Company
Unilever, NV

Requirements, Including Deadlines, for Submission of Proxy Proposals, Nomination of Directors and Other Business of Shareholders

Our bylaws, as permitted by the rules of the SEC, establish procedures that a shareholder must follow to nominate persons for election as directors or to introduce an item of business at an Annual Meeting of Shareholders. These procedures provide that nominations for director nominees and/or an item of business to be introduced at an Annual Meeting must be submitted in writing to the Secretary of the Company at our principal executive offices at the Prudential Tower Building, 48th Floor, Boston, MA 02199. The Company must receive a shareholder's notice of intention to introduce a nomination or proposed item of business at the 2004 Annual Meeting no later than February 14, 2004, but no earlier than January 15, 2004. If a shareholder notifies the Company after February 14, 2004, of an intent to present a proposal at the 2004 Annual Meeting, the Company will have the right to exercise its discretionary voting authority with respect to such proposal without including information regarding such proposal in its proxy materials.

The nomination must contain the following information about the nominee(s):

- name, age, and business and residence addresses;
- principal occupation or employment;
- the number of shares of common stock held by the nominee(s);
- the information that would be required under SEC rules in a Proxy Statement soliciting proxies for the election of such nominee(s) as a director; and
- a signed consent of the nominee(s) to serve as a director of the Company, if elected.

Notice of a proposed item of business must include:

- a brief description of the substance of, and the reasons for conducting, such business at the Annual Meeting;
- the shareholder's name and address;
- the number of shares of common stock held by the shareholder (with supporting documentation where appropriate); and
- any material interest of the shareholder in such business.

The Board is not aware of any matters meeting the requirements of the bylaws that are expected to come before the 2003 Annual Meeting other than those referred to in this Proxy Statement. If any other matter should come before the Annual Meeting, the persons named in the accompanying proxy intend to vote the proxies in accordance with their best judgment.

The chairman of the meeting may refuse to allow the transaction of any business not raised in compliance with the foregoing procedures.

Directions to Hotel du Pont
11th and Market Streets
Wilmington, Delaware

The Hotel du Pont is located in downtown Wilmington, two hours from New York and Washington, D.C., and one hour from Baltimore. The hotel is just five blocks off I-95, minutes from the train station, and 25 minutes from the Philadelphia International Airport.

FROM PHILADELPHIA

1. Take I-95 South through Chester to Wilmington.
2. Follow I-95 South to Exit 7A marked "52 South, Delaware Avenue."
3. Follow 11th Street in the middle lane through six traffic lights. Hotel du Pont is on the right. Valet parking is available at Hotel entrance. For self-parking, turn left on Orange Street; Car Park is on left.

FROM BALTIMORE

1. Follow I-95 North to Wilmington, take Exit 7 marked "Route 52, Delaware Avenue."
2. From right lane, take Exit 7 onto Adams Street.
3. At the third traffic light, turn right onto 11th Street.
4. Follow 11th Street in the middle lane through six traffic lights. Hotel du Pont is on the right. Valet parking is available at Hotel entrance. For self-parking, turn left on Orange Street; Car Park is on left.

FROM NEW JERSEY (NEW JERSEY TURNPIKE)

1. Take the New Jersey Turnpike South to Delaware Memorial Bridge.
2. After crossing the Delaware Memorial Bridge, follow signs to I-95 North.
3. From I-95 North, follow steps 1-4 above.

Directions from the Airport and Train Station

FROM THE PHILADELPHIA INTERNATIONAL AIRPORT

1. Take I-95 South into Delaware (approximately 15 miles).
2. Follow I-95 South to Exit 7A marked "52 South, Delaware Avenue." This is 11th Street. The Hotel du Pont is seven blocks ahead, on the right.

FROM THE WILMINGTON TRAIN STATION

1. From underneath the railroad tracks on French Street, cross over the Martin Luther King Boulevard to the second light.
2. Make a left onto 2nd Street, and follow to Orange Street.
3. Make a right onto Orange Street.
4. Follow Orange Street to 11th Street, and make a right. The Hotel du Pont is on the right at 11th and Market.

Exhibit A – Audit Committee Charter

A. PURPOSE

The Audit Committee is appointed by the Board of Directors to (a) assist in its oversight of (i) the integrity of the Company's financial statements, (ii) the Company's compliance with legal and regulatory requirements, (iii) the independent auditor's qualifications and independence, and (iv) the performance of the Company's internal audit function and its independent auditor and (b) prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company's Proxy Statement.

B. RESPONSIBILITIES AND DUTIES

General

1. Review and assess the adequacy of this Charter on an annual basis and submit any proposed amendments to the Board of Directors for approval.
2. Review and discuss with management and the independent auditor:
   (a) the selection, application and disclosure of critical accounting policies and practices,
   (b) the Company's system of internal controls and policies relating to risk assessment and management,
   (c) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor,
   (d) the effects on the Company's financial statements of regulatory and accounting initiatives,
   (e) any material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and any other relationships of the Company with unconsolidated entities that may have a current or future material effect on the Company's financial statements,
   (f) any pro forma information proposed to be included in the Company's financial statements or any other public disclosure,
   (g) the annual audited financial statements and quarterly financial statements, and the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Form 10-K and Form 10-Q, and
   (h) the presentation of the financial statements.
3. Recommend to the Board of Directors each year whether or not the audited consolidated financial statements should be included in the Company's Annual Report filed with the Securities and Exchange Commission on Form 10-K.
4. Discuss generally the types of information to be disclosed and the presentation to be made in earnings releases and in financial information and earnings guidance (if any) given to analysts and rating agencies.
5. Discuss policies with respect to risk assessment and risk management and the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
6. Review with the Company's General Counsel: (a) any legal matter that could have a significant impact on the Company's financial statements and (b) the effectiveness of the Company's compliance program in detecting and preventing violations of law and the Company's codes of conduct.
7. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submissions by employees or contractors of concerns regarding questionable accounting or accounting matters.

Independent Auditor

1. Retain, oversee and terminate the Company's independent auditor which shall report directly to the Audit Committee, including approval of all engagement fees and terms for the audit and audit-related services, such as comfort letters or statutory audits, and consider the rotation of the independent auditor.
2. Review annually a report by the independent auditor describing: (a) the firm's internal quality-control procedures; (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the

preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with such issues; and (c) all relationships between the independent auditor and the Company.

3. Taking into consideration the views of the internal auditor and management, annually review and evaluate the qualifications, performance and independence of the independent auditor and the senior members of the independent auditor team (including the rotation of the lead auditor and reviewing partners), including the disclosures of the independent auditor required by Independence Standards Board Standard No.1, and report its findings to the Board.
4. Review and approve the audit fees and any other compensation proposed to be paid to the independent auditor.
5. Pre-approve the retention of the independent auditor for any auditing service or any nonaudit service that is not prohibited under Section 10A (g) of the Securities Exchange Act and the terms of engagement and fee for such service. The Audit Committee may delegate the authority to grant such pre-approvals to one or more designated members of the Audit Committee who are independent directors of the Board of Directors, provided that the decisions made by such member or members to pre-approve an activity shall be presented to the full audit committee at its scheduled meetings.
6. Discuss with the independent auditor any disclosed relationships or services that may affect the objectivity and independence of the independent auditor, including the matters required to be discussed by Statement on Auditing Standards No. 61.
7. Discuss with the independent auditor (a) accounting adjustments that were identified or proposed by the independent auditor and were not implemented, (b) communications between the audit team and the firm's national office relating to auditing or accounting issues presented by the engagement, (c) any "management letter" issued or proposed to be issued by the independent auditor to the Company and any other material written communications between the independent auditor and the management, and (d) any issues identified or problems encountered by the independent auditor with management's response to such adjustments, communications or letter, and resolve any disagreements between management and the independent auditor regarding financial reporting.
8. Review the annual audit plans of the independent auditor.
9. Set clear hiring policies for employees and former employees of the independent auditor.
10. Obtain assurance from the independent auditor that section 10A (b) of the Securities Exchange Act has not been implicated.

Internal Audit

1. Review the annual audit plans of the Internal Auditor, including any audit plans of audit firms retained to provide internal audit services, to ensure that there is an appropriate control process for reviewing and approving the Company's internal transactions and accounting.
2. Review the responsibilities, organizational structure, budget and qualifications of the internal audit function.
3. Review the reports of the Internal Auditor, including any reports of audit firms retained to provide internal audit services, the plans for corrective actions and the reports on the completion of the corrective actions.

Financial Reporting Processes

1. Review with management and the independent auditor any correspondence with regulators or government agencies and any employee complaints or published reports that raise material issues regarding the Company's financial statements or accounting policies.
2. Review any significant difficulties reported by the independent auditor in conducting the audit, including any restrictions on the scope of work or access to required information.
3. Review any significant disagreement between management and the independent auditor in connection with the preparation of the financial statements.
4. Review any significant changes in the Company's internal controls or in other factors that could significantly affect these controls.
5. Review the reports of the CEO and CFO (in connection with their required certifications) regarding any significant deficiencies or material weaknesses in the design or operation of internal controls and any fraud that involves management or other employees who have a significant role in the Company's internal controls.

6. Review major issues regarding the adequacy of the Company's internal controls and any special audit steps adopted in light of control deficiencies.
7. Review the Company's Financial Code of Ethics.

Other

1. Perform any other activities consistent with this Charter, the Company's bylaws and Certificate of Incorporation, as the Committee or the Board of Directors deems necessary or appropriate.
2. Report regularly to the Board of Directors.

C. MEMBERSHIP AND ORGANIZATION

1. The Audit Committee shall consist of at least three members. Each member shall meet the independence, experience and financial literacy requirements in the listing standards of the New York Stock Exchange and the rules and regulations of the Securities and Exchange Commission, and one member shall qualify as an "Audit Committee Financial Expert" as that term is defined by rules and regulations of the Securities and Exchange Commission.
2. The members of the Committee shall be elected by the Board of Directors at its first meeting following the Annual Meeting of Shareholders and shall serve until the first meeting of the Board of Directors following the Annual Meeting of Shareholders and until their successors are elected or until their earlier death, resignation or removal, with or without cause, in the discretion of the Board. Unless a Chair is elected by the Board of Directors, the members of the Committee shall elect a Chair by majority vote of the full Committee membership.
3. The Committee may delegate its authority to a subcommittee or subcommittees.
4. The Committee shall promptly inform the Board of the actions taken or issues discussed at its meetings. This will generally take place at the Board meeting following a Committee meeting.

D. MEETINGS

1. The Committee shall meet four times annually, or more frequently if circumstances dictate. Two members shall constitute a quorum. If a quorum is present, a majority of the members present shall decide any question brought before the Committee. Any member of the Committee may call a meeting of the Committee upon due notice to each other member at least 48 hours prior to the meeting. The Committee shall meet at least each quarter with the Chief Financial Officer (and other members of management, as it deems appropriate), the Internal Auditor and the independent auditor in separate executive sessions.

E. ADVISORS

1. The Committee shall have the authority, at the expense of the Company, to retain such accounting, legal and other advisors as it shall deem appropriate without Board or management approval.

F. PERFORMANCE EVALUATIONS

1. The performance of the Committee shall be evaluated annually, which evaluation may be included as part of the Board surveys.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to conduct investigations or to assure compliance with laws and regulations and the Company's policies.

Exhibit B – Nominating and Corporate Governance Committee Charter

1. PURPOSE

The purpose of the Nominating and Corporate Governance Committee is to identify and recommend to the Board for selection as director nominees individuals qualified to become Board members and to develop and recommend the Company's Corporate Governance Principles.

2. RESPONSIBILITIES

The Nominating and Corporate Governance Committee's primary responsibilities include:

- Developing criteria for the selection of new directors, in addition to those provided in the Corporate Governance Principles.
- Identifying and recommending director nominees to the Board for election at each Annual Meeting.
- Recommending appointments to the Board's Committees.
- Setting the Company's policies and criteria to evaluate the Chief Executive Officer's performance and evaluating such performance against those policies and criteria, which will include, among other things: personal qualities such as leadership, statesmanship and responsiveness; general management qualities such as a global perspective on the business, short-term results, strategic thinking and planning, knowledge of the business and preparedness; financial expertise such as value creation, capital planning and communications with the financial and investment communities; and qualities relating to the use of human resources such as developing management talent and creating an effective organization.
- Evaluating the effectiveness of the Board and its Committees and recommending ways to improve the performance of the Board and its Committees.
- Recommending ways to enhance services to, and improve communications and relations with, the Company's shareholders.
- Developing a set of corporate governance principles applicable to the Company. Such principles shall address the following subjects: director qualification standards, director responsibilities, director access to management and independent advisors, director compensation, director orientation and continuing education, management succession, and annual performance evaluation of the Board and its Committees.
- Recommending proposed changes to the Company's Certificate of Incorporation and bylaws.
- Reviewing and reassessing this charter and submitting any suggested changes to the Board for review.

3. MEMBERSHIP AND ORGANIZATION

- The Nominating and Corporate Governance Committee shall consist of at least three members of the Board of Directors as the Board shall from time to time determine. Each member shall be "independent" as that term is defined by the rules of the New York Stock Exchange.
- The members of the Committee shall be elected by the Board of Directors at its first meeting following the Annual Meeting of Shareholders and shall serve until the first meeting of the Board of Directors following the Annual Meeting of Shareholders and until their successors are elected or until their earlier death, resignation or removal, with or without cause, in the discretion of the Board. Unless a Chair is elected by the Board of Directors, the members of the Committee shall elect a Chair by majority vote of the full Committee membership.
- The Committee may delegate its authority to a subcommittee or subcommittees.
- The Committee shall promptly inform the Board of the actions taken or issues discussed at its meetings. This will generally take place at the Board meeting following a Committee meeting.

4. MEETINGS

The Committee shall meet three times annually, or more frequently if circumstances dictate. Any member of the Committee may call a meeting of the Committee upon due notice to each other member at least 48 hours prior to the meeting. Two members shall constitute a quorum. If a quorum is present, a majority of the members present shall decide any question brought before the Committee.

5. ADVISORS

The Committee shall have the exclusive authority, at the expense of the Company, to retain (including authority to approve fees and other retention terms) any search firms to be used to identify director candidates, and such independent consulting, legal and other advisors as it shall deem appropriate without management approval.

6. PERFORMANCE REVIEW

The performance of the Committee shall be evaluated annually, which evaluation may be included as a part of the Board surveys.

This Charter sets forth the responsibilities and powers of the Nominating and Corporate Governance Committee as delegated by the Board of Directors. The Committee relies to a significant extent on information and advice provided by management and independent advisors. Whenever the Committee takes an action, it exercises its independent judgment on an informed basis that the action is in the best interests of the Company and its shareholders.

2002 Form 10-K

Index to The Gillette Company 2002 Form 10-K

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

(Mark One)

[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the fiscal year ended December 31, 2002

or

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File No. 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)	(I.R.S. 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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1.00 par value	New York Stock Exchange
	Boston Stock Exchange
	Chicago Stock Exchange
	Pacific Stock Exchange

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes [X] No [ ]

The aggregate market value of Gillette Common Stock held by non-affiliates as of June 30, 2002, (the last day of our most recently completed second quarter) was approximately $32,524,000,000.*

The number of shares of Gillette Common Stock outstanding as of January 31, 2003, was 1,044,224,346.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the following documents have been incorporated by reference into this Form 10-K as indicated:

	Documents	10-K Parts
1.	The Gillette Company 2002 Annual Report to Stockholders (the "2002 Annual Report")	Parts I and II
2.	The Gillette Company 2003 Proxy Statement (the "2003 Proxy Statement")	Part III

* For purposes of this calculation only, Gillette Common Stock held by Executive Officers or Directors of the Company has been treated as owned by affiliates.

Part I

ITEM 1. DESCRIPTION OF BUSINESS

General Development of Business

We manufacture and sell a wide variety of consumer products throughout the world. We have five principal business segments: Blades and Razors, Duracell, Oral Care, Braun and Personal Care. In 2000, we sold the Stationery Products business.

Blades and Razors

We are the world leader in blades and razors. We sell male shaving systems under the Mach3Turbo, Mach3, SensorExcel, Sensor, Atra and Trac II brands, and disposable razors under the Custom Plus and Good News brands. On November 7, 2002, we introduced the Sensor3 premium disposable razor for men and women, our newest triple blade product, which is scheduled to be available to consumers in North America in Spring 2003. Our female shaving systems are sold under the Gillette for Women Venus, SensorExcel for Women and Sensor for Women brands, and our disposable razors are sold under the Agility and Daisy brands.

Duracell

We are the world leader in alkaline batteries for consumers. Our products include the Duracell CopperTop and Duracell Ultra alkaline batteries and Duracell primary lithium, zinc air and rechargeable nickel-metal hydride batteries.

Oral Care

We are the world leader in manual and power toothbrushes. We offer manual toothbrushes under the Oral-B brand and power toothbrushes under the Braun and Oral-B brands.

Braun

We sell electric shavers under the Braun brand and hair epilators under the Silk-Epil brand. These products include the number one foil electric shaver for men and the number one hair epilator for women. We also sell small household and personal diagnostic appliances under the Braun brand.

Personal Care

We sell shaving preparations, after-shave products and deodorants and antiperspirants under the Gillette Series, Satin Care, Right Guard, Soft & Dri and Dry Idea brands.

Founded in 1901, we are a Delaware corporation with our registered office in Wilmington, Delaware. As of December 31, 2002, we had manufacturing operations at 32 facilities in 15 countries. Our products are sold in over 200 countries and territories.

Business Segments

"Operating Segments and Related Information," containing information on net sales, profit from operations, identifiable assets, capital expenditures and depreciation for each of the last three years, appears on page 53 of this report.

Distribution

In major geographic markets, our products are sold directly to retailers and to wholesalers for resale through retail stores. Braun personal diagnostic appliances and Oral Care products are also sold to health care professionals. In some small geographic markets, our products are distributed by local distributors and through sales agents. The Company's largest customer, Wal-Mart Stores, Inc., and its affiliates, accounted for 12% of sales in both 2002 and 2001. These sales occurred primarily in the United States and were across all product segments.

Patents

Some of our patents and licenses in the Blades and Razors segment are of substantial value and importance when considered in the aggregate. Additionally, we hold significant patents in our Duracell, Oral Care, Braun and Personal Care businesses. No single patent or license held by us is material to our total business. We have licensed many of our blade and razor patents to other manufacturers. In all of these categories, our competitors also have significant patent positions. The patents and licenses held by us are of varying remaining durations.

Trademarks

In general, our principal trademarks have been registered in the United States and throughout the world where our products are sold. Our products are marketed outside the United States under various trademarks, many of which are the same as those used in the United States. The trademark "Gillette" is of principal importance to us. In addition, a number of other trademarks owned by us and our subsidiaries have significant importance within their industries. Our rights in these trademarks endure for as long as they are used or registered.

Competition

All of our markets are highly competitive. Some of our competitors are larger and have greater resources than we do. The Blades and Razors segment is highly competitive in terms of new technology, as well as price, marketing, advertising and promotion. Our major competitors worldwide in blades and razors include Pfizer Inc., with its Schick product line, and, in North America and Europe, its Wilkinson Sword product line (Pfizer recently announced the sale of its blade and razor business to Energizer Holdings, Inc.); and Societe Bic S.A. The Duracell segment is highly competitive in terms of price, marketing, advertising and promotion. Competition in the Oral Care segment is focused on product performance, price and professional endorsement. Competition in the electric shaver and epilator product lines is based primarily on product performance, innovation and price. The Personal Care segment is highly competitive in terms of price, product innovation and market positioning, with frequent introductions of new brands and marketing concepts, especially for products sold through retail outlets, and with product life cycles typically shorter than in our other businesses.

Employees

At year-end, we employed approximately 30,300 persons, over 70% of them outside the United States.

Research and Development

Our research and development efforts are significant to our product innovation, particularly in blades and razors. In 2002, research and development expenditures were $185 million, compared with $187 million in 2001 and $179 million in 2000.

Raw Materials

The raw materials we use to manufacture our products are purchased from a number of suppliers, and substantially all such materials are readily available.

Operations by Geographic Area

Net sales and long-lived assets by geographic area for each of the last three years appear at page 54 of this report.

Availability of Reports and Other Information

Our web site is www.gillette.com. On this web site, the public can access our annual, quarterly and current reports, changes in the stock ownership of our directors and executive officers, and other documents filed with the Securities and Exchange Commission as soon as reasonably practicable after the filing date.

In addition, under the section entitled, "Corporate Governance," we post the latest versions of our Certificate of Incorporation, Bylaws, Corporate Governance Principles, Committee Charters and Code of Ethics for Financial Managers and the Chief Executive Officer, including any waivers from or amendments to the Code of Ethics.

ITEM 2. DESCRIPTION OF PROPERTY

We own and lease manufacturing facilities and other real estate in the United States and a number of foreign countries. Our executive offices are located in the Prudential Tower Building, Boston, Massachusetts, where we hold a long-term lease. The following table sets forth our principal facilities, defined as those measuring 250,000 square feet or more.

Business Segment	Location	Owned/Leased
Blades & Razors	Boston, MA (US)	Owned
	Isleworth, UK	Owned
	Berlin, Germany	Owned
	Naucalli, Mexico	Owned
	Manaus, Brazil	Owned
	Hemel Hempstead, UK*	Leased
	Devens, MA (US)*	Leased
Duracell	Port Elizabeth, South Africa	Owned
	Aarschot, Belgium	Owned
	Dongguan, China	Owned/Leased
	Lancaster, SC (US)	Owned
	LaGrange, GA (US)	Owned
	Heist, Belgium*	Leased
	Bethel, CT (US)	Owned
Oral Care	Iowa City, IA (US)	Owned
Braun	Kronberg, Germany	Owned/Leased
	Barcelona, Spain	Owned/Leased
	Walldürn, Germany	Owned/Leased
	Marktheidenfeld, Germany	Owned
	Mexico City, Mexico	Owned/Leased
Personal Care	Andover, MA (US)	Owned
	Reading, UK	Owned/Leased
Multisegment	Romeoville, IL (US)	Leased
Distribution Centers	Ontario, CA (US)	Leased
	Devens, MA (US)	Leased
	Toronto, Canada	Leased
	Altfeld, Germany	Owned

*Packaging center that also serves as warehouse/distribution facility.

The above facilities are in good repair, adequately meet our needs and operate at reasonable levels of capacity.

ITEM 3. 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, product liability, advertising, contracts, environmental issues, patent and trademark matters and taxes. Management, after review and consultation with 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2002.

Information relating to our Executive Officers is set out below.

Name and Current Position	Five-Year Business History	Age
James M. Kilts Chairman of the Board and Chief Executive Officer	Chairman of the Board and Chief Executive Officer since January 2001 and February 2001, respectively; President and Chief Executive Officer, Nabisco Group Holdings Corp., December 1999 – December 2000; President and Chief Executive Officer, Nabisco Holdings Corp. and Nabisco, Inc., January 1998 – December 1999; Executive Vice President, Worldwide Food, Philip Morris Companies, January 1994 – March 1997	55
Edward F. DeGraan President and Chief Operating Officer	President and Chief Operating Officer since July 2000; Acting Chief Executive Officer, October 2000 – February 2001; Executive Vice President, Global Business Management, January 2000 – July 2000; Executive Vice President, Global Business Management, Gillette Grooming Products and Duracell, January 1999 – January 2000; Executive Vice President, Duracell North Atlantic Group, January 1997 – December 1998	59
Michael T. Cowhig Senior Vice President	Senior Vice President, Global Manufacturing and Technical Operations, since September 2002; Senior Vice President, Global Supply Chain and Business Development, January 2000 – August 2002; Senior Vice President, Manufacturing and Technical Operations, Global Business Management – Grooming, January 1999 – January 2000; Senior Vice President, Manufacturing and Technical Operations, Gillette North Atlantic Group, January 1997 – January 1999	56
Charles W. Cramb Senior Vice President and Chief Financial Officer	Senior Vice President, Finance, and Chief Financial Officer since December 1999; Senior Vice President, Finance, Chief Financial Officer and Principal Accounting Officer, July 1997 – December 1999; Vice President and Controller, July 1995 – June 1997	56
Edward E. Guillet Senior Vice President	Senior Vice President, Human Resources, since July 2001; Vice President, Corporate Human Resources, July 1997 – June 2001	51
Peter Klein Senior Vice President	Senior Vice President, Strategy and Business Development, since March 2001; Executive Vice President, Strategy, Business Development, Marketing Services and e-Business, Nabisco Holdings Corp. and Nabisco, Inc., April 1998 – December 2000; Partner and Managing Director, The Cambridge Group, November 1991 – March 1998	56

Name and Current Position	Five-Year Business History	Age
Kathy S. Lane Senior Vice President and Chief Information Officer	Senior Vice President, Corporate Information Technology and Applications, and Chief Information Officer since March 2002; General Manager, eBusiness & IT, General Electric Oil & Gas, December 2000 – March 2002; Senior Vice President and Chief Information Officer, Vendor Financial Services, General Electric Company, February 1999 – December 2000; Manager, General Electric Corporate Initiatives Group, General Electric Company, September 1998 – February 1999; Director, Technology Services, Pepsi Cola International, June 1997 – September 1998	45
John F. Manfredi Senior Vice President	Senior Vice President, Corporate Affairs, since March 2001; Executive Vice President, Corporate Affairs, Nabisco Holdings Corp. and Nabisco, Inc., April 1995 – December 2000	62
Edward D. Shirley Senior Vice President	Senior Vice President, Global Value Chain and Global Marketing Resources, since May 2002; President, Commercial Operations Europe, January 2000 – April 2002; President, Business Development and Administration, Europe, January 1999 – December 1999; Executive Director, Group Sales, Worldwide, Braun GmbH, April 1998 – December 1998; Executive Director, Group Sales, Europe, Braun GmbH, March 1997 – March 1998	46
Richard K. Willard Senior Vice President and General Counsel	Senior Vice President and General Counsel since November 1999; Partner, Steptoe & Johnson LLP, 1988 – October 1999	54
Claudio E. Ruben Vice President, Controller and Principal Accounting Officer	Vice President, Controller and Principal Accounting Officer since January 2001; Vice President, Investor Relations, June 1999 – December 2000; Vice President, Internal Audit, February 1998 – June 1999; Vice President, Finance and Administration, International Group, October 1995 – January 1998	55
A. Bruce Cleverly Vice President	President, Global Business Management – Oral Care, since February 2001; Senior Vice President, Global Business Management – Duracell, January 1999 – January 2001; President, Oral-B Laboratories, February 1997 – December 1998	57
Joseph F. Dooley Vice President	President, Commercial Operations North America, since July 2000; Senior Vice President, General Merchandise – Commercial Operations Western Hemisphere, March 1999 – June 2000; Senior Vice President and General Manager, Duracell North America, September 1997 – February 1999	49
Ernst A. Häberli Vice President	President, Commercial Operations International, since October 2001; President, North American Tissue Operations and Technology, Fort James Corporation, January 2000 – December 2000; Director, Fort James Corporation, May 1998 – December 2000; Executive Vice President and Chief Financial Officer, Fort James Corporation, January 1997 – December 1999	54

Name and Current Position	Five-Year Business History	Age
Peter K. Hoffman Vice President	President, Global Business Management – Blades and Razors, since January 2000; Senior Vice President, Grooming – Global Business Management, January 1999 – December 1999; President, Duracell North Atlantic, Commercial Operations, January 1998 – December 1998; Senior Vice President, Business Management, Gillette North America Group, October 1995 – December 1997	54
Mark M. Leckie Vice President	President, Global Business Management – Duracell, since April 2001; President and Chief Executive Officer, Heinz Canada, H.J. Heinz Company, October 2000 – April 2001; President, U.S. Grocery Division, Campbell Soup Company, September 1997 – June 1999	49
Joseph Scalzo Vice President	President, Global Business Management – Personal Care, since October 2001; Vice President, Worldwide Core Brand Development, The Coca-Cola Company, February 2000 – September 2001; Senior Vice President & Chief Marketing Officer, Minute Maid Division, The Coca-Cola Company, August 1998 – January 2000; Vice President and Managing Director, U.S. Refrigerated Products, The Coca-Cola Company, February 1997 – July 1998	44

The Executive Officers hold office until the first meeting of the Board of Directors following the Annual Meeting of Stockholders and until their successors are elected or appointed and qualified, unless a shorter period shall have been specified by the terms of their election or appointment, or until their earlier resignation, removal or death.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

The information required by this item with respect to our common stock appears in this report on the inside back cover under the caption, "Common Stock," and is incorporated by reference, and at page 55 of this report under the caption, "Quarterly Financial Information." As of January 31, 2003, there were 45,103 Gillette stockholders of record.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this item appears at page 56 of this report under the caption, "Historical Financial Summary."

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this item appears at pages 22 through 30 of this report under the caption, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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 made by us, or on our behalf, 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 our internal costs and the cost of raw materials;
- competitive factors, including the 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, and business combinations and divestitures of our competitors and customers;
- our technological advances and/or those of our competitors;
- new patents granted to us or our competitors;
- changes in exchange rates in one or more of our geographic markets;
- changes in laws and regulations, including trade regulations 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, divestiture or other collaborative activities; or
- the impact of general political and economic conditions or hostilities in the United States or in other countries in which we currently do business.

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 successfully introduce new products and/or extend lines of established products 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 such claims, if they are established, can 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;
– unexpected changes in regulatory requirements or tax laws; or
– 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.

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 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 inventory destocking, limitations on 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

The threat of potential military action or war, as well as attendant political activity, has created an atmosphere of economic uncertainty throughout the world. Our results may be impacted by the macroeconomic effects of those events. A disruption in our supply chain as a result of such actions may significantly affect our business and its prospects. In addition, such events may also result in heightened domestic security and higher costs for importing and exporting shipments of components and finished goods. Any of these occurrences may have a material adverse effect on our financial position, cash flow or results in any reporting period.

ITEM 7A. DISCLOSURES CONCERNING MARKET RISK SENSITIVE INSTRUMENTS

The information required by this item appears at pages 26 and 27 of this report under the caption, "Market Risk."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following Financial Statements and Supplementary Data for The Gillette Company and Subsidiary Companies appear in this report at the pages indicated below.

(1)	Independent Auditors' Report	Page 31
(2)	Consolidated Statement of Income for the Years Ended December 31, 2002, 2001 and 2000	Page 32
(3)	Consolidated Balance Sheet at December 31, 2002 and 2001	Page 33
(4)	Consolidated Statement of Cash Flows for the Years Ended December 31, 2002, 2001 and 2000	Page 34
(5)	Consolidated Statement of Stockholders' Equity for the Years Ended December 31, 2002, 2001 and 2000	Page 35
(6)	Notes to Consolidated Financial Statements	Pages 36 through 55
(7)	Computation of Per Share Earnings	Pages 32, 38, 39, 40, 55, 56
(8)	Quarterly Financial Information	Page 55

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

The information required by this item with respect to our Directors appears in the 2003 Proxy Statement under the captions, "Election of Directors," "Transactions with Directors and Management" and "Section 16(a) Beneficial Ownership Reporting Compliance," and is incorporated by reference. The information required for our Executive Officers appears at the end of Part I of this report at pages 4 through 6.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item appears in the 2003 Proxy Statement under the captions, "Director Compensation and Stock Ownership," "Executive Compensation," "Compensation Committee Report," and "Gillette Comparative Five-Year Performance Graph," and is incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Except for the information concerning equity compensation plans, the information required by this item is incorporated by reference from our 2003 Proxy Statement under the caption, "Securities Ownership of Directors and Officers."

The following table gives information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans as of December 31, 2002, including the 1971 Stock Option Plan, the Duracell Shares Plan and the James M. Kilts Non-Statutory Stock Option Plan.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders[1]	76,538,023	$37.33	28,254,171
Equity compensation plans not approved by security holders[2]	2,000,000	$34.16	—
Total	78,538,023	$37.25	28,254,171

(1) Includes 49,270 options at a weighted-average exercise price of $30.56 remaining in the Duracell Shares Plan assumed by the Company upon its merger with Duracell in 1996. The plan will cease to exist when all outstanding options have been exercised.

(2) Represents stock options granted to the Chief Executive Officer at the time of his employment. A description of the material terms of the award can be found at pages 51 and 52 of this report under the caption, "Stock Compensation Plans and Capital Stock."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item appears in the 2003 Proxy Statement under the captions, "Transactions with Directors and Management" and "Employment Contracts, Termination of Employment and Change-in-Control Arrangements," and is incorporated by reference.

ITEM 14. CONTROLS AND PROCEDURES

As of a date within 90 days prior to the filing of this report (the "Evaluation Date"), the Chief Executive Officer and Chief Financial Officer evaluated the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14), and they have concluded that the Company's disclosure controls and procedures are effective to bring to their attention material information relating to the Company for the purposes of this report. In addition, they have concluded that there have been no significant changes in the Company's internal controls or in other factors that could significantly affect those internal controls, including any corrective actions with regard to significant differences and material weaknesses, subsequent to the Evaluation Date.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K

A. Financial Statements, Schedules and Exhibits

Financial Statements

The following appear in this report at the pages indicated below and are incorporated into Part II by reference.

(1)	Independent Auditors' Report	Page 31
(2)	Consolidated Statement of Income for the Years Ended December 31, 2002, 2001 and 2000	Page 32
(3)	Consolidated Balance Sheet at December 31, 2002 and 2001	Page 33
(4)	Consolidated Statement of Cash Flows for the Years Ended December 31, 2002, 2001 and 2000	Page 34
(5)	Consolidated Statement of Stockholders' Equity for the Years Ended December 31, 2002, 2001 and 2000	Page 35
(6)	Notes to Consolidated Financial Statements	Pages 36 through 55
(7)	Computation of Per Share Earnings	Pages 32, 38, 39, 40, 55, 56

Schedules

All required schedule information is included in the Notes to Consolidated Financial Statements or is omitted because it is either not required or not applicable.

Exhibits

3 (a) Composite Certificate of Incorporation of The Gillette Company, as amended, filed as Exhibit 1.1 to The Gillette Company Registration Statement on Form 8-A on January 11, 2001, Commission File No. 1-922, incorporated by reference herein.

(b) The Bylaws of The Gillette Company, as amended March 14, 2002, filed as Exhibit 3(a) to The Gillette Company Quarterly Report on Form 10-Q for the period ended March 31, 2002, Commission File No. 1-922, incorporated by reference herein.

4 Instruments Defining the Rights of Security Holders, Including Indentures

(a) Specimen of form of certificate representing ownership of The Gillette Company Common Stock, $1.00 par value, effective January 21, 2003, filed herewith.

(b) Form of Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of The Gillette Company, filed as Exhibit A to Exhibit 1 to The Gillette Company Current Report on Form 8-K, dated December 30, 1985, Commission File No. 1-922, incorporated by reference herein.

(c) Amendment to Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of The Gillette Company, dated December 9, 1996, filed as Exhibit 4(c) to The Gillette Company Annual Report on Form 10-K for the year ended December 31, 1996, Commission File No. 1-922, incorporated by reference herein.

(d) Renewed Rights Agreement, dated as of December 14, 1995, between The Gillette Company and The First National Bank of Boston, filed as Exhibit 4 to The Gillette Company Current Report on Form 8-K, dated December 18, 1995, Commission File No. 1-922, incorporated by reference herein.

(e) Certificate of Amendment relating to an increase in the amount of authorized shares of preferred stock and common stock, filed as Exhibit 3(i) to The Gillette Company Quarterly Report on Form 10-Q for the period ended March 31, 1998, Commission File No. 1-922, incorporated by reference herein.

(f) Registration Statement filed on Form 8-A, dated January 11, 2001, revising the description of The Gillette Company's registered securities and corresponding rights, Commission File No. 1-922, incorporated by reference herein.

The Company has issued long-term debt and will furnish copies of the instruments defining the rights of holders of such debt to the Commission upon request.

10 Material Contracts

*(a) The Gillette Company 1971 Stock Option Plan, as amended, filed as Exhibit 10(a) to The Gillette Company Annual Report on Form 10-K for the year ended December 31, 2001, Commission File No. 1-922, incorporated by reference herein.

*(b) The Gillette Company Stock Equivalent Unit Plan, as amended, filed as Appendix B to the 2001 Proxy Statement, Commission File No. 1-922, incorporated by reference herein.

*(c) The Gillette Company Incentive Bonus Plan, as amended, filed as Appendix D to the 2001 Proxy Statement, Commission File No. 1-922, incorporated by reference herein.

*(d) The Gillette Company Executive Life Insurance Program, as amended, filed as Exhibit 10(d) to The Gillette Company Annual Report on Form 10-K for the year ended December 31, 2000, Commission File No. 1-922, incorporated by reference herein.

*(e) The Gillette Company Deferred Compensation Plan for Outside Directors, as amended, filed as Exhibit 10(e) to The Gillette Company Annual Report on Form 10-K for the year ended December 31, 2001, Commission File No. 1-922, incorporated by reference herein.

*(f) Employment Agreement, dated January 19, 2001, between The Gillette Company and James M. Kilts, as amended, filed as Exhibit 10(a) to The Gillette Company Quarterly Report on Form 10-Q for the period ended September 30, 2001, Commission File No. 1-922, incorporated by reference herein.

*(g) Amendment to Employment Agreement, dated January 19, 2001, between The Gillette Company and James M. Kilts, filed as Exhibit 10.1 to The Gillette Company Quarterly Report on Form 10-Q for the period ended September 30, 2002, Commission File No. 1-922 incorporated by reference herein.

*(h) Stock Option Agreement, dated January 19, 2001, between The Gillette Company and James M. Kilts, filed herewith. (Filed previously as Exhibit A to Employment Agreement, dated January 19, 2001, between The Gillette Company and James M. Kilts, as amended, filed as Exhibit 10(a) to The Gillette Company Quarterly Report on Form 10-Q for the period ended September 30, 2001, Commission File No. 1-922.)

*(i) Employment Agreement, dated March 19, 2002, between The Gillette Company and Edward F. DeGraan, filed as Exhibit 10(i) to The Gillette Company Annual Report on Form 10-K for the year ended December 31, 2001, Commission File No. 1-922, incorporated by reference herein.

*(j) Form of Agreement Relating to Change of Control between The Gillette Company and its Executive Officers, filed as Exhibit 10(j) to The Gillette Company Annual Report on Form 10-K for the year ended December 31, 2001, Commission File No. 1-922, incorporated by reference herein.

*(k) Form of Agreement Relating to Terms of Employment between The Gillette Company and its named Executive Officers other than Messrs. Kilts and DeGraan, filed as Exhibit 10(k) to The Gillette Company Annual Report on Form 10-K for the year ended December 31, 2001, Commission File No. 1-922, incorporated by reference herein.

(l) Letter Agreement, dated July 20, 1989, between The Gillette Company and Berkshire Hathaway Inc., filed as Exhibit 4(a) to The Gillette Company Current Report on Form 8-K, dated July 20, 1989, Commission File No. 1-922, incorporated by reference herein.

*(m) Description of The Gillette Company Personal Financial Planning Reimbursement Program, as amended, filed as Exhibit 10(q) to The Gillette Company Annual Report on Form 10-K for the year ended December 31, 2000, Commission File No. 1-922, incorporated by reference herein.

*(n) The Gillette Company Estate Preservation Plan, filed as exhibit 10(l) to The Gillette Company Annual Report on Form 10-K for the year ended December 31, 1997, Commission File No. 1-922, incorporated by reference herein.

*(o) The Gillette Company Supplemental Retirement Plan, as amended, filed as Exhibit 10(v) to The Gillette Company Annual Report on Form 10-K for the year ended December 31, 1999, Commission File No. 1-922, incorporated by reference herein.

*(p) The Gillette Company Supplemental Savings Plan, as amended, filed as Exhibit 10(p) to The Gillette Company Annual Report on Form 10-K for the year ended December 31, 2001, Commission File No. 1-922, incorporated by reference herein.

(q) $1,100,000,000 364-Day Credit Agreement, dated as of October 15, 2002, among The Gillette Company, JPMorgan Chase Bank, as agent, and a syndicate of domestic and foreign banks, filed as Exhibit 10.2 to The Gillette Company Quarterly Report on Form 10-Q for the period ended September 30, 2002, Commission File No. 1-922, incorporated by reference herein.

12 Statement regarding Computation of Ratio of Earnings to Fixed Charges, filed herewith.

13 Portions of the 2002 Annual Report to Stockholders of The Gillette Company incorporated by reference in this Form 10-K, filed herewith.

21 List of Subsidiaries of The Gillette Company, filed herewith.

23 Independent Auditors' Consent, filed herewith.

24 Power of Attorney, filed herewith.

99 Additional Exhibits

(a) Certification pursuant to 18 U.S.C. Section 1350 by the Chief Executive Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

(b) Certification pursuant to 18 U.S.C. Section 1350 by the Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

* Management contract or compensatory plan or arrangement.

B. REPORTS ON FORM 8-K IN THE FOURTH QUARTER

The Company filed a current report on Form 8-K on October 29, 2002, containing one exhibit: the press release issued by the Company on October 25, 2002.

SIGNATURES

Pursuant to the requirements of Section 13 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)

By: /s/ CHARLES W. CRAMB
Charles W. Cramb
Senior Vice President and Chief Financial Officer

Date: March 4, 2003

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
* JAMES M. KILTS James M. Kilts	Chairman of the Board of Directors, Chief Executive Officer and Director	March 4, 2003
* EDWARD F. DEGRAAN Edward F. DeGraan	President, Chief Operating Officer and Director	March 4, 2003
* CHARLES W. CRAMB Charles W. Cramb	Senior Vice President and Chief Financial Officer	March 4, 2003
* CLAUDIO E. RUBEN Claudio E. Ruben	Vice President, Controller and Principal Accounting Officer	March 4, 2003
* WARREN E. BUFFETT Warren E. Buffett	Director	March 4, 2003
* WILBUR H. GANTZ Wilbur H. Gantz	Director	March 4, 2003
* MICHAEL B. GIFFORD Michael B. Gifford	Director	March 4, 2003
* RAY J. GROVES Ray J. Groves	Director	March 4, 2003
* DENNIS F. HIGHTOWER Dennis F. Hightower	Director	March 4, 2003
* HERBERT H. JACOBI Herbert H. Jacobi	Director	March 4, 2003
* NANCY J. KARCH Nancy J. Karch	Director	March 4, 2003
* JORGE PAULO LEMANN Jorge Paulo Lemann	Director	March 4, 2003
* RICHARD R. PIVIROTTO Richard R. Pivirotto	Director	March 4, 2003
* MARJORIE M. YANG Marjorie M. Yang	Director	March 4, 2003

*By /s/ CHARLES W. CRAMB
Charles W. Cramb
for himself and
as Attorney-In-Fact

I, James M. Kilts, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Gillette Company;

2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;

3. Based on my knowledge, the financial statements and other financial information included in this Annual Report fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this Annual Report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Annual Report (the "Evaluation Date"); and

   (c) presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the Audit Committee of registrant's Board of Directors (or persons performing the equivalent functions):

   (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this Annual Report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 3, 2003

/s/ JAMES M. KILTS

James M. Kilts
Chairman of the Board, Chief Executive Officer

I, Charles W. Cramb, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Gillette Company;

2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;

3. Based on my knowledge, the financial statements and other financial information included in this Annual Report fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this Annual Report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Annual Report (the "Evaluation Date"); and

   (c) presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the Audit Committee of registrant's Board of Directors (or persons performing the equivalent functions):

   (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this Annual Report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 3, 2003

/s/ CHARLES W. CRAMB

Charles W. Cramb
Senior Vice President, Chief Financial Officer

EXHIBIT 21

THE GILLETTE COMPANY – Subsidiaries

Name	Organized Under Laws Of
Gillette Argentina S.A.	Argentina
Gillette Australia Pty. Ltd.	Australia
Gillette Holding GmbH	Germany
Its subsidiaries:	
Braun GmbH	Germany
Its subsidiary:	
Braun de Mexico y Cia. de C.V.	Mexico
Gillette Beteiligungs GmbH	Germany
Its subsidiaries:	
Gillette Berlin Holding GmbH and Gillette Verwaltungs GmbH	Germany
Partners in:	
Gillette Deutschland GmbH & Co.	Germany
Gillette Gruppe Deutschland GmbH & Co. oHG	Germany
Braun Espanola, S.A.	Spain
Gillette Canada Holdings, Inc., and Services CV Management Ltd.	Delaware and Bermuda
Partners in:	
Series International C.V.	Netherlands
Its subsidiary:	
Gillette Group (Europe) Holdings B.V.	Netherlands
Its subsidiaries:	
Gillette Group Switzerland AG	Switzerland
Gillette Group International Sarl	Switzerland
Its subsidiary:	
Gillette Trading Sarl	Switzerland
Silk-Epil S.A.S.	France
Gillette Canada Overseas Holding Company	Nova Scotia
Its subsidiary:	
Oral-B Laboratories International LLC	Delaware
Its subsidiary:	
Oral-B Laboratories Islands Ltd.	Cayman Islands
Braun Oral-B Ireland Limited	Ireland
Its subsidiary:	
Gilfin B.V.	Netherlands
Its subsidiary:	
Parkfin Ltd.	United Kingdom
Gillette Latin America Holding B.V.	Netherlands
Its subsidiary:	
Gillette do Brasil Ltda.	Brazil
Gillette Canada Holdings, Inc.	Delaware
Its subsidiary:	
Gillette Canada Company	Nova Scotia
Its subsidiary:	
Gillette Nova Scotia Company	Nova Scotia
Partners in:	
Oral-B Laboratories	Delaware
Productos Gillette Chile Limitada	Chile
Gillette de Colombia S.A.	Colombia
Gillette Eastern Europe, Inc. and Gillette Czech, Inc.	Delaware
Partners in:	
Gillette Czech s.r.o.	Czech Republic
Gillette Group Danmark A/S	Denmark

Name	Organized Under Laws Of
Gillette Hong Kong Limited	Hong Kong
Gillette Foreign Sales Corporation Limited	Jamaica
Gillette International B.V.	Netherlands
Its subsidiaries:	
Grupo Gillette Espana S.L.	Spain
Gillette (China) Limited	China
Its subsidiary:	
Braun (Shanghai) Co. Ltd.	China
Gillette Korea Limited	Korea
Groupe Gillette France S.A.	France
Compania Giva, S.A.	Delaware
Gillette Safety Razor Company	Massachusetts
Its subsidiary:	
Gillette Group Italy S.p.A.	Italy
Gillette Japan Inc.	Delaware
Gillette Management Inc.	Delaware
Gillette de Mexico, Inc.	Delaware
Its subsidiary:	
Gillette Fountain LLC	Delaware
Its subsidiary:	
Grupo Gillette, S.A. de C.V.	Mexico
Gillette del Peru, Inc. and Lima Manufacturing Company	Delaware
Partners in:	
Gillette del Peru, S.C.	Peru
Gillette (Philippines), Inc.	Philippines
Gillette Sanayi ve Ticaret A.S.	Turkey
Gillette Group South Africa (Pty.) Limited	South Africa
Gillette South Asia Inc. and Saratoga Investment, Inc.	Delaware
Their subsidiary:	
Gillette Group India Private Limited	India
Gillette Industries Limited	United Kingdom
Its subsidiaries:	
Gillette Group UK Limited	United Kingdom
Gillette U.K. Limited	United Kingdom
Duracell Batteries Limited	United Kingdom
NV Duracell Batteries S.A.	Belgium
Gillette Petersburg Investment Inc.	Delaware
Its subsidiaries:	
Gillette Group LLC	Russia
Petersburg Products International zao	Russia
Gillette Poland S.A.	Poland
Gillette Home Diagnostics, Inc.	Delaware
Its subsidiary:	
Thermoscan Inc.	Delaware
Gillette Oral Care, Inc.	Delaware

All of the voting securities of each subsidiary listed above are owned by its parent companies, partners or members. The percentage ownership in Gillette India Limited, Shenmei Daily Use Products Limited Company, Gillette (Shanghai) Limited, Gillette Pakistan Limited, Duracell (China) Limited and Gillette (Shanghai) Sales Company Limited is 75%, 75%, 72%, 76.8%, 90% and 90%, respectively.

There are a number of additional subsidiaries in the United States and foreign countries which, considered in the aggregate, do not constitute a significant subsidiary.

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

THE STOCKHOLDERS AND BOARD OF DIRECTORS OF THE GILLETTE COMPANY

We consent to incorporation by reference in the following registration statements of The Gillette Company and any amendments thereto (1) No. 333-101112 on Form S-3, (2) No. 333-86334 on Form S-4, (3) No. 333-86336 on Form S-3, (4) No. 333-59420 on Form S-8, (5) No. 333-63850 on Form S-8, (6) No. 333-55790 on Form S-8, (7) No. 333-75517 on Form S-3, (8) No. 33-9495 on Form S-8, (9) No. 2-93230 on Form S-8, (10) Nos. 33-56218 and 33-27916 on Form S-8 which incorporate by reference therein registration statements on Form S-8 Nos. 2-90276, 2-63951 and 1-50710 and No. 2-41016 on Form S-7, (11) No. 33-54974 on Form S-3, (12) No. 33-50303 on Form S-3, (13) No. 33-52465 on Form S-8, (14) No. 33-53257 on Form S-8, (15) No. 33-53258 on Form S-8, (16) No. 33-55051 on Form S-3, (17) No. 33-59125 on Form S-8, (18) No. 33-63707 on Form S-8, (19) No. 333-16735 on Form S-4, (20) No. 333-19133 on Form S-8, (21), No. 333-25533 on Form S-8 and (22) No. 333-44257 on Form S-3 of our report dated February 14, 2003, relating to the consolidated balance sheet of The Gillette Company and subsidiary companies as of December 31, 2002 and 2001, and the consolidated statements of income, cash flows and stockholders' equity for each of the years in the three-year period ended December 31, 2002, which report is incorporated by reference in the December 31, 2002, Annual Report on Form 10-K of The Gillette Company.

KPMG LLP

Boston, Massachusetts
March 3, 2003

EXHIBIT 24

POWER OF ATTORNEY

We, the undersigned, hereby constitute Charles W. Cramb and Richard K. Willard, or either of them, our true and lawful attorneys with full power to sign for us in our name and in the capacity indicated below, the Annual Report on Form 10-K pursuant to Section 13 of the Securities Exchange Act of 1934, filed for the Company with the Securities and Exchange Commission for the year ended December 31, 2002, and any and all amendments and supplements thereto, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or either of them, to said Report and to any and all amendments and supplements to said Report.

WITNESS Our Hand and Seal on the Date set forth below.

Signatures	Title	Date
/s/ JAMES M. KILTS James M. Kilts	Chairman of the Board of Directors, Chief Executive Officer and Director	February 24, 2003
/s/ EDWARD F. DEGRAAN Edward F. DeGraan	President, Chief Operating Officer and Director	February 24, 2003
/s/ CHARLES W. CRAMB Charles W. Cramb	Senior Vice President and Chief Financial Officer	February 24, 2003
/s/ CLAUDIO E. RUBEN Claudio E. Ruben	Vice President, Controller and Principal Accounting Officer	February 24, 2003
/s/ WARREN E. BUFFETT Warren E. Buffett	Director	February 24, 2003
/s/ WILBUR H. GANTZ Wilbur H. Gantz	Director	February 24, 2003
/s/ MICHAEL B. GIFFORD Michael B. Gifford	Director	February 24, 2003
/s/ RAY J. GROVES Ray J. Groves	Director	February 24, 2003
/s/ DENNIS F. HIGHTOWER Dennis F. Hightower	Director	February 24, 2003
/s/ HERBERT H. JACOBI Herbert H. Jacobi	Director	February 24, 2003
/s/ NANCY J. KARCH Nancy J. Karch	Director	February 24, 2003
/s/ JORGE PAULO LEMANN Jorge Paulo Lemann	Director	February 24, 2003
/s/ RICHARD R. PIVIROTTO Richard R. Pivirotto	Director	February 24, 2003
/s/ MARJORIE M. YANG Marjorie M. Yang	Director	February 24, 2003

RESULTS OF OPERATIONS

Net Sales

Net sales in 2002 were $8.45 billion, 5% above those of 2001. The 2002 sales growth is at the upper end of the 3–5% growth range that the Company expects to consistently deliver. Volume/mix accounted for nearly the entire sales gain, as the impacts of pricing and exchange had no material effect for the year. Sales increased due to new product introductions, the strength of established products and the comparison with the lower volumes that resulted from the Company's trade inventory reductions in 2001. Net sales in 2001 were $8.08 billion, 3% below those of 2000. Excluding the adverse effect of exchange, 3%, sales in 2001 were level with those of the prior year. The level sales were attributable to favorable pricing of 1%, offset by negative volume/mix of 1%, which included the significant unfavorable impact of trade inventory reductions.

An analysis of sales by business segment follows.

Years ended December 31,	2002	2001	2000	% increase/(decrease) 02/01	01/00
(millions)					
Blades & Razors	$3,435	$3,200	$3,177	7	1
Duracell	1,898	1,953	2,137	(3)	(9)
Oral Care	1,248	1,149	1,079	9	7
Braun	1,056	981	1,042	8	(6)
Personal Care	816	801	875	2	(8)
	$8,453	$8,084	$8,310	5	(3)

See Notes to Consolidated Financial Statements for segment data.

Sales of Blades and Razors in 2002 were 7% higher than those of the prior year. Without the negative effect of exchange, sales grew 8%. Sales growth was driven by the success of premium shaving systems, specifically the Mach3 and Venus, and favorable comparisons to 2001, when actual sales were below consumption due to the Company's program to reduce trade inventories. In addition, the Mach3Turbo shaving system made significant gains in North America. Growth was offset by increased spending on trade and consumer programs and the absence of a pre-price increase buy-in in North America that occurred in 2001, but not in 2002. In addition, sales of disposable razors continued to improve. In 2001, sales of Blades and Razors were 1% higher than in the prior year. Excluding the adverse effect of exchange, sales grew 4%. The sales increase was due to the continued strength of the Mach3 shaving system, as well as strong shipments of the Venus system in North America and Europe, offset by lower volumes related to the Company's program to reduce trade inventories of blades.

Sales of Duracell products in 2002 were 3% lower than in the prior year, and exchange had no material impact. Favorable unit shipments, despite category weakness in Latin America, were offset by increased trade and consumer spending and an adverse shift in product mix among brands, pack sizes and retail channels. In January 2003, the Company announced Duracell's price-deal realignment program for the U.S. in an effort to restore brand value to Duracell. Through the program, the Company will simplify the offering to the customer with fewer SKU's and price points, improve everyday competitive pricing on the shelf, engage in more efficient trade and consumer promotion and increase investment in category- and brand-building activities. In 2001, sales of Duracell products declined 9%. Excluding the adverse effect of exchange, sales declined 7% versus the prior year. The sales decline reflected the Company's program to reduce trade inventory levels and a change in mix, as the proportion of CopperTop battery sales increased versus those of the premium-priced Duracell Ultra brand.

Oral Care sales were 9% above those of 2001, as the success of new product introductions drove strong growth in both the manual and power segments. Without the effect of exchange, sales would have been 7% above those of 2001. In manual Oral Care, sales gains reflected the successful North American launch of the Oral-B Stages line of children's toothbrushes and strong growth in the developing markets of Asia and AMEE (Africa, Middle East and Eastern Europe) from entry-level Exceed, Vision and Classic toothbrushes. In power Oral Care, sales growth reflected incremental battery toothbrush sales in both North America and Europe. Higher promotional spending partially offset these gains. In 2001, sales of Oral Care products were 7% above those of 2000,

but would have been 9% higher without the impact of exchange. Strong gains in power Oral Care products more than offset lower sales of manual Oral Care products.

Sales of Braun products were 8% above those of 2001. Excluding the impact of exchange, Braun sales were 5% above those of the prior year. Growth was driven by the success of new electric shavers, partially offset by lower sales in Latin America and increased trade and consumer spending. In 2001, Braun sales were 6% lower than in the previous year, but would have been 2% lower, excluding the impact of exchange. The decrease reflects reduced product offerings within non-shaving categories.

Personal Care sales were 2% higher than those of 2001, and exchange had no material impact in 2002. The sales gain was driven by the success of new products, namely PowerStripe antiperspirants, the reformulated line of Gillette Series shave preparations and the re-staged Satin Care line, offset by increased trade and consumer spending. All regions showed sales growth except Latin America, which experienced economic downturn and increased competitive activity. In 2001, Personal Care sales decreased 8% from those of 2000, but would have been 4% below that year's level without the negative effect of exchange, 6%, and the divestiture of White Rain hair care products, 2%, in April 2000. Sales declined in shave preparations, as well as in antiperspirants/deodorants.

The Company's largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for 12% of sales in both 2002 and 2001. These sales occurred primarily in the United States and were across all product segments.

Gross Profit

Gross profit was $4.94 billion in 2002, $4.68 billion in 2001 and $4.84 billion in 2000. As a percent of net sales, gross profit was 58.5% in 2002, compared with 57.9% in 2001 and 58.3% in 2000. In 2002, the margin gain was driven by favorable blade/razor mix, savings from our Strategic Sourcing Initiative to reduce costs of materials and services, and benefits from restructuring. These savings were offset by $27 million of incremental expenses related to our Functional Excellence initiative, which is described below, higher year-over-year trade spending and unfavorable product mix shifts in both Duracell and Oral Care. In 2001, the margin decline versus 2000 was mainly due to the planned unfavorable mix in Duracell and Blades and Razors, as well as the reduced efficiencies resulting from the Company's program to lower trade inventories of blades.

Selling, General and Administrative Expenses

Selling, general and administrative expenses amounted to 37.5% of 2002 net sales, compared with 37.2% and 33.2% in 2001 and 2000, respectively. In absolute terms, these expenses increased 6% in 2002 and 9% in 2001. Advertising increased 12% in 2002, driven by higher investment behind both new and established products. The 7% rise in advertising spending in 2001 was in line with objectives to increase advertising investment levels. The table below shows the breakout of advertising and sales promotion within selling, general and administrative expenses for 2002, 2001 and 2000, and the percentage increase from the prior year for 2002 and 2001.

(millions)	2002	% of Net Sales	2001	% of Net Sales	2000	% of Net Sales
Advertising	$647		$576		$539	
Sales promotion	319		319		300	
	$966	11%	$895	11%	$839	10%
Percentage increase from prior year	8%		7%			

In 2002, other marketing and administrative expenses were 5% above those of the prior year, but were flat as a percentage of sales at 26%, due to incremental Functional Excellence expenses amounting to $94 million, which offset savings from the December 2000 restructuring, Zero Overhead Growth efforts and a $34 million reduction in amortization associated with the adoption of Statement of Financial Accounting Standards (SFAS) 142. Excluding the incremental Functional Excellence charges, other marketing and administrative expenses were comparable to those of the prior year. In 2001, other marketing and administrative expenses increased 10%, due to substantial investment behind merchandising activity.

Profit from Operations

Profit from operations was $1.81 billion in 2002, compared with $1.50 billion in 2001 and $1.51 billion in 2000.

Excluding the pretax $30 million gain on the sale of Vaniqa, a female facial hair growth retardant, and the restructuring recovery of $9 million in 2002, and restructuring and asset impairment charges of $172 million

in 2001 and $572 million in 2000, profit from operations was $1.77 billion in 2002 (20.9% of net sales), $1.67 billion in 2001 (20.7% of net sales) and $2.08 billion in 2000 (25.1% of net sales). The 6% increase in 2002 profit from operations was driven by cost reductions across the organization, an improvement in product mix in Blades and Razors, and a decrease in amortization of $34 million, due to the adoption of SFAS 142, partially offset by $121 million of incremental Functional Excellence expenses. The 20% decrease in 2001 was due to lower net sales, increased advertising spending and higher other marketing and administrative expenses.

An analysis of profit from operations by business segment follows. Functional Excellence charges for 2002 are included in the relevant segments. Restructuring, asset impairment charges and the gain on the sale of Vaniqa are included in Corporate/Other.

				% increase/(decrease)	
Years ended December 31,	2002	2001	2000	02/01	01/00
(millions)					
Blades & Razors	$1,299	$1,141	$1,272	14	(10)
Duracell	233	217	456	7	(52)
Oral Care	222	240	226	(7)	6
Braun	75	98	94	(23)	4
Personal Care	51	68	100	(25)	(32)
	1,880	1,764	2,148	7	(18)
Corporate/Other	(71)	(266)	(636)		
Profit from Operations	$1,809	$1,498	$1,512	21	(1)
Gain on sale of Vaniqa	(30)	—	—		
Restructuring and Asset Impairment	(9)	172	572		
Profit from Operations, excluding special items	$1,770	$1,670	$2,084	6	(20)

See Notes to Consolidated Financial Statements for segment data.

Blades and Razors profit from operations was 14% higher in 2002, due mainly to favorable blade versus razor mix and favorable comparisons due to the 2001 trade inventory reduction program, offset partially by incremental Functional Excellence costs in 2002. In 2001, Blades and Razors profit was 10% below that of the year before, due to unfavorable razor versus blade mix, increased advertising support and higher administrative costs.

Duracell profit from operations increased 7% from the prior year, due to the realization of cost savings that more than offset higher promotional spending, incremental Functional Excellence expenses, the planned shift in mix to lower margin product and pack sizes and the first-quarter 2002 costs of withdrawing selected hearing aid batteries from the market. In 2001, Duracell profit from operations was 52% lower than in 2000, the result of lower net sales, greater advertising spending and increased overhead costs.

Oral Care profit from operations was 7% below that of 2001, as sales gains from new products and cost savings were more than offset by increased marketing spending, incremental Functional Excellence charges and incremental expenses related to the write-down of excess real property. In 2001, Oral Care profit from operations was 6% above that of 2000, due primarily to increased sales and manufacturing efficiencies, offset by higher overhead expenses.

Braun profit from operations was 23% lower than in the prior year, due to increased advertising costs, unfavorable product mix and significant Functional Excellence expenses, which offset progress in reducing manufacturing costs. In 2001, Braun profit from operations was 4% higher than in 2000, reflecting favorable mix, manufacturing cost savings and lower marketing expenses.

Personal Care profit from operations in 2002 was 25% lower than that of the prior year, due to higher advertising and promotional support, as well as incremental Functional Excellence expenses. In 2001, Personal Care profit was 32% below that of the previous year, due to lower sales and increased administrative costs.

Nonoperating Charges/Income

Net interest expense amounted to $59 million in 2002, $141 million in 2001 and $218 million in 2000. Net interest expense fell in 2002 and 2001, due to reduced borrowings and significantly lower interest rates year-over-year. A net exchange gain of $16 million in 2002 was due to transactional gains. This compared with a net exchange loss of $3 million in 2001 that stemmed primarily from subsidiaries in highly inflationary countries, and a net exchange gain of $8 million in 2000. Translation adjustments resulting from currency fluctuations of net foreign investments in non-highly inflationary countries are accumulated in a separate section of stockholders'

equity, as noted on page 41. In 2002, the favorable translation adjustment was $41 million, compared with unfavorable translation adjustments of $93 million in 2001 and $249 million in 2000, reflecting significant exchange rate movements.

Income Taxes

The effective tax rate was 31.0% in 2002, compared with rates of 32.2% in 2001 and 36.3% in 2000. The 2002 effective tax rate of 31.0% was unchanged from that of 2001, when the effect of certain items included in the 2001 restructuring and asset impairment charge is excluded. The decrease in the effective tax rate in 2001 from 2000 was due primarily to the nondeductibility of certain asset impairment charges in 2000. Excluding the impact of certain restructuring and asset impairment charges in 2001 and 2000, the tax rate declined to 31.0% in 2001 from 32.8% in 2000.

Income from Continuing Operations

Income from continuing operations was $1.21 billion in 2002, compared with $910 million in 2001 and $821 million in 2000. Diluted net income per common share from continuing operations was $1.14 in 2002, compared with $.86 in 2001 and $.77 in 2000.

Excluding the gain from the sale of Vaniqa and the restructuring recovery in 2002, and restructuring and asset impairment charges in 2001 and 2000, income from continuing operations was $1.18 billion in 2002 ($1.12 per diluted share), compared with $1.05 billion in 2001 ($.99 per diluted share) and $1.25 billion in 2000 ($1.18 per diluted share).

Financial Condition

The Company's financial condition, most notably its cash-generating capabilities, continued to strengthen during 2002. Cash provided by operations is the Company's primary source of funds to finance operations, capital investments, stock repurchases and dividends. Free cash flow, defined as cash remaining from operations after capital investments, for 2002 was $1.72 billion, more than doubling over the last two years. A reconciliation of net cash provided by operating activities to free cash flow follows.

Years Ended December 31,	2002	2001	2000
(millions)			
Net cash provided by operating activities	$2,077	$2,092	$1,604
Less: additions to property, plant and equipment	(405)	(624)	(793)
Plus: disposals of property, plant and equipment	43	59	41
Free cash flow	$1,715	$1,527	$ 852

Net cash provided by operating activities was $2.08 billion in 2002, in line with 2001. Higher profits and continued working capital improvements were offset by significant contributions to pension plans. Net cash from operating activities of $2.09 billion in 2001 increased 31% from $1.60 billion in 2000. This increase was principally due to improved accounts receivable collections.

Net working capital as a percentage of net sales decreased dramatically over the last two years, dropping from 22% in 2000 to 16% in 2001, to 8% by the end of 2002, due entirely to improvements in accounts receivable, accounts payable and inventory. Net working capital is defined as current assets from continuing operations (less cash and cash equivalents) minus current liabilities (before loans payable and current portion of long-term debt).

Capital spending has also been dramatically reduced. In 2002, capital spending of $405 million, or 5% of net sales, was $219 million below 2001, a 35% reduction. Capital spending in 2001, at $624 million, or 8% of net sales, was $169 million below 2000 spending, a 21% reduction. The 2000 spending was $793 million, or 10% of sales. Capital spending is focused on new products and cost reduction projects.

Since 2001, the Company has sought to improve the efficiency of its working capital. The working capital improvements, reduced capital spending and higher profits greatly increased the Company's financial flexibility. The Company was able to reduce net debt (total debt net of associated swaps, less cash and cash equivalents) by $594 million during 2002, despite outlays of $427 million to repurchase 14 million shares of the Company's stock and $529 million in contributions to its pension plans. Over the last two years, net debt has dropped by $1.73 billion to $2.72 billion at December 31, 2002, from $3.32 billion at December 31, 2001, and $4.45 billion at December 31, 2000. As a component of net debt, cash and cash equivalents decreased by $146 million to $801 million in 2002, after increasing by $885 million in 2001 to $947 million. Cash equivalents are invested in highly liquid deposits and marketable securities of institutions with high credit quality.

The market value of outstanding Gillette equity was $32 billion at the end of 2002, compared with $35 billion and $38 billion at the end of 2001 and 2000, respectively. The Company's stockholders' equity position

was $2.26 billion at the end of 2002, compared with $2.14 billion at the end of 2001 and $1.92 billion at the end of 2000.

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 $1.47 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 December 31, 2002, there was $549 million outstanding under the Company's commercial paper program, a substantial drop from $1.98 billion at the end of 2001 and $2.04 billion at the end of 2000, due primarily to new long-term debt issuances and operating cash flows. On October 15, 2002, the Company entered into a new 364-day revolving bank credit facility in the amount of $1.1 billion, expiring on October 14, 2003. Liquidity is enhanced through a provision in this agreement that gives the Company the option to enter into a one-year term loan in the amount of up to $1.1 billion. The Company believes it has sufficient alternative sources of funding available to replace its commercial paper program, if necessary.

On March 6, 2002, the Company privately placed $350 million 4.0% notes, due June 2005. The proceeds from this debt issuance were used to reduce commercial paper borrowings. On August 21, 2002, the Company exchanged $327 million of these notes for notes registered under the Securities Act.

During 2002, two shelf registration statements were filed allowing the Company to issue up to $2.8 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 stock.

At December 31, 2002, $824 million was issued under these shelf registrations, consisting of $250 million 4.125% notes, due August 2007; $500 million 3.5% notes, due October 2007; and $74 million in fixed interest notes with various terms and maturities, issued under the Gillette CoreNotes program. The $500 million 3.5% notes, due October 2007, are redeemable at par, at the Company's option, on any interest payment date on or after October 15, 2004. The fixed interest notes issued under the Gillette CoreNotes program are redeemable at par, at the Company's option, on any interest payment date on or after one year from the date of issuance. All proceeds from these issuances were used to reduce commercial paper borrowings. At December 31, 2002, a total of $1.98 billion was available under these shelf registration statements.

With its strong brands, leading market positions, strong financial condition and substantially improved cash-generating capability, Gillette expects to continue to have capital available for growth through both internally generated funds 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 rates.

The Company has contractual obligations payable or maturing in the following years.

(millions)	2003	2004, 2005	2006, 2007	2008 and beyond	Total
Long-term debt, at face value, including current portion	$ 522	$1,113	$1,175	$ 76	$2,886
Loans payable	673	–	–	–	673
Operating leases & other	114	151	108	167	540
	$1,309	$1,264	$1,283	$243	$4,099

The Company has no material contingent commitments. The Company has no material "off balance sheet" arrangements or nonconsolidated Variable Interest Entities.

Market Risk

The Company is subject to market risks, such as changes in 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.

To manage the impact of currency changes on foreign-denominated profits, the Company primarily uses product sourcing and pricing strategies, supplemented by purchases of foreign currency options when considered appropriate.

The Company uses foreign-denominated debt and forward contracts to hedge the impact of currency changes on its net foreign investments, normally in currencies with low interest rates.

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.

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.

More detailed information about the strategies, policies and use of derivative financial instruments is provided in 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 December 31, 2002 and 2001, a near-term change in market rates would not materially affect the consolidated financial position, results of operations or cash flows of the Company.

Restructuring and Asset Impairments

2000 Restructuring Program and Impaired Assets On December 18, 2000, the Company announced a restructuring program and the impairment of certain intangible assets. This resulted in a 2000 charge to operations of $572 million ($430 million after taxes, or $.41 per common share, diluted) that included $360 million for the restructuring program and $212 million to write down impaired intangible assets. The worldwide restructuring of operations improved the Company's operating efficiency, streamlined the supply chain and further decreased costs. The program budgeted a net reduction of approximately 2,700 employees across all business functions, operating units and geographies.

The charge for the 2000 restructuring program was $360 million, which included a write-down of approximately $120 million to the carrying amount of factories, as well as the write-off of manufacturing, distribution and office equipment assets. Payments under the program continued throughout 2001 and 2002. Pretax cash outlays for the restructuring program were estimated at approximately $240 million. Cash severance payments will continue in 2003, due to the severance payment deferral options available to terminated employees. At December 31, 2002, remaining cash outlays were $13 million. Pretax savings from the program were $119 million for 2002. Due to lower than anticipated spending, a pretax recovery of $3 million was recorded to the 2000 restructuring program in 2002. The Company recorded an additional pretax gain of $3 million that was not charged to the restructuring program, reflecting better than anticipated results relating to property, plant and equipment disposals.

The 2000 charge for impaired intangible assets was $212 million to write down $157 million of acquired goodwill relating to the Thermoscan personal diagnostic appliance brand in the Braun segment and $55 million of acquired goodwill and identifiable intangible assets for certain national battery brands in the Duracell segment.

2001 Restructuring Program and Impaired Assets During the fourth quarter of 2001, the Company recorded a charge of $63 million associated with the withdrawal from several minor noncore businesses and the cessation of operations in one factory in the Duracell segment. The factory closure, based on a study that showed excess worldwide capacity, resulted in the reduction of 170 employees. Pretax savings from the program were $6 million for the year ended December 31, 2002.

In the fourth quarter of 2001, in connection with a decision to exit battery brands in certain international markets, the Company announced a noncash impairment charge relating to the write-down of goodwill, other intangibles and related long-lived assets. This resulted in a fourth-quarter 2001 pretax charge to operations of $164 million. The businesses covered represent regional battery products that do not carry the Duracell brand. The value of the impaired assets was determined based on discounted cash flow analyses for future operating periods.

In June 2002, the Company recorded a $30 million pretax gain on the sale of its rights in the Vaniqa business. Vaniqa, a prescription cream that slows the growth of unwanted facial hair in women, was distributed through a joint venture with Bristol-Myers Squibb. This gain included a recovery of $8 million to the 2001 restructuring program. Due to lower than anticipated spending, the Company recorded a pretax recovery of $2 million to the 2001 restructuring program in December 2002 and also recorded an additional pretax gain of $1 million that was not charged to the restructuring program, reflecting better than anticipated results relating to property, plant and equipment disposals.

Functional Excellence

In the second quarter of 2002, the Company began actions associated with its Functional Excellence initiative. This initiative is focused on upgrading capabilities, while reducing overhead costs by improving processes and eliminating duplication across functions. The total cost of this project is estimated at $350-$400 million. During 2002, the Company recorded expenses related to this initiative in the amount of $121 million. Additional costs will be recorded in 2003–2005 as programs are prepared and approved. Annualized savings from the Functional Excellence initiative are currently expected to be approximately $300–$350 million by 2006. These forward-looking cost and savings numbers contain management estimates that are subject to change over time.

CRITICAL ACCOUNTING POLICIES

Restructuring

The Company estimates its restructuring liability for the exit plans approved by senior management by accumulating detailed estimates of costs for such plans from each of the affected geographic locations. This includes the estimated costs of employee severance and related benefits, impairment of property and equipment, contract termination payments for leases, distributor arrangements and other contractual obligations, and any other qualifying exit costs related to the exit plan. These estimated costs are grouped by specific projects within the overall exit plan and are then monitored on a monthly basis by corporate finance personnel, as well as by finance personnel at each affected geographic location. Such disclosures represent management's best estimate, but require assumptions about the programs that may change over time. Changes in estimates for individual locations are evaluated periodically to determine if a change in estimate is required for the overall restructuring program. Changes in estimates occurred during 2002 for the 2001 and 2000 restructuring programs, as discussed above. The Company recorded pretax recoveries in 2002 of approximately $10 million and $3 million, reflecting better than anticipated results within the 2001 and 2000 restructuring programs, respectively. Additional pretax gains of $1 million and $3 million that were not charged to the restructuring program were recorded to the 2001 and 2000 restructuring programs, respectively, due to better than anticipated results related to property, plant and equipment disposals. Changes in estimates also occurred during 2001 for the 2000 restructuring program. The primary reason for the change in 2001 was a strategic redirection of the Company's Personal Care unit that resulted in a pretax reduction of $33 million in the 2000 reserve. In addition, the Company recorded a pretax recovery of approximately $22 million in 2001, reflecting better than anticipated results in other projects within the 2000 restructuring program.

Asset Impairment

Carrying values of goodwill and other intangible assets with indefinite lives are reviewed annually for possible impairment in accordance with SFAS 142, "Goodwill and Other Intangible Assets," which was adopted on January 1, 2002. The Company's impairment review is based on a discounted cash flow approach, at the segment reporting level, that requires significant management judgment with respect to revenue and expense growth rates, changes in working capital and the selection and use of an appropriate discount rate. Management uses the Company's approved Strategic Growth Plan for the first five years of the estimate. The use of different assumptions would increase or decrease estimated discounted future operating cash flows and could increase or decrease an impairment charge. Management uses its judgment in assessing whether assets may have become impaired between annual impairment tests. Indicators such as unexpected adverse business conditions, economic factors, unanticipated technological change or competitive activities, loss of key personnel and acts by government and courts, may signal that an asset has become impaired.

Carrying values for long-lived tangible assets and definite-lived intangible assets, excluding goodwill, are reviewed for possible impairment as circumstances warrant in connection with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which was adopted on January 1, 2002. Impairment reviews are conducted at the judgment of management when it believes that a change in circumstances in the business or external factors warrants a review. Circumstances such as the discontinuation of a product or product line, a sudden or consistent decline in the forecast for a product, changes in technology or in the way an asset is being used, a history of operating or cash flow losses, or an adverse change in legal factors or in the business climate, among others, may trigger an impairment review. The Company's initial impairment review to determine if an impairment test is required is based on an undiscounted cash flow analysis at the lowest level for which identifiable cash flows exist. The analysis requires management judgment with respect to changes in technology, the continued success of product lines and future volume, revenue and expense growth rates and discount rates.

There were no impairment charges recorded by the Company during 2002. Pretax impairment charges for goodwill and other long-lived assets of $164 million and $332 million were recorded in 2001 and 2000, respec-

tively. These charges related to discrete product lines for which estimated discounted future operating cash flows indicated that the carrying values of the assets were not recoverable.

Pensions and Retiree Medical Benefits

The costs and obligations of the Company's pension and retiree medical plans are calculated using many assumptions to estimate the benefit that the employee earns while working, the amount of which cannot be completely determined until the benefit payments cease. The most significant assumptions, as presented in the Pensions and Other Retiree Benefits note in the Notes to Consolidated Financial Statements, include discount rate, expected return on plan assets, future trends in health care costs and future pay increases. The selection of assumptions is based on historical trends and known economic and market conditions at the time of valuation. Actual results may differ substantially from these assumptions. These differences may significantly impact future pension or retiree medical expenses.

Annual pension and retiree medical expense is principally the sum of four components: 1) value of benefits earned by employees for working during the year; 2) increase in liability from interest; less 3) expected return on plan assets; and 4) other gains and losses as described below. The expected return on plan assets is calculated by applying an assumed long-term rate of return to the fair value of plan assets. In any given year, actual returns can differ significantly from the expected return. Differences between the actual and expected return on plan assets are combined with gains or losses resulting from the revaluation of plan liabilities. Plan liabilities are revalued annually, based on updated assumptions and information about the individuals covered by the plan. The combined gain or loss is generally expensed evenly over the remaining years that employees are expected to work.

Total accumulated losses were $1.1 billion at December 31, 2002, of which $681 million occurred during 2002. The difference between the expected return on plan assets, and the actual asset losses resulting from the substantial decline in equity markets, accounted for $382 million of the 2002 losses. The rest of the 2002 losses were due to higher plan liabilities, primarily the result of a 60-basis-point drop in discount rates. The losses accumulated during 2002 will increase pension and retiree medical expense by $53 million in 2003.

If the value of pension plan assets is less than the accumulated pension benefit obligation, accounting standards require a company's balance sheet to include a pension liability equal to the difference. The adjustment to record this additional liability is charged to other comprehensive loss in stockholders' equity. The Company recorded a charge of $130 million to other comprehensive loss in 2002 to reflect required minimum pension liabilities.

The Company voluntarily contributed $529 million to pension plans during 2002 to reduce the widening gap between pension assets and liabilities.

Employee Stock Options

As further explained in the Stock Compensation Plans and Capital Stock note in Notes to Consolidated Financial Statements, stock options are granted to key employees and nonemployee directors. Upon vesting, an option becomes exercisable, that is, the employee or director can purchase a share of Company common stock at a price that is equal to the share price on the day of grant.

SFAS 123, "Accounting for Stock-Based Compensation," permits companies either to continue accounting for stock options under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," or to adopt a fair-value-based method to measure compensation cost. Under APB No. 25, which the Company has elected to continue using, there is no compensation cost if, on the day of grant, the option's exercise price is equal to the share price.

Under SFAS 123, an option is valued on grant day, then expensed evenly over its vesting period. The Summary of Significant Accounting Policies note in Notes to Consolidated Financial Statements provides the pro forma effects of the fair-value-based method on compensation expense (net of tax), net income and net income per common share.

The Company uses the Black-Scholes option valuation model to estimate the option's fair value. The option valuation model requires a number of assumptions, including future stock price volatility and expected option life (the amount of time until the options are exercised or expire). Expected option life is based on actual exercise activity from previous option grants. Volatility is calculated based upon stock price movements over the most recent period equal to the expected option life. Additionally, the Company's share price on grant day influences the option value. The higher the share price, the more the option is worth. Changes in the option value after grant day are not reflected in expense.

Changes in these assumptions could significantly impact the values produced by the option valuation model and, consequently, the pro forma effects reported in the Summary of Significant Accounting Policies note.

If the Company had elected the SFAS 123 fair-value-based method, net income would have been reduced by $111 million, $109 million and $110 million for 2002, 2001 and 2000, respectively.

The Financial Accounting Standards Board (FASB) is currently deliberating whether it should undertake a comprehensive reconsideration of accounting for stock options in light of the recently proposed guidance issued by the International Accounting Standards Board. The Company generally agrees with the concept of recognizing compensation cost based on a fair-value approach, but does not intend to adopt such an approach unless there is agreement on standardized rules that are applicable to all companies.

Revenue Recognition

Revenue is recorded net of the cost of trade and consumer promotions, which are recognized as a reduction of revenue at the time of sale. The Company enters into promotional arrangements, primarily with its retail customers, many of which require periodic payments based on estimated total-year purchases of the Company's products. Therefore, the Company is required to estimate these future purchases on a routine basis in order to properly account for these payments. In addition, the Company routinely commits to one-time promotional programs with customers that require the Company to estimate the ultimate cost of each promotional program and accrue that cost until paid. The Company tracks its commitments for promotional programs and, using experience gained over many years, records an accrual at the end of each period for the earned, but unpaid, costs of promotional programs. Based on this experience, management believes that all promotional accruals fairly represent future requirements.

EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

See pages 39–41 in Notes to Consolidated Financial Statements for a complete description of the effect of recent accounting pronouncements.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Company is responsible for the objectivity, integrity and presentation of the accompanying consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States. The financial statements of necessity include the Company's estimates and judgments relating to matters not concluded by year-end. Financial information contained elsewhere in the 2002 Annual Report is consistent with that included in the financial statements.

The Company maintains a system of internal accounting controls that includes careful selection and development of employees, division of duties, and written accounting and operating policies and procedures augmented by a continuing internal audit program. Although there are inherent limitations to the effectiveness of any system of accounting controls, the Company believes that its system provides reasonable, but not absolute, assurance that its assets are safeguarded from unauthorized use or disposition and that its accounting records are sufficiently reliable to permit the preparation of financial statements that conform in all material respects with accounting principles generally accepted in the United States.

KPMG LLP, independent auditors, are engaged by the Audit Committee of the Board of Directors to render an independent opinion regarding the fair presentation in the financial statements of the Company's financial condition and operating results. Their report appears on page 31. Their audit was made in accordance with auditing standards generally accepted in the United States and included a review of the system of internal accounting controls to the extent they considered necessary to determine the audit procedures required to support their opinion.

The Audit Committee of the Board of Directors is composed solely of independent directors, as defined by the listing standards of the New York Stock Exchange that meet the criteria for independence set forth in the Sarbanes-Oxley Act of 2002. The Committee meets periodically and privately with the independent auditors, internal auditors and financial officers of the Company, as it deems necessary, to review the quality of the financial reporting of the Company, the internal accounting controls and the scope and results of audits. In addition, the Committee is responsible for the appointment, compensation, retention and oversight of the Company's independent auditors.

Independent Auditors' Report

The Gillette Company and Subsidiary Companies

The Stockholders and Board of Directors of
The Gillette Company

We have audited the accompanying consolidated balance sheet of The Gillette Company and subsidiary companies as of December 31, 2002 and 2001, and the related consolidated statements of income, cash flows and stockholders' equity for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Gillette Company and subsidiary companies as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

KPMG LLP
Boston, Massachusetts
February 14, 2003

Consolidated Statement of Income

The Gillette Company and Subsidiary Companies

Years Ended December 31, (millions, except per share amounts)	2002	2001	2000
Net Sales	$8,453	$8,084	$8,310
Cost of Sales	3,511	3,407	3,469
Gross Profit	4,942	4,677	4,841
Selling, General and Administrative Expenses	3,172	3,007	2,757
Restructuring, Asset Impairment and Other	(39)	172	572
Profit from Operations	1,809	1,498	1,512
Nonoperating Charges (Income)			
Interest income	(25)	(4)	(5)
Interest expense	84	145	223
Other charges (income) – net	(2)	15	6
	57	156	224
Income from Continuing Operations before Income Taxes	1,752	1,342	1,288
Income Taxes	543	432	467
Income from Continuing Operations	1,209	910	821
Loss on Disposal of Discontinued Operations, net of tax	–	–	(428)
Income (Loss) from Discontinued Operations, net of tax	7	–	(1)
Net Income	$1,216	$ 910	$ 392
Net Income (Loss) per Common Share, basic			
Continuing Operations	$ 1.15	$ .86	$ .78
Disposal of Discontinued Operations	–	–	(.41)
Discontinued Operations	–	–	–
Net Income	$ 1.15	$ .86	$ .37
Net Income (Loss) per Common Share, assuming full dilution			
Continuing Operations	$ 1.14	$ .86	$ .77
Disposal of Discontinued Operations	–	–	(.40)
Discontinued Operations	.01	–	–
Net Income	$ 1.15	$ .86	$ .37
Adjusted Net Income, assuming the adoption of SFAS 142 for 2001 and 2000	$1,216	$ 934	$ 423
Adjusted Net Income per Common Share, assuming the adoption of SFAS 142 for 2001 and 2000			
Basic	$ 1.15	$ .89	$ .40
Assuming full dilution	$ 1.15	$ .88	$ .40
Weighted average number of common shares outstanding			
Basic	1,055	1,055	1,054
Assuming full dilution	1,059	1,058	1,063

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

The Gillette Company and Subsidiary Companies

At December 31,	2002	2001
(millions, except per share amount)		
Assets		
Current Assets		
Cash and cash equivalents	$ 801	$ 947
Trade receivables, less allowances: 2002 – $73; 2001 – $69	1,202	1,473
Other receivables	311	313
Inventories	928	1,011
Deferred income taxes	380	481
Other current assets	175	230
Total Current Assets	3,797	4,455
Property, Plant and Equipment, net	3,565	3,548
Goodwill	962	935
Intangible Assets, net	400	418
Other Assets	1,139	613
	$9,863	$9,969
Liabilities and Stockholders' Equity		
Current Liabilities		
Loans payable	$ 673	$2,235
Current portion of long-term debt	527	428
Accounts payable and accrued liabilities	2,054	1,880
Income taxes	234	295
Total Current Liabilities	3,488	4,838
Long-Term Debt	2,457	1,654
Deferred Income Taxes	692	459
Other Long-Term Liabilities	920	805
Minority Interest	46	42
Contingent Redemption Value of Common Stock Put Options	–	34
Stockholders' Equity		
Common stock, par value $1 per share		
Authorized: 2,320 shares		
Issued 2002 – 1,370 shares; 2001 – 1,368 shares	1,370	1,368
Additional paid-in capital	1,197	1,094
Earnings reinvested in the business	6,608	6,077
Accumulated other comprehensive loss	(1,523)	(1,437)
Treasury stock, at cost:		
2002 – 326 shares; 2001 – 312 shares	(5,392)	(4,965)
Total Stockholders' Equity	2,260	2,137
	$9,863	$9,969

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

The Gillette Company and Subsidiary Companies

Years Ended December 31, (millions)	2002	2001	2000
Operating Activities			
Income from continuing operations	$1,209	$ 910	$ 821
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Restructuring and asset impairment charge (recovery)	(9)	172	572
Depreciation and amortization	500	509	535
Funding of Company pension plans	(529)	(35)	(31)
Pension expense	70	46	26
Deferred income taxes	162	45	(112)
Other	12	(18)	5
Changes in assets and liabilities, excluding effects of acquisitions and divestitures:			
Accounts receivable	364	622	(100)
Inventories	123	101	149
Accounts payable and accrued liabilities	188	(191)	(45)
Other working capital items	(137)	(20)	18
Other noncurrent assets and liabilities	124	(49)	(234)
Net cash provided by operating activities	2,077	2,092	1,604
Investing Activities			
Additions to property, plant and equipment	(405)	(624)	(793)
Disposals of property, plant and equipment	43	59	41
Sale of businesses	–	–	539
Other	–	1	(1)
Net cash used in investing activities	(362)	(564)	(214)
Financing Activities			
Purchase of treasury stock	(427)	(12)	(944)
Proceeds from sale of put options	15	9	23
Proceeds from exercise of stock option and purchase plans	57	53	36
Proceeds from long-term debt	1,174	525	494
Repayment of long-term debt	(458)	(684)	(365)
Increase (decrease) in loans payable	(1,565)	56	(385)
Dividends paid	(685)	(686)	(671)
Settlements of debt-related derivative contracts	45	4	279
Net cash used in financing activities	(1,844)	(735)	(1,533)
Effect of Exchange Rate Changes on Cash	5	(1)	(5)
Net Cash Provided (Used) by Discontinued Operations	(22)	93	130
Increase (Decrease) in Cash and Cash Equivalents	(146)	885	(18)
Cash and Cash Equivalents at Beginning of Year	947	62	80
Cash and Cash Equivalents at End of Year	$ 801	$ 947	$ 62
Supplemental disclosure of cash paid for:			
Interest	$ 83	$ 154	$ 243
Income taxes	$ 345	$ 232	$ 480

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Stockholders' Equity

The Gillette Company and Subsidiary Companies

(millions, except per share amounts)	Preferred Stock	Unearned ESOP Compensation	Common Stock	Additional Paid-in Capital	Earnings Reinvested	Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at December 31, 1999	$85	$(4)	$1,364	$ 748	$6,147	$(1,061)	$(4,219)	$3,060
Net income	–	–	–	–	392	–	–	392
Foreign currency translation	–	–	–	–	–	(249)	–	(249)
Pension adjustment	–	–	–	–	–	(4)	–	(4)
Other comprehensive loss	–	–	–	–	–	(253)	–	(253)
Comprehensive income								139
Dividends declared (per share $.65)	–	–	–	–	(686)	–	–	(686)
Stock option and purchase plans (1.8 shares)	–	–	1	34	–	–	–	35
Conversion of Series C ESOP preferred stock (11.3 shares)	(85)	–	–	(92)	–	–	177	–
Purchase of Gillette treasury stock (24.5 shares)	–	–	–	–	–	–	(911)	(911)
Proceeds from sale of put options	–	–	–	23	–	–	–	23
Contingent liability of put options	–	–	–	260	–	–	–	260
Earned ESOP compensation	–	4	–	–	–	–	–	4
Balance at December 31, 2000	–	–	1,365	973	5,853	(1,314)	(4,953)	1,924
Net income	–	–	–	–	910	–	–	910
Foreign currency translation	–	–	–	–	–	(93)	–	(93)
Pension adjustment	–	–	–	–	–	(22)	–	(22)
Cash flow hedges	–	–	–	–	–	(8)	–	(8)
Other comprehensive loss	–	–	–	–	–	(123)	–	(123)
Comprehensive income								787
Dividends declared (per share $.65)	–	–	–	–	(686)	–	–	(686)
Stock option and purchase plans (2.4 shares)	–	–	3	47	–	–	–	50
Purchase of Gillette treasury stock (0.4 shares)	–	–	–	–	–	–	(12)	(12)
Proceeds from sale of put options	–	–	–	9	–	–	–	9
Contingent liability of put options	–	–	–	65	–	–	–	65
Balance at December 31, 2001	–	–	1,368	1,094	6,077	(1,437)	(4,965)	2,137
Net income	–	–	–	–	1,216	–	–	1,216
Foreign currency translation	–	–	–	–	–	41	–	41
Pension adjustment	–	–	–	–	–	(130)	–	(130)
Cash flow hedges	–	–	–	–	–	3	–	3
Other comprehensive loss	–	–	–	–	–	(86)	–	(86)
Comprehensive income								1,130
Dividends declared (per share $.65)	–	–	–	–	(685)	–	–	(685)
Stock option and purchase plans (3.8 shares)	–	–	2	54	–	–	–	56
Purchase of Gillette treasury stock (14.1 shares)	–	–	–	–	–	–	(427)	(427)
Proceeds from sale of put options	–	–	–	15	–	–	–	15
Contingent liability of put options	–	–	–	34	–	–	–	34
Balance at December 31, 2002	$ –	$ –	$1,370	$1,197	$6,608	$(1,523)	$(5,392)	$2,260

See accompanying Notes to Consolidated Financial Statements.

NATURE OF OPERATIONS

The Gillette Company is a global consumer products firm, with manufacturing operations conducted at 32 facilities in 15 countries. Products are sold in over 200 countries and territories. Gillette is the world leader in male grooming, a category that includes blades, razors and shaving preparations, and also in female grooming products, such as wet shaving products and hair epilation devices. The Company is the world leader in alkaline batteries and manual and power toothbrushes.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. Intercompany accounts and transactions are eliminated.

Cash and Cash Equivalents

Cash and cash equivalents include cash, time deposits and marketable securities that are highly liquid and have maturities of three months or less at the date of purchase.

Revenue Recognition

Revenue from product sales is recognized when the goods are shipped and title passes to the customer, provided that: there are no uncertainties regarding customer acceptance; persuasive evidence of an arrangement exists; the sales price is fixed or determinable; and collectibility is deemed probable. Revenue is recorded net of the cost of trade promotions, coupons and other discounts, which are recognized as a reduction of revenue at the time of sale.

Shipping and Handling Costs

Shipping and handling costs of $175 million in 2002, $165 million in 2001 and $152 million in 2000 are included in selling, general and administrative expenses.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out (FIFO) basis.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed primarily on a straight-line basis over the estimated useful lives of assets: buildings and building equipment, five to 40 years; machinery and equipment, three to 20 years.

Intangible Assets

The Company accounts for intangible assets in accordance with Statement of Financial Accounting Standards (SFAS) 142, "Goodwill and Other Intangible Assets," which was adopted by the Company on January 1, 2002. In accordance with that statement, goodwill and intangible assets with indefinite lives are no longer amortized, but rather are tested for impairment, at least annually. Intangible assets with estimable useful lives, consisting primarily of patents, trademarks, software and other similar items, are amortized on a straight-line basis over the estimated useful lives of three to 40 years, and are reviewed for impairment in accordance with SFAS 144, "Accounting for the Impairment of Long-Lived Assets."

For the years 2001 and 2000, goodwill was amortized using the straight-line method, generally over a period of 40 years. Other intangible assets, consisting primarily of trademarks, trade names, patents and other similar items, were amortized on the straight-line method over a period of 10 to 40 years, predominantly 40 years.

Impairment of Goodwill and Long-Lived Assets

Goodwill and intangible assets with indefinite lives are tested annually for impairment in accordance with the provisions of SFAS 142. The Company's impairment review is based on a discounted cash flow approach, at the segment reporting level, that requires significant management judgment with respect to revenue and expense growth rates, changes in working capital and the selection and use of an appropriate discount rate. The Company uses its judgment in assessing whether assets may have become impaired between annual impairment tests. Indicators such as unexpected adverse business conditions, economic factors, unanticipated technological change or competitive activities, loss of key personnel and acts by governments and courts, may signal that an asset has become impaired.

Intangible assets with estimable lives and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable in accordance with SFAS 144. Recoverability of intangible assets with estimable lives and other long-lived assets is measured by a comparison of the carrying amount of an asset or asset group to future net undiscounted pretax cash flows expected to be generated by the asset or asset group. If these comparisons indicate that an asset is not recoverable, the impairment loss recognized is the amount by which the carrying amount of the asset or asset group exceeds the related estimated fair value. Estimated fair value is based on either discounted future pretax operating cash flows or appraised values, depending on the nature of the asset. The Company determines the discount rate for this analysis based on the expected internal rate of return for the related business and does not allocate interest charges to the asset or asset group being measured. Considerable judgment is required to estimate discounted future operating cash flows.

Advertising

Advertising costs are expensed in the year incurred. Advertising was $647 million in 2002, $576 million in 2001 and $539 million in 2000. For interim reporting purposes, advertising expenses are charged to operations as a percentage of sales, based on estimated sales and related advertising expense for the full year.

Research and Development

Research and development costs, included in selling, general and administrative expenses, amounted to $185 million in 2002, $187 million in 2001 and $179 million in 2000.

Financial Instruments

Cash and cash equivalents, trade receivables, long-term investments, accounts payable, loans payable and all derivative instruments are carried at fair value. The fair values of cash equivalents, trade receivables, accounts payable and loans payable approximate cost. The fair value of long-term investments is based on quoted market prices. The estimated fair values of derivative instruments are calculated based on market rates. These values represent the estimated amounts the Company would receive or pay to terminate agreements, taking into consideration current market rates and the current creditworthiness of the counterparties. The fair value of long-term debt, including the current portion, is estimated based on quoted market prices or rates currently offered to the Company for debt of the same remaining maturities.

Foreign Currency Translation

Financial statements of subsidiaries outside the U.S., other than those operating in highly inflationary environments, are measured using the local currency as the functional currency. Adjustments from translating these financial statements into U.S. dollars are accumulated in the equity section of the balance sheet under the caption, "Accumulated other comprehensive loss." For those non-U.S. subsidiaries that are included in the Company's U.S. tax return, these adjustments are net of U.S. tax.

For subsidiaries operating in highly inflationary economies, the U.S. dollar is the functional currency. Therefore, exchange gains and losses for these subsidiaries are included with all other transactional exchange gains and losses in the Consolidated Statement of Income under the caption, "Other charges (income) – net."

Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that

includes the enactment date. The Company reinvests unremitted earnings of certain foreign operations and, accordingly, does not provide for Federal income taxes that could result from the remittance of such earnings. These unremitted earnings amounted to $2.6 billion, $3.0 billion and $3.5 billion at December 31, 2002, 2001 and 2000, respectively.

Stock-Based Compensation

The Company has stock option plans, which are described more fully in the Stock Compensation Plans and Capital Stock note on page 51. The Company accounts for those plans under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Accordingly, no compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. 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 of SFAS No. 123, "Accounting for Stock-Based Compensation," to record expense for stock option compensation.

Years ended December 31, (millions, except per share amounts)	2002	2001	2000	1999	1998	1997
Net income, as reported	$1,216	$ 910	$ 392	$1,260	$1,081	$1,427
Less: Compensation expense for option awards determined by the fair-value-based method, net of related tax effects	(111)	(109)	(110)	(81)	(50)	(17)
Pro forma net income	$1,105	$ 801	$ 282	$1,179	$1,031	$1,410
Net income per common share						
Basic						
As reported	$ 1.15	$ .86	$ .37	$ 1.15	$ .96	$ 1.27
Pro forma	1.05	.76	.27	1.08	.92	1.24
Assuming full dilution						
As reported	$ 1.15	$ .86	$ .37	$ 1.14	$ .95	$ 1.24
Pro forma	1.05	.76	.27	1.06	.90	1.21

The pro forma amounts for the years 1997 through 2001 have been changed to reflect the recognition of compensation costs over a three-year vesting period for options granted after April 16, 1997. Amounts previously reported were calculated based on a one-year vesting period, even though the stock option plan was amended, effective April 16, 1997, to provide for vesting in one-third increments over a three-year period.

The weighted average fair value of options granted was $11.18 in 2002, $9.44 in 2001 and $10.58 in 2000. 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, with the following weighted average assumptions.

Years ended December 31,	2002	2001	2000
Risk-free interest rates	4.2%	5.4%	6.3%
Expected option lives	5.5 years	5.5 years	4.9 years
Expected volatilities	33.1%	33.3%	33.4%
Expected dividend yields	1.8%	2.2%	2.0%

Net Income per Common Share

Basic net income per common share is calculated by dividing net income less dividends on preferred stock, net of tax benefits, by the weighted average number of common shares outstanding. The calculation of diluted net income per common share assumes conversion of preferred stock and stock options into common stock, and also adjusts net income for the effect of converting the preferred stock to common stock. At December 31, 2002, 2001 and 2000, 56 million, 44 million and 33 million shares of common stock issuable under stock options, respectively, were not included in the calculation of fully diluted earnings per share because their effects would have been antidilutive. There were no preferred shares outstanding in 2002 or 2001.

Income from continuing operations and shares used to compute income from continuing operations per share, basic and assuming full dilution, are reconciled below.

Years ended December 31, (millions)	2002	2001	2000
Income from Continuing Operations	$1,209	$ 910	$ 821
Less: Preferred stock dividends	–	–	(1)
Income from Continuing Operations, basic	1,209	910	820
Effect of dilutive securities:			
Convertible preferred stock	–	–	2
Income from Continuing Operations, assuming full dilution	$1,209	$ 910	$ 822
Common shares, basic	1,055	1,055	1,054
Effect of dilutive securities:			
Convertible preferred stock	–	–	3
Stock options	4	3	6
Common shares, assuming full dilution	1,059	1,058	1,063

Reclassification of Prior Years

Prior-year financial statements have been reclassified to conform to the 2002 presentation.

EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

In April 2001, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 00-25, "Vendor Income Statement Characterization of Consideration to a Purchaser of the Vendor's Products or Services." In November 2001, the issues discussed in EITF 00-25 were codified with related issues into EITF No. 01-9, "Accounting for Consideration Given By a Vendor To a Customer (Including a Reseller of the Vendor's Products)." This issue addresses the income statement classification of slotting fees, cooperative advertising arrangements and buydowns. The consensus requires that certain customer promotional payments that were previously classified as marketing expenses be classified as a reduction of revenue. The Company adopted the consensus on January 1, 2002. The adoption of EITF 00-25 resulted in the following reclassifications in the 2001 income statement: net sales, gross profit and selling, general and administrative expenses were reduced by $877 million. The adoption of EITF 00-25 resulted in the following reclassifications in the 2000 income statement: net sales, gross profit and selling, general and administrative expenses were reduced by $915 million. The adoption of EITF 00-25 had no impact on profit from operations, net income or earnings per share.

In July 2001, SFAS No. 142, "Goodwill and Other Intangible Assets," was issued. The Company adopted the provisions of SFAS 142 on January 1, 2002. SFAS 142 requires that goodwill and other intangible assets with indefinite lives no longer be amortized, but instead be tested for impairment, at least annually, in accordance with the new impairment testing provisions of SFAS 142. Statement 142 also requires that intangible assets with estimable useful lives be amortized over their respective useful lives to their estimated residual values, and be reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The net impact of the adoption of SFAS 142 was a reduction of annual amortization expense of $34 million in 2002. No impairment losses were recognized due to the change in accounting principle.

The following tables present a reconciliation of net income, earnings per share and comprehensive income, as reported, to adjusted amounts that include the impact of the adoption of SFAS 142 for all periods presented.

Goodwill and Intangible Assets–Adoption of SFAS 142

Years Ended December 31,	2002	2001	2000
(millions, except per share amounts)			
Net Income			
Net income, as reported	$1,216	$910	$392
Add: Goodwill amortization, net of tax	–	24	31
Add: Trademark amortization, net of tax	–	8	8
Less: Amortization from change in useful lives, net of tax	–	(8)	(8)
Adjusted net income	$1,216	$934	$423
Net Income Per Common Share			
Basic, as reported	$ 1.15	$ .86	$ .37
Add: Goodwill amortization, net of tax	–	.03	.03
Add: Trademark amortization, net of tax	–	.01	.01
Less: Amortization from change in useful lives, net of tax	–	(.01)	(.01)
Basic, adjusted	$ 1.15	$ .89	$ .40
Assuming full dilution, as reported	$ 1.15	$ .86	$ .37
Add: Goodwill amortization, net of tax	–	.02	.03
Add: Trademark amortization, net of tax	–	.01	.01
Less: Amortization from change in useful lives, net of tax	–	(.01)	(.01)
Assuming full dilution, adjusted	$ 1.15	$ .88	$ .40
Comprehensive Income			
Comprehensive income, as reported	$1,130	$787	$139
Add: Goodwill amortization, net of tax	–	24	31
Add: Trademark amortization, net of tax	–	8	8
Less: Amortization from change in useful lives, net of tax	–	(8)	(8)
Adjusted comprehensive income	$1,130	$811	$170

In June 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations," was issued. SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The Company adopted the provisions of SFAS 143 on January 1, 2003. Its adoption will not have a material impact on the Company's financial statements.

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," was issued. It provides new guidance that modifies the existing guidance in SFAS 121 and in APB Opinion No. 30. The Company adopted SFAS 144 in the first quarter of 2002. Its adoption did not have any impact on the Company's financial statements.

In April 2002, SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections," was issued. SFAS 145 rescinds SFAS 4 and SFAS 64 related to classification of gains and losses on debt extinguishment such that most debt extinguishment gains and losses will no longer be classified as extraordinary. SFAS 145 also amends SFAS 13 with respect to sales-leaseback transactions. The Company adopted the provisions of SFAS 145, effective April 1, 2002, and the adoption had no impact on the Company's financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a

Restructuring)." The Company adopted the provisions of SFAS 146, effective January 1, 2003, as it relates to nonemployee-related exit and disposal costs, primarily contract termination costs and costs to consolidate or close facilities. Adoption of SFAS 146 is not expected to have a material impact on the Company's financial statements. The Company expects to continue to account for employee-related post-employment benefit costs, including severance payments, under the provisions of SFAS No. 112, "Employer's Accounting for Post-Employment Benefits."

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair-value-based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and complies with the disclosure provisions of SFAS 123 and SFAS 148.

In November 2002, FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others," was issued. This interpretation requires the initial recognition and initial measurement, on a prospective basis only, to guarantees issued or modified after December 31, 2002. Additionally, certain disclosure requirements are effective for financial statements ending after December 15, 2002. There were no disclosures required of the Company in the 2002 consolidated financial statements, and the Company does not believe that the adoption of this interpretation in 2003 will have any impact on its financial statements.

In January 2003, FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," ("VIE's") was issued. This interpretation clarifies situations in which entities shall be subject to consolidation. This interpretation is effective for all VIE's created after January 31, 2003. The Company does not believe that the adoption of this interpretation will have any impact on its financial statements.

ACCUMULATED OTHER COMPREHENSIVE LOSS

An analysis of accumulated other comprehensive loss follows.

(millions)	Foreign Currency Translation	Pension Adjustment	Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance at December 31, 1999	$(1,031)	$ (30)	$ –	$(1,061)
Change in period	(216)	(4)	–	(220)
Income tax expense	(33)	–	–	(33)
Balance at December 31, 2000	$(1,280)	$ (34)	$ –	$(1,314)
Change in period	(48)	(53)	(13)	(114)
Income tax benefit (expense)	(45)	31	5	(9)
Balance at December 31, 2001	$(1,373)	$ (56)	$ (8)	$(1,437)
Change in period	196	(183)	5	18
Income tax benefit (expense)	(155)	53	(2)	(104)
Balance at December 31, 2002	$(1,332)	$(186)	$ (5)	$(1,523)

Net exchange gains or losses resulting from the translation of assets and liabilities of foreign subsidiaries, except those in highly inflationary economies, are accumulated in a separate section of stockholders' equity. Also included are the effects of exchange rate changes on intercompany balances of a long-term investment nature and transactions designated as hedges of net foreign investments. The changes in accumulated foreign currency translation in 2002 were gains of $41 million, primarily due to strengthening European currencies offset by weakening Latin American currencies. Losses in 2001 were $93 million, primarily from currency devaluation in Argentina and Brazil. Losses in 2000 were $249 million, with the United Kingdom accounting for $115 million.

Included in Other charges (income)-net in the Consolidated Statement of Income are a net exchange gain of $16 million in 2002, a net exchange loss of $3 million in 2001 and a net exchange gain of $8 million in 2000 for the foreign currency effects of transactions in those years.

SUPPLEMENTAL BALANCE SHEET INFORMATION

Allowance for Doubtful Accounts

Years ended December 31, (millions)	2002	2001	2000
Balance at beginning of year	$69	$ 81	$ 74
Additions, charged to profit and loss	37	30	63
Deductions, losses charged to allowance	(33)	(42)	(56)
Balance at end of year	$73	$ 69	$ 81

Inventories

At December 31, (millions)	2002	2001
Raw materials and supplies	$115	$ 130
Work in process	191	183
Finished goods	622	698
	$928	$1,011

Property, Plant and Equipment

At December 31, (millions)	2002	2001
Land	$ 81	$ 77
Buildings	844	788
Machinery and equipment	5,504	5,140
	6,429	6,005
Less accumulated depreciation	2,864	2,457
	$3,565	$3,548

Interest on funds used to finance construction of significant additions to tangible property and equipment is capitalized and recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. During 2002, 2001 and 2000, interest cost was capitalized in the amounts of $4 million, $11 million and $23 million, respectively.

Goodwill and Intangible Assets

Total goodwill by segment follows.

At December 31, (millions)	2002	2001
Blades & Razors	$140	$140
Duracell	571	550
Oral Care	173	172
Braun	78	73
Personal Care	–	–
Total	$962	$935

The change between the balances at December 31, 2002, and December 31, 2001, is due to the impact of foreign currency translation.

The detail of intangible assets follows.

At December 31,	Weighted Average Amortization Period (Years)	2002		2001	
		Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
(millions)					
Amortized Intangible Assets					
Patents	6	$101	$ 53	$103	$ 38
Trademarks	6	13	4	11	1
Software	5	12	9	16	7
Endorsements	–	61	61	61	61
Other	23	11	3	12	3
Total	7	$198	$130	$203	$110
Unamortized Intangible Assets					
Trademarks		$317		$313	
Pension		15		12	
Total		$530	$130	$528	$110
Intangible Assets, net		$400		$418	

Aggregate Amortization Expense:	
For the Years ended December 31:	
2002	$20
2001	$56
2000	$68
Estimated Amortization Expense:	
For the Years ended December 31:	
2003	$20
2004	$18
2005	$ 6
2006	$ 5
2007	$ 3

Accounts Payable and Accrued Liabilities

At December 31,	2002	2001
(millions)		
Accounts payable	$ 581	$ 401
Advertising and sales promotion	472	438
Payroll and payroll taxes	211	183
Dividends payable on common stock	170	172
Restructuring reserve	16	112
Miscellaneous	604	574
	$2,054	$1,880

Other Long-Term Liabilities

At December 31, (millions)	2002	2001
Pensions	$ 382	$ 259
Postretirement medical	286	283
Deferred compensation	159	182
Miscellaneous	93	81
	$ 920	$ 805

DEBT

Loans Payable

At December 31, (millions)	2002	2001
U.S. dollar Commercial Paper (1.5% and 2.1%)	$ 549	$1,975
Payable to banks (2.6% and 2.2%)	124	260
	$ 673	$2,235

Long-Term Debt

At December 31, (millions)	2002	2001
5.25% Euro notes due 2002	$ –	$ 230
1.53% Euro obligation due 2002	–	199
2.23% Euro obligation due 2003	297	252
6.25% Notes due 2003	154	158
Floating rate notes due 2003	75	75
3.25% Euro notes due 2004	312	264
3.75% Notes due 2004	259	252
5.75% Notes due 2005	219	213
4.00% Notes due 2005	373	–
5.25% Notes due 2006	142	130
5.00% Notes due 2006	325	308
4.125% Notes due 2007	254	–
3.50% Notes due 2007	499	–
Gillette CoreNotes due 2012	74	–
Other, multicurrency borrowings	1	1
Current portion of long-term debt	(527)	(428)
	$2,457	$1,654

The Company's commercial paper program is supported by its revolving credit facility and other sources of liquidity. The Company has a $1.1 billion revolving bank credit agreement, which expires in October 2003, that supports up to $1.47 billion in commercial paper issuances. Under the agreement, the Company has the option to borrow at various interest rates, including the prime rate, and is required to pay a facility fee of .04% per annum. At December 31, 2002 and 2001, there were no borrowings under such agreements. Other unused lines of credit amounted to $167 million at December 31, 2002.

The 3.5% Notes due 2007 are redeemable at par, at the Company's option, on any interest payment date on or after October 15, 2004. Under the Gillette $500 million CoreNotes program, the Company may periodically issue fixed rate notes in $1,000 increments. At December 31, 2002, the coupon rates of the outstanding notes varied between 4.55% and 5%, and the interest payments are made quarterly. The notes mature on various dates in 2012 and are redeemable at par, at the Company's option, on any interest payment date on or after one year from the date of issuance.

During 2002, two shelf registration statements were filed allowing the Company to issue up to $2.8 billion in debt securities in the U.S. At December 31, 2002, $824 million was issued under the shelf registrations, representing the 4.125% and 3.50% notes due 2007 and the Gillette CoreNotes due 2012, less market value adjustments. At December 31, 2002, a total of $1.98 billion was available under these shelf registrations.

Long-term weighted average interest rates were 1.9% and 2.6% as of December 31, 2002 and 2001, respectively, after giving effect to interest rate hedging instruments. Aggregate maturities of total long-term debt, excluding $95 million in market value adjustments, for the five years after December 31, 2002, are $522 million in 2003, $563 million in 2004, $550 million in 2005, $425 million in 2006 and $750 million in 2007.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

The estimated fair values of the Company's financial instruments are summarized below.

At December 31, (millions)	2002 Carrying Amount/ Fair Value	2001 Carrying Amount/ Fair Value
Long-term investments	$ 161	$ 176
Long-term debt, including current portion	(2,984)	(2,082)
Derivative instruments		
Currency forwards hedging net investments	(4)	9
Interest rate swaps	108	49
Forward rate agreements	(2)	(5)
Commodity swaps	(2)	(3)
Other currency forwards and swaps		
Assets	70	12
Liabilities	(17)	(8)
Equity contracts	3	5

Effective January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which requires that all derivative instruments be reported on the balance sheet at fair value. The cumulative effect of adopting SFAS 133 as of January 1, 2001, was not material to the Company's consolidated financial statements.

The Company is subject to market risks, such as changes in 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 has established clear policies, procedures and internal controls governing the use of derivatives and does not use them for trading, investment or other speculative purposes.

The Company uses derivative contracts to efficiently structure its debt in the desired currencies and mix of fixed to floating interest rates. Forward contracts effectively convert U.S. dollar commercial paper borrowings into non-U.S. dollar obligations, primarily in currencies with low interest rates. At December 31, 2002, the Company had forward contracts designated as hedges of the currency changes on the Company's foreign net investments with fair values of $4 million recorded in liabilities. Currency effects of the net investment hedges are reflected as a component of foreign currency translation in accumulated other comprehensive loss and produced a $5 million aftertax loss and a $53 million aftertax gain for the years ended December 31, 2002 and 2001, respectively. Interest effects of these hedges are reported in interest expense.

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 to floating rate debt by entering into interest rate swaps and forward rate agreements. At December 31, 2002 and 2001, the Company had interest rate swaps designated as fair value hedges with fair values of $108 million and $49 million, respectively, recorded in assets. These swaps effectively convert certain fixed rate debt into variable rate debt. The terms of the swaps match the terms of the underlying debt. The fair values of both the swaps and the debt are recorded as equal and offsetting gains and losses in interest expense. There is no current impact on earnings due to hedge ineffectiveness, since these hedges were generally 100% effective for the years ended December 31, 2002 and 2001.

At December 31, 2002 and 2001, the Company had forward rate agreements designated as cash flow hedges with fair values of $2 million and $5 million, respectively, recorded in liabilities, effectively fixing certain variable interest payments. Aftertax net losses of $4 million ($7 million pretax) and $9 million ($14 million pretax) were recorded in other comprehensive loss during the years ended December 31, 2002 and 2001, respectively. Remaining pretax amounts of $3 million in other comprehensive loss will be reclassified into interest expense over the first seven months of 2003 during which the hedged interest payments are expensed. Ineffective amounts had no impact on earnings for the years ended December 31, 2002 and 2001.

The Company also enters into commodity swaps to fix the price of certain forecasted purchases of raw material used in the manufacturing process. At December 31, 2002 and 2001, the Company had swaps designated as cash flow hedges with fair values of $2 million and $3 million, respectively, recorded as liabilities. Changes in fair values are included in other comprehensive loss to the extent effective and are charged to cost of sales in the period during which the hedged transaction affects earnings. Total aftertax losses recorded in other comprehensive loss were $2 million ($3 million pretax) in the year ended December 31, 2002. During the year ended December 31, 2001, total aftertax losses recorded in other comprehensive loss were $6 million ($9 million pretax), including the cumulative effect of change in accounting principle upon adoption of SFAS 133. Remaining pretax amounts of $3 million in other comprehensive loss will be charged to earnings in 2003. Ineffective amounts had no material impact on earnings for the years ended December 31, 2002 and 2001.

Most of the Company's transactional exchange exposure is managed through centralized cash management. The Company hedges net residual transactional exchange exposures, principally foreign denominated debt and intercompany balances, through forward contracts and currency swaps that were recorded at their net fair value of $53 million and $4 million at December 31, 2002 and 2001, respectively. Changes in fair value are recorded in nonoperating charges and offset gains and losses resulting from the underlying exposures.

The Company also uses derivatives to hedge equity-linked employee compensation. The Company fixes the cost of certain employee compensation expenses linked to its stock price by entering into equity swap and option contracts. These contracts were recorded in assets at their fair value of $3 million and $5 million at December 31, 2002 and 2001, respectively. Changes in fair value are recorded in profit from operations and offset the changes in the value of the underlying liabilities.

The equity put options associated with the share repurchase program are described separately in the Share Repurchase Program note.

Several major international financial institutions are counterparties to the Company's financial instruments. It is Company practice to monitor the financial standing of the counterparties and to limit the amount of exposure with any one institution. The Company may be exposed to credit loss in the event of nonperformance by the counterparties to these contracts, but does not anticipate such nonperformance.

With respect to trade receivables, concentration of credit risk is limited, due to the diverse geographic areas covered by Gillette operations. Using the best information available, the Company has provided an allowance for doubtful accounts based on estimated bad debt loss.

COMMITMENTS AND CONTINGENCIES

Minimum rental commitments under noncancellable operating leases, primarily for office and warehouse facilities, are $88 million in 2003, $75 million in 2004, $63 million in 2005, $55 million in 2006, $49 million in 2007 and $167 million for years thereafter. Rental expense amounted to $130 million in 2002, $121 million in 2001 and $113 million in 2000.

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

DISCONTINUED OPERATIONS

On December 29, 2000, the sale of the Stationery Products business to Newell Rubbermaid Inc. was finalized. The sale resulted in a loss of $429 million (net of a tax benefit of $102 million), or $.40 per common share, fully diluted. The net loss included the book loss on the transaction, the operating loss of the segment in 2000 and other costs directly associated with the decision to divest, including postdivestiture reorganization costs.

The Stationery Products segment was accounted for as a discontinued operation. Accordingly, its operating results are segregated and reported as discontinued operations in the accompanying consolidated statements

of income and cash flows, and related notes. For the period ended December 31, 2000, the results were as follows: net sales, $691 million; loss before income taxes, $8 million; income taxes, $3 million; and loss from discontinued operations, $5 million. The net loss from discontinued operations in 2000 subsequent to the measurement date was $1 million.

The cash flow of the business is reported as Net Cash Provided (Used) by Discontinued Operations and the results of operations of the segment are reported as Income (Loss) from Discontinued Operations, net of tax.

As of December 31, 2002, the Company had significantly completed all postdivestiture reorganization activities. Due to lower than anticipated spending, a pretax recovery of $10 million ($7 million aftertax) was recorded in discontinued operations in December 2002.

RESTRUCTURING AND ASSET IMPAIRMENTS

2000 Restructuring Program and Impaired Assets. On December 18, 2000, the Company announced a restructuring program and impaired certain intangible assets. The Company recorded, in the fourth quarter of 2000, a charge to operating expenses of $572 million ($430 million after taxes, or $.41 per common share, diluted).

The charge for the restructuring program was $360 million, and activity under the program is virtually complete. The charge for impaired intangible assets was $212 million to write down $157 million of acquired goodwill relating to the Thermoscan personal diagnostic appliance brand in the Braun segment and $55 million of acquired goodwill and identifiable intangible assets for certain national battery brands in the Duracell segment.

The other benefits portion of employee-related expenses, shown below, includes fringe benefits, outplacement fees and special termination benefits related to pensions. At the end of December 2002, the Company had completed the majority of its 2000 restructuring program. Due to lower than anticipated spending, a pretax recovery of $3 million was recorded to the 2000 restructuring program in 2002. The Company recorded an additional pretax gain of $3 million that was not charged to the restructuring program, reflecting better than anticipated results relating to property, plant and equipment disposals. The majority of the remaining balance is due to the timing of severance and other benefit payments. Details of the activity in the 2000 restructuring program follow.

2000 Restructuring Program

(millions)	Initial Provision	2001 Activity	2002 Activity	2002 Recovery/ Reclassification	Activity from Plan Inception	Balance Dec. 31, 2002
Employee-related expenses						
Severance payments	$146	$ (90)	$(44)	$(3)	$(137)	$ 9
Other benefits	67	(47)	(15)	(1)	(63)	4
Asset impairments						
Property, plant and equipment	120	(120)	–	–	(120)	–
Contractual obligations and other	27	(24)	(4)	1	(27)	–
	$360	$(281)	$(63)	$(3)	$(347)	$13

2001 Restructuring Program and Impaired Assets. During the fourth quarter of 2001, the Company recorded a charge of $63 million associated with the withdrawal from several noncore businesses and the closing of one factory in the Duracell segment. The factory closure, based on a study that revealed excess worldwide capacity, resulted in the reduction of 170 employees. The factory closure and the majority of employee reductions have been completed.

In June 2002, the Company recorded a $30 million pretax gain on the sale of its rights in the Vaniqa business. Vaniqa, a prescription cream that slows the growth of unwanted facial hair in women, was distributed through a joint venture with Bristol-Myers Squibb. This gain included a recovery of $8 million to the 2001 restructuring program. Proceeds from the sale were received in June 2002. At December 31, 2002, the Company had completed the majority of the activity in the 2001 restructuring program. Due to lower than anticipated spending, the Company recorded a pretax recovery of $2 million to the 2001 restructuring program in 2002 and recorded an additional pretax gain of $1 million that was not charged to the restructuring program, reflecting better than anticipated results relating to property, plant and equipment disposals. Details of the activity in the 2001 restructuring program follow.

2001 Restructuring Program

(millions)	Initial Provision	2001 Activity	2002 Activity*	Activity from Plan Inception	Balance Dec. 31, 2002
Employee-related expenses					
Severance payments	$ 3	$ –	$ (2)	$ (2)	$1
Property, plant and equipment	23	(23)	–	(23)	–
Contractual obligations and other	37	(7)	(28)	(35)	2
	$63	$(30)	$(30)	$(60)	$3

* Includes recovery of $8 million in June 2002, which was recorded as part of the gain on the sale of Vaniqa, and $2 million in December 2002.

In the fourth quarter of 2001, in connection with a decision to exit certain regional battery brands in international markets that do not carry the Duracell brand, the Company announced a noncash impairment charge relating to the write-down of goodwill, other intangibles and related long-lived assets to fair value. This resulted in a fourth-quarter 2001 pretax charge to operations of $164 million. The fair value of the impaired assets was determined based on discounted cash flow analyses for future operating periods.

A summary of restructuring and asset impairment charges follows.

Years ended December 31, (millions)	2002	2001	2000
Restructuring provisions	$ –	$ 63	$360
Asset impairments	–	164	212
Changes to 2000 and 2001 restructuring programs, including gain on the sale of Vaniqa	(39)	(55)	–
	$(39)	$172	$572

INCOME TAXES

Income from continuing operations before income taxes and income tax expense are summarized below.

Years ended December 31, (millions)	2002	2001	2000
Income from continuing operations before income taxes			
United States	$ 952	$ 533	$ 664
Foreign	800	809	624
Total income from continuing operations before income taxes	$1,752	$1,342	$1,288
Current tax expense			
Federal	$ 114	$ 107	$ 365
Foreign	185	219	233
State	14	15	25
Deferred tax expense			
Federal	166	44	(87)
Foreign	58	43	(68)
State	6	4	(1)
Total income tax expense from continuing operations	$ 543	$ 432	$ 467

A reconciliation of the statutory Federal income tax rate to the Company's effective tax rate follows.

Years ended December 31, (percent)	2002	2001	2000
Statutory Federal tax rate	35.0%	35.0%	35.0%
Goodwill amortization and asset impairments	–	1.5	5.0
Taxes on foreign income	(3.6)	(5.9)	(7.1)
Effect of foreign currency translation	–	(0.2)	(0.2)
State taxes (net of Federal tax benefits)	0.7	0.9	1.2
Other differences	(1.1)	0.9	2.4
Effective tax rate	31.0%	32.2%	36.3%

The components of deferred tax assets and deferred tax liabilities are shown below.

	2002		2001	
At December 31, (millions)	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Current				
Advertising and sales promotion	$ 35	$ –	$ 37	$ –
Benefit plans	46	–	48	–
Discontinued operations	2	–	41	–
Inventory	85	–	127	–
Restructuring and asset impairments	15	–	97	–
Miscellaneous reserves and accruals	112	–	103	–
Operating loss and credit carryforwards	–	–	2	–
Other	85	–	26	–
Total current	380	$ –	481	$ –
Net current	$380		$481	
Noncurrent				
Benefit plans	$ 77	$ –	$136	$ –
Currency translation effect of pass-through entities	–	101	–	–
Intangibles	–	128	–	151
Operating loss and credit carryforwards	15	–	19	–
Property, plant and equipment	–	522	–	397
Other	–	27	–	58
Total noncurrent	92	778	155	606
Valuation allowance	$ (6)		$ (8)	
Net noncurrent		$692		$459
Total				
Net deferred tax assets/liabilities		$312	$ 22	

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based upon the level of historical taxable income and projections for future taxable income over the periods for which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2002. The valuation allowance at December 31, 2002, was related to deferred tax assets in certain foreign jurisdictions for which management believes it is more likely than not that it will not generate sufficient future taxable income in order to realize the deferred tax assets.

At December 31, 2002, the Company had net operating loss carryforwards for foreign income tax purposes of $22 million, which are available to offset future taxable income, if any, through 2007.

PENSIONS AND OTHER RETIREE BENEFITS

The Company has various retirement programs, including defined benefit, defined contribution and other plans, that cover most employees worldwide. Other retiree benefits are health care and life insurance benefits provided to eligible retired employees, principally in the United States. The components of defined benefit expense for continuing operations follow.

Years ended December 31, (millions)	Pensions Benefits 2002	Pensions Benefits 2001	Pensions Benefits 2000	Other Retiree Benefits 2002	Other Retiree Benefits 2001	Other Retiree Benefits 2000
Components of net benefit expense:						
Service cost–benefits earned	$ 59	$ 61	$ 64	$ 5	$ 6	$ 6
Interest cost on benefit obligation	132	130	122	27	18	19
Estimated return on assets	(153)	(166)	(171)	(4)	(4)	(4)
Net amortization	23	9	5	2	(5)	(7)
Plan curtailments and other	–	–	(3)	–	–	–
	61	34	17	30	15	14
Other	9	12	9	–	–	–
Net defined benefit expense	$ 70	$ 46	$ 26	$30	$15	$14

The funded status of the Company's principal defined benefit and other retiree benefit plans and the amounts recognized in the balance sheet follow.

Years ended December 31, (millions)	Pension Benefits 2002	Pension Benefits 2001	Other Retiree Benefits 2002	Other Retiree Benefits 2001
Change in benefit obligation:				
Balance at beginning of year	$1,950	$1,961	$ 380	$ 259
Benefit payments	(123)	(113)	(20)	(21)
Service and interest costs	191	191	32	24
Amendments	3	12	(46)	(14)
Actuarial (gains) losses	226	(57)	69	135
Plan curtailments	–	(3)	–	–
Currency translation adjustment	118	(41)	(7)	(3)
Balance at end of year	$2,365	$1,950	$ 408	$ 380
Change in fair value of plan assets:				
Balance at beginning of year	$1,618	$1,878	$ 38	$ 40
Actual return on plan assets	(220)	(168)	(5)	(2)
Employer contribution	525	35	4	–
Benefit payments	(99)	(92)	–	–
Currency translation adjustment	111	(35)	–	–
Balance at end of year	$1,935	$1,618	$ 37	$ 38
Benefit obligations in excess of plan assets	$ (430)	$ (332)	$(371)	$(342)
Unrecognized prior service cost and transition obligation	51	41	(45)	2
Unrecognized net loss	1,007	399	130	57
Minimum liability adjustment included in:				
Intangible assets	(15)	(12)	–	–
Stockholders' equity, pretax	(270)	(87)	–	–
Net prepaid (accrued) benefit cost	$ 343	$ 9	$(286)	$(283)
Reported in other assets	706	242	–	–
Reported in other long-term liabilities	(363)	(233)	(286)	(283)

The values for pension plans with accumulated benefit obligations in excess of plan assets follow.

At December 31, (millions)	2002	2001
Projected benefit obligation	$782	$550
Accumulated benefit obligation	684	490
Fair value of plan assets	475	276

The weighted average assumptions used in determining related obligations of pension benefit plans are shown below.

At December 31, (percent)	2002	2001	2000
Discount rate	6.2	6.8	7.0
Long-term rate of return on assets	8.0	8.6	9.1
Rate of compensation increases	3.8	4.2	4.7

The weighted average assumptions used in determining related obligations of other retiree benefit plans are shown below.

At December 31, (percent)	2002	2001	2000
Discount rate	6.5	7.2	7.2
Long-term rate of return on assets	8.5	9.0	10.0

The assumed health care cost trend rate for 2003 is 12%, decreasing to 5% in 2008. A one percentage point increase in the trend rate would have increased the accumulated postretirement benefit obligation by 13%, and interest and service cost by 17%. A one percentage point decrease in the trend rate would have decreased the accumulated postretirement benefit obligation by 11%, and interest and service cost by 13%. The Employee Stock Ownership Plan (ESOP) was established to assist Gillette employees in financing retiree medical costs. ESOP accounts held by participants reduced the Company's obligations by $120 million and $139 million at December 31, 2002 and 2001, respectively. Account balances are assumed to have an annual yield of 12%. A retiree health benefits account within the Company's principal domestic pension plan also will be used to pay these costs. In addition to the defined benefit and other retiree benefit plans, the Company also sponsors defined contribution plans, primarily covering U.S. employees. The Company's expense for defined contribution plans in 2002, 2001 and 2000 totaled $34 million, $34 million and $35 million, respectively.

EMPLOYEE STOCK OWNERSHIP PLAN

On April 25, 2000, the trustee for the ESOP trust converted the Series C preferred stock held by the trust to common stock. The preferred shares had a stated cost of $84 million and were redeemed for common stock held in the Company's treasury, at a cost of $174 million. Total stockholders' equity did not change as a result of the redemption. In June 2000, all shares were fully allocated to participants and the ESOP loan was fully repaid.

STOCK COMPENSATION PLANS AND CAPITAL STOCK

At December 31, 2002, the Company had stock-based compensation plans described below.

Stock Option Plans

Stock option plans authorize the granting of options on shares of the Company's common stock to selected key employees, including officers, and to nonemployee directors, at not less than the fair market value of the stock on the date of grant. Under the stock plans, options to purchase a maximum of 198,800,000 shares may be granted. At December 31, 2002, 28,254,171 shares were available for future grants. Options granted under the plans may be either incentive stock options or nonqualified options. Outstanding options have seven- to 10-year terms.

Options granted prior to April 17, 1997, became exercisable one year from the date of grant (except the Duracell premerger options, which became exercisable upon the merger), provided the employee optionee was still employed. For options granted to employees after April 16, 1997, one-third of the options vest on each of the first three anniversaries of the stock option award date. One-quarter of the 2 million options awarded to the Chief Executive Officer on his hiring date vested immediately, and the remainder vest in one-third increments annually over a three-year period. The 300,000 options granted to the President/Chief Operating Officer on January 19, 2001, vest one-half on the first anniversary and one-half on the second anniversary of the stock option award date. The plans also permit payment for options exercised in shares of the Company's common stock (except Duracell premerger options).

A summary of the status of the Company's stock option plans follows.

Years ended December 31,	2002 Options (Thousands)	2002 Weighted Average Exercise Price	2001 Options (Thousands)	2001 Weighted Average Exercise Price	2000 Options (Thousands)	2000 Weighted Average Exercise Price
Outstanding at beginning of year	71,052	$36.91	58,969	$38.76	51,956	$39.79
Granted	14,472	35.50	18,127	29.23	11,404	32.04
Exercised	(3,789)	21.41	(2,488)	17.04	(2,071)	17.48
Cancelled	(3,197)	40.58	(3,556)	42.31	(2,320)	47.86
Outstanding at year-end	78,538	$37.25	71,052	$36.91	58,969	$38.76
Options exercisable at year-end	50,417		42,242		35,067	

The following table summarizes information about fixed stock options outstanding.

At December 31, 2002

Range of Exercise Prices		Outstanding			Exercisable	
At Least	Less Than	Options (Thousands)	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price	Options (Thousands)	Weighted Average Exercise Price
$12	$17	2,308	1.2	$15.70	2,308	$15.70
20	30	20,222	6.7	27.47	11,177	26.85
30	35	13,345	7.7	32.40	8,294	32.32
35	40	14,239	9.4	35.61	214	37.48
40	48	19,903	5.8	45.98	19,903	45.98
50	60	8,521	5.5	56.21	8,521	56.21
		78,538	6.9	$37.25	50,417	$39.80

Share Repurchase Program

The Company has a share repurchase program in place that authorizes the purchase of up to 150 million shares in the open market or in privately negotiated transactions, depending on market conditions and other factors. From the inception of the program through December 31, 2002, the Company repurchased 108 million shares in the open market for $4.5 billion. In 2002, the Company repurchased 14 million shares for $427 million.

In 2002, the Company sold equity put options as an enhancement to the share repurchase program and earned $15 million in premiums. These options provide the Company with an additional opportunity to supplement open-market purchases of its common stock if the options expire "in the money" (the option strike price is greater than the closing price for Gillette common stock on the expiration date). In addition, the premiums received are a source of funding for share purchases. The options are exercisable only on the last day of their term. The Company, at its discretion, may elect to settle by paying net cash or by purchasing the shares. The put option prices were based on the market value of the Company's stock at the date of issuance.

At December 31, 2002, there were no outstanding put options. At December 31, 2001, there were 1 million put options outstanding. The redemption value of the outstanding options, which represents the options' price multiplied by the number of shares under option, is presented in the accompanying balance sheet as "Contingent Redemption Value of Common Stock Put Options."

Preferred Stock Purchase Rights

At December 31, 2002, the Company had 522 million preferred stock purchase rights outstanding, representing one-half right for each share of common stock outstanding. Each right may be exercised to purchase one ten-thousandth of a share of junior participating preferred stock for $225. The rights will only become exercisable, or separately transferable, on the earlier of the tenth business day after the Company announces that a person has acquired 15% or more, or the tenth business day after a tender offer commences that could result in ownership of more than 15%, of the Company's common stock.

If any person acquires 15% or more of the common stock (except in an offer for all common stock that has been approved by the Board of Directors), or in the event of certain mergers or other transactions involving a 15% or more stockholder, each right not owned by that person or related parties will enable its holder to purchase, at the right's exercise price, common stock (or a combination of common stock and other assets) having double that value. In the event of certain merger or asset sale transactions with another party, similar terms would apply to the purchase of that party's common stock.

The rights, which have no voting power, expire on December 14, 2005, subject to extension. Upon approval by the Board of Directors, the rights may be redeemed for $.01 each under certain conditions, which may change after any person becomes a 15% stockholder.

At December 31, 2002, there were authorized 5 million shares of preferred stock without par value, of which 400 thousand Series A shares were reserved for issuance upon exercise of the rights. No shares were outstanding.

OPERATING SEGMENTS AND RELATED INFORMATION

The following table presents certain operating segment information.

Years ended December 31, (millions)	Blades & Razors	Duracell	Oral Care	Braun	Personal Care	All Other	Total
2002							
Net sales	$3,435	$1,898	$1,248	$1,056	$816	$ –	$ 8,453
Profit from operations	1,299	233	222	75	51	(71)	1,809
Identifiable assets	3,170	2,741	1,094	1,065	520	1,273	9,863
Capital expenditures	168	67	69	57	40	4	405
Depreciation	225	82	73	66	26	8	480
2001							
Net sales	$3,200	$1,953	$1,149	$ 981	$801	$ –	$ 8,084
Profit from operations	1,141	217	240	98	68	(266)	1,498
Identifiable assets	3,195	2,932	976	963	515	1,388	9,969
Capital expenditures	222	162	92	69	49	30	624
Depreciation	197	78	53	53	26	46	453
2000							
Net sales	$3,177	$2,137	$1,079	$1,042	$875	$ –	$ 8,310
Profit from operations	1,272	456	226	94	100	(636)	1,512
Identifiable assets	3,740	3,304	901	1,078	538	841	10,402
Capital expenditures	477	156	45	59	52	4	793
Depreciation	222	59	54	59	43	30	467

Each operating segment is individually managed and has separate financial results that are reviewed by the Company's chief operating decision-maker. Each segment contains closely related products that are unique to the particular segment. There were no changes to the composition of segments in 2002.

The Blades & Razors segment consists of blades and razors. The Duracell segment consists of consumer batteries. Oral Care contains manual and power oral care products. The Braun segment contains male and female hair removal, household and hair care appliances and personal diagnostic devices, including ear thermometers and blood pressure monitors. The Personal Care segment includes shave preparations, after-shaves and antiperspirants/deodorants.

Profit from operations is net sales less cost of sales and selling, general and administrative expenses, but is not affected either by nonoperating charges/income or by income taxes. Nonoperating charges/income consists principally of net interest expense and the effect of exchange. In calculating profit from operations for individual operating segments, substantial administrative expenses incurred at the operating level that are common to more than one segment are allocated on a net sales basis. Headquarters expenses of an operational nature also are allocated to segments. All intercompany transactions, primarily merchandise transfers, have been eliminated.

Profit from operations includes all unallocated income/expense items, including unallocated headquarters expenses, as well as the $30 million gain on the sale of Vaniqa and the $9 million total recovery to the 2001 and 2000 restructuring reserves in 2002, and the $172 million and $572 million charges for restructuring and asset impairments in 2001 and 2000, respectively. The All Other column includes items not allocated to operating segments.

Identifiable assets includes financial instruments managed by the Corporate Treasury Department, nonqualified benefit and compensation trusts, corporate fixed assets, deferred income tax assets and net assets of discontinued operations. Capital expenditures is primarily related to Research and Development initiatives.

The Company's largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for 12% of net sales in both 2002 and 2001. These sales occurred primarily in the United States and were across all product segments.

Net sales by geographic area follow.

Years ended December 31, (millions)	2002	2001	2000
Foreign	$5,171	$4,839	$5,105
United States	3,282	3,245	3,205
	$8,453	$8,084	$8,310

Long-lived assets follow.

At December 31, (millions)	2002	2001	2000
Germany	$ 606	$ 508	$ 519
Other Foreign	1,057	1,013	1,145
Total Foreign	1,663	1,521	1,664
United States	1,902	2,027	1,886
	$3,565	$3,548	$3,550

2002	Three Months Ended				
(millions, except per share amounts)	March 31	June 30	September 30	December 31	Total Year
Net sales	$1,732	$2,024	$2,168	$2,529	$8,453
Gross profit	1,038	1,226	1,286	1,392	4,942
Profit from operations	328	449	522	510	1,809
Income from continuing operations before income taxes	323	425	513	491	1,752
Discontinued operations, net of tax	–	–	–	7	7
Net income	223	293	354	346	1,216
Net income per common share, basic[a]					
Continuing operations	.21	.28	.33	.32	1.15
Discontinued operations	–	–	–	.01	–
Net income	.21	.28	.33	.33	1.15
Net income per common share, assuming full dilution[a]					
Continuing operations	.21	.28	.33	.32	1.14
Discontinued operations	–	–	–	.01	.01
Net income	.21	.28	.33	.33	1.15
Dividends paid per common share	.16¼	.16¼	.16¼	.16¼	.65
Stock price range:					
High	34.98	37.30	34.47	31.66	37.30
Low	31.28	33.02	27.75	27.57	27.57

2001					
Net sales	$1,621	$1,922	$2,123	$2,418	$8,084
Gross profit	998	1,150	1,201	1,328	4,677
Profit from operations	319	375	473	331	1,498
Income from continuing operations before income taxes	264	336	429	313	1,342
Net income	182	232	296	200	910
Net income per common share, basic and assuming full dilution[a]	.17	.22	.28	.19	.86
Dividends paid per common share	.16¼	.16¼	.16¼	.16¼	.65
Stock price range:					
High	36.38	31.98	32.08	35.31	36.38
Low	29.50	24.50	26.00	29.00	24.50

(a) Net income per common share is computed independently for each of the periods presented and, therefore, may not add up to the total for the year.

Historical Financial Summary

The Gillette Company and Subsidiary Companies

Years ended December 31,	2002[a]	2001[b]	2000[c]	1999	1998[d]
(millions, except per share amounts and employees)					
Summary of Operations					
Net Sales[f]	$ 8,453	8,084	8,310	8,324	8,396
Profit from Operations[f]	$ 1,809	1,498	1,512	2,087	1,776
Income from Continuing Operations before Income Taxes	$ 1,752	1,342	1,288	1,912	1,656
Net Income	$ 1,216	910	392	1,260	1,081
Adjusted Net Income, assuming the adoption of SFAS 142 for 1998–2001	$ 1,216	934	423	1,293	1,115
Weighted Average Common Shares Outstanding, assuming full dilution	1,059	1,058	1,063	1,111	1,144
Per Common Share Data					
Income per Common Share, assuming full dilution					
Continuing Operations	$ 1.14	.86	.77	1.13	.94
Net Income	$ 1.15	.86	.37	1.14	.95
Adjusted Net Income per Common Share, assuming the adoption of SFAS 142 for 1998–2001, assuming full dilution	$ 1.15	.88	.40	1.16	.97
Dividends Declared per Common Share	$ .65	.65	.65	.59	.51
Stock Price, December 31	$ 30.36	33.40	36.13	41.19	47.81
Balance Sheet Data					
Net Property, Plant and Equipment[f]	$ 3,565	3,548	3,550	3,467	3,285
Total Assets[f]	$ 9,863	9,946	10,213	10,612	10,630
Long-Term Debt	$ 2,457	1,654	1,650	2,931	2,256
Stockholders' Equity	$ 2,260	2,137	1,924	3,060	4,543
Other Information					
Net Interest Expense	$ 59	141	218	129	86
Depreciation and Amortization[f]	$ 500	509	535	464	421
Capital Expenditures[f]	$ 405	624	793	889	952
Employees[f]	30,300	31,500	35,200	37,600	39,800
Ratio of Earnings to Fixed Charges[e]	14.5x	8.2x	5.7x	12.3x	13.7x

(a) In 2002, the gain on the sale of Vaniqa and recovery to the restructuring reserve increased profit from operations and income from continuing operations before income taxes by $39 million, net income by $27 million and income from continuing operations per common share, assuming full dilution, by $.02.

(b) In 2001, charges for restructuring and asset impairment expenses reduced profit from operations and income before income taxes by $172 million, net income by $135 million and net income per common share, assuming full dilution, by $.13.

(c) In 2000, charges for restructuring and asset impairment expenses reduced profit from operations and income before income taxes by $572 million, net income by $430 million and net income per common share, assuming full dilution, by $.41.

(d) In 1998, a charge for reorganization and realignment expenses reduced profit from operations and income before income taxes by $440 million, net income by $285 million and net income per common share, assuming full dilution, by $.25.

(e) For purposes of calculating the ratio of earnings to fixed charges, earnings consist of income from continuing operations before income taxes and fixed charges. Fixed charges consist of interest on indebtedness, amortization of debt premium, the interest component of rentals and preferred stock dividend requirements.

(f) Represents continuing operations.

Directors and Executive Officers

DIRECTORS

Warren E. Buffett [**3**,5]
Chairman and Chief Executive Officer,
Berkshire Hathaway Inc.

Edward F. DeGraan
President

Wilbur H. Gantz [2,**5**]
Chairman and Chief Executive Officer,
Ovation Pharmaceuticals, Inc.

Michael B. Gifford [**1**,4]
Retired Chief Executive Officer,
The Rank Organisation Plc

Ray J. Groves [1,4]
President and Chief Executive Officer,
Marsh Inc.

Dennis F. Hightower [2,3]
Retired Chief Executive Officer,
Europe Online Networks, S.A.

Herbert H. Jacobi [2,**4**]
Chairman of the Supervisory Board,
HSBC Trinkaus & Burkhardt KGaA

Nancy J. Karch [1,5]
Retired Senior Partner,
McKinsey & Company

James M. Kilts [3]
Chairman of the Board

Jorge P. Lemann [1,5]
General Partner,
GP Investimentos

Richard R. Pivirotto [**2**,3]
President,
Richard R. Pivirotto Co., Inc.

Marjorie M.T. Yang [2,4]
Chairman and Chief Executive Officer,
Esquel Group

[1] Audit Committee
[2] Compensation Committee
[3] Executive Committee
[4] Finance Committee
[5] Nominating and Corporate Governance Committee

Committee Chair

EXECUTIVE OFFICERS

Chairman of the Board and
Chief Executive Officer
James M. Kilts

President and
Chief Operating Officer
Edward F. DeGraan

Senior Vice Presidents
Michael T. Cowhig
Global Manufacturing and
Technical Operations

Charles W. Cramb
Finance

Edward E. Guillet
Human Resources

Peter Klein
Strategy and Business Development

Kathy S. Lane
Corporate Information Technology and Applications

John F. Manfredi
Corporate Affairs

Edward D. Shirley
Global Value Chain and Global Marketing Resources

Richard K. Willard
Legal

Vice Presidents
A. Bruce Cleverly
Global Business Management, Oral Care

Joseph F. Dooley
Commercial Operations, North America

Ernst A. Häberli
Commercial Operations, International

Peter K. Hoffman
Global Business Management, Blades and Razors

Mark M. Leckie
Global Business Management, Duracell

Claudio E. Ruben
Controller

Joseph Scalzo
Global Business Management, Personal Care

Corporate and Stockholder Information

STOCKHOLDER INQUIRIES
William J. Mostyn III
Secretary and
Deputy General Counsel

INVESTOR INQUIRIES
Christopher M. Jakubik
Vice President, Investor Relations

MEDIA INQUIRIES
Eric A. Kraus
Vice President, Corporate Communications

ANNUAL MEETING
The Annual Meeting of Stockholders will take place on Thursday, May 15, 2003, at the Hotel du Pont, Wilmington, Delaware. The meeting will convene at 10 a.m.

CORPORATE HEADQUARTERS
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Boston, Massachusetts 02199
(617) 421-7000
Web site: www.gillette.com

INCORPORATED
State of Delaware

COMMON STOCK
Major stock exchanges: New York, Boston, Chicago, Pacific, Frankfurt

New York Stock Exchange Symbol: G

At January 31, 2003, stockholders numbered 45,103, living in all 50 states and more than 50 countries abroad.

TRANSFER AGENT AND REGISTRAR
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AUDITORS
KPMG LLP

FINANCIAL INFORMATION
The Gillette Company offers free of charge this Annual Report, which includes the Form 10-K, as well as quarterly earnings releases and other announcements concerning financial results.

Printed copies of these materials may be requested by writing to the Office of the Secretary; by calling toll-free (877) 788-G-INFO from within the United States; or by calling (703) 386-1171 from outside the United States.

Financial information also may be reviewed, downloaded or requested in printed form by accessing the Investors' section of www.gillette.com.

BUYDIRECT — DIRECT STOCK PURCHASE PLAN
BuyDIRECT is a direct stock purchase plan sponsored and administered by The Bank of New York, Gillette's Transfer Agent. BuyDIRECT provides an economical, convenient way to purchase your first shares or to purchase additional shares of Gillette common stock. Plan participants may also reinvest their cash dividends through BuyDIRECT.

Interested individuals may request an enrollment package by calling The Bank of New York toll-free at (888) 218-2841 or by visiting its web site at www.stockbny.com.

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