Gillette

2003 Annual Report
2004 Proxy Statement

FINANCIAL HIGHLIGHTS

(millions, except per share amounts)	2003	2002	Change
Net sales	$9,252	$8,453	+ 9%
Profit from operations	2,003	1,809	+11%
Income from continuing operations before income taxes	1,964	1,752	+12%
Income from continuing operations	1,375	1,209	+14%
Net income	1,385	1,216	+14%
Income from continuing operations per common share			
Basic	1.35	1.15	+17%
Assuming full dilution	1.34	1.14	+18%
Net income per common share			
Basic	1.36	1.15	+18%
Assuming full dilution	1.35	1.15	+17%
Dividends declared per common share	.65	.65	—

THE GILLETTE COMPANY

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 14 countries, and products are distributed through wholesalers, retailers, and agents in over 200 countries and territories.

ON THE FRONT COVER

A selection of our leading products: (from left) the top-of-the-line Oral-B Professional Care 7000 rechargeable power toothbrush, the Mach3Turbo Champion shaving system, Gillette Series shave gel, and Right Guard Xtreme Sport PowerStripe antiperspirant/deodorant.

ON THE BACK COVER

A print ad for the Mach3Turbo Champion shaving system features the Gillette Young Guns, six of NASCAR's top drivers: (from left) Ryan Newman, Dale Earnhardt, Jr., Jimmie Johnson, Kevin Harvick, Matt Kenseth, and Kurt Busch. The Gillette Young Guns are the centerpiece of a major marketing program that showcases leading Gillette products for tens of millions of brand-loyal racing fans.

72.5%

M3Power | M3Power … our new, top-performing powered wet shaving system for men … debuts this spring as the latest entry in the Gillette blade and razor portfolio, which achieved a record 72.5% share of the global market in 2003.

$1B

Venus Divine | Introduced this spring, the innovative Venus Divine razor is a great addition to the world's best-selling Venus female shaving franchise, which has delivered more than $1 billion in retail sales in just three years.

39%

Duracell | Known and trusted by consumers around the world, Duracell is the clear market leader in the highly competitive global alkaline battery category, with a worldwide share of 39%.

34%

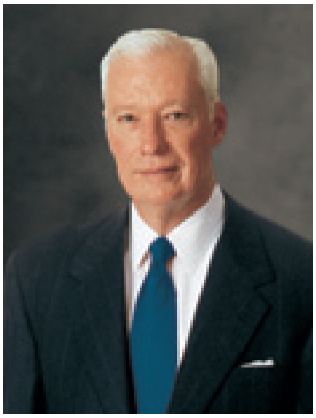
CrossAction Power and CrossAction Vitalizer | Paced by the strong market performance of new battery-powered CrossAction Power (above) and manual CrossAction Vitalizer, our Oral-B brand increased its leading global share of the total brushing market to 34%.

#1

BRAUN ACTIVATOR | Launched last September in Japan, Braun's new flagship Activator electric shaver quickly gained a 15% share of market to become the number one shaver in the Japanese premium-price segment by year's end.

40%

GILLETTE SERIES POWER CAPS GEL | The strong growth of new Gillette Series Power Caps gel antiperspirant helped to fuel Gillette's climb to gel segment leadership in the U.S., with a share above 40%.



JAMES M. KILTS
Chairman, President and Chief Executive Officer

DEAR SHAREHOLDERS:

Three years ago, we made a commitment. We said that we were going to transform this Company from a chronic underperformer to a producer of consistent, sustainable earnings growth — the kind of growth that would take us to the top tier of industry performers over time.

We said we would do that by improving our financial performance, redirecting and revitalizing our businesses, and driving continuous improvement throughout our organization.

I'm pleased to report that we are delivering on those commitments. Three years of solid progress allows us to say something about 2003 that this Company hasn't been able to say in several years ... Gillette had record earnings per share.

Here is a progress report on the turnaround and our excellent performance in 2003.

In strengthening our financial performance, we said we would bring runaway costs under control, improve our return on invested capital, increase investment in our brands, and improve returns throughout the life cycle of our products.

We have achieved or surpassed each of these goals — in some cases, dramatically.

Over the past two years, we have reduced overhead expenses by nearly 2 percentage points of sales, excluding the costs associated with our Functional Excellence initiative and increased pension expense ... and we are on track to close the gap with best-in-class.

Our gains are reflected in our profit margins — up from 18.5 percent to 21.7 percent in two years.

In return on invested capital, we have made strong progress, from 14 percent in 2000 … to 23 percent in 2002 … and then to 28 percent in 2003.

This improvement has helped our cumulative free cash flow* over the past three years to triple, compared with the prior three-year period, to $5.5 billion, despite pension funding of more than $600 million.

Brand investment is another key measure of progress. In 2000, advertising spending was at 6.5 percent of sales, near the bottom of our peer group, while trade and consumer spending had grown to 11.9 percent. Clearly, we were trying to *buy* share, instead of *build* it.

In 2003, our ad spending rose to 8.9 percent of sales, while trade and consumer spending fell to 10.2 percent. More importantly, rigorous testing tells us that we're spending our money on marketing and advertising programs that are among the very best in persuasion and impact.

*See page 30 of the accompanying 2003 Form 10-K for the definition of free cash flow and its reconciliation to a GAAP measurement of cash flow.

RECORD PERFORMANCE

The ultimate measure of cost control, capital management, and brand investment is bottom-line performance ... and 2003 was a record year.

- Net sales were up a very strong 9 percent.
- Profit from operations increased 11 percent, and income from continuing operations jumped 14 percent.
- Diluted net income per common share from continuing operations climbed 18 percent to a record $1.34, up from $1.14 in 2002.

SOLID BUSINESS PROGRESS

Behind these gains is strong progress toward our commitments to fill the pipeline with differentiated products, drive consumer trade-up to better-performing and higher-margin products, and take full advantage of our global scale.

Here is a brief look at each of our business units.

Blades and Razors

Our strategy in Blades and Razors is to drive category growth and increase our share of the total economic profit potential that the market offers.

Our worldwide sales grew 13 percent in 2003. We are the clear market leader, with a global share of 72.5 percent — nearly 6 times greater than our nearest competitor.

Five years after its launch, our Mach3 razor is used by one in every three men in North America and one in every four men in Europe. To add some perspective, Mach3 alone is larger than the entire franchises of our main competitors, Schick and Bic, combined.

During 2003, we launched Mach3Turbo in Europe, increasing our European Mach3 share to 37 percent, and we created excitement in the U.S. with the new Mach3Turbo Champion.

We are again transforming the category with the launch this spring of M3Power, our powered wet shaving system for men. Featuring the best blades we've ever produced and powered by a Duracell AAA battery in the handle, M3Power delivers pulses that stimulate facial hair up and away from the skin for the closest, most comfortable shave ever.

In female shaving, Venus is number one in both North America and Europe. It is the most successful women's shaving system in history, with retail sales over $1 billion in just three years. We expanded the franchise in 2003 with Passion Pink Venus, and we are adding Venus Divine this spring. This new shaving system features an advanced blade edge, multiple lubrastrips, and an ergonomically superior handle. We expect Venus Divine to strengthen the Venus franchise in the same way that Mach3Turbo has advanced the Mach3 franchise.

These new products are powerful line extensions, and there is much more to come. Even bigger products ... that can create entirely new platforms for growth ... are in advanced stages of development.

In consumer products, there are always questions about the impact of competition — as there were in 2003 with new entries in male and female shaving. While well-marketed competitive products will have some impact on share, our strategy to grow the category is on track. No other company could create the high-performance new products that are now awaiting launch. Simply put — in driving category growth through product innovation — Gillette leads, others follow.

Duracell

We have made a significant recovery from an earlier flawed strategy that damaged our battery business.

Duracell's improved performance in 2003 was guided by a four-part strategy: to lower everyday pricing, introduce new advertising and positioning, increase our focus on cost reduction, and develop new revenue streams.

As part of our program to lower pricing, we also slashed battery giveaways and reduced volume sold on promotion. But the battle to restore category health is far from over, due to unrelenting price competition that inhibits category growth and threatens stability.

Our "Trusted Everywhere" advertising campaign is the centerpiece of a nearly 30 percent increase in worldwide media spending. Research shows that this campaign, which focuses on consumer trust in our brand, communicates a strong, believable message that has enhanced our results.

Cost-reduction initiatives — including divestitures, plant closures, headcount reductions, and strategic sourcing gains — yielded $200 million in savings through 2003. And there is more progress to come.

To build our business, we acquired a leading battery company in the huge, fast-growing Chinese market. We also introduced new lithium and alkaline prismatic batteries for new-generation digital devices. And we partnered with MTI, a leader in fuel cell technology, to explore new applications for portable devices.

In contrast to these positive initiatives are unhealthy moves by competitors ... including price cuts and cell giveaways ... that deflate the battery category and erode retail sales. We will not allow Duracell's market share to slide. We have taken a number of actions in the marketplace already, and we will take additional actions as appropriate.

Oral Care

The Oral Care category presents great global opportunity and strong trade-up potential.

We are the clear leader worldwide, with a 34 percent share in total brushing. Our differentiation centers on a combination of technology, product performance, and marketing. From manual toothbrushes … to entry-level battery … to performance battery … and on to premium rechargeables — our entire portfolio is built to drive trade-up.

And all of these products are now unified under the Oral-B brand … and are supported by a strong advertising theme, *Brush Like a Dentist*.

We are pursuing a two-part growth strategy: strengthen core brushing and expand the definition of brushing.

In 2003, we enhanced our manual brushing business with the launch of new CrossAction Vitalizer, which is clinically proven to reduce gingivitis and remove 90 percent of plaque between teeth after a single use. It grew the CrossAction franchise by 25 percent.

We also made excellent gains in the rapidly growing battery segment. After launching a premium battery brush in 2001, we brought the powerful CrossAction brand to the entry-priced segment with CrossAction Power. We are now number two in the market, and we're advancing steadily.

In premium rechargeables, we strengthened our portfolio last year with Professional Care 7000, a faster-oscillation product that has superior performance in removing plaque.

For 2004, we have a full slate of new products, both in our core brushing franchise and in related new areas of oral care.

Personal Care

In Personal Care, our focus has been to cut costs, increase advertising spending and effectiveness, and profitably grow sales. We've made solid progress in all three areas.

Since 2001, we have cut costs by 8 percent, while nearly doubling our advertising investment, which contributed to a 6 percent sales increase in 2003 — the second straight year of sales gains following 5 years of decline. Profit jumped 43 percent.

We are adding high-potential new products such as Gillette Complete Skin Care, a line of premium skin care products for men. We also will launch a new Right Guard entry, the first major improvement in aerosols since the introduction of antiperspirants in the 1960s.

Braun

At Braun, we are making the same kind of cost reductions and brand investments that brought such significant improvement to Personal Care. We expect to start seeing the bottom-line results of those changes in 2004.

On the cost side, we are improving our use of capital — cleaning out slow-moving inventory and eliminating unprofitable products. We have changed to more cost-effective packaging and materials. And we have begun an outsourcing effort with lower-cost manufacturers in Asia and Eastern Europe.

Product innovation is centered on filling in gaps in our high-margin dry shaving line with low- and mid-priced shavers. Flex XP2 is a new mid-priced shaver that strengthens our leadership in the Clean-and-Charge segment. Another strong new entry is Braun Activator, which gained the number one position among premium-priced shavers in the key Japanese market in just two months. In female epilation, Silk-Epil Soft Perfection has fortified Braun's top position.

FUNCTIONAL EXCELLENCE

Over the past two years, we have launched a range of activities under the banner of Functional Excellence. It's a broad initiative of benchmarking, target-setting, execution, and rigorous measurement designed to give us best-in-class capabilities at the lowest possible cost.

We streamlined and strengthened Finance, Human Resources, Information Technology, and many other units. To date, Functional Excellence has taken more than $120 million in cost out of our business.

Functional Excellence is also a powerful force for cultural change. It is no longer just a way to identify and fix problems. Instead, Functional Excellence is the new way we do things. It instills a mindset of continuous improvement by creating awareness and motivation, and by providing the tools to shape and measure progress.

Functional Excellence is now driving the next step in our cultural evolution — the creation of deeper, broader innovation. As our new products show, we are a very innovative company. But we want to be a company of Total Innovation — one that combines blockbuster product innovation with innovation that springs up in everything we do.

OUR BOARD OF DIRECTORS

Last year in this Letter, I wrote that both Richard Pivirotto and Warren Buffett would leave our Board in 2003. They have stepped down, and I want to again thank these two highly valued and long-serving directors for their tremendous service to our Company.

I would also like to welcome two directors who joined us last year: Roger Deromedi, CEO of Kraft Foods Inc., and Fred Langhammer, President and CEO of The Estée Lauder Companies Inc.

PAST PERFORMANCE AND FUTURE CONFIDENCE

In closing, three years after joining Gillette, I can say the best two things that can be said about any company: We faced up to our problems. And we fixed them.

As we look ahead, we have set new targets for business performance. Based on the turnaround of the past three years, we have every confidence that we will hit them.

We are moving to the next stage of the Gillette story with a formidable combination of strengths. We have a leading and proprietary understanding of consumers, particularly male shavers. Our powerful R&D process enables us to focus early, execute with precision on the highest-return opportunities, and leverage results across businesses.

We are well-positioned in growth categories and regions around the world. Trade-up is driving growth in developed countries and is proving to be just as effective in emerging markets.

Importantly, through Functional Excellence we are evolving a cultural dissatisfaction with being anything less than best-in-class.

As I write this Letter, I am more confident than ever that we are well on the way to reaching our ultimate goal: to become the best consumer products company in the world.

I also want to express my great appreciation for the contributions of our employees and the support of our shareholders.

Sincerely,

James M. Kilts
Chairman, President and Chief Executive Officer

March 1, 2004

The Gillette Company Notice of 2004 Annual Meeting of Shareholders and Proxy Statement

Notice of 2004 Annual Meeting of Shareholders

Time:	10:00 a.m.
Date:	Thursday, May 20, 2004
Place:	The Hilton Rye Town 699 Westchester Avenue Rye Brook, New York
Webcast:	Our Annual Meeting will be webcast on our web site at *www.gillette.com* at 10:00 a.m. on May 20, 2004. Information included on or linked to 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 to ratify the appointment of the auditor for the year 2004. 3. To vote on the approval of the 2004 Long-Term Incentive Plan. 4. To vote on three shareholder proposals, if the proposals are presented at the Meeting.
Record Date:	You can vote if you were a shareholder of record on March 22, 2004.
Annual Report:	Our 2003 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 or adjournment by following the instructions in the accompanying Proxy Statement.

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

Boston, Massachusetts
April 12, 2004

2004 Proxy Statement

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Proxies and Voting

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 2004 Annual Meeting of Shareholders and at any adjournment or postponement.

You are invited to attend our Annual Meeting of Shareholders on May 20, 2004, beginning at 10:00 a.m. The Meeting will be held at The Hilton Rye Town in Rye Brook, New York. See page 39 of this Proxy Statement for directions.

This Proxy Statement, form of proxy, and voting instructions are being mailed starting April 12, 2004.

Shareholders Entitled to Vote

Record holders of Gillette common stock at the close of business on March 22, 2004, are entitled to receive this notice and to vote their shares at the Annual Meeting. As of that date, there were 1,002,857,108 shares of common stock outstanding. Each share of common stock is entitled to one vote on each matter properly brought before the Meeting.

Voting Procedures

Shareholders of record may vote in advance of the Annual Meeting by giving their proxy by mail, Internet, or telephone.

All shares that have been properly voted by proxy will be voted at the Annual Meeting. If you do not give voting instructions, the shares represented by your proxy will be voted for the election of directors, the ratification of the appointment of the auditor, and the approval of the 2004 Long-Term Incentive Plan and against the shareholder proposals.

If you participate in the Employees' Savings Plan and/or the Employee Stock Ownership Plan, you will receive only one proxy card for all shares held in your accounts.

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.

You 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.

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.

Any shareholder may later vote in person at the Annual Meeting. However, if you have already voted, there is no need to vote again unless you wish to change your vote.

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 or any adjournment.

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.

If you participate 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 the plans' trustees voting instructions for the shares held in your account. The 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 13, 2004.

Confidential Voting Policy

All proxies, ballots, and vote tabulations that identify shareholders are confidential. An independent tabulator will receive, inspect, and tabulate the proxies whether you vote by telephone, Internet, mail, or in person. The Company's policy requires that proxies and ballots be kept confidential from officers, directors, and employees of the Company and from third parties. Outside agents, such as those serving as proxy solicitors, who have agreed to comply with this policy, but not Company employees, directors, or officers, will be permitted access to proxies and ballots to facilitate their participation in soliciting proxies and conducting the Meeting. Company officers, directors, or other employees or representatives may determine which shareholders have not voted so that they can be urged to vote. The policy will not apply in the event of a proxy contest or other solicitation based on an opposition proxy statement. Under Company policy, the voting instructions of participants in employee benefit plans will also be kept confidential from officers, directors, and employees of the Company.

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.

Management and Shareholder Proposals. An affirmative majority of the votes cast at the Meeting must be cast in favor of Items 2 through 6 for approval. Brokers are not permitted to vote your shares on Item 3 (approval of the 2004 Long-Term Incentive Plan) or Items 4 through 6 (the shareholder proposals) without receiving voting instructions from you. Broker non-votes and abstentions will not be counted as votes cast.

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. On the date that this Proxy Statement went to press, we did not know of any other matters to be presented at the Annual Meeting.

Adjournment. The persons named in the proxy will also be able to vote your proxy at a postponed or adjourned meeting. You will still be able to change your proxy until it is voted.

Cost of Proxy Solicitation

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

Governance of the Company

Commitment to Corporate Governance Best Practices

The Board of Directors strongly believes that good corporate governance practices lead to successful business performance. Over the past several years, we have enhanced our corporate governance practices in many important ways. We implemented most of these changes before the New York Stock Exchange and the Securities and Exchange Commission adopted their new standards and rules. We continually seek out best practices to promote a high level of performance from the Board and the senior management team. Our goal is to be a leader in good, effective corporate governance.

Corporate Governance Officer

We have appointed William J. Mostyn III Corporate Governance Officer. The responsibility of this position will be to assist the Board in developing and implementing effective corporate governance practices.

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 Code of Conduct and Financial Code of Ethics for the Chief Executive Officer and financial managers. The latest versions of these documents and other items relating to the governance of the Company can be found on the Company's web site at *www.gillette.com/investors.*

Communications with the Board of Directors

The Audit Committee has established an Integrity Hotline for the confidential, anonymous submission by employees of concerns regarding accounting or auditing matters. In addition, the Audit Committee has established procedures for the receipt, retention, and treatment of communications received by the Company regarding accounting, internal controls, or auditing matters. Written communications should be sent to: The Gillette Company, Audit Committee, P.O. Box 999130, Boston, MA 02199.

The Board of Directors has established a process for shareholders to send communications not related to accounting or auditing to the non-employee directors as a group. Such communications should be sent to: The Gillette Company, Nominating and Corporate Governance Committee, P.O. Box 999129, Boston, MA 02199.

Communications directed to the Audit Committee will be reviewed, sorted, summarized, and reported to the Audit Committee by the Internal Auditor. Communications directed to the non-employee directors as a group (or the Nominating and Corporate Governance Committee) will be reviewed, sorted, summarized, and reported to the Committee or the directors as a group, as applicable, by the Secretary.

The Board of Directors

The Board is composed of 12 directors, of whom two are women, three are from minority groups, and three are citizens of countries other than the United States.

The business, property, and affairs of the Company are managed by or under the direction of the Board of Directors. Key responsibilities of the Board and its Committees 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;
– establishing a succession plan for the Chief Executive Officer and other key officers;
– setting performance standards for the Chief Executive Officer and other key 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
– establishing good governance practices and setting a high ethical standard for the Company.

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

The independent directors meet in executive session without management following each regularly scheduled Board meeting.

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 would be particularly important if a situation arose in which the Board or a Committee believed an actual or perceived conflict of interest might exist.

The Board of Directors does not believe that one formula fits all and, as a consequence, is opposed to a rigid approach to Board terms. Because it often takes a number of years for directors to become thoroughly familiar with a particular business, setting arbitrary limits on Board terms may cause the loss of highly knowledgeable and effective directors.

The Board has established a policy that directors who are otherwise employed shall not serve on the boards of more than four public companies. Directors who are not employed on a full-time basis shall not serve on the boards of more than six public companies. Each director must notify the Nominating and Corporate Governance Committee in advance of accepting an invitation to serve as a member on another board of directors or taking on a significant committee assignment on another board of directors.

A long-standing provision in our bylaws prohibits directors who have reached the age of 70 from standing for reelection.

The Company's bylaws allow 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 held by different individuals and makes the determination on a case-by-case basis. Currently, the Board has determined that Mr. Kilts should serve in both positions. The bylaws prohibit former Gillette Chief Executive Officers from serving on the Board.

Board Evaluation and Education

Each year, the Board of Directors and its Committees evaluate their effectiveness. Many of the changes we have made to our governance practices have resulted directly from these evaluations. The Board views self-evaluation as an ongoing process designed to achieve high levels of Board and Committee performance.

The continuing education program for directors is designed to supplement the Board's expertise and to maintain and improve the Board's effectiveness. The Company sponsors in-house educational programs for the Board and provides regular updates on relevant matters. The Company pays for educational programs chosen by the individual directors and sponsored by the New York Stock Exchange, major educational institutions, or other prominent organizations.

Board Independence

The Board of Directors has determined that all of the non-employee directors (Roger K. Deromedi, Wilbur H. Gantz, Michael B. Gifford, Ray J. Groves, Dennis F. Hightower, Herbert H. Jacobi, Nancy J. Karch, Fred H. Langhammer, Jorge Paulo Lemann, and Marjorie M. Yang) are independent. In determining whether a director is independent, the Board considers whether the director and immediate family members of the director have any material relationship with the Company. To assist the Board in making its determination of independence, the Board, absent other considerations, considers a director to be independent if, during the past three years:

- the director has not been employed by, nor has an immediate family member of the director been an executive officer of, the Company;
- neither the director nor an immediate family member of the director has received direct compensation from the Company (other than directors' or committees' fees; pension payments or other forms of deferred compensation for prior service, provided such deferred compensation is not contingent in any way on continued service; or compensation paid to a family member for service as a non-executive employee);

– the director has not been affiliated with or employed by, nor has an immediate family member of the director been affiliated with or employed in a professional capacity by, a present or former internal or external auditor of the Company;
– neither the director nor an immediate family member of the director has been employed as an executive officer of another company where any of the Company's present executive officers serve on that company's compensation committee;
– the director has not been an executive officer or employee, nor has an immediate family member of the director been an executive officer, of a company that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, exceeds 1% of such other company's consolidated gross revenues;* and
– neither the director nor an immediate family member of the director has been an executive officer or director of a non-profit organization that has received charitable contributions from the Company in an annual amount in excess of the greater of $100,000 or 1% of such charitable organization's total revenues.*

For purposes of the independence determination, an "immediate family member" includes a director's spouse, parents, children, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, brothers- and sisters-in-law and anyone (other than domestic employees) who shares the director's home.

The Board has determined that all of the non-employee directors meet these criteria. Moreover, the Board has determined that no non-employee director has a material relationship with the Company (either directly or as a partner, shareholder, or officer of an organization that has a relationship with the Company).

It is our intention that the Board will at all times be composed of a substantial majority of independent directors. Currently, 10 of our 12 directors are independent.

* More stringent than the New York Stock Exchange listing standards.

Identifying and Evaluating Nominees for Director

The Nominating and Corporate Governance Committee is responsible for evaluating candidates and recommending proposed director nominees to the Board. The Committee is composed of five 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 Nominating and Corporate Governance Committee considers candidates for Board membership suggested by its members, other Board members, management, shareholders, and, at times, executive search firms retained by the Committee to identify candidates. The Nominating and Corporate Governance Committee has adopted a policy with respect to candidates recommended by shareholders, which is summarized below and is available at our web site at *www.gillette.com/investors*. The Nominating and Corporate Governance Committee may review and change its nomination policy from time to time.

Any shareholder wishing to recommend a candidate for consideration by the Nominating and Corporate Governance Committee must do so in writing and send the recommendation to Nominating and Corporate Governance Committee, The Gillette Company, Attn: Corporate Secretary, Prudential Tower Building, 48th Floor, Boston, MA 02199 not later than the 120th calendar day before the anniversary of the date the prior year's Annual Meeting proxy statement was released to shareholders (or if the Annual Meeting date has changed by more than 30 days, a reasonable time before the Company begins to print and mail its proxy statement).

A shareholder recommendation must contain specified information and representations about the candidate, including his or her independence and commitment to represent all shareholders and comply with law and Company policies. The recommendation also must contain specified information about the shareholder, his or her stock ownership and arrangements or understandings with respect to the candidate, together with the candidate's consent to serve as a director if nominated and to permit a background check. These requirements are set forth in detail at the web address listed above.

Evaluation of Prospective Nominees. The Nominating and Corporate Governance Committee evaluates each candidate for election to the Board, including qualifying recommendations by shareholders on the same basis. This evaluation includes the minimum qualifications provided in the Corporate Governance Principles. The current qualifications are:

– Well-regarded in the community, with a long-standing, good reputation for the highest ethical and moral standards;
– Good common sense and judgment;
– Professional and personal experiences and expertise relevant to the Company's business, and a record of outstanding accomplishment in present and prior positions;
– If on other boards, excellent reputation for preparation, attendance, participation, interest, and initiative;
– Business and/or professional knowledge and experience applicable to Company and shareholder goals and perspectives;
– The time, energy, interest, and willingness to become involved in the Company and its future; and
– The independence qualifications, age and board memberships limits, and willingness to meet the minimum equity interest holding guidelines, all as provided in the Corporate Governance Principles.

In evaluating prospective nominees, the Corporate Governance Principles also require the Nominating and Corporate Governance Committee to consider:

– The extent to which the candidate helps the Board reflect the diversity of the Company's shareholders, employees, and customers;
– The ability of the prospective nominee to work positively with the Chief Executive Officer and other members of senior management;
– The ability of the candidate to contribute positively to collaboration among Board members and to the Company's ability to achieve its goals; and
– The extent to which the prospective nominee contributes to the range of talent, skill, and expertise of the Board.

The Nominating and Corporate Governance Committee determines whether to interview any candidate. The Nominating and Corporate Governance Committee may request a third-party search firm to gather additional information about a candidate's background and experience.

After completing its evaluation, the Nominating and Corporate Governance Committee makes a recommendation to the full Board as to the persons who should be nominated by the Board, and the Board determines the nominees after considering the recommendation and report of the Nominating and Corporate Governance Committee.

Annual Meeting Attendance Policy

The Board has adopted a new policy that all Board members are requested to attend the Annual Meeting of Shareholders. One director, Mr. Kilts, attended the 2003 Annual Meeting of Shareholders.

Audit Committee Report

The Audit Committee is composed of five 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. Nancy Karch has advised the Board of Directors that she serves on the Audit Committees of three other public companies. The Board has determined that her participation on those committees does not impair her ability to effectively serve on Gillette's Audit Committee. 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 Committee reviews the Charter annually. Under the Charter, the Committee is authorized to retain its own advisors at the Company's expense. A copy of the Audit Committee Charter, as amended, is attached to this Proxy Statement as Appendix 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 2003, the Company's independent auditor was KPMG LLP.

The Committee held eight meetings in person or by telephone with management and the independent auditor 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, 2003, were prepared in accordance with accounting principles generally accepted in the United States.

We have reviewed with management and the independent auditor (a) significant issues, if any, regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and significant issues, if any, as to the adequacy of the Company's internal controls and any special audit steps adopted in view of material internal control deficiencies; (b) analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative Generally Accepted Accounting Principles (GAAP) methods on financial statements; (c) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, if any, on the financial statements of the Company; and (d) the type and presentation of information to be included in earnings press releases, as well as any financial information and earnings guidance provided to analysts and rating agencies. In addition, we have discussed the Company's major risk exposures and the steps that management has taken to monitor and control such exposures. Management is required to advise the Committee of any instances of fraud relating to employees who have a significant role in the Company's internal controls. The Committee was advised that management was not aware of any such instances of fraud.

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

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.

We obtained and reviewed a report by the independent auditor describing the firm's internal quality control procedures, as well as 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.

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, 2003 and 2002, and have determined that the provision of these services is compatible with maintaining the independence of the independent auditor.

(millions)	2003	2002
Audit Fees[1]	$5.58	$ 4.64
Audit-Related Fees[2][3]	.31	.51
Tax Fees[3]		
Tax Compliance and Preparation	.53	.83
Tax Consulting	3.37	4.61
Total Tax Fees	3.90	5.44
All Other Fees[3]	.04	.24
Total Fees	$9.83	$10.83

(1) Includes statutory audits, comfort letters, consents, and review of financial statements and 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) Beginning May 6, 2003, all services were approved in advance pursuant to the Audit Committee's Pre-Approval Policy and Procedures as described below.

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.

In 2002, the Committee established its Integrity Hotline to enable employees to confidentially or anonymously report, via a toll-free telephone number, issues involving the Company's financial reports and auditing functions. The Committee reviews these reports on a regular basis.

Based on the foregoing, we 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, 2003, which was filed with the Securities and Exchange Commission.

By the Audit Committee:
Michael B. Gifford (Chair)
Roger K. Deromedi
Ray J. Groves
Nancy J. Karch
Jorge Paulo Lemann

Audit Committee Pre-Approval Policy and Procedures

The Audit Committee established Pre-Approval Policy and Procedures that apply to both audit and non-audit services to be provided by the independent auditor. Annual audit services, engagement terms, and fees are subject to pre-approval by the Audit Committee. All audit-related, tax, and any other requested services to be provided by the independent auditor are evaluated by the Committee as to the nature of the service to be provided and the potential impact on auditor independence. If pre-approval of non-audit services is requested between meetings of the Audit Committee, the Committee has delegated pre-approval authority to Michael B. Gifford (Chair of the Audit Committee). Pre-approval decisions made on behalf of the Committee are reviewed with the Committee at the next meeting.

Stock Ownership

Securities Ownership of Directors and Officers

The following table includes all Gillette stock and stock-based holdings beneficially owned, as of March 22, 2004, by our directors, the five most highly compensated executive officers, and all directors and current executive officers as a group. All individuals have sole voting and investment power over the shares beneficially owned, unless otherwise noted. The table includes information about common stock, stock options, stock units, and Supplemental Savings Plan units.

Name	Shares Beneficially Owned[1]	Options Exercisable Within 60 Days	Supplemental Savings Plan and Stock Units[2]
C. W. Cramb	43,386	651,880	10,755
E. F. DeGraan	106,424	1,181,332	40,522
R. K. Deromedi	8,100	1,667	2,690
W. H. Gantz	17,516	32,999	10,218
M. B. Gifford	7,440	32,999	14,941
R. J. Groves	5,173	4,999	5,175
E. A. Häberli	209	133,333	613
D. F. Hightower	1,000	11,667	4,703
P. K. Hoffman[3]	58,220	366,166	6,824
H. H. Jacobi	38,975	32,999	19,818
N. J. Karch	1,500	1,667	4,485
J. M. Kilts[4]	68,705	2,666,665	113,762
F. H. Langhammer	—	1,667	2,169
J. P. Lemann	1,000,000	20,999	12,369
M. M. Yang	54,000	16,999	12,220
Directors & Current Executive Officers as a Group[5]	1,592,677	7,944,973	305,224

(1) The total number of shares beneficially owned by each individual and group constitutes less than 1% of the outstanding shares. For the executive officers, the total includes common stock held under Gillette's broad-based employee benefit plans as follows: Mr. Kilts, 1,397 shares; Mr. DeGraan, 28,720 shares; Mr. Cramb, 27,300 shares; Mr. Hoffman, 27,764 shares; and Mr. Häberli, 209 shares. Participants may direct the voting of the shares held under the plans and share voting and investment power with the plans' trustees.

(2) Includes units credited to the following accounts: (i) for the non-employee directors, stock units credited to their accounts under the Deferred Compensation Plan for Outside Directors; (ii) for the executive officers, Supplemental Savings Plan units credited to their accounts under the Supplemental Savings Plan for employees; and (iii) for Mr. Kilts, the stock units described in the footnotes to the Option/SAR Grants in 2003 table on pages 30 and 31. In each case, the holder has no voting power over such units; however, they 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.

(3) Mr. Hoffman has no voting and investment power over 4,595 of the shares reported as owned and disclaims beneficial ownership with regard to those 4,595 shares.

(4) Mr. Kilts has no voting or investment power over 100 of the shares reported as owned and disclaims beneficial ownership with regard to 800 of the shares reported as owned.

(5) Includes 220,142 shares held under Gillette's broad-based employee benefit plans by all current executive officers as a group, including the named executive officers. The participants share voting and investment power as described in footnote (1) above. In addition, one executive officer shares voting and investment power over 1,000 of the shares reported as owned and disclaims beneficial ownership with regard to 858 of those shares, and three executive officers have no voting and investment power over 2,017 of the shares reported as owned and disclaim beneficial ownership with regard to those 2,017 shares.

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, based on reports filed with the Securities and Exchange Commission.

Name and Address	Number of Shares	Percent of Class
Berkshire Hathaway Inc.[1] 1440 Kiewit Plaza Omaha, Nebraska 68131	96,000,000	9.5%
FMR Corp. 82 Devonshire Street Boston, Massachusetts 02109	90,146,188	8.9%
Barclays Global Investors, N.A. 45 Fremont Street San Francisco, California 94105	65,844,768	6.5%

(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 retired director of The Gillette Company, 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.

Related Transactions

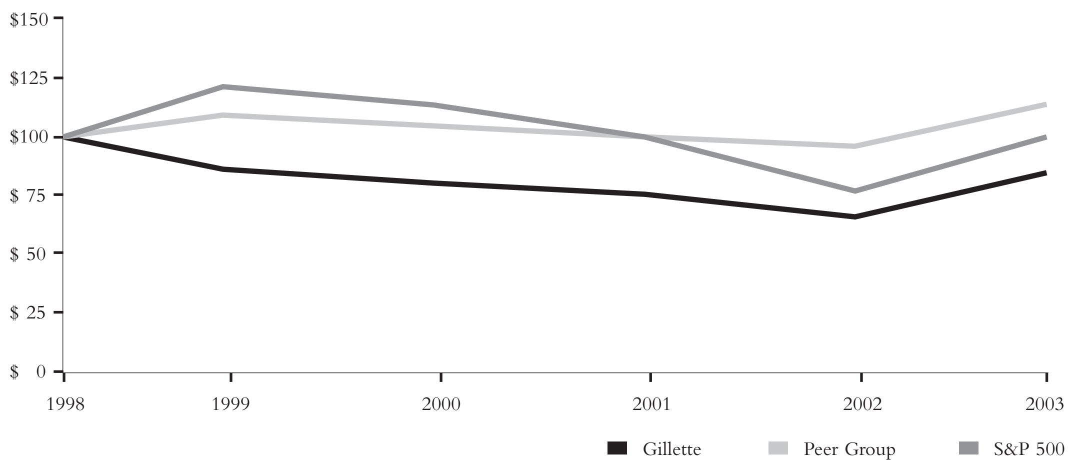
During the past fiscal year, Gillette paid $1,708,133 to NetJets, Inc., a subsidiary of Berkshire Hathaway Inc., for the cost of Gillette's use of an aircraft.

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 2003 our directors and executive officers met all applicable Securities and Exchange Commission filing requirements.

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, 1998, through December 31, 2003, 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.



	1998	1999	2000	2001	2002	2003
Gillette	$100	$ 87	$ 78	$74	$68	$ 84
Peer Group	$100	$111	$104	$98	$97	$116
S&P 500	$100	$121	$110	$97	$76	$ 97

Peer Group Companies:

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

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 2004 Annual Meeting to serve for a three-year term expiring at our Annual Meeting in 2007.

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. The nominees for 2004 are:

Edward F. DeGraan
Wilbur H. Gantz
James M. Kilts
Jorge Paulo Lemann

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

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.

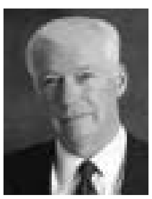
The principal occupation of, and other information about, the nominees and other directors whose terms of office continue after the Annual Meeting are set forth on the following pages.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR* THE ELECTION OF THESE NOMINEES AS DIRECTORS, DESIGNATED AS ITEM 1 ON YOUR PROXY.

Nominees for Directors for Terms to Expire in 2007

Edward F. DeGraan, Age 60 — Director since 2000
Vice Chairman of the Board of Directors of The Gillette Company since November 2003. 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 President and Chief Operating Officer from July 2000 to November 2003. He also 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 to July 2000, when he became President and Chief Operating Officer. Mr. DeGraan served as Acting Chief Executive Officer from October 2000 to February 2001. He is a director of one other public company: Becton, Dickinson and Company; and is a trustee of the National Urban League.

Wilbur H. Gantz, Age 66 — 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 two other public companies: The Gambro Company and W.W. Grainger and Company.



James M. Kilts, Age 56 — Director since 2001
Chairman of the Board, Chief Executive Officer, and President of The Gillette Company since January 2001, February 2001, and November 2003, 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. and Nabisco Inc. 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. Mr. Kilts is a director of two other public companies: The May Department Stores Company and Whirlpool Corporation. He is a director of the National Association of Manufacturers and 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, is a director of International Executive Service Corps., and is a member of Citigroup's International Advisory Board.

Jorge Paulo Lemann, Age 64 — Director since 1998
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 of three other public companies: AmBev American Beverage Co., Brazil's largest brewery, of which he is a controlling stockholder; Lojas Americanas S.A., a Brazilian discount department store chain; and Swiss Re. He is also a director of Fundacao Estudar, a provider of scholarships to needy students; Chairman of the Latin American Advisory Committee of the New York Stock Exchange; and an International Advisory Board Member of Daimler-Chrysler.

Michael B. Gifford, Age 68 — Director since 1993
Retired Managing Director and Chief Executive Officer of The Rank Organisation Plc, London, England, a leisure and entertainment company, positions that he held from 1983 to 1996. 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. 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 one other public company: Danka Business Systems Plc.

Ray J. Groves, Age 68 — Director since 2002
Chairman and Chief Executive Officer of Marsh Inc. since July 2003. He served as President and Chief Executive Officer of Marsh Inc. from January 2003 to June 2003, and as President and Chief Operating Officer 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 three other public companies: Marsh & McLennan Companies, Inc.; Boston Scientific Corporation; and Electronic Data Systems Corporation. He is a member of the Council on Foreign Relations. He is also a managing director of the Metropolitan Opera Association and a director of The Ohio State University Foundation.

Fred H. Langhammer, Age 60 — Director since 2003
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. In 1982, he was appointed Managing Director of its operations in Germany. He is a director of two other public companies: The Estée Lauder Companies Inc. and Inditex S.A., an apparel manufacturer and retailer. He is a director of The Cosmetic, Toiletry, and Fragrance Association; the German American Chamber of Commerce, Inc.; and is Co-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 51 — 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 three other public companies: The Hongkong and Shanghai Banking Corporation Ltd.; Pacific Century Regional Developments Ltd., Singapore; and Swire Pacific Limited, Hong Kong. She is also a member of the MIT Corporation, a member of the New York Stock Exchange International Advisory Committee, and a trustee of The Conference Board.

Directors Whose Terms Expire in 2006

Roger K. Deromedi, Age 50 — Director since 2003

Chief Executive Officer of Kraft Foods Inc. since December 2003. Mr. Deromedi was President and Chief Executive Officer of Kraft Foods International, Inc. from April 1999 until December 2003 and served as Co-Chief Executive Officer of Kraft Foods Inc. from 2001 until December 2003. 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. 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 one other public company: Kraft Foods Inc.

Dennis F. Hightower, Age 62 — Director since 1999

Retired Chief Executive Officer of Europe Online Networks, S.A. He served in that position from May 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 four other public companies: Accenture Ltd.; Northwest Airlines, Inc.; PanAmSat Corporation; and The TJX Companies, Inc. He is a director of Domino's Inc. and serves as a trustee of Casey Family Programs, Seattle, Washington, and as Chairman of the Advisory Committee of the Andrew Young Center for International Affairs at Morehouse College, Atlanta, Georgia.

Herbert H. Jacobi, Age 69 — 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 one other public company: HSBC Trinkaus & Burkhardt KGaA. He is also a director of DIC Deutsche Investors' Capital AG and MADAUS AG. 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 56 — 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 three other public companies: 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.

Non-Employee Director Compensation and Stock Ownership

Annual Board Retainer. Non-employee directors receive an annual retainer of $75,000 per year. The chair of a Committee receives an additional $15,000 per year. To foster a long-term commitment to the Company, the directors are required to defer 50% of their annual retainer into stock units (phantom stock) and may defer any portion of their remaining retainer(s) in cash and/or stock units. Each stock unit is equal in value to one share of Gillette's common stock. The value of the deferred stock units increases or decreases with the market value of the stock. Deferred stock units do not have voting power.

Stock units receive dividend equivalents in the form of additional stock units. Retainers deferred in cash are credited semiannually 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 retainers 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 non-employee director annually receives a non-incentive stock option to purchase 5,000 shares (7,500 beginning in 2004) of common stock on the second business day after the Annual Meeting. These option awards are non-discretionary. In 2003, awards were granted on May 19 at an exercise price of $32.74 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 options become 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 non-employee 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 become the lesser of three years or the remaining life of the option. If a non-employee director leaves before reaching age 65 or serving five years, any vested options will expire within ninety days of resignation.

If the shareholders approve the 2004 Long-Term Incentive Plan at the 2004 Annual Meeting, the 2004 stock option awards will be made to the non-employee directors under that Plan.

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 2003, Mr. Jacobi received director fees totaling $11,170 for his services as a director of Braun GmbH, a Gillette subsidiary. Mr. Jacobi has resigned from the Board of Braun GmbH, effective May 2004.

Stock Ownership. Each director must own the equivalent of at least 1,000 shares of the Company's common stock. The 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 9.

Board Meetings

The Board of Directors met seven times during 2003. The Chairman of the Board sets the agenda for each meeting, but any director may request items to be included. Each meeting includes an executive session of the independent directors.

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

Lead Director

Annually, the Board elects a lead director who chairs the executive sessions of independent directors. The lead director for 2003-2004 is Herbert H. Jacobi.

Committees and Meetings

During 2003, the Board of Directors had four standing committees: Audit, Compensation, Finance, and Nominating and Corporate Governance.

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

Name	Audit	Compensation	Finance	Nominating and Corporate Governance
Roger K. Deromedi	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
Fred H. Langhammer		X	X	
Jorge Paulo Lemann	X		X	
Marjorie M. Yang		X		X
2003 Meetings	8	4	5	4

*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 agendas and minutes.

During 2003, all of our directors attended at least 75 percent of the regularly scheduled meetings of the Board and Board committees on which they served. The average attendance of directors at all meetings for the year was 94 percent.

The Audit Committee: 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. More 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 by the independent auditor;
- appointing or terminating, determining the compensation of, and evaluating the quality and independence of, the independent auditor;
- monitoring 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, including non-audit-related services; and
- reviewing earnings releases, periodic reports to the Securities and Exchange Commission, and the financial information provided to the analysts and credit rating agencies.

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

The Compensation Committee: The Compensation Committee meets at least four times annually and is responsible for overseeing compensation and benefits. More specifically, the Committee is responsible for:

- recommending the compensation for the Chief Executive Officer;
- approving the compensation for the other executive officers;
- recommending the compensation for directors;
- reviewing the financial performance and operations of the major benefit plans;
- administering the Company's executive incentive plans; and
- recommending the succession plan for the Chief Executive Officer and executive officers.

The Finance Committee: The Finance Committee meets at least twice annually and is responsible for the oversight of the Company's financing operations. More 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 dividend policy;
– approving debt;
– approving certain capital investments and divestitures and reviewing larger capital projects;
– conducting post-investment reviews of major capital expenditures;
– reviewing the Company's financial condition; and
– reviewing the Company's tax strategy.

The Nominating and Corporate Governance Committee: 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. More specifically, the Committee is responsible for:
– evaluating and recommending director candidates to the Board;
– evaluating the performance of the Chief Executive Officer;
– evaluating the effectiveness of the Board and its committees;
– recommending to the Board ways to enhance services to, and improve communications and relations with, the Company's shareholders;
– recommending proposed changes to the Company's Certificate of Incorporation or bylaws; and
– recommending changes to the Company's corporate governance practices.

All the Committee charters are available on our web site at *www.gillette.com/investors.*

Item 2 — Ratification of the Appointment of the Auditor

We are asking shareholders to ratify the appointment by the Audit Committee of KPMG LLP as the independent auditor for 2004. Representatives of KPMG LLP will attend the 2004 Annual Meeting, where they will have the opportunity to make a statement if they wish to do so and will be available to answer questions from the shareholders.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR* THIS PROPOSAL, DESIGNATED AS PROPOSAL 2 ON YOUR PROXY.

Item 3 — Approval of the 2004 Long-Term Incentive Plan

We are asking shareholders to approve the 2004 Long-Term Incentive Plan (the "Incentive Plan") adopted by the Compensation Committee and the Board of Directors, subject to approval by the shareholders. Currently, stock options are the only equity incentive available to the Compensation Committee under the 1971 Stock Option Plan. Since the adoption of the 1971 Stock Option Plan, there have been significant changes in compensation design. The Incentive Plan will broaden the array of equity alternatives available to the Compensation Committee when designing compensation incentives. The Board believes that equity incentives provide important medium- and long-term incentives for directors, officers, and other key employees to achieve Gillette's Strategic Growth Plan. The Board also believes that broad equity incentives consistent with those available to other leading companies are required for Gillette to compete for, motivate, and retain high-quality directors, executives, and other key employees.

Description of the Incentive Plan

The purpose of the Incentive Plan is to promote the interests of Gillette and its shareholders and to provide an additional incentive for eligible key employees and directors.

Effective Date and Expiration. The Incentive Plan would become effective on May 20, 2004, and would terminate on May 19, 2014. No award may be made under the Incentive Plan after its expiration date, but awards made prior thereto may extend beyond that date.

Shares Subject to the Plan. Subject to certain adjustments, the number of shares of Gillette common stock that may be issued pursuant to awards under the Incentive Plan is 19,000,000, plus any shares that remain available for issuance under the 1971 Stock Option Plan as of the date the Incentive Plan is approved by the shareholders of the Company. The number of these shares is estimated to be approximately 18,000,000. In addition, any shares of Gillette stock subject to awards outstanding under the 1971 Stock Option Plan that lapse, expire, or terminate without the issuance of Gillette stock will also be available for awards under the Incentive Plan.

If any award granted under the Incentive Plan is forfeited or the award otherwise terminates without the issuance of shares, the shares associated with the award will be available for future grants. In addition, shares that are tendered to Gillette by a participant as payment of the exercise price of any stock option, or shares withheld from any award to satisfy a participant's tax withholding obligations, will not count as shares issued under the Incentive Plan.

Award Limits. Subject to the overall limit described in the preceding paragraphs, up to 37,000,000 shares may be issued pursuant to incentive stock options (ISOs) and up to 37,000,000 shares may be issued pursuant to awards in the form of non-qualified stock options (NQSOs). However, the aggregate number of shares issued pursuant to ISOs, NQSOs, and other awards may in no event exceed the overall limit described in the preceding paragraphs.

Up to 5% of the maximum aggregate pool of shares available for issuance under the Incentive Plan may be awarded as restricted stock or restricted stock units without regard to the nature or extent of the applicable restrictions. Additional awards of restricted stock or restricted stock units may be made only if the awards either vest not more rapidly than prorated annual vesting over a three-year period, based on continued employment with or service to Gillette and its subsidiaries, or vest based on the attainment of performance goals by reference to a performance period of at least 12 months.

Voting Power Dilution. Approval of the Incentive Plan is estimated to result in a maximum total voting power dilution for all equity-based awards of 10.8%, as shown below.

Dilution Calculation Method

$$\frac{19{,}000{,}000^{(1)} + 18{,}000{,}000^{(2)} + 84{,}061{,}979^{(3)}}{19{,}000{,}000^{(1)} + 18{,}000{,}000^{(2)} + 84{,}061{,}979^{(3)} + 1{,}002{,}857{,}108^{(4)}} = 10.8\%$$

(1) Newly authorized shares under the Incentive Plan.

(2) Shares that are authorized and remain available for grant under the 1971 Stock Option Plan.

(3) Shares that are currently subject to awards under the 1971 Stock Option Plan and options granted to the Chairman at the time he was hired.

(4) Shares of Gillette common stock outstanding as of March 22, 2004.

Participant Share Limits. The Incentive Plan also imposes annual per-participant award limits, starting with calendar year 2004. The maximum number of shares of common stock for which stock options may be granted to any person in any calendar year and the maximum number of shares of common stock subject to stock appreciation rights ("SARs") granted to any person in any calendar year is, in each case, 3,000,000, plus any unused limit from prior years. The maximum aggregate grant to any person in any calendar year of restricted stock and restricted stock units is 2,000,000 shares, plus any unused limit for that person from prior years. The maximum aggregate grant to any person in any calendar year of performance shares and the maximum aggregate grant to any person in any calendar year of other stock-based awards is, in each case, 1,500,000 shares, plus any unused limit from prior years. The maximum aggregate grant amount with respect to cash-based awards granted in any calendar year to any person may not exceed $10,000,000, plus any unused limit from prior years.

No more than 1,000,000 shares may be issued to non-employee directors under the Incentive Plan, and the maximum aggregate grant with respect to awards made in any one calendar year to any one non-employee director is 20,000 shares, plus any unused limit for that non-employee director from prior years.

The limits described above, the shares issuable under the Incentive Plan, and the relevant terms of, and value determinations under, outstanding awards are subject to adjustment by the Compensation Committee to reflect stock dividends, stock splits, reverse stock splits, and other corporate events or transactions, including without limitation distributions of stock or property other than normal cash dividends. The Compensation Committee may also make adjustments to reflect unusual or nonrecurring events.

Administration. The Compensation Committee is responsible for administering the Incentive Plan and has the discretionary power to interpret the terms and intent of the Incentive Plan and any plan-related documentation, to determine eligibility for awards and the terms and conditions of awards, and to adopt rules, regulations, forms, instruments, and guidelines. Determinations of the Compensation Committee made under the Incentive Plan are final and binding. The Compensation Committee may delegate administrative duties and powers to one or more of its members or to one or more officers, agents, or advisors. The Compensation Committee may also delegate to one or more Gillette officers the power to designate other employees (other than officers subject to Section 16 of the Securities Exchange Act of 1934, as amended) to receive awards. Awards to non-employee directors under the Incentive Plan will be determined by the Board and are not subject to management's discretion.

Eligibility. Key employees of Gillette and its subsidiaries who are selected by the Compensation Committee and non-employee directors are eligible to participate in the plan. There are currently 2,952 eligible key employees and 10 eligible non-employee directors.

Stock Options. The Compensation Committee may grant both ISOs and NQSOs under the Incentive Plan. Eligibility for ISOs is limited to employees of Gillette and its subsidiaries. The exercise price of both ISOs and NQSOs cannot be less than the fair market value of the common stock at the time of grant, and the latest expiration date cannot be later than the 10^{th} anniversary of the date of grant. Fair market value under the Incentive Plan may be determined by reference to market prices on a particular trading day or on an average of trading days. The exercise price may be paid with cash or its equivalent, with previously acquired shares of common stock, or by other means approved by the Compensation Committee, including by means of a broker-assisted exercise. The Compensation Committee may substitute SARs for stock options.

Stock Appreciation Rights. The Compensation Committee may grant SARs under the Incentive Plan either alone or in tandem with stock options. The grant price of a SAR cannot be less than the fair market value of the common stock at the time of grant and the latest expiration date cannot be later than the 10^{th} anniversary of the date of grant. Freestanding SARs may be exercised on such terms as the Compensation Committee determines, and tandem SARs may be exercised by relinquishing the related portion of the tandem option. Upon exercise of a SAR, the holder will receive from Gillette cash, shares of common stock or a combination, as determined by the Compensation Committee, equal in value to the difference between the fair market value of the common stock subject to the SAR, determined as described above, and the grant price.

Restricted Stock; Restricted Stock Units. The Compensation Committee may award restricted common stock and restricted stock units. Restricted stock awards consist of shares of stock that are transferred to the participant subject to restrictions that may result in forfeiture if specified conditions are not satisfied. Restricted stock unit awards result in the transfer of shares of stock to the participant only after specified conditions are satisfied. A holder of restricted stock is treated as a current shareholder and is entitled to dividends and voting rights, whereas the holder of a restricted stock unit award is treated as a shareholder with respect to the award only when the shares of common stock are delivered in the future. The Compensation Committee will determine the restrictions and conditions applicable to each award of restricted stock or restricted stock units.

Cash-Based Awards. The Compensation Committee may grant cash-based awards under the Incentive Plan that specify the amount of cash to which the award pertains, the conditions under which the award will be vested and exercisable or payable, and such other conditions as the Compensation Committee may determine that are not inconsistent with the terms of the Plan. Although based on a specified amount of cash, cash-based awards may be paid, in the Compensation Committee's discretion, either in cash or by the delivery of shares of common stock.

Other Stock-Based Awards. The Compensation Committee may grant equity-based or equity-related awards, referred to as "other stock-based awards," other than options, SARs, restricted stock, restricted stock units, or performance shares as described below. The terms and conditions of each other stock-based award shall be determined by the Compensation Committee. Payment under any other stock-based awards will be made in common stock or cash, as determined by the Compensation Committee.

Performance Acceleration of Awards Generally; Performance Shares. The Compensation Committee may provide that vesting or payment of any award will accelerate if performance conditions determined by the Compensation Committee are satisfied. In addition, the Compensation Committee may grant stock-based awards that will vest or be paid only if specified performance conditions are satisfied, referred to as "performance shares." The Compensation Committee will determine the restrictions and conditions applicable to each award of performance shares. Payment under a performance share award will be made in common stock or cash, as the Compensation Committee determines.

The Incentive Plan contemplates that awards subject to performance conditions may qualify as exempt performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code (the "Code"). Awards intended to satisfy this exemption that are made to persons whose compensation is subject to the deduction limitation of Section 162(m) of the Code must be conditioned on the achievement of objectively determinable performance goals based on one or more of the following performance measures (determined either on a consolidated basis, or, as the context permits, on a divisional, entity, line of business, project, or geographical basis, or in combinations thereof): net earnings or net income (before or after taxes); net income per share; net sales growth; net operating profit; return measures (including, but not limited to, return on invested capital, assets, equity, or net sales); cash flow (including, but not limited to, operating cash flow, free cash flow, and cash flow return on capital); income before or after taxes, interest, depreciation, and/or amortization; gross or operating margins; productivity ratios; share price (including, but not limited to, growth measures and total shareholder return); expense targets; margins; operating efficiency; working capital targets; and Economic Value Added (net operating profit after taxes minus the sum of capital multiplied by the cost of capital). The Compensation Committee will determine whether the performance targets or goals that have been chosen for a particular performance award have been met and may provide in an award that any evaluation of performance may include or exclude any of the following that are objectively determinable and that occur during the performance period to which the award is subject: asset write-downs; litigation, claims, judgments, or settlements; the effect of changes in tax laws, accounting principles, or other laws or provisions affecting reported results; any reorganization and restructuring programs; extraordinary nonrecurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion of financial condition and results of operations appearing in Gillette's annual report to shareholders for the applicable year; acquisitions, divestitures, joint ventures, or alliances; and foreign exchange gains and losses.

Dividend Equivalents. The Compensation Committee may provide for the payment of dividend equivalents with respect to any shares of common stock subject to an award that have not actually been issued under the award.

Termination of Employment. The Compensation Committee will determine how each award will be treated following termination of the holder's employment with or service to Gillette, including the extent to which unvested portions of the award will be forfeited and the extent to which options, SARs, or other awards requiring exercise will remain exercisable.

Additional Provisions. Neither ISOs nor, except as the Compensation Committee otherwise expressly determines, other awards may be transferred other than by will or by the laws of descent and distribution. During a recipient's lifetime, an ISO and, except as the Compensation Committee may determine, other non-transferable awards requiring exercise may be exercised only by the recipient.

Unless otherwise provided pursuant to a termination settlement agreement or employment agreement with Gillette or any of its subsidiaries, participants while employed and for an 18-month period thereafter may not compete with Gillette or its subsidiaries and may not solicit away Gillette's business or employees. In addition, participants are subject to nondisclosure and nondisparagement requirements. A breach of these restrictions may result in cancellation of awards or the recovery by Gillette of gain realized under an award. These restrictions, other than the restriction on soliciting business away from Gillette, lapse upon a change of control of Gillette as defined in the Incentive Plan.

Treatment of Awards Upon a Change of Control and Related Transactions. If Gillette is party to a consolidation, merger, or similar transaction, or series of related transactions, in which it is not the surviving corporation or which results in the acquisition of all or substantially all of Gillette's then outstanding common stock by a single person or entity or by a group of persons and/or entities acting in concert, or a sale or transfer of all or substantially all of Gillette's assets, or a dissolution or liquidation of Gillette, the Compensation Committee may provide for the assumption of some or all outstanding awards or for the grant of new awards in substitution therefore by the acquirer or survivor or an affiliate, if any, in each case on substantially equivalent terms as determined by the Compensation Committee. If there is no assumption or substitution, outstanding options, SARs, and other awards requiring exercise will become fully exercisable and payment under other awards will accelerate, in each case on a basis that gives the holder a reasonable opportunity, as determined by the Compensation Committee, following exercise or the delivery of any shares under the award, to participate as a shareholder in the transaction, and the award will terminate upon consummation of the transaction. A transaction involving a tender offer that is reasonably expected to be followed by a merger described above, as determined by the Compensation Committee, will be deemed to have occurred upon consummation of the tender offer.

The Incentive Plan also provides for certain protections in the event of a change of control of Gillette. A change of control could include, but would not necessarily be limited to, a transaction of a type described in the preceding paragraph. In the event of a change of control, all options and SARs would become immediately exercisable, whether or not they were continued directly or by means of a substitution of awards. Any options and SARs, including substitute awards, continued in the change-of-control transaction would remain exercisable for two years following any termination of an employee participant's employment (other than for cause), any voluntary termination for good reason (as defined in the Incentive Plan) of an employee participant's employment, or any termination of a director participant's service as a director, in each case occurring within two years following the change of control, but not beyond the 10^{th} anniversary of the grant date. Any restrictions applicable to outstanding shares of restricted stock would lapse and outstanding awards of restricted stock units would be satisfied by the delivery of shares of common stock, in each case on a basis that gave the holder a reasonable opportunity, as determined by the Compensation Committee, to participate as a shareholder in the change-of-control transaction. Also, the target payout opportunities attainable under all outstanding performance shares or performance-based restricted stock or restricted stock unit awards would be treated as having been earned on the same basis as if targeted performance had been attained for the performance period, and the awards would vest and be paid accordingly (in cash, if the award is cash-based or if the Compensation Committee otherwise so determines), and except as otherwise provided by written agreement with the award recipient, conditions to payment under cash-based awards and other stock-based awards would be deemed satisfied and those awards would be paid.

Amendment; Awards Granted in Connection With Transactions. The Board or the Compensation Committee may at any time or times alter, amend, modify, suspend, or terminate the Incentive Plan or any outstanding award in whole or in part, but no such amendment may adversely affect the rights of any participant without his or her consent under an outstanding award. No amendment of the Incentive Plan will be made without shareholder approval if shareholder approval is required by law, regulation, or stock exchange rule. Under current federal law, regulations, and stock exchange rules, changes requiring shareholder approval include changes that:

– increase the number of shares of Gillette stock that may be issued under the Incentive Plan (except in the case of a recapitalization, stock split, or other changes in the corporate structure, in which event the Committee may make appropriate adjustments);
– increase the maximum individual award limitations;
– expand the type of awards available to participants;
– materially expand the class of employees eligible to participate;
– materially change the method of determining the exercise price of options;
– delete or limit the provision prohibiting repricing of options; or
– extend the term of the Incentive Plan.

Gillette may grant awards under terms differing from those provided for in the Incentive Plan where such awards are granted in substitution for awards held by employees of other corporations who become employees of Gillette or a subsidiary as the result of a merger, consolidation, or other transaction. The share limits applicable generally to awards under the Incentive Plan will not apply to awards described in the preceding sentence, including awards assumed in such a transaction.

Awards for Non-U.S. Employees. To comply with the laws in other countries in which Gillette or its subsidiaries operate or have employees or directors, the Compensation Committee may establish subplans under the Incentive Plan and modify the terms of the awards made to such employees and non-employee directors.

Plan Benefits. The future benefits or amounts that would be received under the Incentive Plan by executive officers, non-employee directors, and non-executive officer employees are discretionary and are therefore not determinable at this time. In addition, the benefits or amounts that would have been received by or allocated to such persons for the last completed fiscal year if the plan had been in effect cannot be determined.

Federal Tax Effects

The following discussion summarizes certain federal income tax consequences of the issuance and receipt of stock options under the Incentive Plan, under the law as in effect on the date of this Proxy Statement. The summary does not cover all federal employment tax or other federal tax consequences that may be associated with the Incentive Plan nor does it cover state, local, or non-U.S. taxes.

ISOs. In general, an optionee realizes no taxable income upon the grant or exercise of an ISO. However, the exercise of an ISO may result in an alternative minimum tax liability to the optionee. With some exceptions, a disposition of shares purchased under an ISO within two years from the date of grant or within one year after exercise produces ordinary income to the optionee equal to the value of the shares at the time of exercise less the exercise price. An equivalent amount is available to Gillette as a tax deduction. Any additional gain recognized in the disposition is treated as a capital gain for which Gillette is not entitled to a deduction.

NQSOs. In general, in the case of an NQSO, the optionee has no taxable income at the time of grant, but realizes income in connection with exercise of the option in an amount equal to the excess (at the time of exercise) of the fair market value of shares acquired upon exercise over the exercise price. An equivalent amount is available to Gillette as a tax deduction. Upon a subsequent sale or exchange of the shares, any recognized gain or loss after the date of exercise is treated as capital gain or loss for which Gillette is not entitled to a deduction. In general, an ISO that is exercised by the optionee more than three months after termination of employment (including retirement) is treated as an NQSO. ISOs are also treated as NQSOs to the extent they first become exercisable by an individual in any calendar year for shares having a fair market value (determined as of the date of grant) in excess of $100,000.

Other. Awards under the Incentive Plan may be subject to tax withholding. Where an award results in income subject to withholding, Gillette may require the participant to remit the necessary taxes to Gillette. If the Compensation Committee approves, participants may satisfy their tax withholding requirements by causing shares of common stock to be withheld.

In general, under Section 162(m) of the Code, remuneration paid by a public corporation to its chief executive officer or any of its other top four named executive officers, ranked by pay, is not deductible to the extent it exceeds $1,000,000 for any year. Taxable payments or benefits under the Incentive Plan may be subject to this deduction limit. However, under Section 162(m) of the Code, qualifying performance-based compensation, including income from stock options and other performance-based awards that are made under shareholder approved plans and which meet certain other requirements, is exempt from the deduction limitation. The Incentive Plan has been designed so that the Compensation Committee in its discretion may grant qualifying exempt performance-based awards under the Incentive Plan.

Under the so-called "golden parachute" provisions of the Code, the accelerated vesting of stock options and benefits paid under other awards in connection with a change of control of Gillette may be required to be valued and taken into account in determining whether participants have received compensatory payments, contingent on the change of control, in excess of certain limits. If these limits are exceeded, a portion of the amounts payable to the participant may be subject to an additional 20% federal tax and may be nondeductible to the corporation.

Equity Compensation Plan Information

The following table gives information about our common stock that may be issued upon the exercise of options under all of our existing equity compensation plans as of December 31, 2003.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining for Future Issuance Under Equity Compensation Plans (excluding securities reflected in the first column)
Equity compensation plans approved by shareholders	82,955,866	$37.15	18,634,795
Equity compensation plans not approved by shareholders[1]	2,000,000	$34.16	—
Total	84,955,866	$37.08	18,634,795

[1] Represents stock options awarded to the Chairman on January 19, 2001, his hire date. The exercise price is the average of the high and low prices of the stock on the award date. One-quarter of the options vested immediately, and the remainder vested in one-third increments over a three-year period. The option remains exercisable for 10 years from the date of award during employment. The post-retirement period is the lesser of five years or the life of the option.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR* THIS PROPOSAL, DESIGNATED AS PROPOSAL 3 ON YOUR PROXY.

Item 4 — Shareholder Proposal

This proposal was submitted by Walden Asset Management, 40 Court Street, Boston, MA 02108, the owner of 45,723 shares of Gillette's common stock. Co-filing the resolution are: Board of Pensions of the Evangelical Lutheran Church in America, 800 Marquette Ave, Suite 1050, Minneapolis, MN 55402, the owner of 66,200 shares; Calvert Asset Management Company, Inc., 4550 Montgomery Avenue, Bethesda, MD 20814, the owner of 153,535 shares; Christian Brothers Investment Services, Inc., 90 Park Avenue, 29th floor, New York, NY 10016, the owner of 44,000 shares; The Congregation of the Sisters of Charity of the Incarnate Word, P.O. Box 230969, 6510 Lawndale, Houston, TX 77223, the owner of 1,300 shares; and The Catholic Equity Fund, 1100 West Wells Street, Milwaukee, WI 53233, the owner of 2,965 shares.

Resolved, that the stockholders request that the Board of Directors take the steps necessary to declassify the election of directors by ensuring that in 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.

Proponents' Supporting Statement. This resolution requests that the Board end the present staggered board system with 1/3 of directors elected each year and instead ensure that all directors are elected annually. 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. California's Public Employees Retirement System, New York City pension funds, New York State pension funds and many others including the Council of Institutional Investors, and Institutional Shareholder Services, one of the most influential proxy evaluation services, support this position.

Shareholder resolutions to end this staggered system of voting have received large votes, averaging 62% in 2003, revealing strong investor support for this reform. Numerous companies have demonstrated leadership by changing this practice including Pfizer, Bristol-Myers Squibb, and Dow Jones.

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

We do not believe this reform would affect the continuity of director service since our directors, like those at an overwhelming majority of companies, are routinely elected with strong shareholder approval.

After listening to investor input, Pfizer changed its staggered board by taking a shareholder vote, which passed with 84%. The Pfizer 2003 proxy statement stated convincingly:

"The Board of Directors examined the arguments for and against continuation of the classified board, in light of the size and financial strength of the company, listened to the views of a number of its shareholders, and determined that the classified board should be eliminated. The Board believes that all directors should be equally accountable at all times for the company's performance and that the will of the majority of shareholders should not be impeded by a classified board. The proposed amendment will allow shareholders to review and express their opinions on the performance of all directors each year. Because there is no limit to the number of terms an individual may serve, the continuity and stability of the Board's membership and our policies and long-term strategic planning should not be affected."

We believe the Compensation, Nominating, and Audit Committees, as well as the full Board need to be fully and annually accountable to shareowners — another key reason for annually electing directors.

While the Board has studied this issue after a shareowner vote of 64% supported this reform at the 2003 stockholder meeting, it did not survey shareowners to better understand their rationale for their overwhelmingly favorable vote. Please vote yes for this reform to encourage the Board to implement it.

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

Statement of the Board in Opposition. The Board of Directors, with the assistance of its professional advisors, has given this proposal extensive consideration, particularly in light of the votes on similar proposals at the last two Annual Meetings. 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.

It is frequently argued that takeover defenses lead to complacent management, which leads to poor company performance. However, there are few statistical studies published to support this argument. To the contrary, a study jointly released by Institutional Shareholder Services and Georgia State University found that companies with stronger takeover defenses outperform other companies.

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, DESIGNATED AS PROPOSAL 4 ON YOUR PROXY.

Item 5 — Shareholder Proposal

This proposal was submitted by the United Brotherhood of Carpenters Pension Fund, 101 Constitution Avenue, N.W., Washington, D.C. 20001, the owner of 17,200 shares of Gillette's common stock.

Resolved, that the shareholders of The Gillette Corporation ("Company") request that the Board of Directors and its Audit Committee adopt a policy stating that the public accounting firm retained by our Company to audit the Company's financial statements will perform only "audit" and "audit-related" work for the Company and not perform services generating "tax fees" and "all other fees" as categorized under the U.S. Securities and Exchange Commission ("SEC") regulations.

Proponent's Supporting Statement. The issue of auditor independence has been a major concern for investors and the markets since the demise of Enron. In response to numerous incidences of accounting fraud that shook the foundations of the corporate financial auditing and reporting system, both Congress and the SEC have responded with important reforms. However, we believe that more needs to be done to limit the potential impairment of auditor independence.

The Sarbanes-Oxley Act ("Sarbanes-Oxley") was a strong effort to deal with various aspects of the auditor independence issue. Sarbanes-Oxley enhanced the role of board audit committees in retaining and monitoring audit firms, while limiting the types of non-audit services that audit firms are permitted to perform for audit clients. The SEC followed-up with enhanced reporting requirements (Release No. 33-8183, May 6, 2003) that provide investors better insight into the range of services beyond audit services for which an audit firm is being utilized. The following categories of service fees must be reported: (1) Audit Fees; (2) Audit-Related Fees; (3) Tax Fees; and (4) All Other Fees.

We believe important steps have been taken to protect auditor independence, but we also believe more needs to be done. The Congress and the SEC have acted. Now we think it is important that shareholders use the enhanced disclosure to protect the integrity of the financial reporting system.

Our resolution presents a straightforward and effective response: The Board and the Audit Committee should adopt a policy that limits the public accounting firm retained to audit the Company's financial statements to performing only "audit" and "audit-related" work. We believe that limiting the auditor to providing only audit and audit-related services would be another positive step in protecting auditor independence.

We urge your support for this reasonable measure to advance auditor independence.

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

Statement of the Board in Opposition. We recognize the important role that auditor independence plays in maintaining the integrity of our financial statements and protecting the interests of our shareholders. However, the Board of Directors believes that our internal policies, together with recently adopted federal law and SEC rules relating to auditor independence, make the policy suggested by the shareholder proposal unnecessary to maintain auditor independence. Further, our Board believes that such a policy would be undesirable as it would unnecessarily limit the ability of the Company to obtain non-audit services from its outside auditor where it is beneficial and does not affect independence.

As required by law and SEC rules, our Audit Committee, composed solely of independent directors, pre-approves the retention of the independent auditor for any non-audit service and the terms of engagement and fee for such service. Our Audit Committee exercises its business judgment to engage the outside auditors to perform particular permitted non-audit services when it is cost- or time-efficient or otherwise desirable to do so. The Audit Committee makes these determinations considering the compatibility of the non-audit services provided with the goal of maintaining auditor independence.

The Company has significantly reduced the non-audit services performed by its independent auditor, both in absolute dollars and as a percentage of total services, and has engaged other firms to perform many of those services, where appropriate. Fees paid for non-audit services were reduced over 30% from 2002 to 2003 and decreased from 52% to 40% of total services in that period. Most of the non-audit services performed by the independent auditor in 2002 and 2003 were tax services. The Audit Committee believes that these tax services were more effectively provided by the Company's outside auditor. In fact, in adopting the Sarbanes-Oxley Act, Congress decided to permit an outside auditor to perform tax services such as these for an audit client. Similarly, in adopting its rules on non-audit services, the SEC reiterated its long-standing position that an accounting firm can provide tax services to its audit clients without impairing the firm's independence. Of course, our Audit Committee must still pre-approve tax non-audit services and determine that the provision of these non-audit services is compatible with the auditor's independence.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE *AGAINST* THIS PROPOSAL, DESIGNATED AS PROPOSAL 5 ON YOUR PROXY.

Item 6 — Shareholder Proposal

This proposal was submitted by the United Association S&P 500 Index Fund, 1 Freedom Valley Drive, Oaks, PA 19456, the owner of 65,004 shares of Gillette's common stock.

Resolved, that the stockholders of The 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.

Proponent's Supporting Statement. 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). Many 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. We believe that 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.

"The failure to expense stock option grants has introduced a significant distortion in reported earnings," stated Federal Reserve Board Chairman 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 CEO'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?

Bear Stearns recently reported that more than 336 companies are expensing stock options or have indicated their intention to do so. 101 of these companies are S&P 500 companies, representing 39% of the index based on market capitalization. See Bear Stearns Equity Research, Sept. 4, 2003, "More Companies Voluntarily Adopt Fair Value Expensing of Employee Stock Options."

This Fund, along with other Building Trades' union pension funds, sponsored this expensing proposal last proxy season and received majority votes at 26 companies, including Fluor, Calpine, Georgia-Pacific, US Bancorp, Thermo Electron, Veritas Software, Apple Computer and Kohl's. We urge your support for this important reform.

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

Statement of the Board in Opposition. 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. Reports indicate that FASB expects to publish a final standard on equity-based compensation that will likely include a requirement to expense the fair value of stock compensation measured at grant date. However, until FASB adopts such a standard, we will not know whether option expensing will be adopted and what method will be utilized to value options.

Although the issue of expensing stock options has attracted significant interest from the accounting, legal, and investment communities, there is no consensus on which of the various methods for valuing stock options should be used to measure their cost. We currently report the cost of stock options on a pro forma basis in our financial statement footnotes in accordance with Financial Accounting Standards Board No. 123.

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, DESIGNATED AS PROPOSAL 6 ON YOUR PROXY.

Executive Compensation

Summary Compensation Table

Name and Principal Position	Annual Compensation: Year	Annual Compensation: Salary	Annual Compensation: Bonus	Annual Compensation: Other Annual Compensation[(1)]	Long-Term Compensation: Securities Underlying Options/SARs	All Other Compensation[(2)]
James M. Kilts	2003	$1,275,000	$2,700,000	$422,843	2,000,000[(3)]	$278,250
Chairman, Chief Executive	2002	1,047,500	1,700,000	276,333	700,000	204,600
Officer and President	2001	947,917	1,250,000	337,916	2,650,000	252,146
Edward F. DeGraan	2003	883,250	1,100,000	2,975	200,000	110,069
Vice Chairman	2002	849,000	1,272,000[(4)]	–	200,000	119,948
	2001	789,375	350,000	–	475,000	96,697
Charles W. Cramb	2003	601,500	650,000	5,810	120,000	72,038
Senior Vice President	2002	586,000	420,000	–	120,000	50,020
	2001	550,000	200,000	–	185,000	49,955
Peter K. Hoffman	2003	535,250	620,000	9,498	95,000	82,670
Vice President	2002	516,000	435,000	–	95,000	64,207
	2001	480,000	135,000	–	125,000	39,128
Ernst A. Häberli	2003	526,750	580,000	8,169	100,000	79,723
Vice President	2002	508,250	400,000	10,100	100,000	66,103
	2001	88,542[(5)]	169,000[(5)]	–	150,000	3,750

(1) This column includes perquisites and personal benefits. For Mr. Kilts, the amounts that represent at least 25% of the total amount reported for 2003 are $195,590 for the incremental cost for personal use of aircraft, $116,631 for housing, and $101,138 for tax gross-up. For the other executives, the amounts reported represent tax gross-up.

(2) All Other Compensation includes the following payments or accruals:

	Savings Match Equivalents on Deferred Bonus	Company Match to Savings Plan[(i)]	Executive Life Insurance Premiums[(ii)]	Contribution Under Estate Preservation Plan[(iii)]	Financial Planning Reimbursement[(iv)]
James M. Kilts	$162,000	$76,500	$24,750	$ –	$15,000
Edward F. DeGraan	–	99,315	6,183	391	4,180
Charles W. Cramb	–	61,290	3,248	–	7,500
Peter K. Hoffman	37,200	32,115	2,355	–	11,000
Ernst A. Häberli	34,800	31,605	2,318	–	11,000

(i) Contributions under the Employees' Savings Plan and Supplemental Savings Plan. Gillette matches 100% of each dollar contributed up to the first 5% of eligible pay, and an additional 20% of each dollar contributed over 5% (up to a maximum of 10%) for a maximum of 6% of eligible pay. Certain limitations on the amount of benefits payable under tax-qualified plans were imposed after the Employees' Savings Plan was adopted. The Company adopted the Supplemental Savings Plan, as permitted by law, for the payment of amounts to employees who were affected by those limitations, so that, in general, total benefits will continue to be calculated as before on the basis approved by the shareholders.

(ii) Value of premiums paid by Gillette during 2003 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.

(iii) Represents Gillette's non-recoverable contribution to policy maintenance costs on a $1,000,000 life insurance policy issued to Mr. DeGraan under Gillette's Estate Preservation Plan prior to enactment of the Sarbanes-Oxley Act. No other named Executive Officer received contributions from the Company under this Plan during 2003.

(iv) The named executives are eligible to receive reimbursement for personal financial planning services in an annual amount not to exceed $11,000 and, in the case of Mr. Kilts, $15,000.

(3) Includes a stock option award for 1,000,000 shares and a Stock Appreciation Right (SAR) award on 1,000,000 shares. The principal terms of both awards are described beginning on page 30 in the footnotes to the Option/SAR Grants in 2003 table.

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

(5) Amounts include three months' salary and a signing bonus in connection with his employment in October 2001.

Aggregated Option/SAR Exercises in 2003 and Year-End Option/SAR Values

This table gives information for options exercised in 2003 by each of the executive officers named in the Summary Compensation Table and the value (stock price less exercise price) of the remaining options and SARs held by those executive officers at year-end, using the average ($36.59) of the high and low trading prices of our common stock on December 31, 2003.

Name	# of Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options/SARs Held at 12/31/03		Value of Unexercised In-The-Money Options/SARs at 12/31/03	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Mr. Kilts	–	$ –	2,166,665	3,183,335	$7,490,322	$11,911,178
Mr. DeGraan	32,000	668,720	1,181,332	391,668	4,338,670	1,462,590
Mr. Cramb	8,236	155,969	630,212	261,668	2,057,722	1,014,648
Mr. Hoffman	24,000	382,560	354,498	200,002	1,452,650	765,215
Mr. Häberli	–	–	133,333	216,667	565,166	754,084

Option/SAR Grants in 2003

This table shows all options to purchase our common stock and SARs granted in 2003 to each of the executive officers named in the Summary Compensation Table, the award date present value for each option using a Black-Scholes option pricing model, and the actual value realized on SARs.

	Individual Awards				Award Date Value
Name	Number of Shares Underlying Options/SARs Granted[1]	% Of Total Options/SARs Granted To Employees In 2003	Per Share Exercise Price	Expiration Date	Award Date Present Value[2]
Mr. Kilts	1,000,000	7.9%	$32.38	6/19/13	$9,000,000
	1,000,000[3]	7.9%	32.38	1/02/04	3,940,000[3]
Mr. DeGraan	200,000	1.6%	32.38	6/19/13	1,800,000
Mr. Cramb	120,000	.9%	32.38	6/19/13	1,080,000
Mr. Hoffman	95,000	.7%	32.38	6/19/13	855,000
Mr. Häberli	100,000	.8%	32.38	6/19/13	900,000

(1) Option awards in 2003 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 non-incentive 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 post-retirement 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	6/19/13
Stock Price Volatility	33.2%
Dividend Yield	2.0%
Risk-Free Rate of Return	2.4%
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 and continued employment with Gillette.

(3) Stock Appreciation Rights were awarded to Mr. Kilts under an August 6, 2003, amendment to his Employment Agreement and represented the right to the appreciation in one million shares of Gillette common stock for the period from June 19, 2003, through January 2, 2004. By its terms, the rights were automatically converted into 108,480.1762 stock units valued at the fair market value of Gillette common stock on January 2, 2004 ($36.32). Subject to contingencies, the share units vest on January 19, 2005, if Mr. Kilts continues employment with Gillette through that date and are payable in cash one year from termination of his employment.

With respect to Mr. Kilts' Stock Appreciation Rights, the value reported represents the actual value realized from award date to the date of conversion.

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. For the executive officers named in the Summary Compensation Table, the annual compensation covered by the Plan is the same as the annual compensation indicated on the Summary Compensation Table under "Salary" and "Bonus" on page 29. A benefit becomes payable at retirement for employees with at least 5 years of service.

As of December 31, 2003, the executive officers named in the Summary Compensation Table had the following years of service under the Retirement Plans: Mr. Kilts, 3 years; Mr. DeGraan, 34 years; Mr. Cramb, 34 years; Mr. Hoffman, 32 years; and Mr. Häberli, 2 years.

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 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. 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)
$2,000,000	300,000	500,000	1,000,000
3,000,000	450,000	750,000	1,500,000
4,000,000	600,000	1,000,000	2,000,000

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 vested 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 was obligated to make option awards of not less than 650,000 shares in 2002 and 2003. In June 2002 and June 2003, he was awarded options on 700,000 and one million shares, respectively.

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.

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. Options granted prior to 2002 will remain exercisable for the lesser of five years or the remainder of their original term. Options granted beginning in 2002 will remain exercisable for their original term. He will also be subject to a two-year non-competition agreement.

In the event of a change in control, change-in-control provisions substantially similar 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.

On August 6, 2003, the Company and Mr. Kilts agreed to renew his employment agreement for an additional year through January 19, 2005. Under the terms of the renewal, the Company awarded Mr. Kilts one million Stock Appreciation Rights, to be valued based upon the difference between the fair market value of the Company's common stock on June 19, 2003, and January 2, 2004. On January 2, 2004, the value of the Stock Appreciation Rights was determined to be $3,940,000, and under the terms of the renewal agreement, they were automatically converted into stock units, based on the fair market value of the Company's common stock on that date. The stock units earn dividend equivalent units and are subject to market risk until paid. The stock units are payable in cash based upon the fair market value of the Company's common stock on their payment date, one year from Mr. Kilts' retirement. In addition, the renewal agreement provides that the Company award Mr. Kilts one million stock options under the 1971 Stock Option Plan on January 2, 2004. Subject to certain contingencies, both the stock option and stock unit awards would be forfeited if Mr. Kilts does not remain with the Company for the full renewal term.

On March 24, 2004, the Company and Mr. Kilts amended his employment agreement to extend it for an additional year to January 19, 2006. The amendment provides that Mr. Kilts will be eligible for long-term incentive award grants under the Company's long-term incentive plan in effect in June 2004 and June 2005. By their terms, these awards will vest upon Mr. Kilts' retirement if he remains employed through January 19, 2006, and will require that he retain any shares of the

Company's common stock acquired upon exercise of any options granted under these awards for one and two years, respectively, from his retirement date. The Board of Directors will determine the amounts and other terms of such awards.

Mr. DeGraan has a one-year renewable employment agreement that provides for a minimum base salary which may be increased (but once increased cannot be reduced) and participation in incentive and benefit plans generally offered to peer executives. The agreement provides 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 post-employment protections for the Company, such as non-competition and non-solicitation, 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.

Each of the other executive officers named in the Summary Compensation Table has a renewable two-year employment agreement that provides for a minimum base salary which may be increased (but once increased cannot be reduced) and participation in incentive and benefit plans generally offered to peer executives. 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 post-employment non-competition and non-solicitation, 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.

Each of the executive officers named in the Summary Compensation Table has a change-in-control agreement. 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.

Compensation Committee Report

Compensation Philosophy

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

The Compensation Committee is composed of five 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.

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, the Board has requested management to refrain from providing quarterly earnings guidance to the financial analysts and others who follow the Company's stock so that management will focus 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:

- Recognizing individual contributions to growth in the Company's fundamental value.
- Attracting and retaining highly-qualified executives.
- Linking executive compensation to the achievement of the Company's Strategic Growth Plan.
- Subjecting a significant portion of an executive's compensation 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 Long-Term Incentive Awards

The principal elements of our executive compensation program are salaries, bonuses, and long-term incentives. We approved the salary of each executive officer and all bonus and long-term incentive awards during 2003. In addition, each executive may participate in Gillette executive benefit plans such as the Executive Life Insurance Program, as well as broad-based plans that include the Employees' Savings, Supplemental Savings, Retirement, and Supplemental Retirement Plans. Information about these plans and programs for 2003 is found in the Summary Compensation Table on page 29 and the Retirement Plan Table on page 31.

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 net income per share, return on invested capital, and net sales. The amount we allocate to the Company's annual bonus pool relates directly to the degree to which the Company meets the annual growth goals.

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, 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 2003, 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.

Long-Term Incentive Awards

During 2003, stock options were awarded to employees who 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 have made 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.

As discussed on page 18, the Compensation Committee and the Board of Directors have approved the adoption of the 2004 Long-Term Incentive Plan, subject to approval by the shareholders. Since the 1971 Stock Option Plan was first adopted, there have been significant changes in compensation design. The 2004 Long-Term Incentive Plan will broaden the array of equity alternatives available to the Compensation Committee when designing future compensation incentives. We believe that equity awards provide important medium- and long-term incentives for directors, officers, and other key employees to achieve Gillette's Strategic Growth Plan. We also believe that a variety of equity incentives consistent with those available to other leading companies is necessary for Gillette to compete for, motivate, and retain highly qualified directors, executives, and other key employees.

While the Company generally agrees with the concept of recognizing the compensation cost of options based on a fair value approach, it 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 enable 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.

Stock Ownership Guidelines and Retention Requirements

In December 2003, we approved Stock Ownership guidelines for the Chief Executive Officer and the executive officers who report directly to the Chief Executive Officer to further align their interests with the interests of the shareholders. Under these guidelines, they are expected to accrue and maintain Company stock in an amount equal to a multiple of their base salary. The guidelines are two times' salary for the Chief Executive Officer and one times' salary for the executive officers who report directly to the Chief Executive Officer. The participants are expected to comply with the ownership guidelines within a period of five years.

In addition, we adopted a one-year retention requirement for net shares realized upon the exercise of options or the vesting of restricted stock granted under the 2004 Long-Term Incentive Plan. The retention requirements apply to the Chief Executive Officer and the executive officers who report directly to the Chief Executive Officer.

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 2003, we retained Hewitt Associates as our consultant.

The Company Achieved Its Objectives in 2003

The Company achieved all, and exceeded many, of its objectives set for 2003. Notable among those achievements, in comparison to 2002, were:

– Net sales increased 9%.
– Profit from operations increased 11%.
– Net income per share from continuing operations, diluted, increased 18% to a record $1.34.
– Profit from operations margin increased by 30 basis points to 21.7%.
– Net income increased by 14%.
– Days sales outstanding decreased from 43 to 32.

– Return on invested capital increased by 5 percentage points.
– Free cash flow* was $2.3 billion.

In addition, many other critical objectives were met. Franchise market and share targets were reached. The financial management and planning functions were improved. The Functional Excellence program, a multiyear initiative funded through operations that is designed to improve capabilities and reduce costs, is on schedule. 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 2003.

Compensation of the Chief Executive Officer

Mr. Kilts' compensation in 2003, including base salary, target bonus, number of stock options, and Stock Appreciation Rights, was determined by his employment agreement, which was amended in August 2003 to extend its term from January 19, 2004, to January 19, 2005, and further extended in March 2004 to extend its term through January 19, 2006. Prior to entering into the employment agreement, we engaged an independent consultant who advised us that the compensation and perquisites included in the employment agreement were consistent with industry practice. The details of Mr. Kilts' employment agreement are described on page 32 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 29. 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, which is composed of five 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.

In 2003, Mr. Kilts not only met, but also exceeded, the objectives assigned to him by the Board of Directors. In addition to the achievements noted above, in large part through his leadership, the Company has significantly improved its individual and organizational capabilities, substantially strengthened its business despite increased competition, created a clear road map for sustained growth, developed a culture of collaboration and achievement, and fostered credibility with the investment community.

* Net cash provided by operating activities, net of additions to and disposals of property, plant and equipment. It is not a measure of the residual cash flow that is available for discretionary expenditures, since the Company has non-discretionary obligations, such as debt service, that are not deducted from the measure. See the Company's Form 10-K for the year ended December 31, 2003, under "Financial Condition" for a complete definition and reconciliation to GAAP.

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. The 2004 Long-Term Incentive Plan being submitted for shareholder approval is also intended to permit the award of exempt performance-based compensation.

It is our policy generally to design executive compensation to be deductible under Section 162(m). However, we retain 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:
Dennis F. Hightower (Chair)
Wilbur H. Gantz
Herbert H. Jacobi
Fred H. Langhammer
Marjorie M. Yang

Other Information

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, proof of your ownership of Gillette stock, such as a bank or brokerage account statement, may be requested 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 will be webcast on May 20, 2004. You are invited to visit *www.gillette.com* at 10:00 a.m. on May 20, 2004, to hear the webcast of the Meeting.

Householding Information

We have adopted a procedure approved by the Securities and Exchange Commission 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 receive additional copies of the current Annual Report and Proxy Statement, or if you wish to revoke your consent and receive separate copies of future Annual Reports and Proxy Statements, please contact ADP as described above.

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, should be made 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*.

Shareholder Proposals for the 2005 Proxy Statement

Any shareholder satisfying the SEC requirements and wishing to submit a proposal to be included in the Proxy Statement for the 2005 Annual Meeting of Shareholders must submit the proposal in writing to the Corporate Secretary, The Gillette Company, Prudential Tower Building, 48^{th} Floor, Boston, MA 02199. The proposal must be received by December 13, 2004, for the Company to consider it for inclusion in the Proxy Statement for the 2005 Annual Meeting of Shareholders.

Director Nominations and Other Business for Presentation at the 2005 Annual Meeting

Our bylaws, as permitted by the rules of the SEC, establish procedures that a shareholder must follow to nominate persons at an Annual Meeting 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. For the 2005 Annual Meeting of Shareholders, notification must be received by Gillette no later than February 20, 2005, but no earlier than January 21, 2005. If a shareholder notifies the Company after February 20, 2005, of an intent to present a proposal or nominate a director at the 2005 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. Nominations must be in the form and contain the information provided in Article V of our bylaws, including information regarding the nominating shareholder, certain representations and consents, a description of any arrangements between the nominee and nominating shareholder, information required by Section 14 of the Securities Act, and a description of the shareholder's intentions regarding delivery of proxies.

Directions to The Hilton Rye Town
699 Westchester Avenue
Rye Brook, New York

From New York City

West Side Highway (Henry Hudson Parkway Rt. 9A) to George Washington Bridge and Rt. 95 North and East. Follow to Exit 1C, Rt. 87 North (Major Deegan Expressway and Gov. Thomas E. Dewey, NY Thruway). Follow NY Thruway North to Exit 4, Cross County Parkway. Proceed to Hutchinson River Parkway North and continue to Exit 26E (Westchester Ave). Continue on Westchester Avenue, counting six traffic lights following signs for Port Chester 120A. At the sixth light, turn left into the hotel entrance.

FDR Drive to Triboro Bridge to Bruckner Expressway (Rt. 278). Proceed to Rt. 95 North and Exit 21. Follow Rt. 287 West to Exit 10 (Webb Avenue, Bowman Avenue). Take Exit 10, go straight off the ramp to your second traffic light and bear right onto Westchester Avenue. Proceed to your third traffic light and turn left into the hotel entrance.

From Connecticut

Follow Rt. 95 South to Exit 21 N.Y. Follow Rt. 287 West to Exit 10 (Webb Avenue, Bowman Avenue). Take Exit 10, go straight off the ramp to your second traffic light and bear right onto Westchester Avenue. Proceed to your third traffic light and turn left into the hotel entrance.

From Tappan Zee Bridge

Rt. 87 South to Exit 8, Rt. 287 East. Proceed on Rt. 287 East to Exit 10 Westchester Avenue. Continue East on Westchester Avenue following signs for Port Chester 120A. At the fourth traffic light on Westchester Avenue, turn left into the hotel entrance.

Appendix A—Audit Committee Charter

A. Purpose

The Audit Committee is appointed by the Board to: (a) assist the Board 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, (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 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, the ramifications of using 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 or non-GAAP information proposed to be included in the Company's financial statements or any other public disclosure, and the reasons for such pro forma or non-GAAP information;
   (g) the annual audited financial statements and quarterly financial statements, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in its SEC filings; and
   (h) the presentation of the financial statements and any judgments made in connection with the preparation of such financial statements.
3. Recommend to the Board of Directors whether the audited consolidated financial statements should be included in the Company's Annual Report filed with the SEC on Form 10-K.
4. Review and discuss the earnings press releases, Forms 10-K and 10-Q, as well as financial information and earnings guidance (if any) given to analysts and rating agencies.
5. Discuss policies with respect to risk assessment, risk management, the Company's major financial risk exposures, and the steps management has taken to monitor and control such exposures.
6. Obtain reports from management, the Company's senior internal auditing executive, and the independent auditor that the Company and its subsidiary/foreign-affiliated entities are in conformity with applicable legal requirements and the Company's Code of Conduct and Financial Code of Ethics. Review reports and disclosures of insider and affiliated party transactions. Advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with the Company's Code of Conduct and Financial Code of Ethics.
7. Review with the Company's General Counsel any legal matter that could have a significant impact on the Company's financial statements and the effectiveness of the Company's compliance program in detecting and preventing violations of the Company's Code of Conduct.

8. Establish procedures for the receipt, retention, and treatment of complaints received from employees or other parties about the Company's accounting policies, internal controls, or the audit of the Company's financial statements and for the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters.

Independent Auditor

1. The Audit Committee shall have the sole authority to appoint or replace the independent auditor (subject, if applicable, to shareholder ratification). The Audit Committee shall be directly responsible for the compensation and oversight of the work of the independent auditor for the purpose of preparing or issuing an audit report or related work. The independent auditor shall report directly to the Audit Committee.
2. Review at least 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; (c) any steps taken to deal with such issues; and (d) all relationships between the independent auditor and the Company.
3. The Audit Committee shall annually evaluate the qualifications, performance, and independence of the independent auditor and the lead partner of the independent auditor, taking into consideration: the foregoing reports and the independent auditor's work throughout the year, the disclosures of the independent auditor required by Independence Standards Board Standard No.1, and the views of the Internal Auditor and management and report its conclusions to the Board.
4. Review and approve the audit fees and any other compensation proposed to be paid to the independent auditor in accordance with the Audit Committee's Pre-Approval Policy and Procedures.
5. Pre-approve the retention of the independent auditor for any auditing service or any non-audit service that is not prohibited under Section 10A (g) of the Securities Exchange Act and the terms of engagement and fee for such service, subject to the de minimis exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which are approved by the Audit Committee prior to the completion of the audit. The Audit Committee may delegate the authority to grant such pre-approvals to one or more designated members of the Audit Committee, provided that the approvals granted by such members shall be reported to the full Audit Committee at the next regular Audit Committee meeting.
6. Discuss with the independent auditor any relationships or services that may affect the objectivity and independence of the independent auditor as stipulated in Independence Standards Board Standard No.1, and matters relating to the conduct of audits required to be disclosed 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 not implemented, (b) communications between the audit team and the firm's national office relating to auditing or accounting issues arising out of the engagement, (c) the "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 management, and (d) any issues identified or problems encountered by the independent auditor with management's response to such adjustments, communications, or letter.
8. Resolve any disagreements between management and the independent auditor.
9. Review the annual audit plans of the independent auditor.
10. Ensure the rotation of the audit partners as required by law.
11. Set clear hiring policies for employees and former employees of the independent auditor.
12. 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 appointment and replacement of the senior internal auditing executive.
3. Review the responsibilities, organizational structure, budget, and qualifications of the internal audit function.
4. Review reports of the Internal Auditor, including reports of audit firms retained to provide internal audit services, management responses, plans for corrective actions, and 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 changes in the Company's internal controls or in other factors that could significantly affect these controls.
4. Review the reports of the CEO and CFO (in connection with their required certifications) regarding internal controls and the independent auditor's attestation of the reports prior to the filing of the Company's Form 10-K, 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.
5. Review major issues regarding the adequacy of the Company's internal controls and any special audit steps adopted in light of control deficiencies.

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 requirements of the New York Stock Exchange, the Company's Corporate Governance Principles, Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Securities and Exchange Commission. In addition, each member shall meet the financial literacy requirements of the New York Stock Exchange. At least one member shall qualify as an "Audit Committee Financial Expert" as that term is defined by the rules and regulations of the Securities and Exchange Commission.
2. The members of the Committee shall be elected annually by resolution passed by a majority of the Board of Directors (based on the recommendation of the Nominating and Corporate Governance Committee) at its first meeting following the Annual Meeting of Shareholders and shall serve until the first meeting of the Board of Directors following the next Annual Meeting of Shareholders and until their successors are elected and qualified 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 at least quarterly. Committee meetings shall be called and conducted in the manner provided for in the Bylaws of the Company. The Committee shall meet in executive session periodically with each of the Chief Financial Officer (and other members of management, as it deems appropriate), the Internal Auditor, and the independent auditor separately.
2. The Audit Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

E. Advisors and Authority

1. The Committee shall have the authority, at the expense of the Company, to retain such accounting, legal, and other advisors as it deems appropriate without Board or management approval.
2. The Committee will receive from the Company appropriate funding, as determined by the Committee, for the payment of: (i) any advisors employed by the Committee, as described above; or (ii) ordinary administrative expenses of the Committee that are necessary and appropriate in carrying out its duties.

F. Performance Evaluations

1. The Committee shall evaluate its performance annually.

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.

2003 Form 10-K

Index to The Gillette Company 2003 Form 10-K

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, 2003

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, 2003, (the last day of our most recently completed second quarter) was approximately $32,033,000,000.*

The number of shares of Gillette Common Stock outstanding as of January 31, 2004, was 1,006,992,734.

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 2003 Annual Report to Shareholders (the "2003 Annual Report")	Parts I and II
2. The Gillette Company 2004 Proxy Statement (the "2004 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

Founded in 1901, we are a Delaware corporation with our registered office in Wilmington, Delaware. As of December 31, 2003, we had manufacturing operations at 32 facilities in 14 countries. Our products are sold in over 200 countries and territories.

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

Blades and Razors

We are the world leader in blades and razors. We sell male shaving systems under such brands as Mach3Turbo, Mach3, SensorExcel, Sensor, Atra, and Trac II, and disposable razors under the Sensor3, Custom Plus, and Good News brands. In January 2004, we announced M3Power, a battery-powered wet shaving system for men, which is scheduled to be availaible to consumers in North America in May 2004. In August 2003, we announced the Sensor3 shaving system for men, which will be available to consumers in North America in March 2004. 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. In July 2003, we introduced the Venus Divine shaving system for women, which is scheduled to be available to consumers in North America in April 2004.

Duracell

We are the world leader in alkaline batteries for consumers. Our products include 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, all sold under the Oral-B brand.

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, skin care products, and antiperspirants/deodorants under brands such as Gillette Series, Satin Care, Right Guard, Soft & Dri, and Dry Idea.

Business Segments

"Operating Segments and Related Information," which contains information on net sales, profit from operations, identifiable assets, capital expenditures, and depreciation for each of the last three years is incorporated by reference from page 64 of the 2003 Annual Report.

Distribution

In major geographic markets, our products are sold directly to retailers and to wholesalers for resale through retail stores. Oral Care products and Braun personal diagnostic appliances 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 13% of net sales in 2003, compared with 12% of net sales in both 2002 and 2001. These sales were made 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 our business segments, 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 product performance, price, marketing, advertising, and promotion. Our major competitors worldwide in blades and razors include Energizer Holdings, Inc., with its Schick product line, and, in certain countries, its Wilkinson Sword product line, 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 and with product life cycles typically shorter than in our other businesses.

Employees
At year-end, we employed approximately 29,400 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 2003, research and development expenditures were $202 million, compared with $185 million in 2002 and $187 million in 2001.

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 net property, plant, and equipment by geographic area for each of the last three years is incorporated by reference from page 65 of the 2003 Annual 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, Committee Assignments, Code of Conduct, and Code of Ethics for Financial Managers and the Chief Executive Officer, including any waivers from or amendments to the Code of Ethics. We also post the procedure for contacting our Board of Directors.

The Corporate Governance Principles, Committee Charters, Code of Conduct, and Code of Ethics are each available in print to any shareholder upon request by writing to the Office of the Secretary, The Gillette Company, Prudential Tower Building, Boston, Massachusetts, 02199.

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
	Naucalpan, Mexico	Owned
	Manaus, Brazil	Owned
Duracell	Nanping, China	Owned/Leased
	Aarschot, Belgium	Owned
	Dongguan, China	Owned/Leased
	Lancaster, SC (US)	Owned
	LaGrange, GA (US)	Owned
	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 Distribution Centers	Romeoville, IL (US)	Leased
	Ontario, CA (US)	Leased
	Hemel Hempstead, UK*	Leased
	Devens, MA (US)*	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 condition, results of operations, or liquidity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SHAREHOLDERS

No matters were submitted to a vote of shareholders during the fourth quarter of fiscal 2003.

EXECUTIVE OFFICERS OF REGISTRANT

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, Chief Executive Officer and President	Chairman, Chief Executive Officer and President since January 2001, February 2001 and November 2003, 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	56
Edward F. DeGraan Vice Chairman of the Board	Vice Chairman of the Board since November 2003; President and Chief Operating Officer, July 2000 – November 2003; 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	60
Michael T. Cowhig Senior Vice President	President, Global Technical and Manufacturing, since January 2004; Senior Vice President, Global Manufacturing and Technical Operations, September 2002 – December 2003; 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	57
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	57
Edward E. Guillet Senior Vice President	Senior Vice President, Human Resources, since July 2001; Vice President, Corporate Human Resources, July 1997 – June 2001	52
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	57

Name and Current Position	Five-Year Business History	Age
Kathy S. Lane Senior Vice President and Chief Information Officer	Senior Vice President, Gillette Information Technology, 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	46
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	63
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	47
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	55
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	56
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	58
Joseph F. Dooley Vice President	President, Commercial Operations North America, since July 2000; Senior Vice President, General Merchandise — Commercial Operations North America, March 1999 – June 2000; Senior Vice President and General Manager, Duracell North America, September 1997 – February 1999	50
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	55
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	55

Name and Current Position	Five-Year Business History	Age
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	50
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	45

The Executive Officers hold office until the first meeting of the Board of Directors following the Annual Meeting of Shareholders 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, RELATED SHAREHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

The information required by this item with respect to our common stock appears in the 2003 Annual Report incorporated by reference from the inside back cover under the caption, "Common Stock," and at page 66 of the 2003 Annual Report under the caption, "Quarterly Financial Information," and is incorporated herein by reference. As of January 31, 2004, there were 43,106 Gillette stockholders of record.

The Company has two share repurchase programs in place that, in total, authorize the purchase of up to 200 million shares in the open market or in privately negotiated transactions, depending on market conditions and other factors. During 2003, the Company repurchased 40,755,300 shares for $1.27 billion.

A summary of the repurchase activity for the Company's fourth quarter follows.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1–October 31	—	—	—	57,000,000
November 1–November 30	3,218,150	$ 33.35	3,218,150	53,781,850
December 1–December 31	2,781,850	$ 34.82	2,781,850	51,000,000
Total Fourth Quarter	6,000,000(2)	$ 34.03	6,000,000	51,000,000

(1) The Company has two share repurchase programs. The first was announced on 9/18/97 authorizing the purchase of up to 25 million shares of the Company's common stock and was subsequently amended to authorize the purchase of up to 150 million shares. The second program was announced on 9/16/03 and authorizes the purchase of up to 50 million shares of the Company's common stock. There is no expiration date specified for either of the programs. The Company intends to repurchase stock under each of the programs in the future.

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

ITEM 6. SELECTED FINANCIAL DATA

The information required by this item is incorporated by reference from page 67 of the 2003 Annual 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 is incorporated by reference from pages 22 through 35 of the 2003 Annual 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 include the following, some of which are described in greater detail below:

- the pattern of our sales, including variations in sales volume within periods;
- consumer demands and preferences, including the acceptance by our customers and consumers of new products and line extensions;
- the mix of products sold;
- our ability to control and reduce our internal costs and the cost of raw materials;
- competitive factors, including prices, promotional incentives, and trade terms for our products, and our response, as well as those of our customers and competitors, to changes in these terms;
- product introductions and innovations by us and our competitors;
- technological advances by us and our competitors;
- new patents granted to us and our competitors;
- changes in exchange rates in one or more of our geographic markets;
- changes in laws and regulations, including trade regulations, accounting standards and tax laws, governmental actions affecting the manufacturing and sale of our products, unstable governments and legal systems, and nationalization of industries;
- changes in accounting policies;
- acquisition, divestiture, and collaborative activities by us, our competitors, or customers; and
- the impact of general political and economic conditions or hostilities in the United States and in other parts of the world.

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. In March 2003, Energizer Holdings, Inc. acquired the Schick blade and razor business and, in certain countries, the Wilkinson Sword blade and razor business, from Pfizer Inc. We anticipate increased competition in our Blades and Razors segment as a result of this change in business ownership. Aggressive competition within our markets to preserve, gain, or regain market share can affect our results in any given period.

CHANGES IN TECHNOLOGY AND NEW PRODUCT INTRODUCTIONS

In most product categories in which we compete, there are continuous technological changes and frequent introductions of new products and line extensions. Our ability to introduce new products and/or extend lines of established products successfully will depend on, among other things, our ability to identify changing consumer tastes and needs, develop new technologies, differentiate our products, and gain market acceptance of new products. We cannot be certain that we will successfully achieve these goals.

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

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

INTELLECTUAL PROPERTY

We rely upon patent, copyright, trademark, and trade secret laws in the United States and in other countries to establish and maintain our proprietary rights in technology, products, and our brands. Our intellectual property rights, however, could be challenged, invalidated, or circumvented. We do not believe that our products infringe the intellectual property rights of others, but any such claims, if they were successful, could result in material liabilities or loss of business.

COST-SAVINGS STRATEGY

We have implemented and approved a number of programs designed to reduce costs. Such programs will require, among other things, the consolidation and integration of facilities, functions, systems, and procedures, all of which present significant management challenges. There can be no assurance that such actions will be accomplished as rapidly as anticipated or that the full extent of expected cost reductions will be achieved.

SALES AND OPERATIONS OUTSIDE OF THE UNITED STATES

Sales outside of the United States represent a substantial portion of our business. In addition, we have a number of manufacturing facilities and suppliers located outside of the United States. Accordingly, the following factors could adversely affect operating results in any reporting period:

– changes in political or economic conditions;
– trade protection measures;
– import or export licensing requirements;
– changes in the mix of earnings taxed at varying rates;
– changes in regulatory requirements or tax laws; and
– longer payment cycles in certain countries.

We are also exposed to foreign currency exchange rate risk with respect to our sales, profits, and assets and liabilities denominated in currencies other than the U.S. dollar. Although we use instruments to hedge certain foreign currency risks (through foreign currency forward, swap, and option contracts and non-U.S. dollar denominated financings) and we are partially hedged through our foreign manufacturing operations, there can be no assurance that we will be fully protected against foreign currency fluctuations and our reported earnings will be affected by changes in exchange rates.

RETAIL ENVIRONMENT

With the growing trend toward retail trade consolidation, especially in developed markets such as the United States and Europe, we are increasingly dependent upon key retailers whose bargaining strength is growing. Accordingly, we face greater pressure from significant retail trade customers to provide more favorable trade terms.

We can be negatively affected by changes in the policies of our retail trade customers, such as trade inventory levels, access to shelf space, and other conditions. Many of our customers, particularly our high-volume retail trade customers, have engaged in accelerated efforts to reduce inventory levels and shrinkage and to change inventory delivery systems. While we expect the level of trade inventory of our products to decline over time, the speed and magnitude of such reductions and/or our inability to develop satisfactory inventory delivery systems could adversely affect operating results in any reporting period.

EFFECT OF POTENTIAL MILITARY ACTION OR WAR

Recent military hostilities and the threat of future hostilities, as well as attendant political activity, have created an atmosphere of economic uncertainty throughout the world. A disruption in our supply chain, an increase in import or export costs, and/or other macroeconomic events resulting from military or political events could adversely affect operating results in any reporting period.

ITEM 7A. DISCLOSURES CONCERNING MARKET RISK SENSITIVE INSTRUMENTS

The information required by this item is incorporated by reference from page 32 of the 2003 Annual 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 the 2003 Annual Report at the pages indicated below and are incorporated by reference.

(1)	Independent Auditors' Report	Page 37
(2)	Consolidated Statement of Income for the Years Ended December 31, 2003, 2002, and 2001	Page 38
(3)	Consolidated Balance Sheet at December 31, 2003 and 2002	Page 39
(4)	Consolidated Statement of Cash Flows for the Years Ended December 31, 2003, 2002, and 2001	Page 40
(5)	Consolidated Statement of Stockholders' Equity for the Years Ended December 31, 2003, 2002, and 2001	Page 41
(6)	Notes to Consolidated Financial Statements	Pages 42 through 66
(7)	Computation of Per Share Earnings	Pages 38, 44, 45, 66, 67
(8)	Quarterly Financial Information	Page 66

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Our management, under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), has evaluated the effectiveness of our disclosure controls and procedures as defined in Securities and Exchange Commission ("SEC") Rule 13a-15(e) as of the end of the period covered by this report. Management has concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act is communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure and is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

During 2003, there were no significant changes in internal controls over financial reporting that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Part III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

The information required by this item with respect to our Directors is incorporated by reference from the 2004 Proxy Statement under the captions, "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance." The information required for our Executive Officers appears at the end of Part I of this report at pages 4 through 6.

We have an Audit Committee composed of independent directors. The information required by this item with respect to the Audit Committee and its members is incorporated by reference from the 2004 Proxy Statement under the captions, "Committees and Meetings" and "Audit Committee Report."

We have adopted a Code of Ethics for Financial Managers and the Chief Executive Officer. The information relating to the availability of our Code of Ethics appears on page 2 of this report under the caption, "Availability of Reports and Other Information."

The information required by this item with respect to procedures by which shareholders may recommend nominees to the Board of Directors is incorporated by reference from the 2004 Proxy

Statement under the captions, "Identifying and Evaluating Nominees for Director" and "Director Nominations and Other Business for Presentation at the 2005 Annual Meeting."

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item appears in the 2004 Proxy Statement under the captions, "Non-employee Director Compensation and Stock Ownership," "Executive Compensation," "Compensation Committee Report," and "Gillette Comparative Five-Year Investment Performance," and is incorporated by reference.

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

The information required by this item is incorporated by reference from our 2004 Proxy Statement under the captions, "Securities Ownership of Directors and Officers," "Five-Percent Beneficial Ownership" and "Equity Compensation Plan Information."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference from the 2004 Proxy Statement under the captions, "Related Transactions" and "Employment Contracts, Termination of Employment, and Change-in-Control Arrangements."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference from the 2004 Proxy Statement under the caption, "Audit Committee Report."

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 the 2003 Annual Report at the pages indicated below and are incorporated into Part II by reference.

(1)	Independent Auditors' Report	Page 37
(2)	Consolidated Statement of Income for the Years Ended December 31, 2003, 2002, and 2001	Page 38
(3)	Consolidated Balance Sheet at December 31, 2003 and 2002	Page 39
(4)	Consolidated Statement of Cash Flows for the Years Ended December 31, 2003, 2002, and 2001	Page 40
(5)	Consolidated Statement of Stockholders' Equity for the Years Ended December 31, 2003, 2002, and 2001	Page 41
(6)	Notes to Consolidated Financial Statements	Pages 42 through 66
(7)	Computation of Per Share Earnings	Pages 38, 44, 45, 66, 67

Schedules

All 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 13, 2003, filed as Exhibit 3.1 to The Gillette Company Quarterly Report on Form 10-Q for the period ended March 31, 2003, 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 as Exhibit 4(a) to The Gillette Company Annual Report on Form 10-K for the year ended December 31, 2002, Commission File No. 1-922, incorporated by reference herein.

(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/A, dated March 25, 2003, 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 herewith.

*(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 10.1 to The Gillette Company Quarterly Report on Form 10-Q for the period ended September 30, 2003, Commission File No. 1-922, incorporated by reference herein.

*(g) Stock Option Agreement, dated January 19, 2001, between The Gillette Company and James M. Kilts, filed as Exhibit 10(g) to The Gillette Company Annual Report on Form 10-K for the year ended December 31, 2002, Commission File No. 1-922, incorporated by reference herein.

*(h) 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.

*(i) Amendment to Employment Agreement, dated March 19, 2002, between The Gillette Company and Edward F. DeGraan, filed herewith.

*(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, as amended March 13, 2003, between The Gillette Company and Berkshire Hathaway Inc., filed as Exhibit 4.1 to The Gillette Company Current Report on Form 8-K, dated March 14, 2003, 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) Description of The Gillette Company Senior Executive Financial Planning Program, filed herewith.

*(o) 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.

*(p) 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.

*(q) 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.

(r) $862,500,000 364-Day Credit Agreement, dated as of October 14, 2003, 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, 2003, Commission File No. 1-922, incorporated by reference herein.

(s) $287,500,000 5-Year Credit Agreement, dated as of October 14, 2003, among The Gillette Company, JPMorgan Chase Bank, as agent, and a syndicate of domestic and foreign banks, filed as Exhibit 10.3 to The Gillette Company Quarterly Report on Form 10-Q for the period ended September 30, 2003, 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 2003 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.

31 (a) Certification of Chief Executive Officer Pursuant to Rule 13a-14(a), filed herewith.

(b) Certification of Chief Financial Officer Pursuant to Rule 13a-14(a), filed herewith.

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

(b) Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, 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 November 4, 2003, containing one exhibit: the press release issued by the Company on November 4, 2003, reporting its earnings for the third quarter and nine months.

The Company filed a current report on Form 8-K on December 1, 2003, containing two exhibits: a Terms Agreement and the Note related to the public offering of the Company's Floating Rate Notes due 2043.

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: February 27, 2004

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, President and Director	February 27, 2004
* EDWARD F. DEGRAAN Edward F. DeGraan	Vice Chairman of the Board of Directors and Director	February 27, 2004
* CHARLES W. CRAMB Charles W. Cramb	Senior Vice President and Chief Financial Officer	February 27, 2004
* CLAUDIO E. RUBEN Claudio E. Ruben	Vice President, Controller and Principal Accounting Officer	February 27, 2004
* ROGER K. DEROMEDI Roger K. Deromedi	Director	February 27, 2004
* WILBUR H. GANTZ Wilbur H. Gantz	Director	February 27, 2004
* MICHAEL B. GIFFORD Michael B. Gifford	Director	February 27, 2004
* RAY J. GROVES Ray J. Groves	Director	February 27, 2004
* DENNIS F. HIGHTOWER Dennis F. Hightower	Director	February 27, 2004
* HERBERT H. JACOBI Herbert H. Jacobi	Director	February 27, 2004
* NANCY J. KARCH Nancy J. Karch	Director	February 27, 2004
* FRED H. LANGHAMMER Fred H. Langhammer	Director	February 27, 2004
* JORGE PAULO LEMANN Jorge Paulo Lemann	Director	February 27, 2004
* MARJORIE M. YANG Marjorie M. Yang	Director	February 27, 2004

*By /s/ CHARLES W. CRAMB

Charles W. Cramb
for himself and
as Attorney-In-Fact

CERTIFICATION

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 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 report;

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

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

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   (b) Paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's Board of Directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2004

/s/ JAMES M. KILTS

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

CERTIFICATION

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 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 report;

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

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

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   (b) Paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's Board of Directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2004

/s/ CHARLES W. CRAMB

Charles W. Cramb
Senior Vice President and
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 subsidiaries:	
Series Overseas Investment Limited	Bermuda
Gillette Group (Europe) Holdings B.V.	Netherlands
Its subsidiaries:	
Gillette Group International Sarl	Switzerland
Its subsidiary:	
Gillette Trading Sarl	Switzerland
Silk-Epil S.A.S.	France
Braun Oral-B Ireland Limited	Ireland
Gilfin B.V.	Netherlands
Its subsidiary:	
Parkfin Ltd.	United Kingdom
Gillette Latin America Holding B.V.	Netherlands
Its subsidiaries:	
Gillette Fountain LLC	Delaware
Its subsidiary:	
Grupo Gillette, S.A. de C.V.	Mexico
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
Gillette International B.V.	Netherlands
Its subsidiary:	
Gillette (China) Limited	China
Its subsidiaries:	
Duracell (China) Limited	China
Braun (Shanghai) Co. Ltd.	China

Name	Organized Under Laws Of
Gillette Korea Limited	Korea
Groupe Gillette France S.A.	France
Gillette Safety Razor Company	Massachusetts
Its subsidiary:	
Gillette Group Italy S.p.A.	Italy
Gillette Japan Inc.	Delaware
Gillette de Mexico, Inc.	Delaware
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
Its subsidiary:	
Gillette Diversified Operations Private Limited	India
Gillette Industries Limited	United Kingdom
Its subsidiaries:	
Gillette Group UK Limited	United Kingdom
Gillette U.K. Limited	United Kingdom
Its subsidiary:	
Duracell Batteries Limited	United Kingdom
Its subsidiary:	
Duracell (1993) 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 Home Diagnostics, Inc.	Delaware
Its subsidiary:	
Thermoscan 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, Gillette (Shanghai) Limited, and Fujian Nanping Nanfu Battery Co., Ltd. is 76%, 70%, and 72%, 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 20, 2004, with respect to the consolidated balance sheet of The Gillette Company and subsidiary companies as of December 31, 2003 and 2002, 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, 2003, which report is incorporated by reference in the December 31, 2003, Annual Report on Form 10-K of The Gillette Company.

KPMG LLP

Boston, Massachusetts
March 1, 2004

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, 2003, 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, President and Director	February 17, 2004
/s/ EDWARD F. DEGRAAN Edward F. DeGraan	Vice Chairman of the Board of Directors and Director	February 17, 2004
/s/ CHARLES W. CRAMB Charles W. Cramb	Senior Vice President and Chief Financial Officer	February 17, 2004
/s/ CLAUDIO E. RUBEN Claudio E. Ruben	Vice President, Controller and Principal Accounting Officer	February 17, 2004
/s/ ROGER K. DEROMEDI Roger K. Deromedi	Director	February 17, 2004
/s/ WILBUR H. GANTZ Wilbur H. Gantz	Director	February 17, 2004
/s/ MICHAEL B. GIFFORD Michael B. Gifford	Director	February 17, 2004
/s/ RAY J. GROVES Ray J. Groves	Director	February 17, 2004
/s/ DENNIS F. HIGHTOWER Dennis F. Hightower	Director	February 17, 2004
/s/ HERBERT H. JACOBI Herbert H. Jacobi	Director	February 17, 2004
/s/ NANCY J. KARCH Nancy J. Karch	Director	February 17, 2004
/s/ FRED H. LANGHAMMER Fred H. Langhammer	Director	February 17, 2004
/s/ JORGE PAULO LEMANN Jorge Paulo Lemann	Director	February 17, 2004
/s/ MARJORIE M. YANG Marjorie M. Yang	Director	February 17, 2004

Management's Discussion and Analysis of Financial Condition and Results of Operations

The Gillette Company and Subsidiary Companies

EXECUTIVE OVERVIEW

The Gillette Company achieved record earnings per share in 2003, driven by record net sales coupled with lower costs and significant share repurchase activity. Net sales increased 9%, reflecting favorable volume/mix and a 5% favorable exchange impact. Net sales growth was supported by a 28% increase in advertising. New Blades and Razors products drove significant growth for both the category and the Company, in spite of increased competition. Duracell delivered against the objectives of its North America price-deal realignment program by reducing pricing and lowering trade and consumer spending. This strategy, coupled with cost-reduction initiatives, resulted in a significant increase in profit, despite aggressive deflationary pricing activity from price-value brands. Oral Care sales and market share increased, with the higher share partially offset by lower pricing and unfavorable mix in an environment of heightened competitive activity. Braun posted an increase in net sales that was significantly aided by exchange. However, profit from operations was down year-on-year, reflecting unfavorable product mix and higher Euro-driven costs. Personal Care had a solid year, increasing market share, sales, and profit from operations.

The Company's focus on the execution of various cost-savings programs, including Functional Excellence and the Strategic Sourcing Initiative, contributed to improvements in profit and margin. Gross profit increased 12% during 2003 and gross profit margin improved by 1.4 percentage points, compared with 2002. Profit from operations rose 11% in 2003, compared with 2002, and operating profit margin increased slightly. Both income from continuing operations and net income climbed 14% in 2003, and margin improved, outpacing the 11% increase in profit from operations due to lower interest rates and a 1% decrease in the tax rate, compared with 2002. Net income per common share, diluted, increased 17%, compared with 2002, outpacing the percentage increase in net income due to significant share repurchase activity during the year. The Company's free cash flow (as defined in Financial Condition on pages 29-30) increased 33% during 2003, to $2.28 billion, compared with $1.72 billion in 2002, driven by higher profits and lower pension funding year-over-year.

Description of Operating Segments

The Company's operations comprise five operating segments, each of which operates within five geographic regions: North America, Europe, Latin America, Asia-Pacific, and Africa, Middle East and Eastern Europe (AMEE).

- The Blades and Razors segment, with a global dollar share of 72.5%, is the primary business in terms of share of sales and profit, representing 42% of total Company net sales and 68% of total operating segment profit from operations in 2003. The Company's objective is to drive blade and razor market growth and to grow its share of the category's profit pool by leveraging its technological leadership position. This segment became more competitive during 2003, due to new premium-priced system entries. The Company has defended and improved its position with new product introductions, increased consumer trade-up to premium brands, and stepped-up levels of advertising. Sales and profit have grown steadily over the past several years. Growth in the segment comes primarily from new products driving the continued upgrade to higher performing, premium-priced systems, and general price increases. New products, including those stemming from new hair removal technologies, are expected to be a long-term driving force for growth in the business.

- The Duracell battery business, with sales primarily in North America and Europe, is the Company's second most significant segment, accounting for 22% and 17% of 2003 net sales and operating segment profit from operations, respectively. The Company's objective for Duracell is to maintain dollar share while generating industry-leading margins. Growth in the segment is driven by increases in unit volume. The battery industry has been intensely competitive for several years, leading to a deflationary pricing environment and a reduction in category value. In an effort to counter this trend, Duracell announced a price-deal realignment program in North America early in 2003, which resulted in price reductions, partially offset by reduced promotional activity and the elimination of free cell giveaway programs. To date, the program has been successful, as the Company has been able to hold market share while significantly increasing the profitability of the business. Cost-savings programs and manufacturing efficiencies contributed to the increase in Duracell's 2003 profit and margin. In addition, during the year the Company acquired a majority interest in the Fujian Nanping Nanfu Battery Company, the market share leader in China, which will significantly improve the Company's overall position in China.

- The Oral Care segment extended its number one dollar share position in the total brushing category to 34% in 2003, with the help of new product introductions and in spite of strong competition from other global companies. Oral Care generated 14% and 10% of total Company net sales and operating segment profit from operations in 2003, respectively. The Company's objective is to grow its share of the overall profit pool in manual and power toothbrushes. The dynamics in the oral care industry have changed considerably in recent years, due to the growth of battery-powered products. Oral Care growth is driven by new product introductions and consumer trade-up within the manual and power segments and from the manual to the power segment, as well as by geographic expansion.

- The Braun business focuses on the dry shaving category, with supporting product lines – such as household products, personal diagnostic appliances, and hair care products – that enable Braun to present a full product line to the electric and electronic distribution channels. The Braun business accounted for 13% and 2% of 2003 total Company net sales and operating segment profit from operations, respectively. The segment is highly capital-intensive, with short product life cycles. The Company's objective is to focus on the dry shaving market and ensure that each product line will minimally return greater than its cost of capital. Though net sales for this business were formerly concentrated in Western Europe and Japan, significant growth has been realized in North America and Russia. Growth is driven primarily through the introduction of new products, as well as by geographic expansion. The Company has taken critical steps to reshape the business in the last three years, including product rationalization, product sourcing changes, and manufacturing efficiency improvements. Braun's performance in 2003 was affected by an economic slowdown in Europe and Japan and by the impact of higher European-based manufacturing costs due to the strengthening Euro.

- The Personal Care segment consists primarily of antiperspirants/deodorants, shave preparations, and skin care products. The business is regional, with sales concentrated in North America and Europe. In 2003, the Personal Care business accounted for 9% and 3% of total Company net sales and operating segment profit from operations, respectively. The Company's objective is to achieve modest share growth and increase operating profit margin to industry benchmark levels. Growth in the segment comes primarily from new product introductions. Personal Care had a strong year in 2003, as sales increased behind new products, and profit from operations grew significantly as a result of the higher sales and stepped-up cost reductions.

Cost-Savings Programs

The Company has taken an aggressive stance on cost reductions and business process improvements in recent years. The savings generated have been used mainly to foster top-line growth by reinvesting in the business through increased advertising and new product development. The Company's Strategic Sourcing Initiative is focused on reducing the Company's cost of materials and services. The Company's Functional Excellence program, initiated in 2002, is focused on upgrading capabilities and reducing overhead costs throughout the organization. The Company also has recently initiated a project to realign European blade and razor manufacturing and distribution to reduce costs and improve operational efficiency and customer service. Strategic decisions to outsource selected manufacturing, distribution, information technology, human resources, and other general and administrative functions have been made to reduce costs and capital spending. The Company attempts to achieve technological leadership at the lowest possible cost by moving to larger, more focused factories. This limited site-sourcing strategy, relative to a multiple site-sourcing strategy, may affect other performance indicators unfavorably, such as inventory levels.

Cash Management Strategy

The Company generates significant free cash flow (as defined in Financial Condition on pages 29-30). Free cash flow in 2003 of $2.28 billion increased 33% from 2002, primarily driven by higher profits and lower pension funding, coupled with continued improvements in working capital. Pension plan funding of $72 million during 2003 was significantly lower than the $525 million in 2002, due to the improved return on plan assets in 2003. During 2003 and 2002, the Company specifically addressed its collection practices and payment terms, resulting in reduced days sales outstanding and extended payables terms.

The Company uses free cash flow primarily for payment of dividends, share repurchase, acquisitions, and debt repayment. Dividends paid in 2003 totaled $666 million. The Company engaged in significant share repurchase during 2003, purchasing 41 million shares of Company stock for $1.27 billion. The Company acquired a majority interest in the Fujian Nanping Nanfu Battery Company during 2003 to improve its market presence in China. In addition, the Company reduced its total debt by $345 million during 2003.

RESULTS OF OPERATIONS

Selected statement of income data is presented below.

Years Ended December 31,	2003	% of Net Sales	2002	% of Net Sales	2001	% of Net Sales	% Increase 2003 vs. 2002	% Increase 2002 vs. 2001
(millions)								
Net sales	$9,252		$8,453		$8,084		9	5
Impact of:								
Exchange							5	–
Volume/mix							4	5
Pricing							–	–
Gross profit	$5,544	59.9	$4,942	58.5	$4,677	57.9	12	6
Advertising	$ 827	8.9	$ 647	7.7	$ 576	7.1	28	12
Sales promotion	$ 376	4.1	$ 319	3.8	$ 319	3.9	18	–
Other selling, general and administrative (SG&A) expense	$2,338	25.3	$2,206	26.1	$2,112	26.1	6	4
Total SG&A expense	$3,541	38.3	$3,172	37.5	$3,007	37.2	12	5
Profit from operations	$2,003	21.7	$1,809	21.4	$1,498	18.5	11	21
Income from continuing operations	$1,375	14.9	$1,209	14.3	$ 910	11.3	14	33
Net income	$1,385	15.0	$1,216	14.4	$ 910	11.3	14	34
Net income per common share from continuing operations, diluted	$ 1.34		$ 1.14		$ 0.86		18	33
Net income per common share, diluted	$ 1.35		$ 1.15		$ 0.86		17	34

Total Company

Net sales for 2003 were $9.25 billion, an increase of 9% versus $8.45 billion in 2002, of which the impact of exchange was 5%. The volume/mix increase of 4% in 2003 is within the 3-5% growth range that the Company expects to deliver over the long run. Overall, pricing had no material impact in the period, as price increases in Blades and Razors were offset by lower prices resulting from Duracell's price-deal realignment program in North America. Sales increased due to new product introductions and strong sales of the Mach3Turbo shaving system, Sensor3 disposable razor and CrossAction Power toothbrush. Net sales in 2002 were 5% above those of 2001, with volume/mix accounting for nearly the entire sales gain. Sales increased due to new product introductions, the strength of established products, and favorable comparisons with lower volumes that resulted from trade inventory reductions in 2001.

Gross profit was $5.54 billion in 2003, $4.94 billion in 2002, and $4.68 billion in 2001. As a percent of net sales, gross profit was 59.9% in 2003, 58.5% in 2002, and 57.9% in 2001. The improvement in gross profit was due to favorable product mix, cost-savings initiatives, and manufacturing efficiencies, which more than offset higher European-based costs due to exchange and $50 million in incremental provisions to realign European blade and razor manufacturing and distribution. The increase in 2002 gross profit from 2001 was driven by favorable product mix and cost-savings programs, offset partially by incremental Functional Excellence expenses, higher year-over-year trade spending, and unfavorable product mix shifts within both the Duracell and Oral Care businesses.

Selling, general and administrative expenses amounted to 38.3% of 2003 net sales, compared with 37.5% and 37.2% in 2002 and 2001, respectively. In absolute terms, these expenses increased 12% in 2003 and 5% in 2002. The majority of the increase in 2003 was driven by higher advertising and sales promotion spending. Advertising and sales promotion expenses combined increased by 25%, with advertising up 28% to 8.9% of sales, from 7.7% of sales in the prior year, and sales promotion up 18% versus 2002. Double-digit percentage increases in advertising were realized in every segment. Other selling, general and administrative expenses increased 6%, but were down as a percentage of sales, to 25.3% from 26.1% in 2002. This reduction was achieved through cost-savings initiatives, offset partially by higher European-based costs due to the strengthening of local currencies, and incremental pension and Functional Excellence expenses of approximately $42 million and $20 million, respectively. In 2002, advertising increased 12% from 2001, driven by higher investment behind both new and established products. In 2002, other selling, general and administrative expenses were 4% above those of the prior year, but were flat as a percentage of sales at 26.1%, due to $94 million in incremental Functional Excellence expenses, which offset cost-savings programs and a $34 million reduction in amortization associated with the adoption of a new accounting standard related to goodwill amortization.

Profit from operations was $2.00 billion in 2003 (21.7% of net sales), compared with $1.81 billion in 2002 (21.4% of net sales) and $1.50 billion in 2001 (18.5% of net sales). The profit increase in 2003 was driven by strong sales growth from new products, ongoing favorable mix to premium shaving products, and cost-savings initiatives, which were partially offset by higher European-based costs due to exchange, increased advertising investment, incremental Functional Excellence and pension expenses, and a provision to realign European blade and razor manufacturing and distribution. The increase in 2002 profit from 2001 was driven by cost reductions across the organization, an improvement in product mix in Blades and Razors, a decrease in amortization of $34 million due to the adoption of a new accounting standard related to goodwill amortization, and a $30 million pretax gain on the sale of the Vaniqa business. The 2002 profit increase was partially offset by $121 million of incremental Functional Excellence expenses.

Within nonoperating charges/income, net interest expense amounted to $42 million in 2003, $59 million in 2002, and $141 million in 2001. Net interest expense was lower in 2003 and 2002, due to reduced borrowing levels and significantly lower interest rates year-over-year. Net transactional exchange gains in 2003 and 2002 were $14 million and $16 million, respectively. This compared with a net transactional exchange loss of $3 million in 2001 that stemmed primarily from subsidiaries in highly inflationary countries. 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.

The effective tax rate was 30% in 2003, compared with rates of 31% in 2002 and 32.2% in 2001. The reduction in the 2003 effective tax rate was primarily due to a favorable change in the mix of earnings to countries taxed at rates lower than the U.S. statutory rate. The 2001 effective tax rate included a 1.2% unfavorable impact from certain restructuring and asset impairment charges in that year.

Income from continuing operations was $1.38 billion in 2003, compared with $1.21 billion in 2002 and $910 million in 2001, representing growth of 14% and 33% in 2003 and 2002, respectively. Net income per common share from continuing operations, diluted, was $1.34, $1.14, and $0.86 in 2003, 2002, and 2001, representing growth of 18% and 33% in 2003 and 2002, respectively. The 2003 percentage growth in net income per common share from continuing operations, diluted, which out-paced the percentage growth in income from continuing operations, was driven by a reduction in the number of outstanding shares resulting from share repurchases. Income from continuing operations in 2002 included a $21 million after-tax gain on the sale of the Vaniqa business, which had a $0.02 favorable impact on diluted net income per common share.

Operating Segments

The following tables summarize key operating metrics for 2003 versus 2002 and for 2002 versus 2001, for each of the Company's five operating segments. Functional Excellence charges are recorded in the relevant segments.

Years Ended December 31, (millions, except percentages)	Blades & Razors	Duracell	Oral Care	Braun	Personal Care	Corporate/ Other	Total Company
Net sales, 2003	$3,869	$2,015	$1,327	$1,177	$864		$9,252
Net sales, 2002	3,435	1,898	1,248	1,056	816		8,453
% Incr/(Decr) vs. 2002	13	6	6	11	6		9
Impact of exchange	6	4	5	9	4		5
Impact of volume/mix	5	5	2	3	1		4
Impact of pricing	2	(3)	(1)	(1)	1		—
Profit from operations (PFO)							
PFO, 2003	$1,426	$ 348	$ 218	$ 49	$ 73	$(111)	$2,003
PFO, 2002	1,299	233	222	75	51	(71)	1,809
% Incr/(Decr) vs. 2002	10	49	(2)	(35)	43	56	11
PFO as % of net sales, 2003	36.8	17.2	16.4	4.1	8.4		21.7
PFO as % of net sales, 2002	37.8	12.3	17.8	7.1	6.2		21.4

Years Ended December 31, (millions, except percentages)	Blades & Razors	Duracell	Oral Care	Braun	Personal Care	Corporate/ Other	Total Company
Net sales, 2002	$3,435	$1,898	$1,248	$1,056	$816		$8,453
Net sales, 2001	3,200	1,953	1,149	981	801		$8,084
% Incr/(Decr) vs. 2001	7	(3)	9	8	2		5
Impact of exchange	(1)	–	2	3	–		–
Impact of volume/mix	5	(3)	13	6	3		5
Impact of pricing	3	–	(6)	(1)	(1)		–
Profit from operations (PFO)							
PFO, 2002	$1,299	$ 233	$ 222	$ 75	$ 51	$ (71)	$1,809
PFO, 2001	1,141	217	240	98	68	(266)	1,498
% Incr/(Decr) vs. 2001	14	7	(7)	(23)	(25)	(73)	21
PFO as % of net sales, 2002	37.8	12.3	17.8	7.1	6.2		21.4
PFO as % of net sales, 2001	35.6	11.1	20.9	10.0	8.5		18.5

Blades and Razors

Net sales of $3.87 billion in 2003 were 13% higher than 2002 and included a 6% favorable exchange impact. Sales growth was driven by the strength of premium shaving systems and disposables, as well as several new product rollouts, including Mach3Turbo systems in international markets, Sensor3 disposables in North America and Europe, and Prestobarba Excel disposables in Latin America.

Overall category growth accelerated during the year, with premium-priced systems and higher-priced disposables as the key drivers. In North America, category dollar growth was 4% in the first half of 2003 and 7% in the second half. The most expensive blades remained the primary source of growth in the category. In the U.S., blades priced over $1.50 at retail grew 22% versus 2002. In addition, the rate of trade-up is accelerating, with a higher percentage of users migrating to premium offerings like the Mach3 and Venus brands.

The Company faced increased competition in the premium systems segment, but managed to increase market share without increasing trade and consumer spending as a percentage of sales. Gillette's

2003 global dollar share grew by one-half point to a record share of 72.5%. The Mach3 family's global dollar share increased by almost 3 points to 28% of the blade market in 2003. Venus dollar share increased by one-half point to 5%. Also, the Sensor3 disposable drove a one-point increase in Gillette dollar share of U.S. disposables to 48.5%, reversing a four-year decline.

Within an environment of increased competition, the Company expects that growth in demand for premium systems and consumer trade-up will continue in 2004. Price increases averaging 2.8% became effective in February 2004 in North America, and increases averaging 3.1% will be effective in Europe between February and April 2004. Incremental sales are expected from the new M3Power, Venus Divine and Sensor3 shaving systems, all of which will begin shipping during 2004. These new products will be supported by significant levels of advertising.

Profit from operations of $1.43 billion was up 10% from the prior year, driven by higher sales. Margin declined 1 percentage point to 36.8%, as favorable product mix was more than offset by a double-digit percentage increase in marketing support and a $50 million charge related to the realignment of European blade and razor manufacturing and distribution.

In 2002, sales grew 7%, compared with 2001, including a negative exchange impact of 1%. The sales increase was driven by the success of premium shaving systems, specifically the Mach3 and Venus brands, and by favorable comparisons to 2001, when actual sales were below consumption due to the Company's program to reduce trade inventories. The sales growth was partially 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. Profit from operations increased 14% in 2002, compared with 2001, due mainly to favorable blade versus razor mix and favorable comparisons related to the 2001 trade inventory reduction program, offset partially by incremental Functional Excellence expenses in 2002.

Duracell

Duracell sales of $2.02 billion increased 6% versus 2002, including a 4% favorable impact of exchange. Sales gains were driven by consumer pantry-loading in North America, due to increased demand related to homeland security concerns, a blackout, and a hurricane. The addition of the Fujian Nanping Nanfu battery business in China also contributed to net sales growth. The sales increases were partially offset by lower pricing from the price-deal realignment initiative in North America and unmatched 2002 sales related to the carbon zinc battery businesses in South Africa and India, which were divested in late 2002 and early 2003, respectively.

The Company met its objectives for the North America price-deal realignment. Duracell discontinued all free cell giveaways and, as a result, category free cells fell by 60% in North America. Duracell's volume sold on promotion dropped to 44% from 49% in 2002, and the average price per AA cell, the most significant in terms of sales dollars and units, stabilized in 2003 for the first time in four years. Advertising spending increased by a double-digit percentage behind the very effective "Trusted Everywhere" campaign. The Company expects that 2004 will continue to be challenging, due to comparisons with the 2003 spike in demand from the unusual events noted above and the ongoing, intense competitive environment. Additionally, the 50% retail price gap between Duracell and price-value brands is starting to erode Duracell's market share. The Company is continually refining its marketing plans in light of changing market dynamics.

Profit from operations in 2003 of $348 million increased 49%, and margin grew by 4.9 percentage points, compared with 2002, due to higher sales and significant benefits from cost-savings programs, partially offset by significantly higher advertising expenses.

Duracell sales in 2002 were 3% lower than in 2001, and exchange had no material impact. Favorable unit shipments, which were achieved 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. Duracell profit from operations increased 7% in 2002, compared with 2001, 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 products and pack sizes, and the 2002 cost of withdrawing selected hearing aid batteries from the market.

Oral Care

Oral Care sales in 2003 of $1.33 billion were 6% higher than 2002, including favorable exchange of 5%. Sales growth was driven by the success of new products in both the manual and power categories, as well as improved product mix. This was partially offset by lower consumption and trade destocking of power oral care products, primarily in Europe.

The Company extended its number one global dollar share position in the total brushing category for 2003 by 1.4 percentage points to 34%. In the U.S. battery toothbrush segment, despite heavy competitive activity, the Company captured a 27% dollar share. Also, the Company's premium manual dollar share increased, driven by the success of the CrossAction Vitalizer toothbrush. In 2004, new product launches are expected to further improve the Company's global position. The CrossAction Power and CrossAction Vitalizer toothbrushes, currently available only in North America and Europe, will be launched in other regions during 2004.

Profit from operations in 2003 of $218 million decreased 2%, compared with 2002, and margin was 1.4 percentage points lower. Higher sales from new products and improved product mix were more than offset by higher exchange-driven European manufacturing costs, a significant increase in marketing expenses to launch new products in 2003, and higher warranty-related expense due in part to extended warranties on electronic appliances sold in Europe.

Sales in 2002 were 9% above those of 2001, including a 2% favorable exchange impact, as the success of new product introductions drove strong growth in both the manual and power segments. 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 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, offset partially by higher trade and consumer spending. 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 expenses, and incremental expenses related to the early cancellation of a lease.

Braun

Braun sales of $1.18 billion in 2003 climbed 11% over 2002, with favorable exchange representing 9% of the increase. Growth was driven by gains in both male and female electric shavers, household products, and strong first-half sales of Thermoscan thermometers, due to concerns over the SARS epidemic.

Market share gains and overall category growth in Russia also helped increase sales, while a market share decline in Japan and overall category decline in Germany, due to an economic slowdown, tempered sales. In 2003, the Activator shaver was the number one shaver in terms of dollar share in the premium-price segment in Japan.

Profit from operations in 2003 declined 35% to $49 million. The main drivers were an unfavorable shift in product mix related to a weak male shaver segment in both Europe and Japan, incremental warranty expense due in part to extended warranties on electronic appliances sold in Europe, and the impact of exchange on European-based manufacturing costs, which more than offset benefits from manufacturing efficiencies and sales growth. The Company has implemented various Functional Excellence, product rationalization, and outsourcing programs to reduce operating costs in 2004 and beyond.

Sales of Braun in 2002 were 8% above those of 2001, aided by 3% favorable exchange. Growth was driven by the success of new electric shavers, partially offset by lower sales in Latin America and increased trade and consumer spending. Profit from operations in 2002 was 23% lower than in 2001, due to increased advertising costs, unfavorable product mix, and significant Functional Excellence expenses, which more than offset progress in reducing manufacturing costs.

Personal Care

Personal Care sales increased 6% over those of 2002, with exchange contributing 4% of the growth. Growth was driven by gains in both core businesses – shave preparations and antiperspirants/deodorants – behind increased marketing investment and new product successes.

The Company grew dollar share in its core categories in 2003. In shave preparations, the Company extended its global leadership position for 2003 by 1.0 percentage point to 30.1% dollar share. In the

U.S., the Company achieved its highest dollar share in shave preparations in three years at 24.8%. Record dollar share highs for The Gillette Series and Satin Care brands were key to that performance. European dollar shares in shave preparations grew to 37.4%. In antiperspirants and deodorants, the Company's 2003 U.S. dollar share reached the highest level in four years, at 19.6%, driven by the Right Guard brand and supported by the launch of new Power Caps Gel and PowerStripe deodorants.

In 2004, the Company will begin shipping several new products, including Gillette Complete Skin Care, Right Guard Cool Spray in the U.S., Right Guard Total Protection in Europe, and repackaged Soft & Dri in North America and Mexico.

Profit from operations increased 43% to $73 million in 2003, well above net sales growth, reflecting cost-savings initiatives that were partially offset by increased marketing investment for new product launches.

Net sales in 2002 were 2% higher than in 2001, and exchange had no material impact. The sales gain was driven by the success of new products, namely PowerStripe antiperspirants, the reformulated line of Gillette Series shave preparations, and the restaged Satin Care line, offset partially by increased trade and consumer spending. Profit from operations was 25% lower in 2002 than 2001, due to higher advertising and promotional support, as well as incremental Functional Excellence expenses.

Corporate/Other

The loss from operations in 2003 was higher than in the prior year, since 2002 included a $30 million pretax gain on the sale of the Vaniqa business.

FINANCIAL CONDITION

Cash Flow

The Company's financial condition, most notably its cash-generating capabilities, continued to strengthen during 2003. Cash provided by operations is the Company's primary source of funds to finance operations, capital expenditures, share repurchases, and dividends. Free cash flow, defined as net cash provided by operating activities net of additions to and disposals of property, plant and equipment, is analyzed by the Company as a measure of its liquidity, as well as its ability to fund future growth and to provide a return to shareholders. Free cash flow is not a measure of the residual cash flow that is available for discretionary expenditures, since the Company has certain non-discretionary obligations, such as debt service, that are not deducted from the measure. Free cash flow for 2003 was $2.28 billion, compared with $1.72 billion in 2002. A reconciliation of free cash flow to the increase in cash and cash equivalents in accordance with Generally Accepted Accounting Principles (GAAP) follows.

Years ended December 31, (millions)	2003 Free Cash Flow	2003 GAAP Cash Flow	2002 Free Cash Flow	2002 GAAP Cash Flow	2001 Free Cash Flow	2001 GAAP Cash Flow
Net cash provided by operating activities	$2,640	$ 2,640	$2,077	$ 2,077	$2,092	$2,092
Additions to property, plant and equipment [A]	(408)		(405)		(624)	
Disposals of property, plant and equipment [B]	45		43		59	
Free cash flow	$2,277		$1,715		$1,527	
Net cash used in investing activities [C*]		$ (518)		$ (362)		$ (564)
Net cash used in financing activities		$(2,250)		$(1,844)		$ (735)
Effect of exchange rate changes on cash		8		5		(1)
Net cash provided (used) by discontinued operations		–		(22)		93
Increase (decrease) in cash and cash equivalents		$ (120)		$ (146)		$ 885

*C is the sum of A, B, and acquisition of business, net of cash acquired, and other totaling $(155) million, $0, and $1 million in 2003, 2002, and 2001, respectively. See Consolidated Statement of Cash Flows on page 40.

Net cash provided by operating activities was $2.64 billion in 2003, compared with $2.08 billion in 2002 and $2.09 billion in 2001. The 27% increase in 2003 is primarily due to higher profits and a reduction of $453 million in pension contributions, compared with 2002. Also contributing to the increase were continued working capital improvements. Overall, net working capital as a percentage of sales improved to 2%, compared with 8% in 2002. Days Sales Outstanding (DSO) decreased to 32 days from 43 days in 2002, reflecting strong collection efforts and more favorable payment terms. In addition, the 2003 DSO figure reflects a favorable mix in terms of sales between the Blades and Razors, manual Oral Care and Personal Care businesses, which traditionally trade at lower DSO, versus the Duracell, Braun and power Oral Care businesses, which traditionally trade at higher DSO. Further, the country mix was favorable. Due to these circumstances, the 32-day DSO level will be difficult to sustain in 2004. Improvements made in inventories during 2003 were largely masked by fluctuations in exchange rates year-over-year and by a year-end increase in finished goods inventory related to first-quarter 2004 promotions. During 2003, the Company continued to implement inventory and supply chain optimization programs aimed at reducing Days Inventory On Hand (DIOH) metrics. The Days Payable Outstanding (DPO) metric in 2003 was slightly unfavorable, compared with the 2002 metric, but was in line with ongoing targets.

Net cash provided by operating activities for 2002 was in line with 2001, as higher profits and working capital improvements from accounts receivables, inventories, and accounts payable in 2002 were offset by significant contributions to pension plans. Overall, net working capital as a percentage of sales improved to 8%, compared with 16% in 2001. During 2002, the Company shortened its customer trade payment terms. The Company also extended its own payment terms to suppliers, which contributed to a 17-day improvement in the 2002 DPO metric, compared with 2001. In addition, improvements were made in inventory management, reducing DIOH by 11 days in 2002, compared with 2001. A summary of working capital-related performance measurements in 2003, 2002, and 2001 follows.

	2003	2002	2001	Favorable/ (Unfavorable) 2003 vs. 2002	Favorable/ (Unfavorable) 2002 vs. 2001
Net working capital as a % of sales(1)	2	8	16		
DSO (days)(2)	32	43	55	11	12
DIOH (days)(3)	108	97	108	(11)	11
DPO (days)(4)	57	60	43	(3)	17

(1) Net working capital is defined as net current assets less net current liabilities. Net current assets equals current assets less cash, short-term investments, and current net assets related to discontinued operations. Net current liabilities equals current liabilities less loans payable and the current portion of long-term debt.

(2) DSO is defined as net trade receivables divided by average daily sales. Average daily sales is calculated by dividing the last three months' net sales by 90.

(3) DIOH is defined as inventory, divided by the last 12 months' cost of sales, divided by 365.

(4) DPO is defined as accounts payable, divided by the last 12 months' cost of sales, divided by 365.

Capital spending for 2003 was $408 million, or 4% of net sales. In 2002, capital spending of $405 million, or 5% of net sales, was $219 million below 2001, which at $624 million represented 8% of net sales. Capital spending is largely focused on new products and cost-reduction projects. The Company expects that, over the long term, capital spending will average 7% of net sales.

In 2003, the Company used its free cash flow, as defined above, to repurchase 41 million shares of Company stock for $1.27 billion, to pay $666 million in dividends, to reduce the amount of total debt by $345 million, and to acquire a majority interest in Fujian Nanping Nanfu Battery Company, a leading battery company in China.

Debt

Total debt decreased by $345 million during 2003, with short-term loans payable decreasing $556 million to $117 million from $673 million at December 31, 2002, partially offset by an increase in long-term debt (including current portion) of $211 million, to $3.20 billion at December 31, 2003, compared with $2.98 billion at December 31, 2002. Cash and cash equivalents decreased by $120 million for the same period. Cash equivalents are invested in highly liquid deposits and marketable securities of institutions with high credit quality.

The Company's investment grade long-term credit ratings of AA– from Standard & Poor's and Aa3 from Moody's and commercial paper ratings of A1+ from Standard & Poor's and P1 from Moody's provide a high degree of flexibility in obtaining funds. The Company has the ability to issue up to $1.53 billion in commercial paper in the U.S. and Euro markets. The Company's commercial paper program is supported by its revolving credit facility and other sources of liquidity, primarily the Company's cash flow from operations. At December 31, 2003, there was $55 million outstanding under the Company's commercial paper program, compared with $549 million at the end of 2002 and $1.98 billion at the end of 2001. The decrease in both 2003 and 2002 was due primarily to new long-term debt issuances and operating cash flows. On October 14, 2003, the Company entered into new revolving bank credit facilities in an aggregate amount of $1.15 billion, of which $863 million is available on a 364-day basis, expiring October 2004, and $288 million is available for five years, expiring October 2008. Liquidity is enhanced through a provision in the 364-day facility that gives the Company the option to enter into a one-year term loan in an amount up to $863 million. The Company believes it has sufficient alternative sources of funding available to replace its commercial paper program, if necessary.

During 2002, two shelf registration statements were filed allowing the Company to issue up to $2.8 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, 2003, $1.54 billion, at face value, was issued under these shelf registrations. At December 31, 2003, a total of $1.26 billion was available under these shelf registration statements for future debt issuance. All proceeds from these issuances were used to reduce commercial paper borrowings.

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

Commitments and Contingencies

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

(millions)	2004	2005, 2006	2007, 2008	2009 and beyond	Total
Long-term debt, at face value, including current portion	$ 625	$ 975	$1,350	$ 185	$3,135
Loans payable	117	–	–	–	117
Pension and other retiree benefits(1)	170	358	387	1,212	2,127
Employee severance and benefits	6	22	10	–	38
Deferred compensation	18	42	42	65	167
Lease obligations	84	136	95	137	452
Purchase obligations and other	26	8	–	–	34
Total	$1,046	$1,541	$1,884	$1,599	$6,070

(1) Data in the 2009 and beyond column for employee benefit obligations include obligations for 2009-2013

The Company has no material contingent commitments or guarantees. The Company has no material "off balance sheet" arrangements or material interests in variable interest entities and none which require consolidation.

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.

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. Most of the Company's transactional exchange exposure is managed through centralized cash management. The Company hedges net residual transactional exchange exposures primarily through forward contracts.

The Company uses primarily floating rate debt in order to match interest costs to the impact of inflation on earnings. The Company manages its mix of fixed and floating rate debt by entering into interest rate swaps and forward rate agreements.

More detailed information about the strategies, policies, and use of derivative financial instruments is provided in the 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, 2003 and 2002, a near-term change in market rates would not materially affect the consolidated financial position, results of operations, or cash flows of the Company.

FUNCTIONAL EXCELLENCE AND 2003 MANUFACTURING REALIGNMENT PROGRAM

Functional Excellence

In the second quarter of 2002, the Company began actions associated with its Functional Excellence initiative, which is described in Notes to Consolidated Financial Statements. The total cost of this initiative is estimated at $350-$400 million through 2005. Annualized savings from the Functional Excellence initiative are currently expected to be approximately $300-$350 million by 2006. Programs initiated through December 31, 2003, are expected to yield annualized savings of $226 million, including annualized savings of $185 million in selling, general and administrative expenses, when completed.

During 2003 and 2002, the Company recorded the following expenses related to this initiative:

Years ended December 31, (millions)	2003	2002
Functional Excellence expense	$137	$121
Functional Excellence expense recorded in:		
Cost of goods sold	$ 23	$ 27
Selling, general and administrative expense	$114	$ 94

Additional costs will be recorded in 2004 and 2005 as programs are developed and approved. These forward-looking cost and savings amounts contain management estimates that are subject to change over time.

2003 Manufacturing Realignment Program

During 2003, the Company announced a program to realign its European blade and razor manufacturing and distribution. The program will significantly reduce costs, improve operating efficiency, and streamline operations. The program began in December 2003 and will be completed during 2007. This program is further described in Notes to Consolidated Financial Statements.

Total program costs are estimated at $150-$200 million and will be recorded as the plan is implemented through 2007. During 2003, the Company recorded a charge of $50 million related to this program, consisting of severance and other benefits, asset-related charges, and contractual obligations. The Company will begin to realize significant cost savings in 2006, and management expects to realize pretax cost savings of approximately $50-$60 million annually thereafter.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Accruals for Cost-Savings and Realignment Programs

The Company has ongoing cost-savings programs under its Functional Excellence initiative and other one-time programs such as the 2003 Manufacturing Realignment Program. The Company records severance-related expenses in accordance with the provisions of SFAS 112, "Employer's Accounting for Post-Employment Benefits." Nonemployee-related exit and disposal costs, primarily contract termination costs and costs to consolidate or close facilities, are accounted for under the provisions of SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities." Asset impairment issues are evaluated by the Company under the provisions of SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Company estimates its liabilities for these programs, which are approved by senior management, by accumulating detailed estimates of costs for such plans. 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 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 costs represent management's best estimate, but require assumptions about the programs that may change over time. Estimates are evaluated periodically to determine if a change is required. There were no material changes in estimates recorded during 2003 related to Functional Excellence or other cost-savings programs.

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 three 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 governments 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 accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." 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 sales 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 for asset groups 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 significant impairment charges recorded by the Company during 2003 or 2002. Pretax impairment charges for goodwill and other long-lived assets of $164 million were recorded in 2001. 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 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 and obligations.

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 plans. The combined gain or loss is generally expensed evenly over the remaining years that employees are expected to work.

Total unrecognized net losses for all pension and retiree benefit plans were $1.26 billion at December 31, 2003, of which $122 million occurred during 2003, primarily the result of a 40 basis-point drop in discount rates, partially offset by higher than expected returns on plan assets.

If the fair value of pension plan assets is less than the accumulated pension benefit obligation, accounting standards require a company's balance sheet to include an additional pension liability equal to the difference adjusted for any prepaid or accrued pension cost. The adjustment to record this additional liability is charged to other comprehensive loss in stockholders' equity. The Company recorded charges of $7 million and $130 million to other comprehensive loss in 2003 and 2002, respectively, to reflect additional minimum pension liabilities.

The Company voluntarily contributed $72 million, $525 million, and $35 million to pension plans during 2003, 2002, and 2001, respectively, to reduce the 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 non-employee 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 $99 million, $111 million, and $109 million for 2003, 2002, and 2001, respectively.

The Financial Accounting Standards Board (FASB) is currently deliberating a comprehensive reconsideration of accounting for stock options. The Company generally agrees with the concept of recognizing compensation cost in the financial statements based on a fair value approach, but does not intend to adopt such an approach until there are standardized rules that are applicable to all companies.

Accruals for Trade and Consumer Spending

Revenue is recorded net of the cost of trade and consumer spending, 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 actual experience gained over many years, estimates and records an accrual at the end of each period for the earned, but unpaid, costs of promotional programs. Management believes that its estimates of promotional accruals fairly represent future requirements.

EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

See pages 45 – 47 in Notes to Consolidated Financial Statements for a complete description of the effect of recent accounting pronouncements.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Company's management 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 2003 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 37. 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

KPMG

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, 2003 and 2002, 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, 2003. 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, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

KPMG LLP
Boston, Massachusetts
February 20, 2004

Consolidated Statement of Income

The Gillette Company and Subsidiary Companies

Years Ended December 31, (millions, except per share amounts)	2003	2002	2001
Net Sales	$9,252	$8,453	$8,084
Cost of Sales	3,708	3,511	3,407
Gross Profit	5,544	4,942	4,677
Selling, General and Administrative Expenses	3,541	3,172	3,007
Restructuring, Asset Impairment and Other	–	(39)	172
Profit from Operations	2,003	1,809	1,498
NONOPERATING CHARGES (INCOME)			
Interest income	(12)	(25)	(4)
Interest expense	54	84	145
Other charges (income) – net	(3)	(2)	15
	39	57	156
Income from Continuing Operations before Income Taxes	1,964	1,752	1,342
Income Taxes	589	543	432
Income from Continuing Operations	1,375	1,209	910
Income from Discontinued Operations, net of tax	10	7	–
Net Income	$1,385	$1,216	$ 910
NET INCOME PER COMMON SHARE, BASIC			
Continuing Operations	$ 1.35	$ 1.15	$ .86
Discontinued Operations	.01	–	–
Net Income	$ 1.36	$ 1.15	$ .86
NET INCOME PER COMMON SHARE, ASSUMING FULL DILUTION			
Continuing Operations	$ 1.34	$ 1.14	$ .86
Discontinued Operations	.01	.01	–
Net Income	$ 1.35	$ 1.15	$ .86
Adjusted Net Income, assuming the adoption of SFAS 142 for 2001	$1,385	$1,216	$ 934
Adjusted Net Income per Common Share, assuming the adoption of SFAS 142 for 2001			
Basic	$ 1.36	$ 1.15	$ .89
Assuming full dilution	$ 1.35	$ 1.15	$ .88
Weighted average number of common shares outstanding			
Basic	1,021	1,055	1,055
Assuming full dilution	1,024	1,059	1,058

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

The Gillette Company and Subsidiary Companies

At December 31, (millions, except per share amount)	2003	2002
ASSETS		
Current Assets		
Cash and cash equivalents	$ 681	$ 801
Trade receivables, less allowances: 2003 – $53; 2002 – $73	920	1,202
Other receivables	351	311
Inventories	1,094	928
Deferred income taxes	322	380
Other current assets	282	175
Total Current Assets	3,650	3,797
Property, Plant and Equipment, net	3,642	3,565
Goodwill	1,023	962
Intangible Assets, net	496	400
Other Assets	1,144	1,139
Total Assets	$9,955	$9,863
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Loans payable	$ 117	$ 673
Current portion of long-term debt	742	527
Accounts payable and accrued liabilities	2,506	2,054
Income taxes	293	234
Total Current Liabilities	3,658	3,488
Long-Term Debt	2,453	2,457
Deferred Income Taxes	626	692
Other Long-Term Liabilities	929	920
Minority Interest	65	46
Stockholders' Equity		
Common stock, par value $1 per share		
Authorized: 2,320 shares		
Issued 2003 – 1,374 shares; 2002 – 1,370 shares	1,374	1,370
Additional paid-in capital	1,273	1,197
Earnings reinvested in the business	7,333	6,608
Accumulated other comprehensive loss	(1,088)	(1,523)
Treasury stock, at cost:		
2003 – 367 shares; 2002 – 326 shares	(6,665)	(5,392)
Deferred stock-based compensation	(3)	–
Total Stockholders' Equity	2,224	2,260
Total Liabilities and Stockholders' Equity	$9,955	$9,863

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

The Gillette Company and Subsidiary Companies

Years Ended December 31, (millions)	2003	2002	2001
OPERATING ACTIVITIES			
Income from continuing operations	$1,375	$1,209	$ 910
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Restructuring and asset impairment charge (recovery)	—	(9)	172
Depreciation and amortization	578	500	509
Funding of Company pension plans	(72)	(525)	(35)
Pension expense	143	70	46
Deferred income taxes	(49)	162	45
Other	7	8	(18)
Changes in assets and liabilities, excluding effects of acquisitions and divestitures:			
Accounts receivable	286	364	622
Inventories	(43)	123	101
Accounts payable and accrued liabilities	334	188	(191)
Other working capital items	38	(137)	(20)
Other noncurrent assets and liabilities	43	124	(49)
Net cash provided by operating activities	2,640	2,077	2,092
INVESTING ACTIVITIES			
Additions to property, plant and equipment	(408)	(405)	(624)
Disposals of property, plant and equipment	45	43	59
Acquisition of business, net of cash acquired	(161)	—	—
Other	6	—	1
Net cash used in investing activities	(518)	(362)	(564)
FINANCING ACTIVITIES			
Purchase of treasury stock	(1,273)	(427)	(12)
Proceeds from sale of put options	—	15	9
Proceeds from exercise of stock option and purchase plans	80	57	53
Proceeds from long-term debt	709	1,174	525
Repayment of long-term debt	(534)	(458)	(684)
Increase (decrease) in loans payable	(567)	(1,565)	56
Dividends paid	(666)	(685)	(686)
Settlements of debt-related derivative contracts	1	45	4
Net cash used in financing activities	(2,250)	(1,844)	(735)
Effect of Exchange Rate Changes on Cash	8	5	(1)
Net Cash Provided (Used) by Discontinued Operations	—	(22)	93
Increase (Decrease) in Cash and Cash Equivalents	(120)	(146)	885
Cash and Cash Equivalents at Beginning of Year	801	947	62
Cash and Cash Equivalents at End of Year	$ 681	$ 801	$ 947
Supplemental disclosure of cash paid for:			
Interest	$ 59	$ 83	$ 154
Income taxes	$ 563	$ 345	$ 232

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Stockholders' Equity

The Gillette Company and Subsidiary Companies

(millions, except per share amounts)	Common Stock	Additional Paid-in Capital	Earnings Reinvested	Other Comprehensive Income (Loss)	Treasury Stock	Deferred Stock-Based Compensation	Total Stockholders' Equity
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 (.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
Net income	–	–	1,385	–	–	–	1,385
Foreign currency translation	–	–	–	434	–	–	434
Pension adjustment	–	–	–	(7)	–	–	(7)
Cash flow hedges	–	–	–	8	–	–	8
Other comprehensive income	–	–	–	435	–	–	435
Comprehensive income							1,820
Dividends declared (per share $.65)	–	–	(660)	–	–	–	(660)
Stock option and purchase plans (3.2 shares)	4	76	–	–	–	–	80
Purchase of Gillette treasury stock (40.8 shares)	–	–	–	–	(1,273)	–	(1,273)
Deferred stock-based compensation	–	–	–	–	–	(4)	(4)
Earned stock-based compensation	–	–	–	–	–	1	1
Balance at December 31, 2003	$1,374	$1,273	$7,333	$(1,088)	$(6,665)	$(3)	$2,224

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. NATURE OF OPERATIONS

The Gillette Company is a global consumer products firm, with manufacturing operations conducted at 32 facilities in 14 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.

2. 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. The Company has no material interests in variable interest entities and none which require consolidation.

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 delivered to the customer, provided that: title and risk of loss have passed to the customer; persuasive evidence of an arrangement exists; the sales price is fixed or determinable; and collectibility is deemed probable. Revenue is recorded net of estimated sales returns and allowances for 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 $189 million in 2003, $175 million in 2002, and $165 million in 2001 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 not 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 No. 144, "Accounting for the Impairment of Long-Lived Assets."

For 2001, 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 at least 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 $827 million in 2003, $647 million in 2002, and $576 million in 2001. 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 $202 million in 2003, $185 million in 2002, and $187 million in 2001.

Financial Instruments

Cash and cash equivalents, trade receivables, 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 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 operating 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. income 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 income taxes that could result from the remittance of such earnings. At December 31, 2003, earnings of such operations that could result in incremental taxes, if remitted, amounted to $1.7 billion. Determining the tax liability that would arise if these earnings were remitted is not practicable.

Stock-Based Compensation

The Company has a stock option plan, which is described more fully in the Stock Compensation Plan and Capital Stock note on page 61. The Company accounts for this plan under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No compensation cost is recorded on the date of grant, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock. 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 options.

Years ended December 31,	2003	2002	2001
(millions, except per share amounts)			
Net income, as reported	$1,385	$1,216	$ 910
Less: Compensation expense for option awards determined by the fair-value-based method, net of related tax effects	(99)	(111)	(109)
Pro forma net income	$1,286	$1,105	$ 801
Net income per common share			
Basic			
As reported	$ 1.36	$ 1.15	$ .86
Pro forma	$ 1.26	$ 1.05	$ .76
Assuming full dilution			
As reported	$ 1.35	$ 1.15	$ .86
Pro forma	$ 1.26	$ 1.05	$ .76

The weighted average fair value of options granted was $9.01 in 2003, $11.18 in 2002, and $9.44 in 2001. The fair value of each option grant for the Company's plan 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,	2003	2002	2001
Risk-free interest rates	2.4%	4.2%	5.4%
Expected option lives	5.5 years	5.5 years	5.5 years
Expected volatilities	33.2%	33.1%	33.3%
Expected dividend yields	2.0%	1.8%	2.2%

Net Income per Common Share

Basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding. The calculation of diluted net income per common share also assumes conversion of stock options into common stock. At December 31, 2003, 2002, and 2001, 44 million, 56 million, and 44 million shares of common stock issuable under stock options, respectively, were not included in the calculation of diluted net income per share because their effects would have been antidilutive.

A reconciliation of the shares used to compute net income per share, basic and diluted, is shown below. There are no adjustments to the computation of net income for this calculation in 2003, 2002, or 2001.

Years ended December 31,	2003	2002	2001
(millions)			
Common shares, basic	1,021	1,055	1,055
Effect of dilutive securities:			
Stock options	3	4	3
Common shares, assuming full dilution	1,024	1,059	1,058

Reclassification of Prior Years

Prior-year financial statements have been reclassified to conform to the 2003 presentation.

3. EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

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. The following tables present a reconciliation of net income, net income 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,	2003	2002	2001
(millions, except per share amounts)			
Net Income			
Net income, as reported	$1,385	$1,216	$910
Add: Goodwill amortization, net of tax	–	–	24
Add: Trademark amortization, net of tax	–	–	8
Less: Amortization from change in useful lives, net of tax	–	–	(8)
Adjusted net income	$1,385	$1,216	$934
Net Income per Common Share			
Basic, as reported	$ 1.36	$ 1.15	$ .86
Add: Goodwill amortization, net of tax	–	–	.03
Add: Trademark amortization, net of tax	–	–	.01
Less: Amortization from change in useful lives, net of tax	–	–	(.01)
Basic, adjusted	$ 1.36	$ 1.15	$ .89
Assuming full dilution, as reported	$ 1.35	$ 1.15	$ .86
Add: Goodwill amortization, net of tax	–	–	.02
Add: Trademark amortization, net of tax	–	–	.01
Less: Amortization from change in useful lives, net of tax	–	–	(.01)
Assuming full dilution, adjusted	$ 1.35	$ 1.15	$ .88

Comprehensive Income

Years Ended December 31,	2003	2002	2001
(millions)			
Comprehensive income, as reported	$1,820	$1,130	$787
Add: Goodwill amortization, net of tax	–	–	24
Add: Trademark amortization, net of tax	–	–	8
Less: Amortization from change in useful lives, net of tax	–	–	(8)
Adjusted comprehensive income	$1,820	$1,130	$811

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 SFAS 143 on January 1, 2003. Its adoption did not have an impact on the Company's financial statements.

In June 2002, the Financial Accounting Standards Board (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 SFAS 146, effective January 1, 2003. The adoption of SFAS 146 did not have a material impact on the Company's financial statements. The Company has continued 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 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, of guarantees issued or modified after December 31, 2002. Additionally, certain disclosure requirements were effective for financial statements ending after December 15, 2002. The adoption of this interpretation did not have an impact on the Company's financial statements.

In January 2003, FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities," (VIE's) was issued, and in December 2003, a revision to FIN 46 was issued. FIN 46 requires identification of the Company's participation in VIE's, which are defined as entities with a level of invested equity that is not sufficient to fund future activities to permit them to operate on a stand-alone basis, or whose equity holders lack certain characteristics of a controlling financial interest. For entities identified as VIE's, FIN 46 sets forth a model to evaluate potential consolidation based on an assessment of which party to a VIE, if any, bears a majority of the risk of the VIE's expected losses, or stands to gain from a majority of the VIE's expected returns. FIN 46 also sets forth certain disclosures regarding interests in VIE's that are deemed significant, even if consolidation is not required. This interpretation is effective for all VIE's created after January 31, 2003. The adoption of this interpretation during 2003 did not have an impact on the Company's financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative, amends the definition of an underlying contract, and clarifies when a derivative contains a financing component in order to increase the comparability of accounting practices under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of SFAS 149 did not have an impact on the Company's financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. The statement is effective for financial instruments entered into or modified after May 31, 2003. The Company adopted this standard on June 1, 2003. Its adoption did not have an impact on the Company's financial statements.

In May 2003, the consensus on EITF Issue No. 01-08, "Determining Whether an Arrangement Contains a Lease," was issued. The guidance in the consensus applies to the purchase or sale of goods and services under various types of contracts, including outsourcing arrangements. Based on the criteria in the consensus, both parties to an arrangement are required to determine whether the arrangement includes a lease within the scope of SFAS No. 13, "Accounting for Leases." The new requirement applies prospectively to new or modified arrangements for reporting periods beginning after May 28, 2003. Accordingly, as of July 1, 2003, the Company accounted for new or modified arrangements based on this guidance. Adoption of this standard did not have an impact on the Company's financial statements.

In December 2003, the FASB issued SFAS No. 132 (Revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits," which enhanced the disclosure about pension plans and other postretirement benefit plans, but did not change the measurement or recognition principles for those plans. The statement requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The Company adopted the disclosure provisions of SFAS 132 for the year ended December 31, 2003.

In January 2004, the FASB issued FASB Staff Position (FSP) No. FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." The staff position allows companies to either recognize or defer recognizing the effects of the prescription-drug provisions of the new Medicare Act in their 2003 financial statements. The specific authoritative guidance on accounting for the effects of the Act is pending. The guidance, when issued during 2004, could require the Company to change previously reported information. The Company elected to defer accounting for the economic effects of the new Medicare Act. Accordingly, any measures of the accumulated postretirement benefit obligation or net periodic postretirement benefit cost in the financial statements or accompanying notes do not reflect the effects of the Act on the Company's plans.

4. 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, 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)
Change in period	409	(10)	12	411
Income tax benefit (expense)	25	3	(4)	24
Balance at December 31, 2003	$ (898)	$(193)	$ 3	$(1,088)

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 gains of $434 million in accumulated foreign currency translation in 2003 were due primarily to the strength of the Euro, but also in part to the weakening of the U.S. dollar against other currencies, as well as the recognition of deferred taxes on the foreign currency translation adjustment for those non-U.S. subsidiaries that are included in the Company's U.S. tax return. Gains in 2002 of $41 million were primarily due to strengthening European currencies that were partially offset by weakening Latin American currencies. Losses in 2001 were $93 million, primarily from currency devaluation in Argentina and Brazil.

Included in Other charges (income)-net in the Consolidated Statement of Income are a net exchange gain of $14 million in 2003, a net exchange gain of $16 million in 2002, and a net exchange loss of $3 million in 2001 for the foreign currency effects of transactions (including translation of hyperinflationary entities) in those years.

5. SUPPLEMENTAL BALANCE SHEET INFORMATION

Allowance for Doubtful Accounts

Years ended December 31, (millions)	2003	2002	2001
Balance at beginning of year	$73	$ 69	$ 81
Additions	19	37	30
Deductions	(39)	(33)	(42)
Balance at end of year	$53	$ 73	$ 69

Inventories

At December 31, (millions)	2003	2002
Raw materials and supplies	$ 114	$ 115
Work in process	196	191
Finished goods	784	622
Total	$1,094	$ 928

Property, Plant and Equipment

At December 31, (millions)	2003	2002
Land	$ 79	$ 81
Buildings	929	844
Machinery and equipment	6,077	5,504
	7,085	6,429
Less accumulated depreciation	3,443	2,864
Total	$3,642	$3,565

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 2003, 2002, and 2001, interest cost was capitalized in the amounts of $2 million, $4 million, and $11 million, respectively.

Goodwill and Intangible Assets

In August 2003, the Company acquired a majority interest in Fujian Nanping Nanfu Battery Co., Ltd., a leading battery company in China. The Nanfu business is reported as part of the Duracell segment. The change between the December 31, 2003, and December 31, 2002, goodwill and intangible balances is due mainly to the acquisition of Nanfu, and the impact of foreign currency translation. The Nanfu acquisition resulted in the capitalization of the Nanfu trademark as an indefinite-lived intangible asset, as well as other definite-lived intangible assets. The values of these intangibles, as well as the related goodwill, may be adjusted in future periods as the purchase price allocation for the acquisition is not yet final.

Total goodwill by segment follows.

At December 31, (millions)	2003	2002
Blades & Razors	$ 140	$140
Duracell	632	571
Oral Care	191	191
Braun	60	60
Personal Care	–	–
Total	$1,023	$962

The detail of intangible assets follows.

At December 31, (millions)	Weighted Average Amortization Period (Years)	2003 Carrying Amount	2003 Accumulated Amortization	2002 Carrying Amount	2002 Accumulated Amortization
Amortized Intangible Assets					
Patents	8	$101	$ 69	$101	$ 53
Trademarks	7	16	9	13	4
Software	5	14	12	12	9
Endorsements	–	61	61	61	61
Other	19	23	3	11	3
Total	7	$215	$154	$198	$130
Unamortized Intangible Assets					
Trademarks		$423		$317	
Pension		12		15	
Total		$435		$332	
Intangible Assets, net		$496		$400	

Aggregate Amortization Expense:	
For the Years ended December 31:	
2003	$21
2002	$20
2001	$56
Estimated Amortization Expense:	
For the Years ended December 31:	
2004	$21
2005	$ 9
2006	$ 5
2007	$ 5
2008	$ 4

Other Assets

At December 31, (millions)	2003	2002
Pension	$ 747	$ 710
Benefit trusts	183	160
Derivatives (swaps and forward contracts)	83	135
Other	131	134
Total	$1,144	$1,139

Accounts Payable and Accrued Liabilities

At December 31, (millions)	2003	2002
Accounts payable	$ 574	$ 581
Advertising and sales promotion	537	472
Payroll and payroll taxes	292	211
Dividends payable on common stock	163	170
Other	940	620
Total	$2,506	$2,054

Other Long-Term Liabilities

At December 31, (millions)	2003	2002
Pensions	$ 404	$ 382
Postretirement medical	279	286
Deferred compensation	149	159
Other	97	93
Total	$ 929	$ 920

6. DEBT

Loans Payable

At December 31, (millions)	2003	2002
U.S. dollar Commercial Paper (interest at 0.9% and 1.5%)	$ 55	$ 549
Payable to banks (interest at 3.3% and 2.6%)	62	124
Total	$ 117	$ 673

Long-Term Debt

At December 31, (millions)	2003	2002
2.23% Euro obligation due 2003	$ –	$ 297
6.25% Notes due 2003	–	154
Floating rate notes due 2003	–	75
3.25% Euro notes due 2004	379	312
3.75% Notes due 2004	255	259
5.75% Notes due 2005	213	219
4.00% Notes due 2005	361	373
5.25% Notes due 2006	133	142
5.00% Notes due 2006	323	325
4.125% Notes due 2007	253	254
3.50% Notes due 2007	495	499
2.875% Notes due 2008	299	–
2.50% Notes due 2008	300	–
Gillette CoreNotes due 2012	73	74
Gillette CoreNotes due 2013	3	–
Floating rate notes due 2043	108	–
Other, multicurrency borrowings	–	1
Current portion of long-term debt	(742)	(527)
Total	$2,453	$2,457

The Company's commercial paper program is supported by its revolving credit facility and other sources of liquidity. The Company has a revolving bank credit facility in the amount of $1.15 billion, of which $863 million is available on a 364-day basis and expires in October 2004, and $288 million expires in October 2008. The revolving bank credit facility allows the Company to issue up to $1.53 billion in commercial paper in the U.S. and Euro markets. 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 for the 364-day facility and .06% per annum for the five-year facility, based on the Company's current credit rating. At December 31, 2003 and 2002, there were no borrowings under such agreements. In addition, there are other unused lines of credit amounting to $191 million at December 31, 2003.

Certain long-term debt instruments contain prepayment provisions at the option of either the holder of the instruments or the Company. The 3.50% 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 and floating rate notes in $1,000 increments. At December 31, 2003, the coupon rates of the outstanding notes varied between 4.55% and 5.00%, and the interest payments are made quarterly. The notes mature on various dates in 2012 and 2013 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. The $108 million floating rate notes are redeemable at the option of the holder at various prices on a yearly basis from April 2004 to April 2014 and each third anniversary thereafter to maturity. The floating rate notes are also redeemable at the Company's option at various prices from April 2033 to maturity.

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, 2003, $1.54 billion was issued under the shelf registrations, representing the 4.125% and 3.50% notes due 2007, the 2.875% and 2.50% notes due 2008, the floating rate notes due 2043, and the Gillette CoreNotes due 2012. At December 31, 2003, a total of $1.26 billion was available under these shelf registrations.

Long-term weighted average interest rates were 1.6% and 1.9% as of December 31, 2003 and 2002, respectively, after giving effect to interest rate hedging instruments. Aggregate maturities of total long-term debt, excluding $60 million in market value adjustments resulting from debt-related derivatives, for the five years after December 31, 2003, are $625 million in 2004, $550 million in 2005, $425 million in 2006, $750 million in 2007, and $600 million in 2008.

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

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

At December 31,	2003 Carrying Amount/ Fair Value	2002 Carrying Amount/ Fair Value
(millions)		
Long-term investments	$ 177	$ 161
Long-term debt, including current portion	(3,195)	(2,984)
Derivative instruments		
Currency forwards hedging net investments	(2)	(4)
Interest rate swaps	67	108
Forward rate agreements	–	(2)
Commodity swaps	4	(2)
Other currency forwards and swaps		
Assets	159	70
Liabilities	(17)	(17)
Equity contracts	4	3

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, 2003, the Company had forward contracts designated as hedges of the currency changes on the Company's foreign net investments with fair values of $2 million recorded in accrued 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 $6 million aftertax loss, a $5 million aftertax loss, and a $53 million aftertax gain for the years ended December 31, 2003, 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, 2003 and 2002, the Company had interest rate swaps designated as fair value hedges with fair values of $67 million and $108 million, respectively, recorded in other current assets and other 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 changes in the fair values of both the swaps and the debt are recorded as equal and offsetting gains and losses in interest expense. The Company recorded a $1 million hedge ineffectiveness gain in interest expense in 2003. There was no impact on earnings due to hedge ineffectiveness for the years ended December 31, 2002 and 2001.

At December 31, 2002, the Company had forward rate agreements designated as cash flow hedges with fair values of $2 million recorded in accrued liabilities, effectively fixing certain variable interest payments. Aftertax net losses of $2 million ($3 million pretax), $4 million ($7 million pretax), and $9 million ($14 million pretax) were recorded in other comprehensive loss during the years ended December 31, 2003, 2002, and 2001, respectively. Ineffective amounts had no impact on earnings for the years ended December 31, 2003, 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, 2003, the Company had swaps designated as cash flow hedges with fair values of $4 million recorded in other current assets. At December 31, 2002, the Company had swaps designated as cash flow hedges with fair values of

$2 million recorded in accrued 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. Aftertax net gains of $4 million ($7 million pretax) and aftertax net losses of $2 million ($3 million pretax) were recorded in other comprehensive loss in the years ended December 31, 2003 and 2002, respectively. 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 gains of $4 million included in accumulated other comprehensive loss will be credited to earnings in 2004. Ineffective amounts had no material impact on earnings for the years ended December 31, 2003, 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 $142 million and $53 million at December 31, 2003 and 2002, respectively. Changes in fair value are recorded in nonoperating charges (income) 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 other assets at their fair values of $4 million and $3 million at December 31, 2003 and 2002, respectively. Changes in fair value are recorded in profit from operations and offset the changes in the value of the underlying liabilities.

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. The Company's largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for 13% of consolidated net sales in 2003, and 12% of consolidated net sales in both 2002 and 2001. These sales occurred primarily in North America and were across all product segments. At December 31, 2003 and 2002, 44% and 40% of the Company's accounts receivable were from customers in North America, respectively. Wal-Mart Stores, Inc. represented 23% and 17% of the North American accounts receivable at December 31, 2003 and 2002, respectively. Using the best information available, the Company has provided an allowance for doubtful accounts based on estimated bad-debt loss.

8. COMMITMENTS AND CONTINGENCIES

Minimum rental commitments under noncancellable operating leases, primarily for office and warehouse facilities, are $84 million in 2004, $73 million in 2005, $63 million in 2006, $51 million in 2007, $44 million in 2008, and $137 million for years thereafter. Rental expense amounted to $125 million in 2003, $130 million in 2002, and $121 million in 2001.

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.

9. 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, diluted. 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.

As of December 31, 2003, the Company has substantially completed all postdivestiture reorganization activities. Due to lower than anticipated spending, pretax recoveries of $15 million ($10 million aftertax) and $10 million ($7 million aftertax) were recorded in discontinued operations in 2003 and 2002, respectively. At December 31, 2003, there are discontinued operations reserves primarily related to environmental matters that are not expected to be settled for many years.

10. FUNCTIONAL EXCELLENCE, 2003 MANUFACTURING REALIGNMENT, RESTRUCTURING, AND ASSET IMPAIRMENTS

Functional Excellence

In the second quarter of 2002, the Company began actions associated with its Functional Excellence initiative. This initiative impacts all business segments and is focused on upgrading capabilities, while reducing overhead costs by improving processes and eliminating duplication across all functions. Specific program activities include outsourcing certain information technology functions, implementing new worldwide technology tools and processes, streamlining customer management and marketing programs, and consolidating financial functions.

Total pretax charges under the Functional Excellence initiative, including employee termination benefits and other costs, were $137 million and $121 million for the 12 months ended December 31, 2003 and 2002, respectively. The charges included $23 million and $27 million to cost of sales for 2003 and 2002, respectively, and $114 million and $94 million to selling, general and administrative expenses for 2003 and 2002, respectively. Employee-related terminations are intended to be completed within 12 months of accrual. The employee-related termination benefits are calculated using the Company's long-standing severance formulas and vary on a country-by-country basis, depending on local statutory requirements and local practices. Other costs include items such as consulting, lease buy-outs, project teams, and asset write-downs related to Functional Excellence programs.

2003 Manufacturing Realignment Program

On December 11, 2003, the Company announced a realignment program related to its European blade and razor manufacturing and distribution. The program will significantly reduce costs, improve operating efficiency, and streamline manufacturing, packaging, and warehouse operations. The program began in December 2003 and will be completed by 2007. Specific program activities include the closure of a manufacturing center in Isleworth, U.K., in 2007, and a packaging and distribution operation in Hemel Hempstead, U.K., in 2005. Operations at these units will be shifted to a new manufacturing, packaging, and warehouse facility that will be built in Eastern Europe. In addition, all Sensor production from the manufacturing center in Berlin, Germany, will be transferred to the new Eastern European facility, and stainless steel double-edge blades and some disposable razor manufacturing will be transferred from the manufacturing center in Jevicko, Czech Republic, to the manufacturing center in St. Petersburg, Russia. The severance programs being used follow the Company's long-standing severance formulas and may vary on a country-by-country basis, depending on local statutory requirements and local practices.

The Company recorded, in the fourth quarter of 2003, a charge to cost of goods sold of $50 million. Costs accrued consisted primarily of severance, based on the amounts that have been earned as of December 31, 2003, at current service levels and pay rates. Severance payments will span through 2007, when the Isleworth facility will be completely closed. Other costs primarily include asset write-downs and employee pension benefits.

Functional Excellence and 2003 Manufacturing Realignment Program

(millions)	2002 Provision	2003 Provision	Charges and Uses 2003	Charges and Uses Since Inception	Balance Dec. 31, 2003
Functional Excellence:					
Employee-related expenses	$106	$120	$(123)	$(143)	$ 83
Other	15	17	(19)	(28)	4
Total Functional Excellence Program	$121	$137	$(142)	$(171)	$ 87
2003 Realignment Program:					
Employee-related expenses:					
Severance payments	–	32	–	–	32
Other benefits	–	6	–	–	6
Asset-related expenses:					
Asset write-offs	–	5	(5)	(5)	–
Loss on sale of assets	–	4	–	–	4
Contractual obligations and other	–	3	–	–	3
Total 2003 Realignment Program	–	50	(5)	(5)	45
Total	$121	$187	$(147)	$(176)	$132

2001 Restructuring Program and Asset Impairment Charges

During 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. In 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 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. During 2001, a $55 million reserve recovery was taken to a prior-year restructuring program, reflecting a change in strategy in which one major and two small factories were not closed, and better than anticipated results relating to the closing of certain other factories.

At December 31, 2002, the Company had completed the majority of the activity in the 2001 and prior-year restructuring programs. Due to lower than anticipated spending and better than anticipated results on the disposal of property, plant and equipment, reserve recoveries of $9 million were recorded in 2002 related to the 2001 and prior-year restructuring programs. In addition, a pretax gain of $30 million was realized on the 2002 sale of the Vaniqa business, which included an $8 million recovery to the 2001 restructuring program.

A summary of restructuring and asset impairment charges follows.

Years ended December 31, (millions)	2003	2002	2001
Restructuring provisions	$ –	$ –	$ 63
Asset impairments	–	–	164
Changes to 2000 and 2001 restructuring programs, including gain on the sale of Vaniqa	–	(39)	(55)
	$ –	$(39)	$172

11. INCOME TAXES

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

Years ended December 31, (millions)	2003	2002	2001
Income from continuing operations before income taxes			
United States	$ 822	$ 952	$ 533
Foreign	1,142	800	809
Total income from continuing operations before income taxes	$1,964	$1,752	$1,342
Current tax expense			
Federal	$ 312	$ 114	$ 107
Foreign	308	185	219
State	18	14	15
Deferred tax expense (benefit)			
Federal	(46)	166	44
Foreign	(1)	58	43
State	(2)	6	4
Total income tax expense from continuing operations	$ 589	$ 543	$ 432

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

Years ended December 31, (percent)	2003	2002	2001
Statutory Federal tax rate	35.0%	35.0%	35.0%
Goodwill amortization and asset impairments	–	–	1.5
Taxes on foreign income	(5.5)	(3.6)	(5.9)
Effect of foreign currency translation	–	–	(0.2)
State taxes (net of Federal tax benefits)	0.5	0.7	0.9
Other differences	–	(1.1)	0.9
Effective tax rate	30.0%	31.0%	32.2%

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

At December 31, (millions)	2003 Deferred Tax Assets	2003 Deferred Tax Liabilities	2002 Deferred Tax Assets	2002 Deferred Tax Liabilities
CURRENT				
Advertising and sales promotion	$ 34	$ –	$ 35	$ –
Benefit plans	52	–	46	–
Discontinued operations	–	–	2	–
Inventory	90	–	85	–
Restructuring and asset impairments	–	–	15	–
Miscellaneous reserves and accruals	144	–	112	–
Other	2	–	85	–
Total current	$322	$ –	$380	$ –
Net current	$322		$380	
NONCURRENT				
Benefit plans	$105	$ –	$ 77	$ –
Currency translation effect of pass-through entities	–	64	–	101
Intangibles	–	157	–	128
Operating loss and credit carryforwards	2	–	15	–
Property, plant and equipment	–	479	–	522
Other	–	33	–	27
Total noncurrent	$107	$733	$ 92	$778
Valuation allowance	$ –		$ (6)	
Net noncurrent		$626		$692
TOTAL				
Net deferred tax assets/liabilities		$304		$312

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 at December 31, 2003.

At December 31, 2003, the Company had net operating loss carryforwards for foreign income tax purposes of $6 million, which are available to offset future taxable income, if any, through 2007.

12. 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 net defined benefit expense for continuing operations follow.

Years ended December 31, (millions)	Pension Benefits 2003	2002	2001	Other Retiree Benefits 2003	2002	2001
COMPONENTS OF NET DEFINED BENEFIT EXPENSE						
Service cost–benefits earned	$ 68	$ 59	$ 61	$ 4	$ 5	$ 6
Interest cost on benefit obligation	147	132	130	27	27	18
Estimated return on assets	(160)	(153)	(166)	(3)	(4)	(4)
Net amortization	74	23	9	4	2	(5)
Plan curtailments	1	–	–	–	–	–
Plan settlement	1	–	–	–	–	–
	131	61	34	32	30	15
Other	12	9	12	–	–	–
Net defined benefit expense	$ 143	$ 70	$ 46	$32	$30	$15

The measurement date is December 31 for the Company's principal defined benefit and other retiree benefit plans that make up the majority of plan assets and benefit obligations. 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 2003	2002	Other Retiree Benefits 2003	2002
CHANGE IN PROJECTED BENEFIT OBLIGATION				
Balance at beginning of year	$2,365	$1,950	$408	$380
Foreign plan additions	34	–	–	–
Benefit payments	(147)	(123)	(20)	(20)
Service cost	68	59	4	5
Interest cost	147	132	27	27
Amendments	1	3	–	(46)
Actuarial losses	194	223	66	69
Plan settlements	(6)	–	–	–
Plan curtailments	(1)	–	–	–
Special termination benefits	13	3	–	–
Currency adjustment	190	118	6	(7)
Balance at end of year	$2,858	$2,365	$491	$408
CHANGE IN FAIR VALUE OF PLAN ASSETS				
Balance at beginning of year	$1,935	$1,618	$ 37	$ 38
Foreign plan additions	21	–	–	–
Actual return on plan assets	304	(220)	8	(5)
Employer contribution	72	525	6	4
Benefit payments	(113)	(99)	–	–
Settlement	(5)	–	–	–
Currency adjustment	167	111	(2)	–
Balance at end of year	$2,381	$1,935	$ 49	$ 37

At December 31,	Pension Benefits 2003	2002	Other Retiree Benefits 2003	2002
(millions)				
FUNDED STATUS				
Projected benefit obligation in excess of plan assets	$ (477)	$ (430)	$(442)	$(371)
Unrecognized prior service cost	46	47	(40)	(45)
Unrecognized net transition obligation	3	4	–	–
Unrecognized net loss	1,074	1,007	185	130
Adjustment for contributions after the measurement date	8	–	–	–
Net amount recognized	$ 654	$ 628	$(297)	$(286)
AMOUNTS RECOGNIZED IN THE BALANCE SHEET				
Intangible assets	$ 12	$ 15	$ –	$ –
Accumulated other comprehensive loss	280	270	–	–
Prepaid benefit cost	750	706	–	–
Accrued benefit cost	(388)	(363)	(297)	(286)
Net amount recognized	$ 654	$ 628	$(297)	$(286)

The accumulated benefit obligation for all defined benefit pension plans was $2.57 billion and $2.12 billion at December 31, 2003 and 2002, respectively.

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

At December 31,	2003	2002
(millions)		
Projected benefit obligation	$955	$782
Accumulated benefit obligation	843	684
Fair value of plan assets	601	475

Additional Information

Years Ended December 31,	Pension Benefits 2003	2002
(millions)		
Increase in minimum liability included in other comprehensive income	$(10)	$(183)

Assumptions

Weighted-average assumptions used to determine benefit obligations at December 31,	Pension Benefits 2003	2002	2001	Other Retiree Benefits 2003	2002	2001
(percent)						
Discount rate	5.8	6.2	6.8	6.2	6.5	7.2
Rate of compensation increase	3.7	3.8	4.2			

Weighted-average assumptions used to determine net defined benefit expense for years ended December 31,	Pension Benefits			Other Retiree Benefits		
	2003	2002	2001	2003	2002	2001
(percent)						
Discount rate	6.2	6.8	7.0	6.5	7.2	7.2
Expected long-term return on plan assets	8.0	8.6	9.1	8.5	9.0	10.0
Rate of compensation increase	3.8	4.2	4.7			

The expected long-term return on assets is a blended rate based on rates for the various countries. In general, the methodology used to determine the rates in each country is reviewed annually, taking into consideration the respective asset allocation, historical returns on the types of assets held, and the current economic environment. Based on these studies, in 2003 the Company lowered equity target allocations in several of its largest plans to better match plan obligations that are increasingly weighted to participants who have retired from the Company. Correspondingly, the expected long-term return on assets is a blended rate based on the target asset allocations of each plan applied principally to historical market returns and trends. This rate dropped to 8.0% in 2003 from 8.6% in 2002 for pension benefits and to 8.5% in 2003 from 9.0% in 2002 for other retiree benefits. For estimation purposes, the Company assumes a long-term asset mix generally consistent with the investment policy of each funded plan. Changes in the asset mix or investment policy could impact the amount of recorded pension income or expense, the funded status of the plan, and the need for future cash contributions.

Assumed health care cost trend rates at December 31,	2003	2002	2001
(percent)			
Health care cost trend rate assumed for next year	12.0	12.0	12.0
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0	5.0	5.0
Year that the rate reaches the ultimate trend rate	2009	2008	2007

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
(millions)		
Effect on total of service and interest cost	$ 5	$ (4)
Effect on postretirement benefit obligation	$60	$(60)

Impact of Medicare Drug Reform

On December 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act"). The Act expanded Medicare to include, for the first time, coverage for prescription drugs, beginning in 2006. The Company expects that this legislation will eventually reduce the Company's costs for some of its retiree medical programs in the U.S.

Guidance has not yet been issued from various governmental and regulatory agencies concerning the requirements that must be met to obtain these cost reductions, as well as the manner in which such savings should be measured. Based on its preliminary analysis, the Company expects that its current retiree medical plans will qualify for beneficial treatment under the Act. The Company plans to continue to study the effects of the Act on the retiree medical plans that it sponsors in the U.S. and evaluate its options in coordinating benefits with the Medicare program.

Because of various uncertainties related to this legislation and the related accounting treatment, the Company has elected to defer financial recognition of the impact of this legislation until the Financial Accounting Standards Board issues final accounting guidance. When issued, that final guidance could require the Company to change previously reported information. This deferral election is permitted under FASB Staff Position FAS 106-1.

Plan Assets

Weighted average allocations by asset category follow.

At December 31,	Pension Benefits 2003	Pension Benefits 2002	Other Retiree Benefits 2003	Other Retiree Benefits 2002
(percent)				
Equity securities	62	52	64	50
Debt securities	38	48	36	50
Total	100	100	100	100

The Company's investment strategy for defined benefit plans is to utilize broadly diversified passive vehicles where appropriate, with an investment mix and risk profile consistent with plan liabilities. Periodic studies are undertaken to determine the asset mix that will meet pension obligations at a reasonable cost to the Company and are consistent with the fiduciary requirements of local pension regulations. The weighted average target allocation for all plans is 58% equity and 42% debt securities. At December 31, 2003 and 2002, no Gillette common stock was directly held in pension plan or other retiree benefit plan assets. Debt securities investments consist primarily of government and other investment-grade quality issues.

Cash Flows

Contributions

The Company expects to contribute $35 million to its pension plans and does not expect to contribute to its other postretirement benefit plans in 2004.

Estimated Future Benefit Payments

Benefit payments, which include the effects of expected future service, as appropriate, are expected to be paid as follows:

	Pension Benefits	Other Retiree Benefits
(millions)		
2004	$ 147	$ 23
2005	150	26
2006	153	29
2007	159	31
2008	163	34
2009–2013	1,007	205

Other Plan Information

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 at December 31, 2003, and by $120 million at December 31, 2002. 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 totaled $34 million in each of the years 2003, 2002, and 2001.

13. STOCK COMPENSATION PLAN AND CAPITAL STOCK

At December 31, 2003, the Company had a stock-based compensation plan as described below.

Stock Option Plan

The Company's stock option plan authorizes 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 option plan, options to purchase a maximum of 198,800,000 shares may be granted. At December 31, 2003, 18,634,795 shares were available for future grants. Options granted under the plan may be either incentive stock options or nonqualified options. Outstanding options at December 31, 2003, have a 10-year term.

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 January 19, 2001, vested immediately, and the remainder vested in one-third increments annually over a three-year period. The 300,000 options granted to the Vice Chairman of the Board on January 19, 2001, vested one-half on the first anniversary, and one-half on the second anniversary, of the stock option award date. The plan also permits payment for options exercised using shares of the Company's common stock.

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

Years ended December 31,	2003 Options (Thousands)	2003 Weighted Average Exercise Price	2002 Options (Thousands)	2002 Weighted Average Exercise Price	2001 Options (Thousands)	2001 Weighted Average Exercise Price
Outstanding at beginning of year	78,538	$37.25	71,052	$36.91	58,969	$38.76
Granted	11,744	32.39	14,472	35.50	18,127	29.23
Exercised	(3,176)	22.45	(3,789)	21.41	(2,488)	17.04
Cancelled	(2,150)	39.31	(3,197)	40.58	(3,556)	42.31
Outstanding at year-end	84,956	$37.08	78,538	$37.25	71,052	$36.91
Options exercisable at year-end	59,206		50,417		42,242	

The following table summarizes information about fixed stock options outstanding.

At December 31, 2003

Range of Exercise Prices: At Least	Range of Exercise Prices: Less Than	Outstanding: Options (Thousands)	Outstanding: Weighted Average Remaining Years of Contractual Life	Outstanding: Weighted Average Exercise Price	Exercisable: Options (Thousands)	Exercisable: Weighted Average Exercise Price
$16	$21	3,290	1.1	$19.53	3,290	$19.53
26	33	37,932	7.4	30.64	21,800	30.14
33	40	16,277	8.2	35.38	6,659	35.24
40	48	19,114	4.8	45.97	19,114	45.97
50	60	8,343	4.5	56.21	8,343	56.21
		84,956	6.5	$37.08	59,206	$38.91

Other Stock-Based Compensation

Stock Appreciation Rights (SARs) were awarded to the Chairman and Chief Executive Officer (CEO) under an August 2003 amendment to his employment agreement and represented the right to the appreciation in 1 million shares of the Company's common stock for the period from June 19, 2003, through January 2, 2004. By its terms, the SARs were automatically converted into approximately 108,480 stock units valued at the fair market value of the Company's common stock on January 2, 2004, ($36.32) for a total value of $4 million. Of this, $1 million was earned and recorded as compensation cost in the Company's financial statements in the year ended December 31, 2003. The stock units earn dividend equivalent units and are subject to market risk until paid. Subject to contingencies, the stock units vest on January 19, 2005, and would be forfeited if the Chairman and CEO does not remain with the Company through the vesting date. The stock units are payable in cash, based upon the fair market value of the Company's common stock on their payment date, one year from the Chairman and CEO's retirement.

Share Repurchase Program

The Company has two share repurchase programs. The first program authorizes the purchase of up to 150 million shares, and the second program authorizes the purchase of up to 50 million shares, in the open market or in privately negotiated transactions, depending on market conditions and other factors. From the inception of the first program through December 31, 2002, the Company repurchased 108.2 million shares in the open market for $4.5 billion. In 2003, the Company repurchased 40.8 million shares for $1.3 billion. There are 1 million shares remaining on the first authorization. As of December 31, 2003, there has been no activity in the second share repurchase program.

In 2002, the Company sold equity put options as an enhancement to the share repurchase program and earned $15 million in premiums. These options provided the Company with an additional opportunity to supplement open-market purchases of its common stock if the options expired "in the money" (the option strike price is greater than the closing price for Gillette common stock on the expiration date). At December 31, 2003 and 2002, there were no outstanding put options.

Preferred Stock Purchase Rights

At December 31, 2003, the Company had 503 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 ("Right's Exercise Price"). 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, 2003, 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.

14. 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
2003							
Net sales	$3,869	$2,015	$1,327	$1,177	$864	$ –	$9,252
Profit from operations	1,426	348	218	49	73	(111)	2,003
Identifiable assets	3,099	2,754	1,269	1,224	470	1,139	9,955
Capital expenditures	203	46	77	51	29	2	408
Depreciation	243	113	81	81	29	10	557
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	1,112	1,047	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	994	945	515	1,388	9,969
Capital expenditures	222	162	92	69	49	30	624
Depreciation	197	78	53	53	26	46	453

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 2003.

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, skin care products and antiperspirants/deodorants.

Profit from operations is net sales less cost of sales and selling, general and administrative expenses. In calculating profit from operations for individual operating segments, administrative expenses incurred at the operating level that are common to more than one segment, and headquarters expenses of an operational nature, are allocated on a net sales basis. All intercompany transactions, primarily merchandise transfers, have been eliminated.

Profit from operations in the All Other column includes all unallocated income/expense items, 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 charge for restructuring and asset impairment in 2001.

Identifiable assets in the All Other column 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 in the All Other column are primarily related to research and development initiatives.

The Company's largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for 13% of net sales in 2003, and 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)	2003	2002	2001
Foreign	$5,804	$5,171	$4,839
United States	3,448	3,282	3,245
	$9,252	$8,453	$8,084

Net property, plant and equipment by geographic area follows.

At December 31, (millions)	2003	2002	2001
Germany	$ 692	$ 606	$ 508
Other Foreign	1,145	1,057	1,013
Total Foreign	1,837	1,663	1,521
United States	1,805	1,902	2,027
	$3,642	$3,565	$3,548

15. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

2003	Three Months Ended March 31	June 30	September 30	December 31	Total Year
(millions, except per share amounts)					
Net sales	$1,971	$2,254	$2,405	$2,622	$9,252
Gross profit	1,193	1,384	1,470	1,497	5,544
Profit from operations	380	505	604	514	2,003
Income from continuing operations before income taxes	376	483	593	512	1,964
Discontinued operations, net of tax	–	–	–	10	10
Net income	263	338	416	368	1,385
Net income per common share, basic[(a)]					
Continuing operations	.25	.33	.41	.36	1.35
Discontinued operations	–	–	–	–	.01
Net income	.25	.33	.41	.36	1.36
Net income per common share, assuming full dilution[(a)]					
Continuing operations	.25	.33	.41	.35	1.34
Discontinued operations	–	–	–	.01	.01
Net income	.25	.33	.41	.36	1.35
Dividends paid per common share	.16¼	.16¼	.16¼	.16¼	.65
Stock price range:					
High	32.34	33.78	33.57	36.78	36.78
Low	28.00	29.80	29.75	30.80	28.00
2002					
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

(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, (millions, except per share amounts and employees)	2003	2002[(a)]	2001[(b)]	2000[(c)]	1999
Summary of Operations					
Net Sales[(e)]	$ 9,252	8,453	8,084	8,310	8,324
Profit from Operations[(e)]	$ 2,003	1,809	1,498	1,512	2,087
Income from Continuing Operations before Income Taxes	$ 1,964	1,752	1,342	1,288	1,912
Net Income	$ 1,385	1,216	910	392	1,260
Adjusted Net Income, assuming the adoption of SFAS 142 for 1999–2001	$ 1,385	1,216	934	423	1,293
Weighted Average Common Shares Outstanding, assuming full dilution	1,024	1,059	1,058	1,063	1,111
Per Common Share Data					
Net Income per Common Share, assuming full dilution					
Continuing Operations	$ 1.34	1.14	.86	.77	1.13
Net Income	$ 1.35	1.15	.86	.37	1.14
Adjusted Net Income per Common Share, assuming the adoption of SFAS 142 for 1999–2001, assuming full dilution	$ 1.35	1.15	.88	.40	1.16
Dividends Declared per Common Share	$ .65	.65	.65	.65	.59
Stock Price, December 31	$ 36.73	30.36	33.40	36.13	41.19
Balance Sheet Data					
Net Property, Plant and Equipment[(e)]	$ 3,642	3,565	3,548	3,550	3,467
Total Assets	$ 9,955	9,863	9,946	10,213	10,612
Total Debt	$ 3,312	3,657	4,317	4,476	4,729
Stockholders' Equity	$ 2,224	2,260	2,137	1,924	3,060
Other Information					
Net Interest Expense	$ 42	59	141	218	129
Depreciation and Amortization[(e)]	$ 578	500	509	535	464
Capital Expenditures[(e)]	$ 408	405	624	793	889
Employees[(e)]	29,400	30,300	31,500	35,200	37,600
Ratio of Earnings to Fixed Charges[(d)]	21.4x	14.5x	8.2x	5.7x	12.3x

(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) 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.

(e) Represents continuing operations.

Directors and Executive Officers

DIRECTORS

Edward F. DeGraan
Vice Chairman of the Board

Roger K. Deromedi [1, 4]
Chief Executive Officer,
Kraft Foods Inc.

Wilbur H. Gantz [2, 4]
Chairman and Chief Executive Officer,
Ovation Pharmaceuticals, Inc.

Michael B. Gifford [1, 3]
Retired Chief Executive Officer,
The Rank Organisation Plc

Ray J. Groves [1, 3]
Chairman and Chief Executive Officer,
Marsh Inc.

Dennis F. Hightower [2, 4]
Retired Chief Executive Officer,
Europe Online Networks, S.A.

Herbert H. Jacobi [2, 3, 5]
Chairman of the Supervisory Board,
HSBC Trinkaus & Burkhardt KGaA

Nancy J. Karch [1, 4]
Retired Senior Partner,
McKinsey & Company

James M. Kilts
Chairman of the Board

Fred H. Langhammer [2, 3]
President and Chief Executive Officer,
The Estée Lauder Companies Inc.

Jorge P. Lemann [1, 3]
Partner,
GP Investimentos

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

1 Audit Committee
2 Compensation Committee
3 Finance Committee
4 Nominating and Corporate Governance Committee
5 Lead Director

Committee Chair

EXECUTIVE OFFICERS

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

Vice Chairman of the Board
Edward F. DeGraan

Senior Vice Presidents
Michael T. Cowhig
Global Technical and Manufacturing

Charles W. Cramb
Finance

Edward E. Guillet
Human Resources

Peter Klein
Strategy and Business Development

Kathy S. Lane
Gillette Information Technology

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 Shareholder Information

Shareholder 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 Shareholders will take place on Thursday, May 20, 2004, at The Hilton Rye Town, Rye Brook, New York. 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, 2004, shareholders numbered 43,106, living in all 50 states and more than 50 countries abroad.

Transfer Agent and Registrar
The Bank of New York
Shareholder Relations Department – 12W
P.O. Box 11258
Church Street Station
New York, New York 10286
Toll-free (888) 218-2841
Email: shareowner-svcs@bankofny.com
Web site: www.stockbny.com

Auditors
KPMG LLP

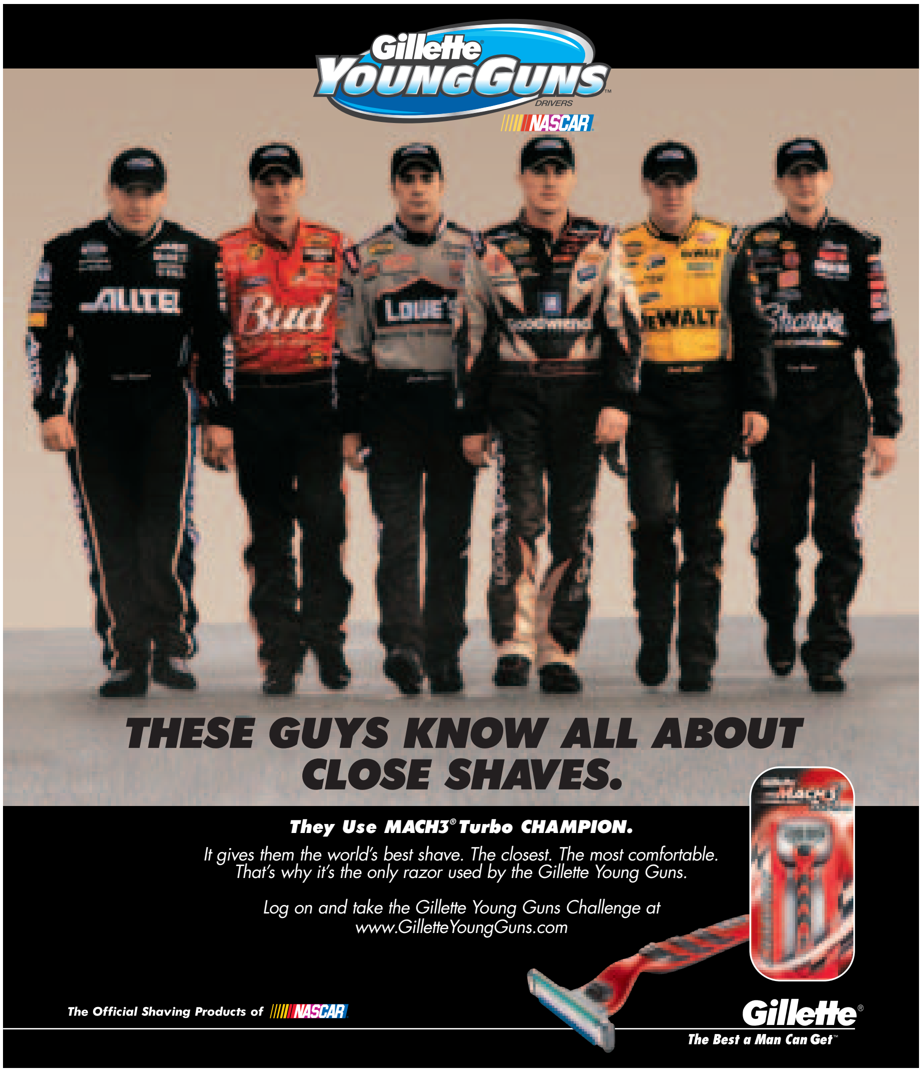
Financial Information
The Gillette Company offers free of charge this Annual Report, which includes the Form 10-K, as well as quarterly earnings releases and other announcements concerning financial results.

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.



The Gillette Company

World-Class Brands, Products, People

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